

EIOPA Fifth Consumer Trends Report

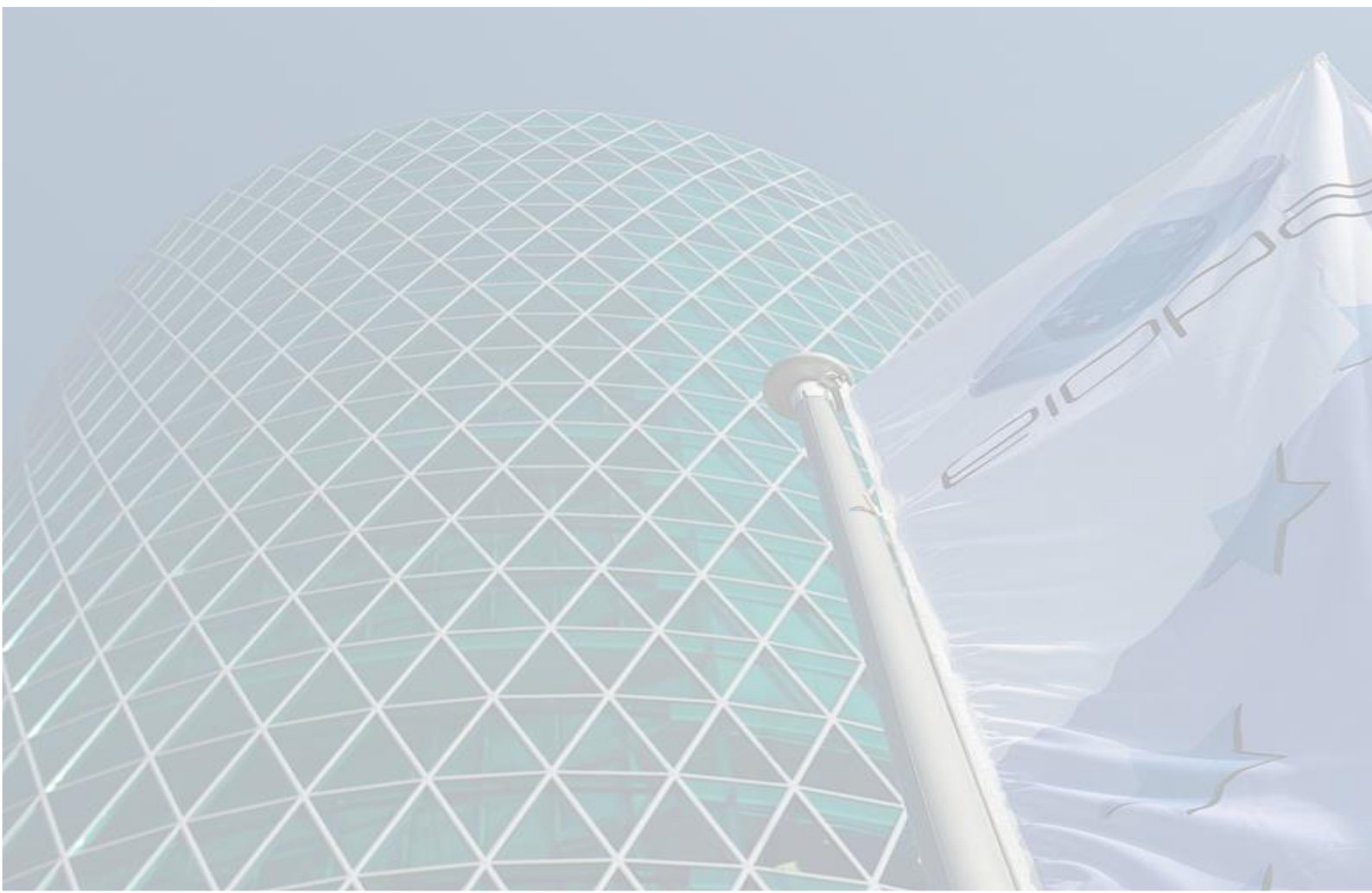


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List of abbreviations

ADR	Alternative Dispute Resolution
AM	Active Members
DB	Defined Benefit
DC	Defined Contribution
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
ESA	European Supervisory Authority
FIN-NET	Financial dispute resolution network of national out-of-court complaint schemes in the European Economic Area
IAIS	International Association of Insurance Supervisor
IBIPS	Insurance Based Investment Products
IDD	Insurance Distribution Directive
IORP	Institutions for Occupational Retirement Provision
IRSG	Insurance and Reinsurance Stakeholder Group
ITS	Implementing Technical Standard
GWP	Gross Written Premiums
KID	Key Information Document
NCA	National Competent Authority
OECD	Organisation for Economic Co-operation and Development
OPSG	Occupational Pensions Stakeholder Group
PID	Product Information Document
PPP	Personal Pension Products
PRIIPS	Packaged Retail and Insurance-based Investment products
RTS	Regulatory Technical Standard

List of National Competent Authorities (NCAs)¹

Austria	AT	Financial Markets Authority (FMA)
Belgium	BE	Financial Services and Markets Authority (FSMA)
Bulgaria	BG	Financial Supervision Commission
Croatia	HR	Croatian Financial Services Supervisory Authority (HANFA)
Cyprus	CY	Ministry of Finance Insurance Companies Control Service (ICCS) Ministry of Labour, Welfare and Social Insurance Registrar of Occupational Retirement Benefit Funds
Czech Republic	CZ	Czech National Bank
Denmark	DK	Financial Supervisory Authority (Danish FSA)
Estonia	EE	Estonian Financial Supervision Authority
Finland	FI	Finnish Financial Supervisory Authority (FIN-FSA)
France	FR	Autorité de Contrôle Prudentiel et Resolution (ACPR)
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	HE	Bank of Greece Hellenic Ministry of Labour, Social Security and Social Solidarity
Hungary	HU	Central Bank of Hungary
Iceland	IS	Financial Supervisory Authority (FME)
Ireland	IE	Central Bank of Ireland Pensions Authority
Italy	IT	Istituto per la Vigilanza sulle assicurazioni (IVASS) Commissione di Vigilanza sui Fondi Pensione (COVIP)
Latvia	LV	Financial Capital Market Commission
Liechtenstein	LI	Financial Market Authority (FMA)
Lithuania	LT	Bank of Lithuania
Luxembourg	LU	Commissariat aux Assurances
Malta	MT	Malta Financial Services Authority
Netherlands	NL	Financial Supervisory Authority (AFM)
Norway	NO	Financial Supervisory Authority of Norway
Poland	PL	Financial Supervision Authority (KNF)
Portugal	PT	Insurance and Pension Funds Supervisory Authority (ASF)
Romania	RO	Financial Supervisory Authority (ASF)

¹ List of NCAs referred in this document, unless expressly stated otherwise

Slovakia	SK	National Bank of Slovakia
Slovenia	SI	Insurance Supervision Agency
Spain	ES	Ministry of Economy - Directorate General of Insurance and Pension Funds
Sweden	SE	Finansinspektionen (FI)
United Kingdom	UK	Financial Conduct Authority (FCA) The Pensions Regulator

Executive Summary

The European Insurance and Occupational Pensions Authority (hereinafter EIOPA) is mandated by its empowering Regulation to **collect, analyse and report on consumer trends**. For this purpose, EIOPA publishes, on an annual basis, a Consumer Trends Report. The report describes the trends that are taking place in the European insurance and pensions markets, as well as possible consumer protection issues that could arise from such trends; the report aims to inform EIOPA in the identification, prioritisation and development of targeted policy proposals.

This year the report focuses on **product-related trends**; the main life and non-life insurance lines of business are analysed in terms of market growth and financial innovations, and subsequently the evolution of consumer complaints and relevant consumer protection activities at national level are also reported. Three specific issues are also subject to a more detailed analysis: the impact of mobile phone applications in insurance, the use of geo-location technology in household insurance, and the novel techniques used by insurers to fight against consumer fraud.

Based on this analysis, the key developments observed in the European insurance market, some of which are recurring from previous years, are the following:

- In the on-going context of low interest rates environment, **new life insurance products with reduced or no guarantees, sometimes with a high degree of complexity**, continue to be introduced into the market.
- **Motor insurance complaints** relate most often to claims handling and have **decreased** in several Member States, **yet complaints related to the terms and conditions are on the rise** in some Member States.
- **Big data² and consumer analytics** in motor insurance (black boxes), life and health insurance (wearable technology) and household insurance (geo-coding and connected houses), allow the accuracy of risk assessments to be improved and the development of more tailored products, yet the availability and affordability of insurance for some consumers could also be affected.
- In parallel to the increasing penetration of smartphones, Big Data analytics are increasingly turning to a **mobile phone application-based approach, offering, among other things, the possibility to improve insurers' relationships with their consumers**, for instance by tailored selling and marketing campaigns or by expediting claims handling.
- Driven by factors such as the recovery of the tourism industry or sales via the internet, **travel insurance sales are increasing, but the number of related consumer complaints are also growing in several Member States**.
- **Fintech/Insurtech** firms are increasingly present in insurance, very frequently via cooperation agreements with established insurers.

Taking into account the inherent specificities of the pensions market, and bearing in mind that the delineation between pension pillars in some Member States is not always clear, the report also analyses the **trends in the personal and occupational pension sectors**. The development of pension-tracking systems and the provision of

² In line with the European Commission's Communication on Data Driven Economy, for the purpose of this paper the term "Big Data" refers to situations where high volumes of different types of data produced with high velocity from a high number of various types of sources are processed, often in real time, by IT tools (powerful processors, software and algorithms) to predict future events more accurately.

advice when planning for retirement are subject to a more detailed analysis. Moreover, given that the pensions sector is relatively stable where financial innovations and disruptive changes are often triggered by regulatory changes, it is common that some key trends persevere over the years. The main developments identified for the European pension sector were the following:

- In line with the performance of the European economies and labour markets, **the number of active members has remained steady or moderately increased in most Member States**, with the exception of the UK where it has doubled in two years.
- As a result of persistent low interest rates and aging populations, the trend in several Member States is moving towards **Defined Contribution rather than Defined Benefit** schemes, where individuals are commonly offered a greater choice of investment strategies in exchange for bearing investment risks.
- **The liberalisation of the pay-out phase** introduced in several Member States offers new decumulation options to members and policyholders, although risks of poor outcomes may also arise (e.g. pension scams). However, it is noticeable that the number of complaints has remained relatively stable.
- There is a growing interest amongst NCAs on the impact of **costs and charges** on the accrued benefits or calculated contributions, as well on the need to **inform pension participants fairly, based on realistic assumptions, about their expected retirement income**.
- While it is recognised that receiving advice could help individuals to better plan for retirement, the **provision of advice on pension issues is not a widely followed practice in several Member States**.
- **Digital technologies** are slowly but steadily penetrating the pensions sector, as reflected in the proliferation of internet-based communication channels such as mobile phone applications, robot-advisors or pension calculators.

Introduction and scope

Article 9 of EIOPA's founding Regulation requires the Authority to "collect, analyse and report on consumer trends."³ The term "consumer trend" is not defined in the EIOPA Regulation. EIOPA has devised the following working definition:

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

To date, EIOPA has published four Consumer Trends reports. The report covers **trends both in the insurance sector and in the pensions sector**. This year's report focuses on the analysis of trends for life and non-life insurance products, and for occupational and personal pensions; for each category, a brief description of the market growth during 2015 and the recent financial innovations is provided. Subsequently, and bearing in mind the **supervisory background of this report**, an analysis of consumer complaints during the latest reporting period as well as some of the NCA consumer protection activities developed to address shortcomings are included, as relevant.

Indeed, **one of the key objectives of the report is to try to identify risks for consumers arising from trends in the market**, which may require specific policy proposals or supervisory action from EIOPA and/or its Members. Moreover, by highlighting the activities developed by NCAs in their respective jurisdictions, EIOPA contributes to the task that it has been assigned by its founding Regulation of encouraging a common supervisory culture amongst its Members through the promotion of exchanges of information between competent authorities.⁴

Not all trends identified exist in all the EU Member States; in some Member States the trends described may not exist, in others they may only be at a very incipient stage, while in other Member States the trends might be already consolidated for a number of years. However, the fact that one Member State is not mentioned under a specific trend does not necessarily mean that such a trend does not exist in that Member State or that the relevant NCA has not undertaken any activities in that specific field.

In order to meet the above objectives, EIOPA has developed a **Methodology⁵ for producing a Consumer Trends Report on an annual basis** (see Annex I for further details). It essentially consists in the collection of quantitative and qualitative consumer information from EIOPA's Members as well as from stakeholders. There are certain limitations to the methodology, for example, a number of NCAs were not able to provide input to EIOPA, though this was reduced for this report compared to earlier ones. However the information gathered is extensive, and both of quantitative and qualitative nature, and from a wide variety of sources, which allows EIOPA to confidently identify consumer trends in the European insurance and pension markets.

³ Article 9(1)(a), Regulation 1094/2010 establishing EIOPA, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0048:0083:EN:PDF>

⁴ Article 29 of EIOPA Regulation

⁵ EIOPA, Consumer Trends Methodology, November 2012, https://eiopa.europa.eu/Publications/Reports/2012-11_Methodology_on_collecting_consumer_trends.pdf

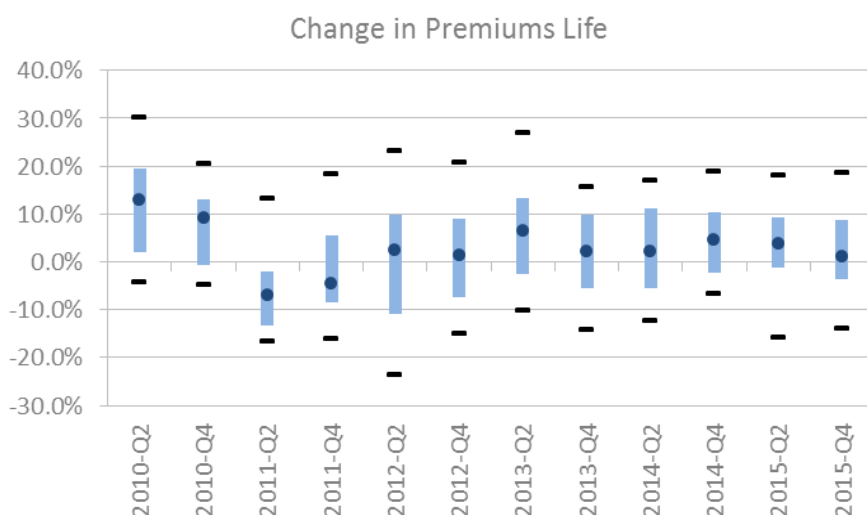
Insurance sector

1. Life insurance

1.1. Market Growth

In 2015 the European life insurance sector experienced the fourth consecutive annual growth in terms of gross written premium (hereinafter GWP).⁶ The **low interest rate environment** continues to overshadow the life insurance sector, reflected in a reduced offer of guaranteed products and the introduction of **new products with reduced guarantees** where the investment risks are borne by the consumer. The overall market growth in the European insurance sector can be observed in the Figure below these lines.

Figure 1: Year-on-year growth - Gross written premiums - Life. Median, interquartile range and 10th and 90th percentile



Source: EIOPA Financial Stability Report (based on 32 large insurance groups in EU and Switzerland)

In some Member States such as Malta (+51%) the life insurance sector experienced a strong growth, partly boosted by the reinforcement of the sales force. In other countries like Lithuania (+10%), Romania (+10%), Italy (+4%) and Slovenia (+3%) the increase was more moderate, annual GWP decreases were reported in some other countries like Poland (-7%), Portugal (-13%) or Hungary (-3%).

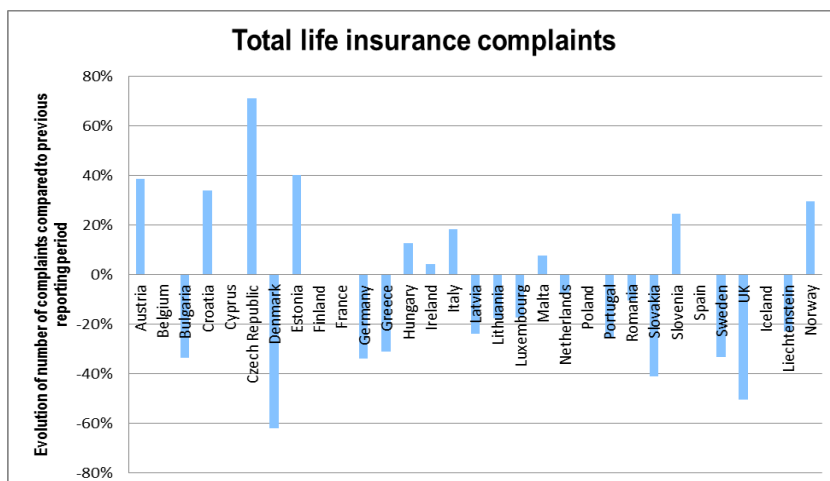
1.2. Consumer Complaints

Based on the information provided by 24 Member States, **consumer complaints in the life insurance sector decreased in several Member States in 2015**, including in some of the larger European markets, as it can be observed in Figure 2 below.

Figure 2: Total life insurance complaints in 2015 (compared to 2014)⁷

⁶ EIOPA, Financial Stability Report, June 2016, https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-15-233%20-%20EIOPA_Fourth_Consumer_Trends_Report.pdf

⁷ There is no information available for Belgium, Cyprus, Finland, France, Poland, Spain and Iceland. This is the reason why they appear with a growth rate of 0%.



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The fact that the total number of consumer complaints decreased in several Member States **could reflect an improvement of the sales practices of life insurance undertakings**. However, the number of complaints should be treated cautiously as it is not possible to extract direct conclusions based solely in this decrease. For instance, some complaints relating to life insurance products only manifest at the maturity of the (long-term) insurance contract (e.g. claims-related complaints). Therefore NCAs and EIOPA continue to closely monitor the profound changes that are taking place in the European life insurance market.

Similar to other product categories, **claims-related complaints** are the primary cause of complaints for life insurance products. In case of with-profit life insurance products, this may be because of consumer dissatisfaction with the amount of discretionary bonuses. Other examples of consumer complaints relating to claims of excessively high commissions and charges have been reported, as well as excessively long claims processing timeframes after the death of the policyholder.

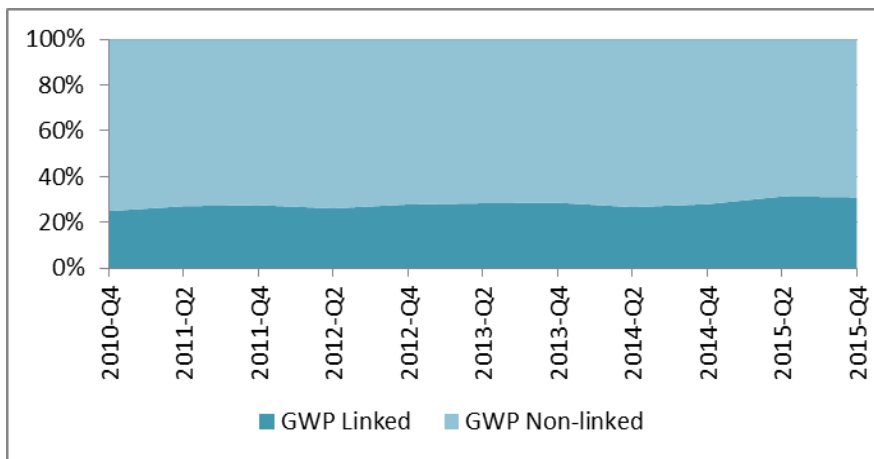
1.3. Product-related trends

1.3.1. With-profits life insurance products

Market growth and financial innovations

The **sale of life insurance with-profits products decreased** in several Member States, as opposed to unit-linked life insurance and "other life insurance" products, which increased in the majority of Member States. Despite this trend, which is being observed in recent years, the portfolio of life insurance undertakings is still predominantly composed of non-linked products.

Figure 3: Gross written premium, share of linked vs. non-linked products (in per cent)



Source: EIOPA Financial Stability Report (sample based on 15 large insurance groups from AT, FR, DE, IT, NL and UK)

Members States such as Finland (-31%), Estonia (-37%), Hungary (-4%) or Portugal (-28%) reported Year over Year (YoY) premium decreases for the with-profits lines of business. Indeed, the low interest rates environment has impacted the profitability of some insurance undertakings, and this may **reduce the attractiveness** for the consumer of some of these products, since the discretionary bonuses may be lower.

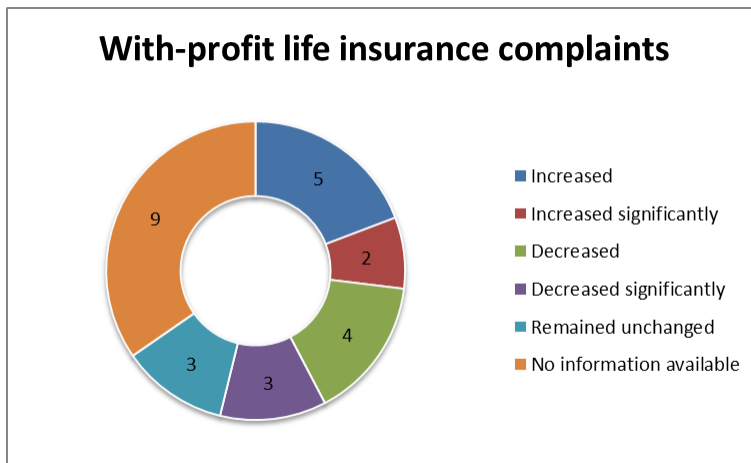
Insurance undertakings also have fewer incentives to offer with-profits products which traditionally count with a guaranteed benefit at the maturity of the contract; in the context of the low interest rates environment, the yields obtained from long-term investments like corporate and government bonds are very low, and hence **it is more difficult for insurers to meet guaranteed returns**.

On the other hand, Malta (+64%) reported strong increases, possibly as a result of competitive bonuses offered to attract consumers. In Bulgaria (+10%) this is the main type of life insurance product and its sale is commonly bundled with a mortgage loan. In Spain, a premium growth of traditional life benefit protection products was also reported in 2015, although it was highlighted that the **new policies issued were characterised by very low guarantees (plus a participation in profits)**.

Consumer complaints and NCA consumer protection activities

A frequent cause of complaints reported in Austria relates to the **difficulty raised by some consumers in understanding the level of guarantees (i.e. of the guaranteed return)**. The NCA of this Member State is paying close attention to the product information and marketing material distributed to consumers so as to ensure that the latter is provided with clear and not misleading information.

Figure 4: With-profit life insurance complaints per Member State in 2015 vs. 2014⁸



Source: EIOPA Committee on Consumer Protection and Financial Innovation Committee

Following a number of consumer complaints (not only regarding with-profit products), the Italian NCA approached some life insurers and asked them to review the contract terms and settlement procedures in order to **limit the amount of documentation requested in case of death, which was leading to long processing times in the settlement of insurance benefits**. In this regard, some contractual clauses in life insurance contracts requiring excessive and too burdensome documentation were considered to be "unfair contractual clauses" by the Italian Supreme Court of Cassation last year.⁹

A new law was approved in France requiring insurance undertakings to more actively search for the potential beneficiaries of **unclaimed life insurance contracts** after the death of the insured person. Since the new law entered into force in 2015, Insurance undertakings have been able to identify the beneficiaries of around a third of the 5 billion euros in unclaimed insurance contracts.¹⁰

1.3.2. Unit-linked life insurance products

Market growth and financial innovations

In terms of GWPs, for the second consecutive year the unit-linked life insurance market in Italy (+46%) experienced a **strong premium growth in 2015**, although this increase is partially due to the unit-linked component of "hybrid" policies (which are composed of guaranteed savings life policies and unit-linked policies). Annual premium growth was also reported in Member States such as Latvia (+28%), Slovenia (+9%), and Portugal (+6%).

Moreover, the Croatian (+67%) market also experienced a strong increase, mainly due to single premium life insurance payments in products linked to Croatian government bonds. In Luxembourg (+18%) a reorientation of the underwriting strategy towards unit-linked products can be observed as a result of the persistence of low interest rates and a voluntary restriction of the offer of guaranteed products.

⁸ Decreased significantly: BG, UK, DE; Decreased: LV, RO, SK, MT; Remained unchanged: HU, AT, IS; Increased: EE, LU, CZ, SI, IT; Increased significantly: HR, NO; No information available: NL, SE, HE, DK, LT, PT, FI, IE, LI; The remaining Member States were not able to provide input to EIOPA.

⁹ Sentence no. 17024 of 20 August 2015, third civil section, Court of Cassation

¹⁰ This is line with the recommendations included in EIOPA's Opinion on Beneficiary Protection Arrangements Regarding Life Insurance Contracts; https://eiopa.europa.eu/Publications/Opinions/EIOPA-BoS-13-168_Life-Register-opinion.pdf

Other members however such as Sweden (-6%) or Austria (-8%) reported a decrease in premiums for this line of business.

Compared to guaranteed products, unit-linked products traditionally offer consumers the **possibility of obtaining higher returns**, in exchange for bearing (totally or partially) investment risks. Consumers with higher risk appetite are therefore attracted by these types of insurance-based investment products, especially given the low interests currently offered for bank deposits. Moreover, as explained above for with-profit products, insurers also have an interest in offering these products given their difficulties to meet the guaranteed returns in a context of low interest rates. Moreover, the monetary incentives (e.g. commissions) offered to intermediaries for distributing insurance-based investment products were also identified as an additional factor influencing the increasing sale of unit-linked life insurance products.

Some new products incorporate a more flexible approach to the guaranteed return; they prescribe a specific / exact guaranteed return for the first year, but not for the following years, in which the return is linked to a percentage to be defined at a later stage. Other products also reportedly include new possibilities in respect of the redemption of funds, allowing them under a series of conditions. Furthermore, there seems to be a shift from the traditional long-term life savings products to more short-term life protection policies.

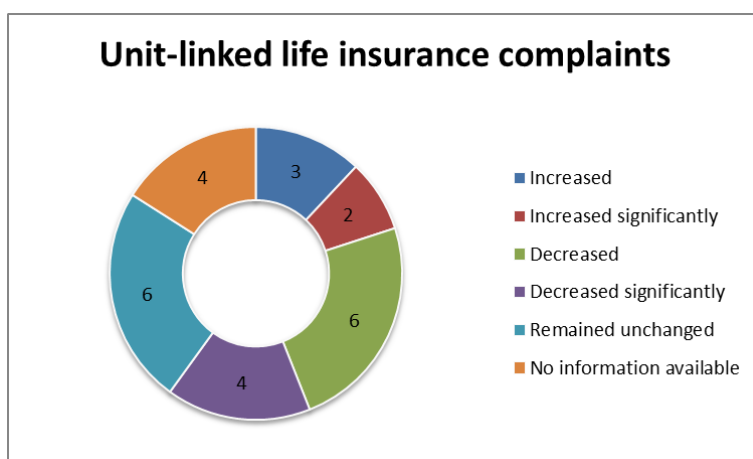
A common characteristic to some of these new products is their **increasing degree of complexity**, and as a result sometimes they are difficult to understand for an average consumer. For example, for some consumers it might be difficult to assess the underlying assets to some life insurance products and hence the underlying risks, particularly if they are connected to investment assets or instruments that are, for instance, not permitted under UCITS, such as illiquid or hard to value assets, or those with complex structured pay-offs contingent on a number of different underlyings.

Consumer complaints and NCA consumer protection activities

In the Netherlands, unit-linked life insurance complaints have been decreasing since reaching a peak in 2012-2013, when **a number of unit-linked insurance products mis-sold in the 90's started to reach maturity**. The decrease in complaints could partly be as a result of the efforts of the NCA to encourage insurance undertakings to proactively engage with their consumers to encourage them to evaluate their current situation and assess what options they have available to rectify it. The Dutch NCA has a risk-based approach to monitor the market and assesses trends for new life insurance policies where market signals show conditions might not be in line with consumer interests.

Figure 5: Unit-linked life insurance complaints per Member State in 2015 vs. 2014¹¹

¹¹ Decreased significantly: NL, HE, DE, BG; Decreased: LU, LV, RO, HR, LT, PT; Remained unchanged: EE, HU, IS, DK, IT, AT; Increased: MT, SI, SK; Increased significantly: CZ; No information available: SE, FI, UK, IE, LI; The remaining Member States were not able to provide input to EIOPA.



Source: EIOPA Committee on Consumer Protection and Financial Innovation

In Poland, over 83% of the unit-linked life insurance products sold in 2015 were individual contracts, as opposed to 98% of group insurance contracts in 2012. This comes as a result of a Court judgement and a supervisory action of the Polish NCA addressing a series of **shortcomings identified with some group insurance contracts sold through banking institutions**, in which the latter acted at the same time as a policyholder (vis-à-vis the insurer) and a distributor (vis-à-vis the retail consumer). The representative of the Polish insurance Ombudsman member of the OPSG has however highlighted that many of the consumers who were mis-sold unit-linked products, still have not been able to recover their savings because they cannot afford the costs of court proceedings.

Some of the complaints received by the NCA of Luxembourg related to **management costs** (either regarding the management of the underlying assets or the selling of units in the underlying assets) of some unit-linked contracts. It should be noted that these costs had been charged by the custodian bank or the discretionary manager of the underlying funds, and not by the insurance undertaking itself (which on the other hand is responsible for explaining to the consumer the characteristics of the product).

In recent thematic works, the NCA from the UK has identified that there are some **remuneration arrangements creating potential conflicts of interest**, which may indicate a lack of appropriate governance and controls to manage the conflicts. The NCA continues to monitor the management and control of remuneration incentives and conflicts, while it considers that the upcoming IDD rules could help, in particularly as regards conflicts and inducements rules for insurance-based investment products.

The Italian NCA conducted a thematic review on hybrid life insurance products (mix of with profits policies and unit linked policies) and concluded that these may on occasion contain elements which could lead to poor consumer outcomes. This would be the case, for example, of terms and conditions are not sufficiently transparent and easy to understand, where there are opaque costs and charges, or where **references to "capital protection" may lead the consumer to believe that it is a guaranteed product although this is just a goal of financial management**. The Italian NCA jointly with consumer associations has published a series of tips to consumers about these products,¹² and is currently developing a more detailed action plan.

In Slovenia some of the complaints were related to a **life insurance product linked to funds denominated in a foreign currency (USD)**, although the payment of benefits needed to be done in EUR. The exchange rate eventually was not favourable for the retail consumers, who lodged complaints before the NCA.

¹² http://www.ivass.it/ivass_cms/docs/F1107/isvc0547.pdf

New insurance legislation currently being drafted in Lithuania will establish **new investment management requirements for ensuring the best results for consumers**. For example, if the insurer does not manage investments itself, it will not be allowed to charge investment management fees to the consumers. It will also introduce greater transparency regarding all the costs related to the insurance contract, and limit the commissions charged to the consumer, if the latter terminates the contract within the first 3 years.

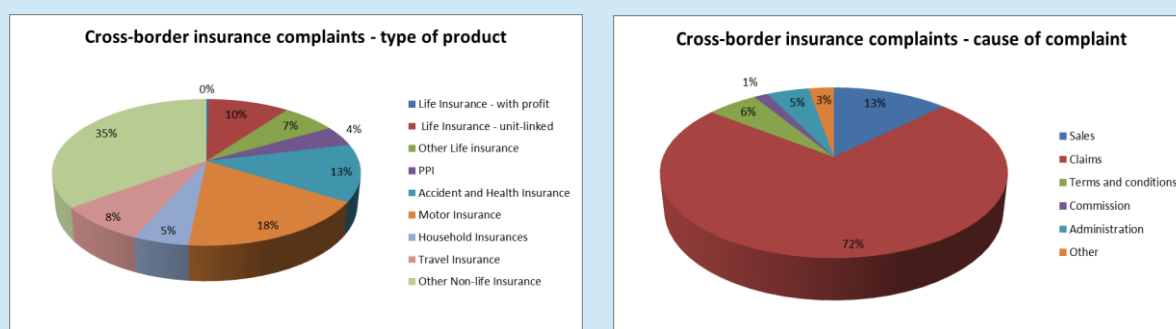
In 2015 consumer complaints related to unit-linked life insurance products increased 90% in the Czech Republic compared to the previous year. Some of these complaints were due to **mis-selling practices** by some insurance intermediaries. The Czech NCA has continued strengthening its supervisory practices in terms of on-site visits and enforcements using already issued supervisory benchmarks and other soft-law material established in recent years. Additionally, national binding legislation is expected to be approved to further reinforce the consumer protection framework.

Exhibit 1: Cross-border insurance complaints

One of the key objectives behind legislative initiatives such as Solvency II, IDD or PRIIPS is to promote a **true European internal market for life and non-life insurance products and services**. Insurance undertakings may operate across European countries under the so-called Freedom of Services (FoS) or Freedom of Establishment (FoE) regimes. These cross-border activity may on occasion lead to situations where consumer's expectations are not met, which may eventually lead to a cross-border complaint being lodged, i.e. complaints lodged by a consumer against an insurance undertaking or intermediary located in another country.

In cooperation with the European Commission, **EIOPA gathered cross-border complaints data from 11 members of FIN-NET**,¹³ a financial dispute resolution network of national out-of-court complaint schemes in the European Economic Area (EEA) countries.¹⁴ The 342 complaints received by 10 Members of FIN-NET¹⁵ have been aggregated in the graphics below.

Figure 6: Cross-border insurance complaints



Source: FIN-NET

It is not possible to extract conclusions for the entire European insurance market based on the information of 10 Member States. However, the above graphics provide an overview of what **types of cross-border complaints are dealt by FIN-NET**

¹³ FR, HU, FI, PT, DK, PL, ES, IE, UK, HR and SE

¹⁴ http://ec.europa.eu/finance/fin-net/index_en.htm

¹⁵ The UK Ombudsman reported 1339 cross-border complaints. However, given that its classification of types of products and causes of complaints does not match the ones used by EIOPA, the figures from the UK are not represented in the graphics.

members: most of the cross-border complaints relate to non-life insurance contracts, with the motor insurance category accumulating the largest number of complaints (18%), followed by Accident and Health (13%), unit-linked life insurance products (10%) and travel insurance (8%). As far as the causes of complaints are concerned, claims-related complaints are clearly behind the majority of cross-border complaints (72%).

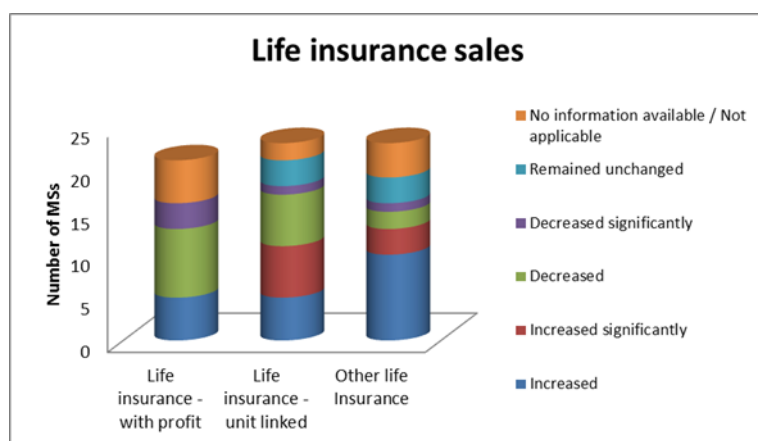
In Sweden and Spain travel insurance was the category of product accumulating a larger number of cross-border complaints. In Finland, most of the cross-border complaints and inquiries received by the Finnish **Financial Ombudsman Service** related to unit-linked life insurance products. In Poland, apart from the "other life insurance" and "other non-life insurance" categories, motor insurance cross-border complaints were the most numerous amongst the 132 cross-border complaints received by the Polish Financial Ombudsman. Irish consumers also mainly complained about the increases in premiums in their motor insurance policy distributed by foreign insurance undertakings in Ireland. The out-of-court complaint schemes of Portugal and Croatia did not receive any cross-border complaints in 2015.

1.3.3. Other life insurance products¹⁶

Market growth and financial innovations

A relevant development in the life insurance market, probably also influenced by the low interest rates environment, is the **increase of sales of life insurance products other than with-profits and unit-linked products**. This can be observed in Figure 6 below.

Figure 7: Evolution of life insurance sales in the EU Member States in 2015 - NCA survey¹⁷



Source: EIOPA Committee on Consumer Protection and Financial Innovation

Italy reported a considerable **premium growth** in the management of group pension funds (+17%), and in Slovenia sales in this category remained broadly unchanged

¹⁶ Under this line of business Member States have reported a miscellaneous array of life insurance products such as depository insurance (similar to unit-linked, but with other financial instruments than investment funds as underlying assets), critical illness health insurance, pension insurance or annuities stemming from non-life insurance contracts.

¹⁷ Life insurance - with profit: Decreased significantly: RO, FI, LU, Decreased: LV, NO, DK, SL, IT, HU, AT, DE, MT; Increased: EE, SE, HR, SK, IS; No information available: CZ, LT, PL, IE, LI; Life insurance - unit linked: Decreased significantly: ES; Decreased: EE, CZ, SK, FI, AT, MT; Remained unchanged: PL, IS, DE; Increased: SE, LT, DK, SL, HU; Increased significantly: LV, RO, HR, NO, IT, LU; No information available: IE, LI; Other life insurance: Decreased significantly: LU; Decreased: HR, AT; Remained unchanged: DK, PL, DE; Increased: EE, LV, LT, SK, MT, SL, FI, IT, HU, IS; Increased significantly: SE, RO, ES; No information available: CZ, NO, IE, LI. The remaining Member States were not able to provide input to EIOPA.

compared to the previous reporting period, but pension insurance sales are expected to increase in the upcoming years. Increased marketing campaigns regarding these types of products have also been reported for Finland (+2%).

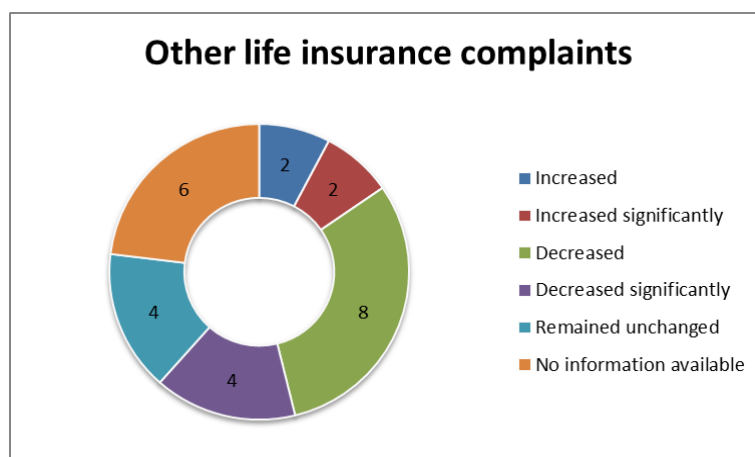
In Sweden (+3%) **depository insurance has experienced a strong increase** and often comes in the form of insurance that is subject to a favourable tax treatment ("endowment insurance"). Such insurance is a popular alternative to other means of saving, especially since the removal of tax-deductions for private pension insurance. Depository insurance allows for investments in a broad range of financial instruments (i.e. not only in linked funds such as UCITS).

Multi-tier hybrids are also reported as increasingly popular in Germany, in an effort to accommodate the capital market and interest rate regime. **Biometrical products** such as term life insurance and disability insurance are also reported increasingly sold in many European Member States. In the UK, the **enhanced annuity market** has grown considerably, using medical and lifestyle underwriting to allow people with a shorter life expectancy to secure a higher income.

Consumer complaints and NCA consumer protection activities

Similar to the unit-linked life insurance market, consumer complaints in relation to "other life insurance" products have decreased in most Member States that provided data to EIOPA, a decrease being considerably high in 4 of them.

Figure 8: Other life insurance complaints per Member State in 2015 vs. 2014¹⁸



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The Swedish NCA conducted a thematic review on how a number of large insurance undertakings distribute different types of life insurance. The review showed large differences in distribution between the undertakings, but there is some evidence that **unit-linked and depository insurance products are sold via intermediaries to a larger extent than insurance products with guarantees.**

In Germany the NCA has launched a thematic review to gather a comprehensive overview on the level of implementation of the new rules on cancellation liability in insurance mediation stipulating the **pro-rata recovery of commissions paid by the insurance undertaking to insurance intermediaries in case of cancellation of a life or health insurance contract.** The new rules are intended to prevent insurance intermediaries from urging their clients to change a contract in order to obtain further

¹⁸ Decreased significantly: HE, DE, RO, DK; Decreased: LU, LV, NL, HR, LT, PT, SK, BG; Remained unchanged: EE, HU, IS, UK; Increased: CZ, SI; Increased significantly: NO, IT; No information available: SE, MT, FI, AT, IE, LI; The remaining Member States were not able to provide input to EIOPA.

commissions. The evaluation has already been completed but without remarkable results.

In order to allow the policyholder to make informed decisions and to ensure compliance with the disclosure of pre-contractual information to the policyholder foreseen in national legislation, new **Guidelines on Information requirements in insurance contracts** have been published in Estonia.¹⁹

The NCAs of Hungary,²⁰ Slovakia,²¹ Slovenia, Portugal, Italy, Romania and Croatia, inter alia, continued their efforts to enhance the level of financial literacy through a series of **financial literacy initiatives** (such as educational brochures, development of informative websites or educational sessions in schools) adapted to the specific characteristics and needs of their populations. Some of these initiatives included collaboration with trade and consumer organisations, aimed to increase the awareness and level of understanding of insurance by consumers.

Image 1: Example of financial education initiative in Hungary - Financial Navigator booklets



Source: Central Bank of Hungary²²

2. Non-life insurance

2.1. Market Growth

The **non-life insurance sector experienced strong premium growth** during the year 2015. According to Figure 9 below, the median YoY growth was over 5%, its highest rate in the past five years.

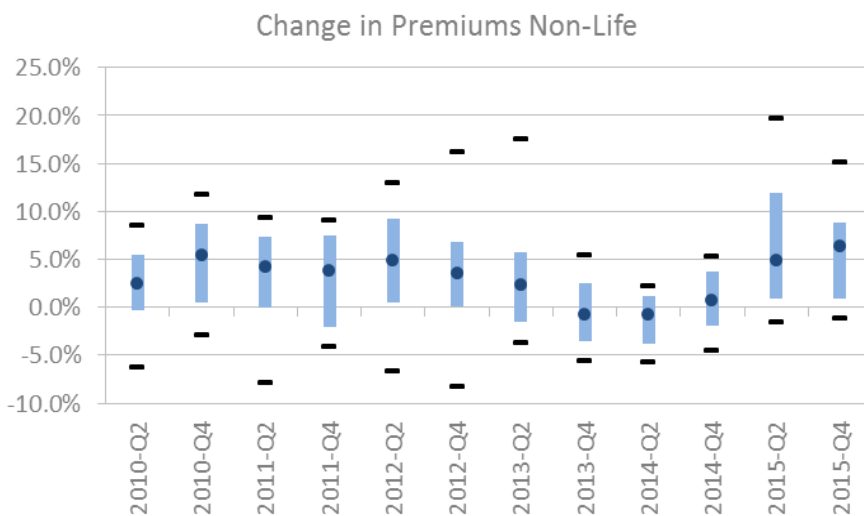
¹⁹ http://www.fi.ee/failid/Soovituslik_juhend_Nouded_kindlustuslepingu_teave.pdf

²⁰ <http://www.nbs.sk/en/consumer/about-us/education>

²¹ Financial Education Week, www.finansunedela.lv

²² Financial Consumer Protection Report, Central Bank of Hungary, 2015, <https://www.mnb.hu/letoltes/financial-consumer-protection-report-2015.pdf>

Figure 9: Year-on-year growth - Gross written premiums – Non-Life. Median, interquartile range and 10th and 90th percentile



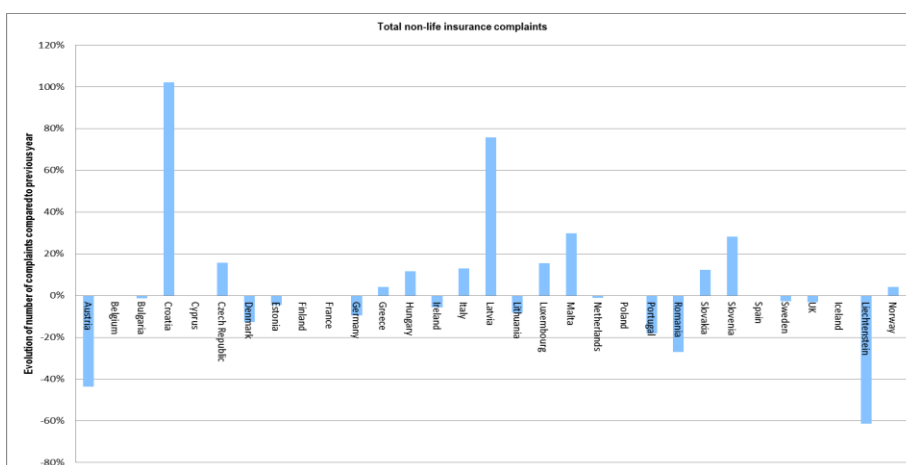
Source: EIOPA Committee on Consumer Protection and Financial Innovation

When looking at each Member State individually, the majority reported a YoY growth in premiums in 2015. This is the case of Hungary (+9%), Iceland (+10%), Sweden (+5%), Romania (+8%), Ireland (+9%), or Portugal (+4%). A minority of Member States like Poland (-1%) or Croatia (-2%) experienced small decreases in premiums, while in others like Estonia (-36%) the decrease was larger.

2.2. Consumer Complaints

Based on the information provided to EIOPA, consumer complaints relating to non-life insurance products **increased in 11 Member States, while they decreased in 12 Member States**. Overall, at European level the total number of complaints decreased, since some of the larger markets in Europe reported a decrease in the number of complaints compared to the previous year.

Figure 10: Total non-life insurance complaints in the EU Member States in 2015 (compared to 2014)²³



Source: EIOPA Committee on Consumer Protection and Financial Innovation

²³ There is no information available for Belgium, Cyprus, Finland, France, Poland, Spain and Iceland. This is the reason why they appear with a growth rate of 0%.

Similar to life insurance complaints, in non-life lines of business **the majority of consumer complaints related to claims-handling** (i.e. they take place once the consumer makes a claim after the insured event manifests). Disagreements between consumers and the insurers regarding the amount of compensation in cases of loss are one of the most common causes of complaints. Complaints often also related to **delays in carrying out breakdown repairs and/or on the payment of the compensation**, which in the case of motor insurance needs to be done in a maximum of 3 months after the accident.²⁴

2.3. Product-related trends

2.3.1. Motor insurance

Market growth and financial innovations

Motor insurance is the **most important** non-life insurance line of business, representing over 50% of the total amount of non-life insurance GWP in several European Member States like Estonia (59% of total non-life premiums), Italy (51% of total non-life premiums), Romania (69% of total non-life premiums) or Iceland (57% of total non-life premiums). During 2015, this line of business experienced premium growth in the majority of Member States.

The **increase in car and motorcycle sales** in 2015, both of new and second hand cars, have positively influenced the sales of motor insurance policies in Member States in terms of GWP, such as Romania (+8%), Denmark (+1%), Austria (+0.1%) and Malta (+10%). In Croatia, while **increasing competition** in the market has resulted in a decrease of GWP (-8%), the number of contracts (i.e. consumers) has increased.

In Spain (+2%) the sector also experienced a premium growth, although the costs for insurance undertakings have also increased as a result of more car accidents. The latter is partly due to the fact that during the financial crisis the average lifetime of the car fleet in Spain has increased, and **older vehicles tend to have more accidents**.²⁵

A relevant development has taken place in France to facilitate solving possible disagreements between insurers and the consumers: insurance undertaking members of the French Association of Insurance (AFA) have committed to join the association of Insurance Mediation (Association "La Mediation de l'Assurance"),²⁶ which offers consumers a **free alternative dispute resolution mechanism for out-of-court settlements**.

Traditional distribution channels including direct sales, insurance brokers and insurance agents continue to be predominant in the sector in most Member States. However, online insurance marketplaces such as **comparison websites** increasingly offer consolidated distribution channels.²⁷ In Norway, where the Norwegian Consumer Council runs a non-commercial comparison website (the public website compares prices and services but it is not possible to directly conclude an insurance contract

²⁴ Article 22 Directive 2009/103/EC of the European Parliament and the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0103&from=EN>

²⁵ La caída de los tipos de interés amenaza a las aseguradoras, El País, 16 August 2016, http://economia.elpais.com/economia/2016/08/14/actualidad/1471189911_140727.html

²⁶ <http://www.ffa-assurance.fr/content/assurance-le-recours-la-mediation-de-assurance?parent=74&lastChecked=111>

²⁷ These will be regulated by the Insurance Distribution Directive, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0097&from=EN>

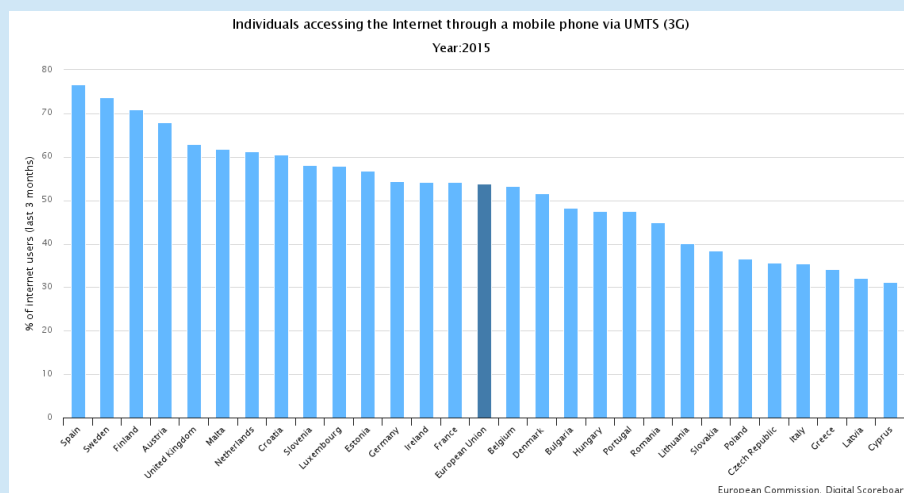
through therein),²⁸ it has been reported that approximately 20% of insurance policies are sold on-line.

Moreover, an innovative way of distributing motor insurance products has been reported in Romania, where after purchasing the policy online, the consumer receives a code on his mobile phone and can subsequently collect the policy in a **machine similar to an ATM** placed in public places. Romania approved a specific regulation related to on-line insurance sales, opening the gate to innovative products from FinTechs, complemented with a regulation for managing IT operational risks.

Exhibit 2: Mobile phone applications ("apps") in insurance²⁹

Mobile phone applications ("apps")³⁰ present important opportunities for insurers and consumers, but also some challenges. In some Member States and for some (elderly) segments of the population face-to-face solutions and hard copy disclosure information are still preferred. However, in some Member States the increasing penetration of smartphones connected to the Internet allows insurance undertakings to provide a **wide range of services to their clients, in particular to younger generations.**

Figure 11: Individuals using a mobile phone or smart phone to access the internet, in the last 3 months



Source: European Commission, Digital Scoreboard³¹

Mobile phone applications allow insurance undertakings to develop more targeted and effective selling and marketing campaigns. Insurance undertakings can also **improve the relationship with their clients** through the customised dissemination of product information and more interactive communications. Applications are typically available on demand (24 hours a day), complementing

²⁸ <https://www.finansportalen.no/forsikring>

²⁹ This information is based on feedback received from SE, CZ, LT, NO, SK, FI, IT, IS, IE, LU, IRSG and Insurance Europe.

³⁰ A mobile application (or 'app') is a dedicated software application built specifically for smartphone or tablet operating systems.

³¹ European Commission's Digital Scoreboard, [http://digital-agenda-data.eu/charts/analyse-one-indicator-and-compare-countries#chart={\"indicator-group\":\"mobile\",\"indicator\":\"i_iu3g\",\"breakdown\":\"IND_TOTAL\",\"unit-measure\":\"pc_ind_iu3\",\"ref-area\":\[\"BE\",\"BG\",\"CZ\",\"DK\",\"DE\",\"EE\",\"IE\",\"EL\",\"ES\",\"FR\",\"IT\",\"CY\",\"LV\",\"LT\",\"LU\",\"HU\",\"HR\",\"MT\",\"NL\",\"AT\",\"PL\",\"PT\",\"RO\",\"SI\",\"SK\",\"FI\",\"SE\",\"UK\",\"EU27\"\]}](http://digital-agenda-data.eu/charts/analyse-one-indicator-and-compare-countries#chart={\)

other channels such as agents, call centres and websites.

More specifically, some mobile phone solutions offer the possibility to instantly **report accidents and make claims** (e.g. car accident or events covered by travel insurance). Such applications allow expediting claims handling and providing a more accurate account of the events via the submission of pictures of the accident and geo-location information.

Mobile apps can also be used to **prevent claims** by improving risk mitigation, such as the application developed by the Danish insurance association that warns consumers about heavy rain and storms. In the life insurance line of business, examples of mobile phone applications include **pension/savings calculators and forecasting tools**, as well as hubs providing investment policy details.

Moreover, Big Data and analytics are reportedly turning to a smartphone-based data collection approach, which is cheaper and easier to install than other data-collection devices; this is the case for mobile phone apps that monitor the consumers' driving behaviour (i.e. similar to black boxes and telematics), or other applications measuring consumer's health habits (e.g. number of steps walked in one day). Still in the area of the **Internet of Things**, smartphone-based services have been developed to enable consumers to monitor their "connected homes" remotely (see the respective specific product category sections below for further information about these applications).

Through the **collection of detailed personal information about their client**, insurers are able to offer more customised products and set premiums according to behaviour. In so far as the consumer understands the relationship between his/her behaviour (e.g. gentler acceleration) and the insurance price, this has the potential to make insurance pricing more transparent for the consumer while providing other benefits, such as lowering risks.

From a consumer protection perspective, issues that could arise relate to possible **information/publicity overload** for the consumer or **reduced comparability of (individualised) policies and prices**. Moreover, similar to other Big Data related trends, issues around the **access and affordability** of insurance for all types of consumers (including those unwilling to share their personal data) is also relevant.

Privacy-related issues are also important, particularly the **consent and awareness** of consumers about the collection and use of their personal information, as well as regarding the **portability** between different providers of personal data collected through mobile phone applications, black boxes and similar devices.³²

Moreover, the collection of personal data could also create liability issues for insurance undertakings (and Fintech/ Insurtech firms) if they don't adequately manage their exposure to **cyber-risks** (see point 3.5.3.5 below).

Black boxes and telematics reportedly continue to slowly but steadily penetrate the markets of several European Member States. In the Italian market, which is the most developed in this respect, black boxes became an integral part of approximately 15% of the contracts underwritten in 2015.

³² Some of the privacy-related issues mentioned (namely consent, awareness, and portability) are covered by the new Data Protection Regulation ((EU) 2016/679) which will enter into force on 25 May 2018; <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R0679&from=en>

These products, similar to other mobile phone applications with similar functionalities, are developed by insurance undertakings themselves or also often in cooperation with **Fintech / Insurtech** entities. They allow, among other things, the costs of insurance to be reduced for good drivers, while bad drivers will have to pay higher premiums or find it harder to obtain motor insurance cover. This provides incentives to consumers for adopting safe driving practices, in what could be seen, to a certain extent, as a **type of "bonus malus" system**. They also improve the probability of recovering stolen vehicles and speeding up claims management and settlement procedures thanks to a more accurate and timely reconstruction of the scene of an accident (see Exhibits 2 and 3 for further related information).

Moreover, while **driverless cars** are still at an early stage of development, in the future they could potentially reduce the number of car accidents. In this respect, it remains unclear who should bear the liability in case of an accident - i.e. the driver or the manufacturer of the automated car.

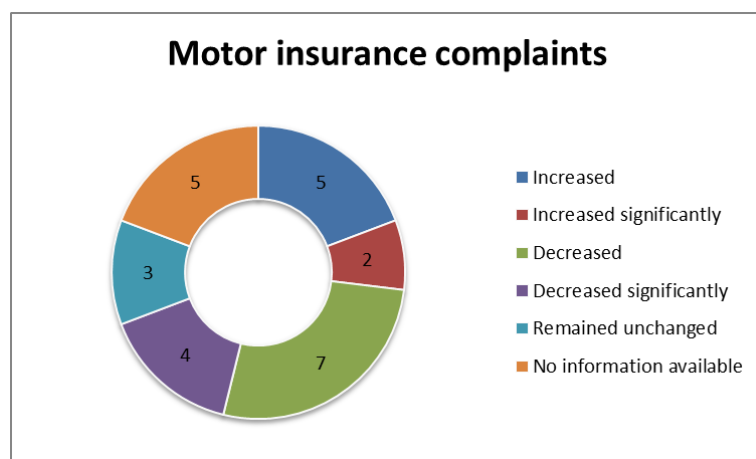
The future intelligent cars could also be relevant from a competitive perspective; **car manufacturers could have a competitive advantage** vis-a-vis traditional insurers as a result of collecting extensive amounts of valuable information about the driving behaviour of individuals, which could eventually be used to distribute insurance.

The UK has also reported about the growing prominence of new **motor insurance products of very short duration (e.g. a few hours)**, which are designed to meet new lifestyles such as the increasing demand of shared ("cambio") vehicle services.

Consumer complaints and NCA consumer protection activities

In a majority of Member States including Luxembourg, Norway, Czech Republic, Lithuania and Slovakia consumer **complaints about motor insurance policies decreased during 2015**. Decreases in the number of complaints were significant in Greece, Denmark, Austria and Romania. However in some Member States, such as Sweden, the Netherlands and Hungary, the number of complaints increased compared to the previous year.

Figure 12: Motor insurance complaints per Member State in 2015 vs. 2014³³



Source: EIOPA Committee on Consumer Protection and Financial Innovation

In the Netherlands, the increase in the number of complaints related mostly to **product information and the terms and conditions** of the policy. In Hungary, the

³³ Decreased significantly: HE, RO, DK, AT; Decreased: LU, NO, CZ, LT, PT, SK, BG; Remained unchanged: DE, IS, IT; Increased: NL, SE, HU, MT, SI; Increased significantly: HR, IE; No information available: EE, LV, FI, UK, LI; The remaining Member States were not able to provide input to EIOPA.

increase in the number of complaints was mainly due to the **bankruptcy of a foreign insurance undertaking**, which had a branch office in Hungary. In Ireland and Poland several consumer complaints related to **increases in the premiums** charged to consumers.

The number of cars circulating in Greece has decreased since the beginning of the financial crisis, and as a result the number of accidents has also decreased. This could partly explain why there are less consumer complaints, although the Greek NCA has also observed an **improvement of the claims & complaint handling procedures** by insurers.

In Slovakia a number of consumer complaints related to the refusal of some insurance undertakings to compensate their clients for **damaged windscreens** of the cars. According to the insurers, claims were not sufficiently documented from the side of the consumer.

In relation to this last point, in Bulgaria one of the most common causes of consumer complaints relate to the **dissatisfaction with the compensation received** in motor insurance claims. In these cases the Bulgarian NCA reviews the compliance with the "Procedure of Settlement of Claims for Compensation of Damages Caused to Motor Vehicles" and may impose administrative sanctions if they are not respected.

The European consumer organisation (BEUC) has expressed its support for the development of **alternative dispute mechanisms**, so long as they are truly independent in its view (in terms of funding and management).

In Poland and Romania a **price war that has been on-going during the past years appears to have come to an end**, partly because of the need to comply with statutory solvency capital requirements. This has been reflected in an improvement of the claims handling and claims settlement practices of insurance undertakings, although some consumers are now complaining because their motor insurance premiums have increased.

The Spanish consumer organisation ADICAE conducted a market study of online sales of insurance for small motorcycles. The study recommended consumers to actively shop around since premiums differed considerably from one provider to another, while it warned consumers against focusing exclusively on the price and **pay special attention to coverage exclusions, particularly in online sales**.³⁴

The Romanian NCA also conducted a **mystery shopping exercise on online sales** of motor insurance and found some shortcomings in respect of the application of the bonus malus system. It also recommended consumers to actively shop around and compare between different policies before subscribing to an insurance contract. Furthermore, it has developed a Guide of Good Practices for the Handling of Motor Claims, which is currently under public consultation.³⁵

In September 2015, the UK consumer organisation Which? published a study on the UK motor insurance sector, where it noted that car insurance premiums in the UK had dropped thanks to the dynamic competition in the market (according to the Association of British Insurers, 99% of the motor insurance claims were successful during the period 2013-2014).³⁶ However, Which? has also noticed that some motor insurance policies increasingly include **fees and charges** for making minor changes

³⁴ <http://laeconomydelosconsumidores.adicae.net/index.php?articulo=2906>

³⁵ <http://asfromania.ro/en/press-releases/media-releases/5436-asf-launches-a-best-practice-guide-for-handling-auto-insurance-claims>

³⁶ Association of British Insurers, <https://www.abi.org.uk/News/News-releases/2016/01/There-when-it-matters-ABI-publishes-insurance-claims-success-rates-for-the-first-time>

to the policy, which may not always be evident to the consumer (the consumer organisation talks about "sneaky fees").³⁷ The UK NCA was aware, through its usual market and firm monitoring, of the risk of potentially inadequate disclosures of fees and charges, and it is carrying out related work through its supervision of individual firms. The Belgian consumer organisation Test Achat has also reported similar issues with fees and charges, particularly in the context of early termination of an insurance contract and/or switching between insurance providers.

2.3.2. Household insurance

Market Growth and Financial Innovations

Based on the input provided to EIOPA, household insurance was the product category for which sales increased in the largest number of Member States during 2015. In Bulgaria, the main market driver in 2015 was **fire insurance** and allied risks. In Denmark (+0.4%), household insurance GWPs increased slightly above inflation rate, while in other Member States like Malta the number of policies sold moderately increased or remained stable.

Moreover, Romania experienced an increase of 6.5% in the number of mandatory household insurance policies in 2015; however the **level of penetration is still considered to be low** (estimated around 17-18%) given the relatively high risks of flooding as a result of the topographic and geographic situation of the country.

The digitalisation of the insurance sector is also increasing (although still to a limited extent) in household insurance. Indeed, **geo-location technology** is reportedly being used in some Member States like Norway, Malta, Ireland and Czech Republic to more accurately market home insurance products such as flood cover (for further information please refer to Exhibit 3).

Moreover, having a house alarm in place has traditionally allowed for a certain level of discount on a client's home insurance premium. Such discounts can be further enhanced with **insurance products linked to connected houses** which are reportedly being developed in Member States such as Italy, Germany and Ireland. Connected houses, also known as smart houses, incorporate a series of flooding sensors, smoke detectors, electrical and heating consumption measurements, etc., which will open possibilities for further discounts and customisation of home insurance. Similar to the case of driverless cars, it is unclear who will be liable in case of malfunctioning of the connected sensors (in particular when the policy requires the policyholder to install the devices himself).

Moreover, the UK has reported an increasing number of partnerships between insurance providers and technology firms (**Fintech / Insurtech** entities), beyond more 'mainstream' alliances such as behind motor telematics. Such entities may also directly provide insurance services; leading to increased competition and increased consumer choice.³⁸

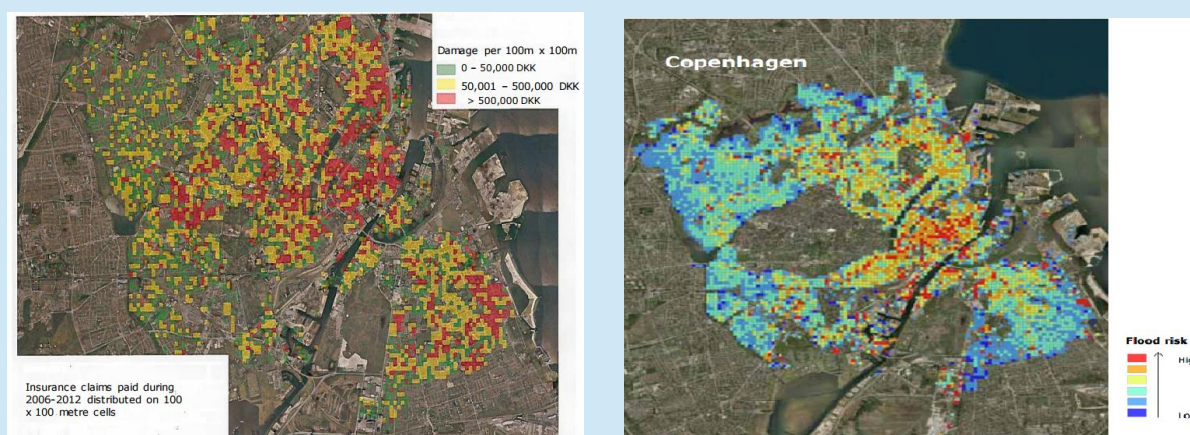
³⁷ Motor insurance "sneaky fees", Which?, September 2015, <http://www.which.co.uk/money/insurance/reviews-ns/car-insurance/car-insurance-add-ons-fees-and-charges/>

³⁸ Insurtech firm Neos launches UK first home insurance service, Insurance Business Magazine, 01 September 2016, <http://www.insurancebusinessmag.com/uk/news/breaking-news/insurtech-firm-neos-launches-uk-first-home-insurance-service-37252.aspx>

Exhibit 3: The use of geo-location / geo-coding technology in household insurance³⁹

Houses located in areas with a high risk of flooding, tornados, earthquakes or crime traditionally pay higher premiums than those situated in zones, which are not exposed to such risks. Nowadays **technological developments increasingly allow more granular geo-location** of real estate properties, in this manner improving the accuracy of risk assessments. Indeed, **satellite images can provide more detailed information than postcodes**, to the extent that in Member States such as Norway some undertakings have started to use residential IDs.

Image 2 - Flood claims map and flood risk map of Copenhagen, Denmark



Source: The Danish Insurance Association⁴⁰

The heat maps above show a certain correlation between insurance claims history (graphic on the left) and the exposure to flood risk close to the canal (graphic on the right) in the city of Copenhagen. Indeed, the **combination of external and internal databases** (particularly claims databases) allow more granular segmentation of risks and pricing becoming more risk-based, since it is possible to more accurately predict future events. This allows insurers to offer products to consumers, which were previously considered as uninsurable, and vice-versa.

Flood maps available in the public domain⁴¹ may also improve **consumer's awareness** relating to potential risks (or not) that their real estate properties may be exposed to. **Fintechs / Insurtechs** are also reported to increasingly cooperate with insurers in the processing and analysis of data.⁴²

From a consumer protection perspective, individuals owning real estate properties located in high-risk areas may have **difficulties in obtaining household insurance**, or alternatively they will need to pay a very high premium. This is an issue of public interest, which could have broader social consequences, for example in those Member States requiring household insurance to be able to rent

³⁹ The following Member States provided feedback about the use of geo-coding in their jurisdiction: SE, CZ, NO, DK, MT, IT, IE, IRSG and Insurance Europe

⁴⁰ The Danish Insurance Association, 2015, [http://www.forsikringogpension.dk/temaer/klimatilpasning/alimate/Documents/Flood%20insurance%20-%20London%2025%20%20november%202014%20\(2\).pdf](http://www.forsikringogpension.dk/temaer/klimatilpasning/alimate/Documents/Flood%20insurance%20-%20London%2025%20%20november%202014%20(2).pdf)

⁴¹ Example: The Norwegian water resources and energy directorate (NVE) has available for the public a wide range of geo-spatial and historic data about a wide range of variables such as floods, erosion and landslides <https://www.nve.no/map-services/map-tools/>

⁴² The insurance industry's new policy: Get digital, Financial News, 6 May 2016, <http://www.efinancialnews.com/story/2016-05-05/insurance-industry-gets-digital>

or buy a house.

It should be noted that this possible "**market gap**" is not exclusive to the insurance sector; similar issues have arisen in other sectors, for instance, regarding the provision of telecommunication services in remote geographical areas with small populations.

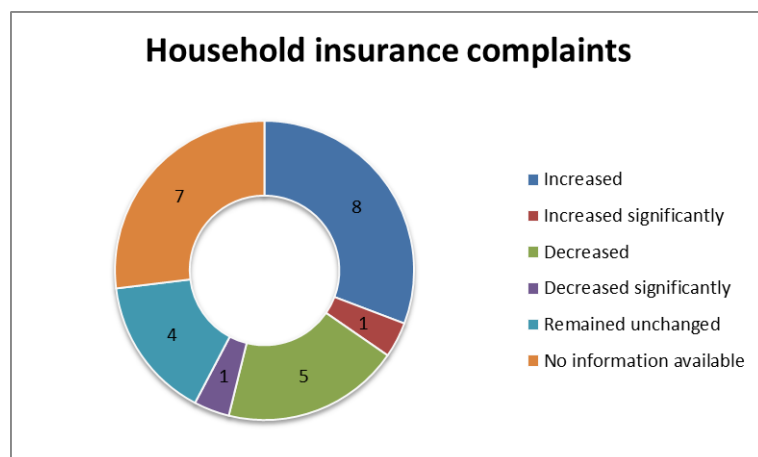
To address such situations, in 2016 the UK created a **new insurance scheme, funded by a levy on the insurance industry, to ensure the availability and affordability of household insurance** for people who live in areas highly exposed to flooding.⁴³

In order to promote transparency about the impact of Big Data, Verbond van Verzekeraars, the Dutch insurance trade association, will assess and discuss with consumer associations a "**Solidarity Monitor**" on a yearly basis (in reference to the insurance principle of solidarity): by analysing the yearly evolution of parameters such as insurance penetration rates, they seek to detect possible uninsured groups or whether prices for different consumers (high and low risks) are differentiating excessively.⁴⁴

Consumer Complaints and NCA Consumer Protection Activities

During 2015, **consumer complaints on household insurances increased in eight Member States**, and in another Member States this increase was significant. At the same time, five Member States (Luxembourg, Hungary, Germany, Romania and Portugal) reported a decrease in the number of complaints, while in three other Member States (Greece, Iceland and Slovenia) there was no significant change compared to the previous year.

Figure 13: Household insurance complaints per Member State in 2015 vs. 2014⁴⁵



Source: EIOPA Committee on Consumer Protection and Financial Innovation

⁴³ <http://www.floodre.co.uk/>

⁴⁴ Grip op data, Green paper Big Data, Dutch insurance trade association (Verbond van Verzekeraars), <https://www.verzekeraars.nl/actueel/nieuwsberichten/Documents/2016/April/Grip%20op%20data%20-%20green%20paper%20Big%20Data.pdf>

⁴⁵ Decreased significantly: DK; Decreased: LU, HU, DE, RO, PT; Remained unchanged: HE, IS, SI, MT; Increased: NO, SE, CZ, LT, IT, SK, BG, IE; Increased significantly: HR; No information available: EE, LV, NL, FI, AT, UK, LI; The remaining Member States were not able to provide input to EIOPA.

Most of the household insurance complaints received by the Latvian National Association for Consumer protection (LNCAP) were related to **coverage exclusions** present in the insurance contract. This was allegedly the case, for example, for water damages not covered in block/multifamily houses. In Iceland the NCA also received a number of complaints that consumers were not aware or had not been appropriately informed of **terms and conditions** (i.e. what is covered and not) for household insurance policies. In Denmark complaints related to the compensation received, where the complainant was **unable to provide documentation proving the purchase of the insured item**.

Within the non-life insurance classes, multi-risk household insurance presents a high ratio of complaints in Portugal. The NCA has reviewed this situation and observed that there were **divergent interpretations** by some insurance undertakings of insurance policy concepts, leading to excessive coverage exclusions. The NCA has addressed this issue with the entities concerned and will now follow up on the measures that they have adopted.

In Denmark, the **exclusion of some consumers** from specific insurance products (correlated perhaps in some cases with general social exclusion) is on the radar of the NCA, which concluded a thematic review about this topic last year. Situations identified were consumers had difficulties to access insurance include household insurance located in certain parts of the country, or health insurance for consumers with past/present mental disorders.

2.3.3. Accident and Health Insurance

Market growth and financial innovations

Premium growth for accident and health insurance products was reported in Member States such as Austria (+3%), Latvia (+8%), Hungary (+8%), Luxembourg (+20%), Lithuania (+16%) and Finland (+5%), while in other Member States including Denmark (-0.8%), Slovakia (-0.7%), Spain (+3%), Italy (+2%) the increase in premiums was more moderate or broadly remained stable. In Poland (+7%) health insurance premiums increased and they are expected to develop further, since insurance undertakings are reportedly making considerable **investments in the private health sector**.

Health insurance sales increased in Ireland, partly driven by changes in legislation; **new legislation was passed encouraging young people to start investing in health insurance before the age of 35**, or face higher premiums after this age. Many people took out health insurance for the first time in 2015, to avoid higher premiums in coming years. Also Irish insurance undertakings have started to offer **face-to face video consultations with a doctor** or via phone calls, aiming to meet the increasing demands of people's busy day to day life.

In a similar initiative aimed to reduce the burden for consumers, the Belgian health insurance association, Assuralia, has launched a project facilitating the compensation of medication by private medical insurers. **Consumers no longer have to send their insurer a paper certificate that is filled in by the pharmacist**. Instead, the certificate is sent digitally and securely from the pharmacy where the medication is purchased to the insurer.⁴⁶

In Sweden sale increases were partly driven by the fact that **some employers offer private healthcare insurance to their employees as an attractive employment**

⁴⁶ Further information can be found in the website of Assuralia, http://www.assuralia.be/index.php?id=353&L=1&tx_ttnews%5btt_news%5d=2626&cHash=f49f6388eeddf1bee9fb76c383c82b53

benefit. In Denmark, new insurance products are being developed where the insurance benefit is a **compensation for the consumer's inconvenience rather than a traditional compensation for a loss.** This is the case, for instance, of offering consumers the free use of chiropractors in the health insurance business.

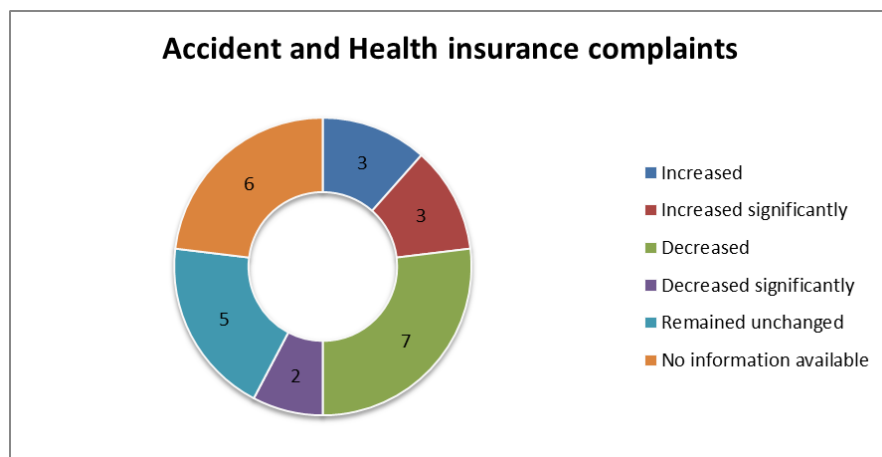
Last but not least, in what could certainly become a significant disruptor in the health insurance business in the near future, some insurance undertakings⁴⁷ are developing **health insurance products linked to wearable devices (e.g. smart watches) or mobile phone applications.** Insurers offer premium discounts to their clients in return for sharing with them personal data like their smoking, eating, drinking, walking and/or sport habits.

In the same line as other disease management programs already offered by insurance undertakings, these products would contribute to **raise awareness amongst consumers of possible health risks they may be exposed to, and also give incentives to consumers to behave healthy;** for example, consumers walking a certain amount of steps per day could receive premium discounts, while those consumers not walking a minimum number of steps could need to pay higher premiums (see Exhibits 2 and 3 for further related information).

Consumer complaints and NCA consumer protection activities

Based on the information provided to EIOPA, most Member States reported a decrease in number of complaints relating to Accident and Health insurance decreased compared to the previous year.

Figure 14: Accident and Health insurance complaints per Member State in 2015 vs. 2014⁴⁸



Source: EIOPA Committee on Consumer Protection and Financial Innovation

In Finland, some of the complaints related to situations where the claimant considered himself or herself disabled after a workplace accident, but the insurance company refused to pay any compensation since it did not see any causal **connection between the accident and the disability.**

While acknowledging the positive aspects of collecting personal data to customise insurance products and raise awareness to consumer of risks they may be exposed to, there are also concerns that the affordability and availability of insurance for some consumers could be affected, in particular for those individuals with higher health

⁴⁷ The development of such products has been reported in the UK, France, Germany, Denmark, Ireland, Portugal and Sweden.

⁴⁸ Decreased significantly: IE, RO; Decreased: NO, SE, DE, LT, PT, SI, SK; Remained unchanged: NL, HU, DK, IS, MT; Increased: CZ, IT, BG; Increased significantly: LU, HR, AT; No information available: EE, LV, HE, FI, UK, LI; The remaining Member States were not able to provide input to EIOPA.

"risks".⁴⁹ In this regard, the UK government concluded with the Association of British Insurers a **voluntary agreement not to use predictive genetic analytics in insurance underwriting**.⁵⁰

In France, the AERAS Convention, which facilitates access to insurance and credit to individuals with severe health problems, was jointly amended by the French government, professional federations of insurers and banking institutions, and consumer organisations. Among other things, the amendments introduced the "**right to be forgotten**", according to which, under certain conditions, individuals which were cured from cancer after a certain period of time, are exempted from the compulsory obligation to mention this when they wish to take out a credit insurance.

In absolute numbers, health insurance complaints decreased in Germany during 2015. However, following a series of complaints relating to **premium increases in health insurance**, the NCA launched an investigation to further assess this issue and its impact on consumers, in particular on elderly policyholders. As a result of this study is to be noted that due to current regulation a relative stabilisation of the premium trend can be predicted for the medium term. Longer-term forecasts however show that at constant economic conditions developments can arise that would at least require countermeasures in individual cases. For this reason, the findings would be updated at regular intervals. It cannot be denied that the persisting low interest-rate environment as well as a potential majority of elderly policyholders and an increase in healthcare costs are a challenge for private health insurance and trigger increases in premiums despite all efforts to build up capital reserves.

Due to the large amount of health insurance products available on the market, the complexity of these products and the difficulty that consumers have in comparing products, and assessing their suitability, the Irish NCA decided to launch a thematic review focused on health insurance, specifically focusing on the health **insurance renewal process**. The thematic review concluded, among other things, that renewal notices did not always provide sufficient information to consumers to make informed decisions. Some providers were also asked to amend the online sales process to include all products and not just a selection of products, and to conduct an independent audit review of the **health insurance activities outsourced** and the capacity of the latter to act as agents.⁵¹

In the Czech Republic health insurance complaints have also increased during 2015, mainly regarding **insufficient compensation or refusal of health insurance claims**. On occasion complaints were motivated by a lack of understanding of compensation principles by the consumer. Some cases of delays in claims-handling may have been caused by the investigation of potential fraud. The NCA is focusing its efforts in ensuring that consumers are provided adequate information regarding the insurance product that they purchase. It is also important for insurance undertakings to ensure appropriate legal steps, compliant with conduct of business rules, to mitigate possible cases of fraud.

The Swedish NCA has not identified any apparent consumer risks in relation to the **sharp increase in demand** for accident and health insurance. However, it is

⁴⁹ Use of big data risks making some people uninsurable, Financial Times, 21 July 2016, <https://next.ft.com/content/1900a88c-4e71-11e6-88c5-db83e98a590a>

⁵⁰ Concordat and Moratorium on Genetics and Insurance, UK government and Association of British Insurers, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/216821/Concordat-and-Moratorium-on-Genetics-and-Insurance-20111.pdf

⁵¹ Central Bank requires health insurance providers to take action to further protect consumers, Irish Central Bank, 11 March 2016, <https://www.centralbank.ie/regulation/processes/consumer-protection-code/compliance-monitoring/Documents/2016.03.11%20Final%20Health%20Insurance%20press%20release.pdf>

considered to be a sufficiently important development that it deserves to be carefully monitored in the coming years.

The Belgian consumer organisation Test Achat considered that some health insurers **interpret too restrictively the coverage exclusions in cases of severe diseases**, exclusions which are commonly included in the general terms and conditions of the contract. This issue is particularly relevant since the concerned individuals are already in a weak position due to their health situation.

2.3.4. Travel insurance

Market growth and financial innovations

Most of the 16 Member States that provided sales information to EIOPA reported a YoY **increase in sales**. Norway (+7%), Malta, Croatia (+25%), Bulgaria and Italy (+10%) are amongst those Member States where travel premiums increased. It should be noted that, compared to other categories of products, less Member States were able to provide sales information for travel insurance.⁵²

Online sales were pointed as a major driver of travel insurance sales, together with the **recovery of the tourism industry** in some Member States.⁵³ Other factors were also mentioned included the increasing **consumer awareness** as a result of stronger advertising efforts (Slovenia). Moreover, a **climate of insecurity** affecting some countries is reportedly moving some European consumers to take travel insurance covering trip cancellation (together with other benefits such as loss of luggage, medical care, theft etc.).

Moreover, the digital insurance market could also partly explain the increasing demand (and offer) of travel insurance; a substantial percentage of consumers already use digital and remote channels, and their number will only increase. As a result, **sales via the internet**, which are available 24 hours a day, have become an important distribution channel for travel insurance, complementing more traditional ones such as ancillary insurance intermediaries like travel agencies.

Indeed, travel insurance products are frequently sold as an ancillary product (i.e. sold through **cross-selling practices**) to air or train tickets or other travel packages. Travel insurance is also often offered as an add-on to other products like credit cards or bank accounts.

Finally, when planning their vacations consumers increasingly use online marketplaces enabling people to list and rent holiday apartments or houses. In this regard, the **peer-to-peer economy** offers new business opportunities for the insurance sector, since insurance products can help build the trust between counterparties which is key in the sharing economy (this is also achieved with public reviews of the users). The development of such products face however some challenges such as the applicable national regulatory framework in cross-border travels or the status of the contractual relationship between the "user" and the "facilitator".⁵⁴ Finally, although still at an infancy stage, some Fintech / Insurtech entities are also reportedly developing peer-

⁵² This could be because in prudential reporting travel insurance sales are commonly included under the broader category of "assistance".

⁵³ Number of nights spent at tourist accommodation establishments, EU-28, 2004-14, Eurostat, [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Number_of_nights_spent_at_tourist_accommodation_establishments,_EU-28,_2004%E2%80%9314_\(%C2%B9\)_ \(billion_nights_spent_by_residents_and_non-residents\)_YB16.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Number_of_nights_spent_at_tourist_accommodation_establishments,_EU-28,_2004%E2%80%9314_(%C2%B9)_ (billion_nights_spent_by_residents_and_non-residents)_YB16.png)

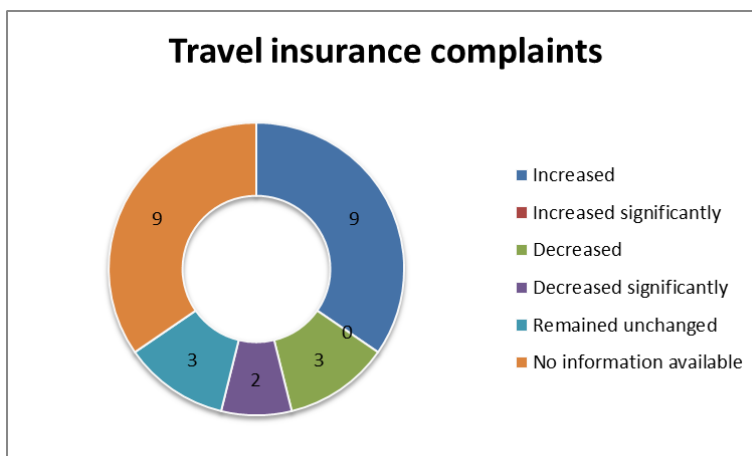
⁵⁴ Some non-binding guidance has been provided in the recent Communication of the European Commission: "A European agenda for the collaborative economy", June 2016, file:///C:/Users/arevaloju/Downloads/COM_2016_356_F1_COMMUNICATION_FROM_COMMISSION_TO_INST_EN_V9_P1_851616.PDF

to-peer insurance products, where group's members pool all their premiums, and payment for insurance claims come from the pool.⁵⁵

Consumer complaints and NCA consumer protection activities

In Malta, the NCA reported a small number of consumers complaining that they had **not been properly informed on the terms & conditions** of travel insurance policies purchased ancillary to travel tickets. The consumers only found about this situation when the insured risk manifested and they lodged claims. The NCA confirmed this situation and has approached the parties involved to resolve the situation.

Figure 15: Travel insurance complaints per Member State in 2015 vs. 2014⁵⁶



Source: EIOPA Committee on Consumer Protection and Financial Innovation

In 2015 the German NCA conducted thematic work on the level of protection of consumers in group insurance. **Group insurance contracts** are used for some policies in travel insurance, PPI, unit-linked life insurance and disability insurance. Since in group insurance contracts the consumer as insured person is not the contracting party (which may be e.g. the employer of the beneficiary), a lot of the consumer protection regulations concerning policyholders are partially not applicable in Germany. Currently the NCA is consulting by which means (soft law or statutory law) to improve the level of consumer protection and to raise consumer's awareness.

Also in 2015 the UK introduced new rules banning opt-out selling across financial services. The **ban on opt-out selling** is designed to improve competition in the market around add-on sales and prevent the exploitation of consumer biases, which can lead to consumers purchasing products they do not need or they are not aware of / or overpaying for those products. Consumers may also purchase these products without being aware of it. There are also risks related to selling online standard products to the mass market, given that travel insurance is commonly a specialist product (i.e. often needs to be tailored to pre-existing medical conditions, travelling to risky places etc.).⁵⁷

The NCA of Slovenia has placed particular importance on raising the level of **financial literacy of young people**, since already at the age of 15 they are involved in

⁵⁵ Peer-to-peer companies set their sights on disrupting the insurance industry, CNBC.COM, 21 September 2016, <http://www.cnbc.com/2016/09/21/peer-to-peer-companies-set-their-sights-on-disrupting-the-insurance-industry.html>

⁵⁶ Decreased significantly: DK, BG; Decreased: LU, DE, RO; Remained unchanged: HU, AT, LT; Increased: NL, NO, SE, CZ, HR, SI, IT, SK, IE; No information available: EE, LV, HE, MT, PT, FI, AT, UK, LI; The remaining Member States were not able to provide input to EIOPA.

⁵⁷ <https://www.fca.org.uk/news/ps15-22-general-insurance-add-ons-market-study-remedies>

activities such as riding motorcycles or traveling abroad (e.g. participating in student exchange programs) for which insurance protection could be relevant. For this purpose, in cooperation with the Bank of Slovenia, the NCA will prepare in 2016 an insurance education program for students in schools.

The Romanian NCA reviewed distribution practices of the three major insurance undertakings in its jurisdiction. The distribution practices for all types of products were reviewed, including travel insurance. In particular it was assessed whether contracts contained potential abusive clauses and if the **information transmitted is transparent and easily assimilated by consumers**. Some shortcomings were found, but generally the undertakings accepted the observations of the NCA and proceeded to remedy the issues identified.

2.3.5. Other non-life insurance

2.3.5.1. Payment protection insurance (PPI)

In France credit institutions generally request the customer to subscribe a PPI in order to be able to get a credit. However, new rules entered into force in 2014 introducing the **possibility of PPI consumers to shop around** (i.e. they are no longer obliged to choose the insurance contract proposed by their bank) and they can also switch PPI contract in the first 12 months after subscription. In 2015 the French NCA conducted several on-site inspections to supervise the implementation of the new rules. Some of the banking institutions supervised were not fully compliant with the new rules and were sanctioned accordingly.

In Italy PPI is not mandatory, but a joint thematic review conducted by the Bank of Italy and IVASS in 2015 showed that consumers were "de facto" required to take a PPI coverage, if they wanted to get access to credit. The high costs associated to this product was also noticed often being linked to high commissions, and other of shortcomings, including the extended **sale of standardised PPI not always adapted to the specific characteristics of the different consumers**. As a result of the thematic review, a letter was sent to insurers and banking institutions requiring them to ensure that the design of product is adapted to the target market, appropriate needs and demands analysis are carried prior to the sale of the contract and that, in case of early repayment of the loan, the reimbursement of the part of the premium paid and not used is autonomously carried out, without waiting for a specific request of the debtor/policyholder.

2.3.5.2. Mobile phone insurance (MPI)

In Portugal MPI is commonly sold not as a standalone policy but rather as part of home appliances insurance (i.e. covering other electronic devices). The Portuguese consumer organisation DECO considers that some of the **exclusions included in insurance contracts offering MPI cover are excessively large**. According to the consumer organisation, some of these exclusions represent unfair commercial practices.⁵⁸ The Portuguese NCA carried out several inspections on the topic concluding that, although the exclusions were not considered abusive *per se*, their content was not always fully clear to customers, which led the NCA to issue a set of recommendations in order to improve the respective clarity.

The Romanian NCA reviewed the sale of MPI in its jurisdiction by insurance undertakings under the Freedom of Services (FoS) regime. The NCA concluded that the staff of **mobile phone companies selling MPI products often did not have**

⁵⁸ O seguro vai nu, Dinheiro&direitos 132 novembro/dezembro 2015, pages 35-37, DECO: The Portuguese Association for Consumer Protection

any general or specialised knowledge on insurance, and therefore the advice they provided to consumers (recommendation to purchase an insurance product) was non-compliant with the national insurance and consumer protection legislation.

In order to prevent consumer detriment arising from situations such as the ones described above, the IDD will require that entities selling MPI products provide to the consumer, prior to the conclusion of the contract, a simple and **user-friendly Product Information Document (PID)** containing information about, among other things, the coverage and exclusions of the product. In the Netherlands a similar document (Verzekeringskaart) will already be introduced in 2016.

2.3.5.3. Miscellaneous

The increasing availability and value of data in today's digitalised society entails a higher exposure to cyber risks, which creates an increasing interest for **cybersecurity insurance**. The cyber risk represents for insurance undertakings not only a risk to be faced by the industry itself, including the reputational damage where consumer's data is hacked, but also an opportunity to design and offer new policies to cover such risk. In Italy, insurance undertakings are focusing the development of these products around the protection of (i) damages to electronic devices; (ii) loss of data and IT programs; (iii) disaster recovery and fraud; and (iv) liability arising from the use of Internet and legal protection.

Unlike private entities, individual consumers are generally not liable for potential disclosures of confidential information resulting from cyber-attacks. Additionally, possible material losses that the individual consumer could suffer, for example if his online bank account was hacked, are generally covered by the banking institution. For individual consumers, it is therefore more common to see **insurance against identity theft**, which offers compensation for an inconvenience (e.g. when somebody hacks your Facebook or Twitter accounts), rather than a compensation for a loss.

In Malta **pet insurance** is becoming more and more popular; a specific standalone product outside the usual property/life coverage has recently been introduced, in order to meet the increasing number of pet ownerships, in particular of pure breed dogs. Also in Italy new policies for pet owners have been launched, that, in addition to the traditional liability coverages to third parties, also offer health coverage for the pets or care services of the pets in the event of accident of the owner. A first online estimate calculator for pet policies prices was also introduced.

The European consumer organisation (BEUC) believes that **small insurances** often offer poor value for consumers, partly due to the large coverage exclusions, and questions the exemption of such products from the scope of some of the conduct of business rules of the new IDD.

Exhibit 4 - Insurance undertakings' fight against consumer fraud⁵⁹

Consumer fraud in insurance, i.e. the intentional bringing about of an insurance event or causing the misconception of the occurrence of an insured event, with the intention to receive insurance indemnity from the insurer, is a **crime typified by national law** of the different Member States. According to Insurance Europe, the European insurance trade association, consumer fraud in insurance is estimated to account approximately 10% of all consumer claims.⁶⁰

⁵⁹ Feedback about this topic was received from EE, SE, ES, CZ, HR, NO, SK, DK, MT, SI, FI, IT, HU, IS, BG, IE

⁶⁰ Insurance Europe, <http://www.insuranceeurope.eu/fraud>

Traditionally, there are **two key stages in fraud-prevention**: the first stage essentially consists in, prior to the conclusion of the contract; review of the background information provided by the consumer and cross-checking it with fraud and claims databases. The latter can also be performed during the second phase, when processing claims: insurers due diligence includes reviewing the documentation and evidence provided by the consumer to proof the loss and ensure the amount of damages claimed by the consumer is accurate.

The expenses incurred by insurers in investigating and processing claims are known as loss adjustment expenses. Some insurance undertakings, especially large insurance undertakings, have special dedicated **anti-fraud investigation units**, often composed by personnel with a legal background as well as former police officers. Some insurance trade associations also reportedly offer fraud hotlines and run extensive anti-fraud marketing campaigns. In case of signs of consumer fraud, enhanced assessment are performed, which can include the participation of private detectives.

Insurance undertakings commonly collaborate between themselves, creating **claims and fraud databases** within their respective national trade associations or in collaboration within the NCA. Claims data registers can include information on car plates, witnesses, photos, or details of the injured parties and policyholders involved. In some Member States, insurance undertakings also use Automatic Number Plate Recognition systems to identify **uninsured drivers**. Additionally, **black boxes** installed on vehicles or mobile phone applications with similar functionalities also provide accurate information about the accident and its dynamics.

Insurance undertakings are improving their fraud management systems through the use of **Big Data**; they use powerful IT tools to run through a wide range of internal and external databases at high speed, and through the use of fraud indicators and the latest modelling and analytical data mining processes, they are able to identify patterns and correlations that predict cases of potential consumer fraud.

From a consumer protection perspective, it is important that the methods used to prevent and detect consumer fraud **respect consumer's privacy and the data protection rules and treat consumers in a fair manner**. The Danish NCA conducted a thematic review on this topic last year and published a report describing the applicable legal framework.⁶¹ The report specifies that using false profiles on social media or using GPS trackers to monitor the activity of individuals are practices that are not considered to be in line with the insurers' obligations to treat their clients fairly.

⁶¹Study regarding insurance undertakings investigation of Insurance fraud, Danish NCA, 2015, <http://www.finanstilsynet.dk/da/Nyheder%20og%20presse/Pressemeddelelser/2016/Pressemeddelelse-rapport-om-forsikringsselskabers-efterforskning-ved-personskade-030216>

Pensions sector

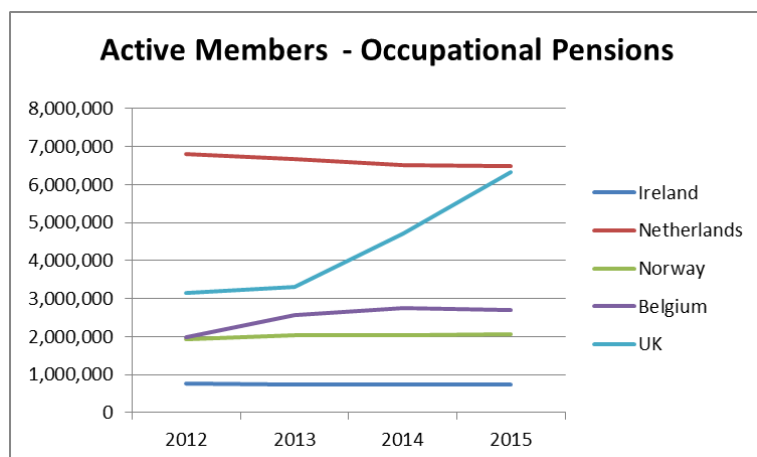
N.B: In the pensions sector it is more common to talk about members, beneficiaries and policyholders rather than consumers. This terminology is respected in the present report, which places the focus on the impact of trends in individuals independently of their denomination. Moreover, it is also noted that the pensions sector is subject to its own specificities, such as the interaction with the social and labour law and the role played by social partners in occupational pensions. It should also be noted that some of the NCA consumer protection activities referred in the occupational pensions section may also be applicable to personal pensions, and vice versa.

3. Occupational Pensions

3.1. Market growth and financial innovations

In 2015, based on the information available at EIOPA, and in line with the behaviour of the European labour market and economy, **the number of active members remained stable or moderately increased in most Member States**. Some of the Member States that experienced a slight increase, predominantly in DC schemes, include Italy (+10%), Bulgaria (+6%), Austria (+6%), Ireland (+2%) or Norway (+1%). In Member States such as the Netherlands (-0.2%), Spain (+0.2%) or Germany (+0.3%) the number of active members virtually remained the same compared to the previous year.

Figure 16: Active Members - Occupational pensions⁶²



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The sharp increase of active members in the UK (+34%) is the result of the introduction **Automatic Enrolment**⁶³ in 2012. This makes it compulsory for employers to automatically enrol their eligible workers into a pension scheme and contribute into the scheme, unless the employee opts-out. Most of the new active

⁶² EIOPA considered convenient to show the evolution of certain individual Member States to reflect the impact that changes in legislation may have in the occupational pension sector.

⁶³ Automatic enrolment is being phased in. Large and medium-sized companies have now enrolled their employees since 2012 and 2014 respectively, and over the next three years it will be the turn of the smallest employers, including ones with just one or two workers. Growth has been most concentrated within DC schemes, both trust and contract-based, although most of the increase has taken place in newly created master trusts – 55% of DC scheme members are in the four largest master trusts.

members are enrolled in DC schemes, both trust-based (primarily) and contract-based.

Figure 16 above needs to be interpreted taking into account the different populations in each Member State, as well as the relative importance of the three pension pillars in each of them. Certainly, while in some Member States such as the Netherlands occupational pension savings is the most important source of retirement income for its population, in other Member States the other two pillars may be predominant. This is the case for instance of Spain, where the number of active members in occupational pensions has decreased during the financial crisis and hence impacted the retirement income of individuals, although the **gross replacement rate**⁶⁴ in Spain remains the second highest of the European OECD countries on account of the 1st pillar. The Netherlands has the highest gross replacement rate amongst European OECD countries, mainly due to 2nd pillar (occupational) pensions.⁶⁵

A **shift from Defined Benefit to Defined Contribution schemes** is taking place in several Member States. DB schemes still have more assets under management and active members than DC schemes. However, this is likely to change in the medium / long term when more of the current active members arrive to retirement, since most of the new pension schemes are DC-based and Defined Benefit schemes are reportedly being closed to new members in the Member States concerned by this trend. The reasons for this change are complex, and include the increasing life expectancy of the population, and factors that impact returns such as the persistent low interest rate environment. Sponsor companies are choosing to reduce their exposure to risk in several Member States.

Contrary to DB schemes, in DC schemes members bear the investment risk, and they are also commonly offered the opportunity to choose between different investment strategies that best aligns with their risk profile, or alternatively rely on default options. An **increasing emphasis on DC default strategies** has been reported in Member States such as Ireland; those DC members unwilling or with insufficient financial capabilities to make an appropriate choice between the different investment strategies offered, may alternatively rely on a default investment option, which at the same time may vary significantly across providers. In the UK, schemes do not qualify for the automatic enrolment market if they do not offer a default investment option.

Default options have also gained momentum in France, where new legislation will enter into force this year requiring DC plan sponsors to use "**life cycle products**" as the default option. DC 'life styling' funds in the UK have also become more varied and complex due to the wider range of decumulation options available subsequent to the introduction of the UK pensions freedoms.

Significant **changes in the decumulation phase** were introduced in the UK pensions market in April 2015. The new "pension freedoms" allow DC pension savers to access their pension savings after the age of 55, and, broadly, pay tax at their marginal rate on withdrawals. This has led to the increase in drawdown products,⁶⁶ which allow pension savers to keep their pension invested and draw an income flexibly at a timing to suit them. Also since last January occupational pension funds in Germany can offer their beneficiaries a new decumulation option based on a fixed pension benefit,

⁶⁴ The gross replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. It measures how effectively a pension system provides a retirement income to replace earnings, the main source of income before retirement. This indicator is measured in percentage of pre-retirement earnings by gender.

⁶⁵ OECD data, <https://data.oecd.org/pension/gross-pension-replacement-rates.htm#indicator-chart>

⁶⁶ The different decumulation options available can be consulted in the website of Pension Wise: https://www.pensionwise.gov.uk/home-alternative?utm_exp=94980013-9.hDtLFv3gQpKP4vFjkHfr6w.1&utm_referrer=https%3A%2F%2Fwww.google.de%2F

complemented with a variable payment depending on the investment performance of the pension scheme.

Digital technologies are progressively changing the way pension schemes and providers communicate with members and beneficiaries; traditional (and still predominant) communication channels such as physical mail are complemented by **internet-based communication channels** such as email communications, social media or mobile phone applications. For example, in Ireland "My Pension App for iPad" is a user-friendly app which allows members and policyholders to check their pension balances wherever they may be, and keeps them updated with the performance of the pension fund as retirement approaches.⁶⁷

Moreover, in some Member States there is reportedly an increasing popularity of **robo-advisors**, i.e. online independent financial advisory tools that use algorithms to provide advice on pension investments. Another example of the penetration of digital technologies is the increasing use of **pension calculators** providing projections of estimated pension benefits in some standard cases and standard scenarios.

Exhibit 5: Pension-tracking services in the EU⁶⁸

In its 2012 White Paper "An Agenda for Adequate, Safe and Sustainable Pensions",⁶⁹ the European Commission announced its **objective to promote the development of pension tracking services allowing people to keep track of their pension entitlements** acquired in different jobs. Indeed, tracking services can provide citizens with an up-to-date overview of their pension entitlements accumulated in different schemes and/or pillars.

Furthermore, pension tracking systems also typically allow **making projections of expected retirement income**. In a context where it is not uncommon that individuals during their lifetime end up having accumulated benefits and entitlements in multiple schemes and pillars (e.g. mobile workers), these services can certainly represent a useful tool for planning for retirement.

Up to date, **11 Member States** already have in place national tracking services in their jurisdiction, as it can be observed in the Figure below.

Figure 17: National Pension Tracking Services

⁶⁷ <http://www.irishlifecorporatebusiness.ie/my-pension-app-ipad>

⁶⁸ Feedback about this topic was provided by IE, SE, HU, HR, BG, DE, LT, RO, CZ, SK, PL, ES, FI, BE, LI, AT and OPSG.

⁶⁹ White Paper "An Agenda for Adequate, Safe and Sustainable Pensions", European Commission, 2012, <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1194&furtherNews=yes>

Country	% 1st pillar	NTS	pillar in NTS	# 1st pillar	# IORP (2nd pillar)	# non IORP 2nd pillar; book reserves	Number of expected ETS connections	# 3rd pillar	in NTS?	nr connections
Countries with an NTS which covers > 95% of 1st & 2nd pillar										
Austria	95	yes	1st	1	14	*	15	3		3
Belgium	75	yes	1st, 2nd	1	207	0	1	29		29
Denmark	50	yes	all	1	21	0	1	71	yes	1
Estonia	97	yes	all	1		0	1	5	yes	1
Finland	95	yes	1st	1	48	0	1	12		12
France	95	yes	1st	1	0	37	1	63		63
Latvia	90	yes	1st, 2nd	1	6	0	1	4		4
Netherlands	45	yes	1st, 2nd	1	377	0	1	65		65
Poland	95	yes	1st, 2nd (planned)	1	5	0	1	31		31
Sweden	65	yes	all	1	86	0	1	54	yes	1
Norway	80	yes	all	1	85		1	9	yes	1

Source: Track and Trace Your Pension in Europe (TTYPE) ⁷⁰

Pension tracking services normally are **accessible via the internet**. This is for instance the case of the Swedish portal Minpension.se, which is jointly financed by the industry and by the government and is free of charge for the user.⁷¹ This will also be the case for the public database on occupational pensions in Belgium; by the end of 2016 at the latest active and deferred employees, self-employed persons and civil servants are able to consult an overview of all their occupational pension rights accrued in different pension schemes.

In the other Member States such as Ireland there is not a pension tracking service per se as the ones described above, but the Irish government has in place a service to **help people locate their pension entitlements**. A similar service is offered by the government in the UK to help individuals trace any pension savings they may have (occupational and personal).⁷² In addition, in the UK there is also an independent organisation (the Pensions Advisory Service) giving people free professional, independent and impartial help with their pensions, which also offers tracing services to help individuals locate their lost pensions. Furthermore, the Financial Advice Market Review⁷³ recommends (and the UK government has committed to) developing in the UK by 2019 a digital "pensions dashboard", which would display information about all of an individual's pension savings in one place.

Finally, the **European Commission is currently considering the development of a pension tracking service across Europe**. Such initiative would indeed represent important advantages for mobile workers in Europe, although it faces some challenges around the collaboration with multiple pension providers and the existing national tracking services, as well as minimum harmonisation on key features at EU level.

From a consumer protection stand point, the main challenges faced by pension tracking services are related to the **need to ensure that pension plans, products and providers submit accurate and harmonised information in a timely manner**. The different pillars might need different information requirements. In the case of the European pension tracking system, it would likely also require agreement on standard assumptions in order to be able to make accurate pension projections, in addition to take into account the particularities resulting from social and labour law.

⁷⁰ Establishing an ETS, Business plan for a European Tracking Service, June 2016, <http://ttype.eu/wp-content/uploads/TTYPE-Establishing-an-ETS-business-plan-for-a-European-Tracking-Service1.pdf>

⁷¹ <https://www.minpension.se/>

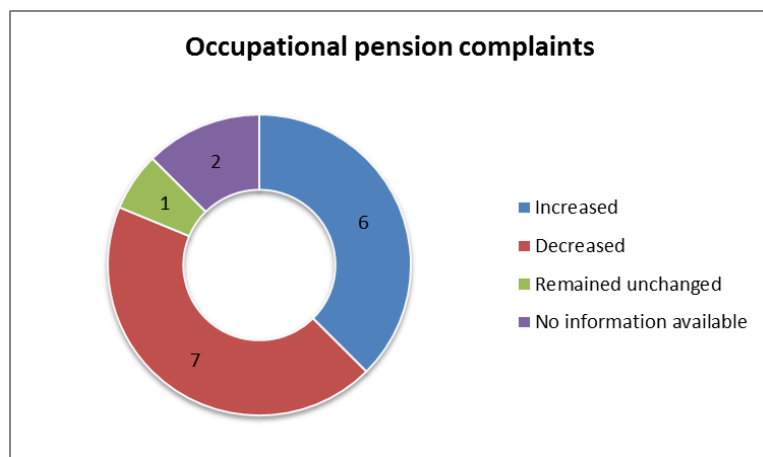
⁷² <https://www.gov.uk/find-pension-contact-details>

⁷³ Financial Advice Market Review, FCA and HM Treasury, March 2016, <https://www.fca.org.uk/publication/corporate/famr-final-report.pdf>

3.2. Consumer complaints and NCA consumer protection activities

As it can be observed in the figure below these lines, roughly **half of the Member States that provided data to EIOPA experienced a decrease in the number of complaints**, and in the other half the number of complaints increased.

Figure 18: Occupational pension complaints per Member State in 2015 vs. 2014⁷⁴



Source: EIOPA Committee on Consumer Protection and Financial Innovation

It is important to highlight that the data of 9 of the Member States⁷⁵ used in the graphic above covers **both to occupational pension and personal pensions complaints**, while the data of the 7 remaining Member States⁷⁶ relates exclusively to occupational pensions complaints data. It should also be highlighted that in some Member States such as Portugal, the low number of complaints (39) received by the NCA and its year-over-year change (+8%) are too small to draw a conclusion about the reasons for the increase.

Benefit-related complaints are the main cause of complaint in occupational pensions. These types of complaints relate to issues such as disagreements with the calculation of pension benefits, delays on payments, issues around the different pay-out options. Several occupational pension complaints relate to information and transparency issues (e.g. insufficient/inappropriate information on real performance/investment returns, on realistic return projection etc.), while on the other hand complaints regarding to "sales and arranging" are not so common in occupational pensions. The number of pension complaints reportedly rose last year 5% in the UK, but the Financial Ombudsman Service's chief ombudsman considers this increase to be relatively low given the large coverage that the new pension freedoms had received in the media.⁷⁷

Several NCAs are focusing their efforts in **improving member communications**; in the Netherlands the new Pensions Communication Act entered into force in July 2015, promoting, among other things, the dissemination of transparent, easy to understand and more personalised information, as well as the use of digital communications. In the same vein, a circular enhancing the information and advice standards that

⁷⁴ Decreased: AT, DK, DE, LV, LI, ES, SE; Remained unchanged: HU; Increased: BE, HR, IE, MT, NL, PT; No information available: FI, SI; The remaining Member States were not able to provide input to EIOPA.

⁷⁵ HR, DK, LV, LI, MT, PT, SL, ES and SE.

⁷⁶ AT, BE, FI, HU, IE, DE and NL

⁷⁷ Fos 'surprised' at pension freedom complaint numbers, FTAdviser, June 23 2016, <http://www.ftadviser.com/2016/06/23/pensions/personal-pensions/fos-surprised-at-pension-freedom-complaint-numbers-tkAAF50D9jT41cT0mwEDaP/article.html>

consumers receive regarding unit-linked life insurance products has recently been published in Norway.⁷⁸ The circular covers, among other things, information and advice requirement to paid-up policyholders when converting their paid-up policies to a unit linked basis, and the employers' (policyholders) duty to inform the employees/individual members. In Ireland the NCA has published a series of DC model disclosure documents to help the industry develop similar ones; such models are compliant with legislative requirements, and at the same time structured to aid member understanding and use, where possible, simple language.

An issue that is gaining importance for several NCAs is the need to ensure that **pension participants are informed fairly, based on realistic assumptions, about their expected financial position at retirement.** In the Netherlands the NCA expects that members are adequately and periodically informed about indexation in the past and present and – most importantly – the anticipated indexation in coming years. Also in Norway the NCA expects that undertakings regularly assess the return assumptions in light of market developments. This is also a relevant consumer protection issue for the Danish NCA, which has had several discussions with the industry in an attempt to find a common methodology to calculate projections and is currently assessing how to move forward.

The impact of **costs and charges** borne by members, beneficiaries and policyholders of personal and occupational pensions (also by pension schemes and sponsoring undertakings) is a concern for several Member States; for instance the Irish NCA has set the long term objective to have a lower number of schemes with higher membership, among other reasons because the current large number of small schemes have very little bargaining power vis-à-vis advisers and asset managers. Also in Denmark the previous government set up a workstream to look at the issue of small occupational and personal pension savings with no on-going incoming payments, but where consumers continue to pay administration costs; individuals are often unaware of the cost for administration and the advantages in collecting all the savings in one product. In the UK, new regulations came into force in April 2015 which imposed a charge cap on occupational DC schemes being used for automatic enrolment, and requires trustees or scheme managers to report annually on how they are achieving value for money for their members.

The European Federation of Investors and Financial Services Users (Better Finance) issued a report in 2016 where it analysed the **performance of private pension products**, once inflation, charges and (when possible) taxes are deducted from nominal returns and when compared to relevant capital market benchmarks. The report concludes that long-term performance of the actual savings products promoted to EU citizens (in particular for long-term and pension savings) has little in common with the performance of capital markets.⁷⁹ Given that pension savers are often not sufficiently engaged in making active financial choices, many BEUC members support the development of **standardised default options**, while keeping options for consumers who are willing to look beyond this default options.

Inadequate **governance and administration of the pension scheme** not only increases the risk of poor member outcomes, but can place member assets at risk. Good governance and administration are crucially important in pensions as the levels of member understanding and engagement is often low. In this respect, the Irish NCA is developing a series of codes of governance for trustees of DC schemes. In the UK a

⁷⁸ http://www.finanstilsynet.no/no/Artikkelarkiv/Rundskriv/2016/3_kvartal/Informasjon-og-radgivning-ved-salg-av-livsforsikring-med-investeringsvalg/

⁷⁹ Pension Savings, The Real Returns, Better Finance, 2016, http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_report_2016_For_Web_-_Final.pdf

new code of practice setting out governance standards for trustees of DC schemes has been issued which sets out the NCA's expectations for compliance with the new, more robust 2015 charges and governance regulations. Furthermore, Independent Governance Committees (IGCs) have been created to provide independent oversight of workplace personal pension schemes in the UK.

The UK has also introduced **safeguards to protect from possible pension scams** those individuals seeking to access their pension savings under the new regime, for instance by requiring advice on transfers of benefits worth over £30,000. It is also considering introducing a ban on exit fees in future contracts, as well a 1% cap on exit charges in existing contracts to ensure that people can access their pension pots without being deterred by charges.

The payment of the benefits of an occupational pension is a logical consequence of the building-up of an occupational pension. However, beneficiaries are not always aware / informed of their pension entitlements, particularly in the case of dormant workers.⁸⁰ To address these situations the Belgian NCA has set up a supervisory action to ensure that adequate internal procedures are in place within institutions managing the pension scheme (IORPs or insurers) so as to **ensure that beneficiaries are always informed in time that a pension is due**. The NCA has focused in the first instance on the payment of an occupational pension in case of death. Furthermore, the administrator of the Belgian pension tracking service is obliged from the 1st of January 2017 onward to inform the institutions managing the pension scheme of the retirement of the beneficiary. That way, those institutions are informed and can apply the necessary procedures to pay out the occupational pension to the beneficiary.

4. Personal Pensions

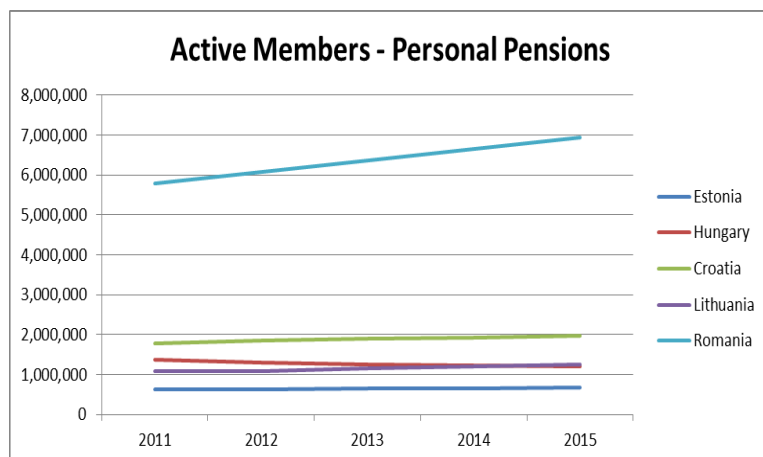
4.1. Market growth and financial innovations

Similar to the occupational pensions sector, the number of active members has **remained relatively stable or slightly increased** in 2015. Based on the information available at EIOPA from 16 Member States,⁸¹ the biggest increases took place in Malta (+35%), Romania (+5%), Italy (+10%) and Liechtenstein (+8%). The increase was more moderated in Member States such as Lithuania (+5%), Norway (+4%) or Portugal (+3%). In Hungary (-2%) the number of new active members increased, but not enough to compensate the number of outgoing members (deferred members or new beneficiaries).

⁸⁰ 'dormant pension rights' means vested pension rights retained within the scheme in which they have been accrued by a deferred beneficiary;

⁸¹ EE, IE, HU, NO, HR, BG, LT, RO, CZ, SK, PL, ES, LI, MT, IT and PT

Figure 19: Active Members - Personal Pensions⁸²



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The graphic above once again needs to be analysed taking into account the size of the population as well as the relative importance of the pension pillars in each Member State. Furthermore, it should be noted that active members of **1st pillar bis pension systems** are also included.⁸³

The changes in the decumulation phase introduced in the UK described in the previous section for occupational pensions are also applicable for personal pensions. Similar changes have been introduced in Hungary, where a new regulation has entered into force allowing more options for beneficiaries to access their retirement savings, including partial lump sum payments as well as annuity certain.⁸⁴ On the other hand, recent legislative changes in Slovakia do not foresee lump sum payments as a possible pay-out option.

In some Member States there is reportedly an increasing use, often as a result of regulatory changes, of **life-cycle pension fund models**, where assets of young policyholders are placed in riskier portfolios and moved automatically to less riskier ones when the policyholder approaches his retirement. This is case of Croatia, which introduced such a model two years ago, and also the Lithuanian NCA has drafted amendments to the national pension law in order to introduce it in its first-pillar bis system.

On a different note, an increasing interest for personal pensions by **self-employed workers** has been reported in the Netherlands. The providers targeting this segment of workers offer them personal pension plans, since in the Netherlands self-employed workers cannot become members of occupational pension schemes.

In most Member States the most important **distribution channels** for personal pensions are external providers such as insurance undertakings, banking entities or investment funds, as opposed to occupational pensions which are mainly distributed through the workplace.⁸⁵ However, in some Member States such as Slovenia which have strong 1st pillar bis pensions systems, the main distribution channel remains the

⁸² Given that only 16 Member States were able to provide data on active members for personal pensions, it was considered more informative to show the evolution of certain Member States and not an aggregated figure which would not be representative of the total EU personal pensions market.

⁸³ The data for Romania include all members that are in the period of accumulation but not all of them had actual contributions (i.e. not only active members) in the month of December of each year of analysis.

⁸⁴ A type of annuity that provides a stream of payments for a predetermined number of years. It is different than life annuities, which remit a stream of payments to the annuitant for the duration of his or her life.

⁸⁵ It refers to distribution channels for members and policyholders, and not to distribution channels for employers.

workplace. Hungary, Lithuania, Czech Republic and Spain have observed an **increase of sales of personal pension products via the internet**.

Indeed personal pension providers have been offering for quite some time internet-based solutions, and in these sense the above-mentioned robo-advice and pension calculator tools for occupational pensions are certainly also relevant for personal pensions. A reported **absence of comparison websites** for different DC personal pension products is therefore notable (although in some Member States, steps are underway, for instance in Italy where a public website has been developed by the NCA comparing costs and returns of different DC personal pension products).

Exhibit 6: The provision of advice⁸⁶ when planning for retirement⁸⁷

Individuals are increasingly confronted with the need to make financial decisions affecting their retirement; members of DC schemes have to choose between different (and in occasions complex) investment strategies (or rely on the default option); in an increasing number of Member States beneficiaries increasingly need to choose between different decumulation options; and mobile workers need to decide whether or not to transfer their accrued pension rights to a different pension scheme. In this context, and although it might have some implications in terms of costs, **the provision of advice could help some members and policyholders make more informed decisions when planning for retirement**.

There is a wide range of practices amongst Member States regarding the provision of advice in respect of pension plans, products or providers, partly because it is an issue not covered by the IORP II Directive, and it is also generally exempted from the requirements of the IDD and MiFID II.⁸⁸ Based on the information available at EIOPA, and bearing in mind the need to take into account the specificities of occupational vs. personal pensions and between DB vs, DC schemes, it is clear that in a number of Member States the provision of **advice on pension issues is not widespread**. Nevertheless there are strict rules regarding the information that needs to be provided to members, beneficiaries and policyholders. NCAs are also involved in several initiatives aimed to enhance the financial capabilities of their population.

The role played by social partners in occupational pensions is also relevant; advice may be provided by the employer to its employees, although they are often reportedly reluctant to do so because of possible legal liability issues. Moreover, where the employer organizes a pension scheme for his employees which does not include investment options (this is often the case in DB schemes), it is the employer who makes the decisions mostly. In addition, some trade unions count with appointed pension advisors to provide advice on pension matters to the members of the trade union.⁸⁹

In Member States such as Sweden it is common that financial advisors and

⁸⁶ For the purpose of this exercise, advice is broadly understood as the provision of a personal recommendation to an individual in respect to a pension plan, product or provider.

⁸⁷ Feedback about this topic was provided by SE, HU, HR, DE, LT, RO, CZ, SK, MT, PL, ES, FI, BE, LI and OPSG

⁸⁸ See Article (2) (1) (17) of the IDD, and Article 2 (1) (i) MiFID II

⁸⁹ The trade union density (i.e. the proportion of all wage and salary earners in employment who are members of trade unions) varies widely across Member States; while in some Nordic countries it is above 60%, in the majority of EU Member States is below 30%, according to the European Commission, 2014 Industrial Relations Report, <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=IRIE&country=0&langId=en&mode=advancedSubmit&policyArea=0>

insurance intermediaries provide advice on occupational pension matters. In Malta **members receive advice from suitably qualified advisors** which are regulated or operate in a jurisdiction where there is an equivalent level of supervision. A circular on aiming to improve the information and advice standards has recently been published in Norway (see point 3.2 for further information), and in the Netherlands distributors of pension products have a duty of care, are subject to compulsory training requirements, and they need to assess the financial capabilities of potential members when distributing complex products.

Similar requirements have existed in the UK since 2013, which in addition has recently introduced new measures in the context of the new pension freedoms; a transfer or conversion of safeguarded benefits (DB) to acquire flexible benefits (DC) is subject to a **compulsory advice requirement** if the safeguarded benefits are £30,000 or more. A free and impartial service called Pension Wise⁹⁰ has also been created to help UK savers understand what they can do with their pension savings in the light of the new decumulation options.

Last but not least, as foreseen in the UK Financial Advice Market Review, digitalisation and technology may contribute to make advice more accessible and affordable to pension savers; while professional advisors will certainly continue to provide valuable advice, **digital solutions for automated advice** has less fixed costs than face-to-face advice, and therefore can offer lower costs alternative solutions allowing more people to receive financial advice. The UK NCA set up an Advice Unit is part of its 'Project Innovate' work. It will provide regulatory feedback to firms developing automated models that seek to deliver lower cost advice to consumers.

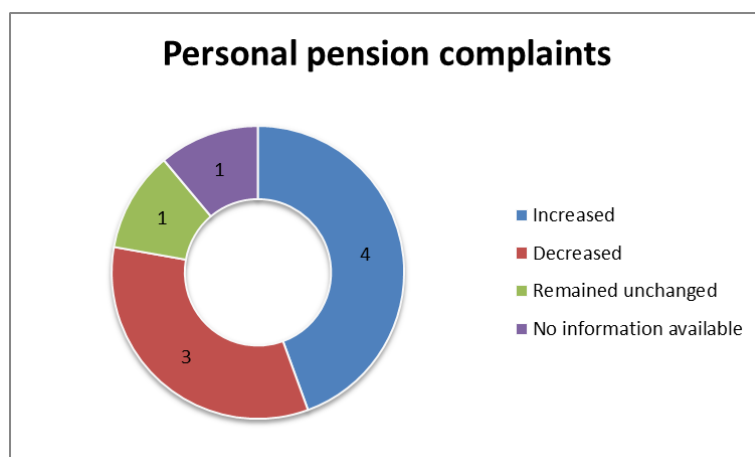
From a consumer protection point of view, risks could arise if the individuals providing advice are not qualified and / or have not received adequate training. The quality of the advice could also be negatively affected if there are not sufficient **governance and control frameworks** in place to, among other things, mitigate potential conflicts of interest, in particular in respect to complex pension products. As far as the automated advice is concerned, such new phenomena create challenges for those providing the service in terms of **compliance with regulation** and the adequate definition of algorithms, and for NCAs to maintain their understanding of the new and developing technology.

4.2. Consumer complaints and NCA consumer protection activities

In addition to the complaints data from 16 Member States reflected on Figure 20, 9 other Member States provided complaints data exclusively relating to personal pensions, which is reflected in the following figure.

⁹⁰ https://www.pensionwise.gov.uk/home-alternative?utm_expId=949800139.hDtLFv3gQpKP4vFjkHfr6w.1&utm_referrer=https%3A%2F%2Fwww.google.de%2F

Figure 20: Evolution of personal pension complaints in the EU Member States in 2015⁹¹



Source: EIOPA Committee on Consumer Protection and Financial Innovation

As it was the case for occupational pensions, **the increases in the number of personal pension complaints in some Member States are so low that it is not possible to draw conclusions.** This was the case of Estonia, where the number of complaints rose from 3 to 4 (i.e. virtually remained unchanged, in addition to being very low). On the other hand, in the UK personal pensions market experienced a year-on-year decrease in the number of complaints of 5%..

The main cause of personal pension complaints is once again related to **issues around the payment of benefits** (43% of the total number of complaints); this is for instance the case of members complaining for the lack of investment performance of the pension scheme, or in relation to the benefits that the relatives of the insured person are entitled to in the event of the death of the latter. Based on the information available at EIOPA, the second most common type of complaints are regarding transfers of accrued pension rights (14%), followed by information and transparency issues (12%). Complaints related to the terms and conditions of the pension scheme have increased in several Member States such as Croatia, Germany and Sweden.

A user-friendly **document providing key information** to pension savers allowing them to more easily understand and compare between different pension products was introduced in Spain in February 2015. In addition, new legislation has entered into force requiring all entities (both local and foreign) distributing occupational and personal pension plans in Spain (insurance undertakings, pension managers, investment firms and credit institutions) to incorporate in their communications and marketing materials a series of information requirements, including risk indicators, about the products they sell.

Moreover, following a government initiative, and in collaboration with the Swedish NCA, the Swedish insurance trade association (Svensk Försäkring) issued a recommendation to its members regarding which **easy-to-understand and comparable information is to be provided to a consumer who is considering to transfer.** The aim is to facilitate transfers of both occupational and personal pension savings for individuals. Work is still ongoing around issues such as a standard "comparison price", which would allow consumers to better compare the costs of different options.

⁹¹ Decreased: BG, UK, CZ; Remained unchanged: RO; Increased: EE, LT, PL, DE; No information available: SK; The remaining Member States were not able to provide input to EIOPA.

The **high costs related to the pension fees** are frequently covered by the media and by different stakeholders in Estonia, and is an issue that it is currently being examined by the Estonian NCA. Also in Liechtenstein the increasing costs of personal pension accounts held in banking entities is an issue that the NCA is discussing with the parties involved.

One of the objectives aimed by the Lithuanian NCA is to **raise awareness of the 3rd pillar voluntary pension system**, which currently counts with only 47 thousand active members compared to the more than 1 million participants in the 1bis pillar system. This is also an objective sought by the Romanian NCA, which has published an informative guide on voluntary personal pensions,⁹² which provides guidance on aspects such as transfers and the payment of benefits.

In 2015 a **financial education website** was launched in Slovenia providing simple, understandable and user-friendly information about financial instruments, financial markets, financial markets entities and investment risks commonly faced by consumers.⁹³ A similar website has recently been developed in Croatia.⁹⁴

⁹² <http://asfromania.ro/edu/>

⁹³ <http://vlagatelj.atvp.si/Eng/Default.aspx>

⁹⁴ <http://www.hanfa.hr/HR/nav/278/edukativne-brosure.html>

EIOPA's activities addressing issues identified in the report

The insurance and pension markets are experiencing a series of profound changes, driven by factors such as the persistent low interest rates environment and the increasing digitalisation of the European economy. Without aiming to provide an exhaustive list of all the developments that are taking place in the markets, the present report describes some of the most significant ones and how they may impact the behaviour of consumers and their relationships with undertakings.

The analysis of such developments allows EIOPA to adapt its consumer protection activities to the changes taking place in the markets both in terms of the possibilities for consumers and also to the possible new consumer protection issues that could arise from them. These activities, some of which are referred below these lines, are directly related with the **new European insurance and pensions regulatory frameworks** (namely IDD, PRIIPS, and IORP II Directive), and they are also in line with the objectives set out by the European Commission in the Action Plan on Building a Capital Markets Union⁹⁵ and the Green Paper on Retail Financial Services and Insurance.⁹⁶

• Life Insurance

This year's report addresses once again the **significant impact that the low interest rates environment has in the business model of life insurance undertakings**. In an effort to adapt to this new situation, life insurance undertakings increasingly offer new life insurance products where the investment risk is increasingly borne by the consumer. These products are sometimes complex and difficult to understand for an average consumer. In several Member States the number of life insurance complaints has decreased, which could indeed be a sign of good practices in the market. However, the magnitude of the changes that are taking place in the market is such that they demand continuous monitoring by supervisory authorities.

In this changing environment, EIOPA is developing extensive work to strengthen the consumer protection framework in the life insurance sector. In July 2016 EIOPA launched a public consultation⁹⁷ on its technical advice to the Commission on possible delegated acts on (i) the steps that insurance intermediaries and insurance undertakings need to take to identify, prevent, manage and disclose **conflicts of interest** regarding the sale of insurance-based investment products (IBIPs);⁹⁸ (ii) the criteria for assessing whether **inducements** arising from the sale of IBIPs have a detrimental impact on the consumer;⁹⁹ (iii) the **assessment of suitability and appropriateness** and reporting to consumers in the sale of and IBIPs;¹⁰⁰ and (iv) **product oversight and governance (POG) requirements**.¹⁰¹

⁹⁵ Action Plan on Building a Capital Markets Union, European Commission, October 2015, http://ec.europa.eu/finance/capital-markets-union/docs/building-cmu-action-plan_en.pdf

⁹⁶ Green Paper on retail financial services, European Commission, December 2015, http://ec.europa.eu/finance/consultations/2015/retail-financial-services/docs/green-paper_en.pdf

⁹⁷ Consultation Paper on Technical Advice on possible delegated acts concerning the Insurance Distribution Directive, EIOPA, July 2016, https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-16-006_Consultation_Paper_on_IDD_delegated_acts.pdf

⁹⁸ Article 28 (4) IDD

⁹⁹ Article 29 (4) IDD

¹⁰⁰ Article 30 (6) IDD

¹⁰¹ Article 25 (2) IDD

Notwithstanding the fact that the Commission requests advice of a technical nature from EIOPA on these topics, **EIOPA's underlying objective is to ensure that distribution activities are carried out in accordance with the best interests of consumers** and that consumers buy insurance products which are suitable and appropriate for them. In the particular case of POG requirements, they complement the preparatory guidelines that EIOPA recently adopted,¹⁰² and aim to ensure that the interests of the consumers are taken into consideration throughout the entire life cycle of a product.

Furthermore, in 2017 EIOPA will also develop and publish **guidelines on IBIPs not fit for execution-only business**.¹⁰³ EIOPA may also develop **guidelines for the assessment of insurance-based investment products being classified as non-complex**.¹⁰⁴ All these activities complement the extensive work that EIOPA has been doing in recent years in the context of PRIIPS, in particular in relation to the development of a simple, standardised and easy-to-use **Key Information Document (KID) for IBIPs**. Work on this last file will continue in 2017, and once finalised will help improve the level of understanding of consumer of the features of these products, which is often reported to be low.

In addition to the above-mentioned regulatory initiatives, EIOPA is also making use of its supervisory powers to assess more in-depth the impact of unit-linked life insurance products on consumers, following some shortcomings identified in recent years. In this regard, EIOPA has launched a thematic review on **monetary incentives and remuneration between providers of asset management services and insurance undertakings**. The thematic review focuses on the assessments of the characteristics of monetary incentives and remuneration, how insurance undertakings address possible conflicts of interest, and how insurance undertakings structure unit-linked life insurance products. The results of this market conduct assessment are expected to be finalised in mid-2017.

- **Non - Life Insurance**

As far as the non-life insurance market is concerned, EIOPA's activities are focusing on the development of Implementing Technical Standards (ITS) regarding the **product information document (PID)**,¹⁰⁵ a standardised and easy to understand document containing simple information about, inter alia, the coverage and exclusions of non-life insurance products. In addition to helping consumers compare between different products, the PID could also help reduce the number of consumer complaints about the terms and conditions of the product, which have reportedly increased in some Member States in motor or mobile phone insurance.

The number of consumer complaints for travel insurance has increased in several Member States. Travel insurance products, similar to other non-life insurance products such as PPI or mobile phone insurance, are often sold through **cross-selling practices** alongside side a primary product (e.g. when purchasing a plane ticket, which nowadays is often done online). In this regard, EIOPA published last year a report on consumer protection issues arising from the sale of mobile phone insurance.¹⁰⁶

¹⁰² Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors, EIOPA, March 2016, https://eiopa.europa.eu/Publications/Guidelines/EIOPA_BoS_16_071_POG%20GLs%2001-06-2016.pdf

¹⁰³ Article 30 (7) IDD

¹⁰⁴ Article 30 (8) IDD

¹⁰⁵ Article 20(9) IDD.

¹⁰⁶ Report on Consumer Protection Issues arising from the sale of Mobile Phone Insurance, EIOPA, November 2015, https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-15-235%20-%20Mobile_Phone_Insurance_Report.pdf

EIOPA is also following very closely the increasing digitalisation of the insurance sector. In addition to issuing an opinion on sales via the internet¹⁰⁷ and publishing a good practices report on comparison websites,¹⁰⁸ EIOPA is currently assessing the issue of **automation on financial advice**.¹⁰⁹ This is done in cooperation with the EBA and ESMA, due to the cross-sectorial nature of this phenomenon.

EIOPA is also analysing in cooperation with the other two ESAs the use of **Big Data** by financial institutions, which as explained in this report is very relevant for the insurance sector. A public consultation on the preliminary findings is expected to be launched before the end of the year, and following the analysis of the input received from stakeholders the ESAs will decide whether any action is needed in this field.

Furthermore, this year's report also explains how the role played by **Fintech / Insurtech** entities in the insurance sector is becoming more and more decisive. In this regard, EIOPA will play an active role in the global debate around these entities and their activities that is taking place in the international fora, including the International Association of Insurance Supervisors (IAIS) and the European Commission. The objective is to promote a well-functioning consumer protection framework while incentivising financial innovation and equal competition in the markets.

• Occupational Pensions

The present report also describes some of the significant developments that are taking place in the pensions sector, such as the shift from DB to DC schemes or the liberalisation of the decumulation phase in several Member States. These developments started to manifest a number of years ago, and therefore EIOPA has already developed a series of policy initiatives addressing them, such as EIOPA's report on Good practices on information provision for DC schemes (also known as the "**Max report**"),¹¹⁰ and as well as the Fact finding report on Decumulation Phase Practices¹¹¹ and EIOPA's report on costs and charges of IORPs.¹¹²

The incipient digitalisation of the pension sector is a key aspect of EIOPA's recent report on **Good Practices on Communication Tools and Channels** for communicating to occupational pension scheme members.¹¹³ Indeed, while it is acknowledged that the most used communication channel at the moment is the paper (i.e. physical mail), there is a clear trend towards the use of digital communication channels such as email, online user accounts or mobile phone applications.

Furthermore, following the agreement of the IORP II Directive earlier this year, EIOPA is also committed to **promoting the supervisory convergence activities amongst NCAs**, with the aim to strengthen the quality, efficiency and consistency of the

¹⁰⁷ Opinion on sales via the Internet of insurance and pension product, EIOPA, January 2015, [https://eiopa.europa.eu/Publications/Opinions/Opinion_on_sale_%20via_the_internet\(published\).pdf](https://eiopa.europa.eu/Publications/Opinions/Opinion_on_sale_%20via_the_internet(published).pdf)

¹⁰⁸ Report on Good Practices on Comparison Websites, EIOPA, January 2014, https://eiopa.europa.eu/Publications/Reports/Report_on_Good_Practices_on_Comparison_Websites.pdf

¹⁰⁹ Joint Committee Discussion Paper on automation in financial advice, December 2015, <https://www.eba.europa.eu/documents/10180/1299866/JC+2015+080+Discussion+Paper+on+automation+in+financial+advice.pdf>

¹¹⁰ Good practices on information provision for DC schemes, EIOPA, 24 January 2013, https://eiopa.europa.eu/Publications/Reports/Report_Good_Practices_Info_for_DC_schemes.pdf

¹¹¹ Fact Finding Report on Decumulation Phase Practices, EIOPA, 27 October 2014, <https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-14>

¹¹² Report on Costs and charges of IORPs, EIOPA, January 2015, https://eiopa.europa.eu/Publications/Reports/EIOPABoS-14-266-Final_report_on_costs_and_charges_of_IORPs.pdf

¹¹³ Report on Good Practices on Communication Tools and Channels for communicating to occupational pension scheme members, EIOPA, 2016, https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-16-175_Report_on_Comm_Tools_and_channels.pdf

supervision of occupational pension schemes.¹¹⁴ This is the case of the recently concluded Peer Review of the Statement of Investment Principles (SIPP) for IORPs,¹¹⁵ which is an important tool used by occupational pension institutions to closely think about their investment strategy and investment process and communicate the latter to relevant groups e.g. assets managers, members, etc. EIOPA will also continue monitoring the developments of the pensions market through the regular publication of the market development report on occupational pensions and cross-border IORPs.

- **Personal Pensions**

In the area of personal pensions EIOPA achieved a significant milestone in July 2016 with the submission of its **advice to the European Commission on the development of an EU Single Market for personal pension products (PPP)**.¹¹⁶

In line with its Advice of February 2016, EIOPA considers that the development of a standardised Pan-European Personal Pension Product (PEPP) regulated by a 2nd regime for personal pensions has the best potential to promote the Single Market and to strengthen the consumer protection regulatory framework. EIOPA's advice to the Commission covers a wide range of aspects during the course of the product life-cycle such as product governance, product standardisation, the provision of information to policyholders, and conduct of business practices (including advice / non-advised sales).

The issue of costs and charges continues to be a relevant topic in the pensions sector, especially in a context where the returns of pension schemes have been impacted by the low interest rates environment. In this respect, EIOPA notes that the European Commission has announced in its **Action Plan on Building a Capital Markets Union** that it will ask the ESAs to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees.

¹¹⁴ EIOPA Annual Work Programme 2016, https://eiopa.europa.eu/Publications/Administrative/AWP_2016.pdf

¹¹⁵ Peer Review of the Statement of Investment Principles (SIPP), EIOPA, 30 September 2016, https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-16-170_SIPP_Peer_Review_Publication_of_Outcomes.pdf

¹¹⁶ Advice on the development of an EU Single Market for personal pension products (PPP), EIOPA, July 2016, <https://eiopa.europa.eu/Publications/Consultations/EIOPA%27s%20advice%20on%20the%20development%20of%20an%20EU%20single%20market%20for%20personal%20pension%20products.pdf>

Annex I - Methodology

• Input from NCAs

The trends methodology was adopted in 2012¹¹⁷ and revised in 2013¹¹⁸ in order to produce more robust Consumer Trends Reports. It includes the collection of consumer trends information from NCAs, on a number on quantitative and qualitative metrics.

As far as the qualitative information is concerned, NCAs were requested to fill-in two questionnaires, one on Top 3 consumer issues and financial innovations in their respective jurisdictions, i.e. each NCA was asked to identify the 3 most significant consumer issues and the 3 most relevant financial innovations in its country. Another template related to the thematic works on specific topics developed by the relevant NCA during the previous year. Each template had to be completed two times, one for the insurance sector and another one for the pensions sector.

Regarding the quantitative data, for the insurance sector NCAs provided data on GWP and contracts sold by insurance undertakings located in their respective jurisdictions. In addition, they also provided complaints data, a fundamental source of consumer protection information. When it comes to the pensions sector, NCAs were asked to provide data on active members, as well as on pension complaints.

In order to address issues such as the limited comparability of data provided from different Member States, inconsistencies between different years, or incomplete submissions, the above information was complemented with a survey asking NCAs to indicate, on a best-effort basis, if the number of complaints and sales had increased significantly, increased, remained unchanged, decreased, or decreased significantly. A year-over-year "increase" / "decrease" of 20% was mentioned as an indicative threshold to designate "increased" / "decreased significantly", but it was left to the criteria of the NCA to tick the box that it considered the most appropriate. For the pensions sector, due to low number of responses received, this was done manually by EIOPA based on the quantitative data available, but without assessing if the increases or decreases were significant or not.

Furthermore, specific questions about concrete topics were also included in this year's questionnaire for the first time. For the insurance sector, NCAs were required to provide information about the use of geo-coding technology in household insurance, the use of mobile phone applications in insurance and how insurance undertakings fight against fraud in their respective jurisdiction. For the pension sector, NCAs were questioned about pension tracking services and the provision of advice when planning for retirement.

Generally speaking, the submissions about the insurance sector were more complete than the submissions about the pensions sectors. This could be partly explained because this is the 5th year that insurance data is collected, while on the other hand it is only the second time for pension-specific data.

Finally, EIOPA has conducted 15 country visits¹¹⁹ to NCAs to discuss consumer trends data gathering as well as how consumer protection activities are carried out in the respective jurisdictions.

¹¹⁷ EIOPA, Consumer Trends Methodology, November 2012, https://eiopa.europa.eu/Publications/Reports/2012-11_Methodology_on_collecting_consumer_trends.pdf

¹¹⁸ EIOPA, Review of Consumer Trends Methodology, October 2013, https://eiopa.europa.eu/Publications/Reports/Review-of-Consumer-Trends-Methodology_approved_by_27112013_BoS_with_appendixes.pdf

- **Input from Stakeholders**

In accordance with the revised methodology to explore options for new data sources for producing the report, EIOPA asked the Insurance and Reinsurance Stakeholder Group (IRSG)¹²⁰ and the Occupational Pensions Stakeholder Group (OPSG)¹²¹ to provide input for the Fifth Consumer Trends Report. In addition, EIOPA gathered input from the European Consumers Organisation (BEUC), as well as from Insurance Europe, PensionsEurope and Better Finance. EIOPA also regularly meets with stakeholders to discuss concrete insurance and pensions issues, including the Consumer Trends report.¹²² The input from stakeholders, which was often provided on a national basis, has also been used to analyse the trends in the European insurance and pension sectors.

- **Input from the European Commission and FIN-NET**

For the second year EIOPA gathered cross-border insurance complaints statistics. This has been done in collaboration with the European Commission and FIN-NET. In addition to their regular annual exchange of information with the European Commission, 11 institutions of this dispute resolution network of national out-of-court complaint schemes classified the insurance cross-border complaints by type of product and by type of cause of complaints. FIN-NET members were also asked to briefly explain the reasons behind the increases/decreases of complaints as well as to provide an example of a consumer complaint.

FIN-NET's complaints data is treated separately from the complaints data provided by NCAs to EIOPA. Moreover, it should be noted that duplications when dealing with cross-border complaints may occur; while most FIN-NET Members provided data on complaints received from consumers based in their jurisdiction, complaining about institutions based outside your jurisdiction, other Members of FIN-NET provided complaints data received from consumers based outside their jurisdiction, complaining about institutions based in their jurisdiction.

- **Private and Public Publications**

EIOPA has complemented the information received from NCAs, stakeholders and FIN-NET with a series of private and public publications, articles in the media and research papers, which are accordingly referred in the footnotes of the report. These sources have provided valuable information about certain trends in the insurance and pension sectors, their motives as well as possible ways to overcome some of the consumer protection issues arising from them.

- **How the information is processed to produce the report**

As it can be observed above these lines, EIOPA gathers a large variety of quantitative and qualitative data from a wide variety of sources, with the objective to understand as good as possible the developments that are taking place in the European insurance and pensions sectors. However, the present report has a supervisory nature and therefore the input received by NCAs is prioritized over the others.

¹¹⁹ AT, BE, HR, DK, FI, DE, LT, NE, PT, RO, SI, ES, FR, HU, and PL

¹²⁰ Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, IRSG, June 2016, <https://eiopa.europa.eu/Publications/Stakeholder%20Opinions/IRSG%20feedback%20statement%20to%20EIOPA%20questionnaire%20on%20the%20Consumer%20Trends%20Report%202016.pdf>

¹²¹ Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, OPSG, July 2016, <https://eiopa.europa.eu/Publications/Stakeholder%20Opinions/OPSG-16-17%20OPSG%20Feedback%20Statement%20Consumer%20Trends%20Report%202016.pdf>

¹²² EIOPA Staff Meetings with External Stakeholders, <https://eiopa.europa.eu/Publications/Meetings/EIOPA%20Staff%20Meetings%20-%20January%20-%20June%202016.pdf>

The input gathered from stakeholders and from public and private publications is nevertheless very valuable, particularly in the case of stakeholders since they are the ones directly affected by the development in the markets. This allows EIOPA to have a complementary perspective to the input provided by NCAs. In addition, in the case of those NCAs that were not able to provide input, EIOPA may like this be able to obtain information about the developments in those Member States.

Given that the input collected is quite extensive, it is not possible to incorporate all the information gathered into the report. In cooperation with NCAs members of the Consumer Trends workstream, EIOPA does a selection of the most relevant (and available) information, which is then agreed in the Committee on Consumer Protection and Financial Innovation (CCPFI).

The availability of data (e.g. a reduced number of NCAs were not able to provide any input to EIOPA), the comparability of data (e.g. some NCAs reported complaints data lodged before the Authority, while the majority of NCAs used complaints data reported by insurance undertakings, which are significantly higher in number), or the differences in resources (e.g. industry organisations commonly count with more resources than consumer organisations, and also some NCAs have more internal resources than others), are some of the limitations to the present methodology. EIOPA is aware of these limitations and tries to approach them from a balanced perspective in terms of availability, relevance, geography and nature of the information, while bearing in mind the supervisory background of the Consumer Trends report.

Annex II - Pensions definition and scope

The Consumer Trends Report covers both occupational and personal pension plans and products **under the direct supervision of EIOPA Members**.¹²³

However, EIOPA Members were invited to provide, on a best effort basis, data on every type of **privately managed pension plans, pension products and/or pension providers registered in their respective jurisdictions**, including all investment products having a clear objective of retirement provision according to i.a. national social and labour law (SLL) and/or fiscal legislation and excluding the “first pillar” pensions managed by the State or public entities (**1st pillar-bis pensions in CEE countries are also included**). Therefore, all non-public pension plans/products could be in principle included, irrespective of whether they are occupational or personal. Plans/products that are defined in the legislation but are not actually offered yet to the public (and/or have not collected yet any member) should also be included. “Pure” annuities (i.e. that are not linked to an accumulation phase) are not considered pensions for the purpose of this exercise.

This last approach would align the scope of this exercise, with the exception of those pension schemes which are not under the direct supervision of EIOPA's Members, with the one of **EIOPA's Pensions Database**,¹²⁴ being the definitions included therein relevant for the present report.

¹²³ This would mean that pension plans such as the so-called book reserves and PAYG schemes are out of scope

¹²⁴ Guide for Compilation and Methodology of EIOPA's Pension Database: https://eiopa.europa.eu/Publications/Reports/EIOPA-OPC-14-058_Database_of_pension_plans_product_in_EEA-guide_for_compilation.pdf