



**eioopa**

EUROPEAN INSURANCE  
AND OCCUPATIONAL PENSIONS AUTHORITY

EIOPA-BoS-13/175 rev1  
15 December 2013

# **Consumer Trends Report**

## Contents

Executive Summary .....	3
1. Introduction .....	4
2. Methodology .....	4
3. Derivation of trends from quantitative information .....	5
4. Derivation of trends from qualitative information .....	6
Trends identified from information received concerning Thematic Work carried out by NSAs.....	6
Trends identified from top Consumer Protection and Financial Innovation issues provided by NSAs .....	7
Consumer Protection issues .....	7
Financial Innovation issues .....	8
5. Conclusions and suggestions for future work .....	8

## Executive Summary

One of the key tasks of the European Insurance and Occupational Pensions Authority (EIOPA) as laid down in Article 9(1)(a) of its founding Regulation is to collect, analyse and report on consumer trends. In line with the requirement, this Report which covers the whole of 2012, forms part of EIOPA's on-going work in the area of consumer protection and financial innovation on consumer trends. The aim is to identify any possible vulnerabilities in the relevant markets and which could provide the basis for targeted policy proposals.

As this is the first year of gathering quantitative information, it was not possible to establish an informed pattern. However, from the qualitative information collected, the findings do give a high-level indication of trends that National Supervisory Authorities (NSAs) have reported.

This report identifies key issues in the area of consumer protection and financial innovation and highlights the trends and the areas for further potential investigation. Whilst not providing a complete picture of all relevant risks, this report identifies the following trends:

- **New or evolving channels for sales and marketing including social media, increasing advertising especially via the Internet, and the rise in the use of comparison websites;**
- **Issue of the lack of or misleading disclosure of information, and poor advice given to consumers, potentially leading to the mis-selling of various insurance products in particular life products such as unit-linked products;**
- **New or emerging products, for example cell phone insurance and packaged bank accounts bundled with the sale of insurance;**
- **Sale of complex products to retail investors and governance rules for the development of these products;**
- **Unilateral changes in the terms of the contracts by insurance undertakings; and**
- **Use of telematics (also known as 'black box' technology) by insurers in the sale of motor insurance.**

## 1. Introduction

The European Insurance and Occupational Pensions Authority (EIOPA) is required under its empowering legislation to "**collect, analyse and report on consumer trends**"<sup>1</sup>.

Since the beginning of 2013, EIOPA has been approaching NSAs requesting information for 2012 as outlined in this report, to assist EIOPA in establishing consumer trends and with the ultimate aim of enhancing consumer protection.

## 2. Methodology

Article 9 of EIOPA regulation does not define 'consumer trends' therefore in carrying out this work, EIOPA has adopted the following working definition for use in this report:

'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.'

The purpose of adopting a broad definition is to make it possible to focus on all stages of the product life cycle. "Trends" therefore means, for example, evolutions in volume, evolution in the way the relationship between consumers and undertakings/intermediaries is determined, but also evolutions that are only emerging in the market and which can play a significant role in the future.

In 2012, in order to develop a regular consumer trends report for the insurance sector, EIOPA developed a methodology for producing the annual Consumer Trends Reports which established a framework for the collection of consumer trends information from NSAs, including exploring possible data sources, checking availability of the data; considering the level of comparability for the available data; and developing a methodology to collect, analyse and report on the consumer trends information.

EIOPA collects data where they may be a useful indicator of a consumer trend and where a significant number of NSAs have the data available.

Prior to developing the methodology report<sup>2</sup>, EIOPA issued a questionnaire to explore what information is available at members' NSAs. The questionnaire covered the following areas: complaints, sales, product innovation, financial promotion, consumer protection issues and thematic work.

From the responses to the questionnaire, it was clear that not all members collect information in the relevant areas for consumer trends and (where they do), there are variances in the types and format of the information/data being collated. Accordingly, it was agreed that NSAs would provide information on consumer trends information on a 'best-efforts' basis.

---

<sup>1</sup> Article 9(1)(a), Regulation 1094/2010 establishing EIOPA.

<sup>2</sup> [https://eiopa.europa.eu/fileadmin/tx\\_dam/files/publications/reports/2012-11\\_Methodology\\_on\\_collecting\\_consumer\\_trends.pdf](https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/2012-11_Methodology_on_collecting_consumer_trends.pdf)

Hard data/quantitative data were collected in two areas where data was available albeit in different levels of detail and format. These areas were sales and complaints. Soft data/qualitative data were collected in relation to thematic work carried out by NSAs. EIOPA is keen to obtain a fuller picture of consumer trends across all NSAs and therefore collected qualitative data alongside the quantitative data. This should provide a broader context to its analysis of consumer trends, especially in those NSAs where there was limited quantitative data. Moreover, it may help to identify trends for which empirical evidence may not yet be available.

In addition, NSAs have also provided information on the top three consumer protection and financial innovation issues in their jurisdiction, based on their national methodologies for doing so such as general supervisory activity, results from inspections/reviews, data from the Ombudsman, evidence from other research and/or market intelligence sources (social media) and media reports.

In line with the methodology for producing this report, EIOPA asked the Insurance and Reinsurance Stakeholder Group (IRSG) and Occupational Pensions Stakeholder Group (OPSG) to consider examples of consumer protection and financial innovation issues, for input to the Consumer Trends report at their April 2013 meeting. These Stakeholder Groups are an important part of EIOPA's governance as they help to analyse and assess the impact of EIOPA's activities from different perspectives by ensuring a close dialogue of EIOPA not only with consumers, employees' representatives, users of (re)insurance services (for IRSG), beneficiaries of pension schemes (for OPSG) and academics, but also with industry, SMEs and relevant professional associations. The input given confirms some of the trends identified.

### **3. Derivation of trends from quantitative information**

As expected, quantitative data on sales were mainly submitted at high level, as data is collected in different ways across the NSAs. The classification of data available in NSAs was at times, not compatible with the categorisation adopted in the methodology for collecting consumer trends. In addition, there were gaps and inconsistencies in the type of quantitative data that was submitted, therefore, comparison between data was not always possible.

As a result, only high level conclusions could be drawn:

In relation to the total number of insurance products sold in 2012 sales of **non-life insurance products (65%) exceeded life insurance products (35%)**.

In a comparison between total sales premiums, **non-life premiums at 55% exceeded that of life sales premium at 45%**. For life products, **with-profits (44%)** offerings constitute the clear leader in premium terms. For non-life products, **motor insurance (40%)** showed the highest percentage of sales premiums but this could be expected due to the compulsory nature of the product.

With regards to complaints data, the high level observations that can be made was that the 'claims' category, in total numbers, unsurprisingly generated the

highest percentage of complaints reported at both NCA and Ombudsman level. This includes issues such as improper claims-handling, insufficient compensation payments, inadequate performance of/lack of return on the product bought, treatment of delays in submitting claims and any kind of claims disputes. At insurance undertaking level, the category 'administration' received the most complaints, in total number, including bad customer service, inadequate documentation, administration failure/error, failure of the IT system/online accessibility, non-compliance with duty of secrecy such as infringement of personal data/insurance data, discriminatory practices, wrong account statements, disputed transactions and misappropriation/fraud. As motor insurance is the highest sales product in terms of both volume and premiums, unsurprisingly, for this category, the most product-related complaints were counted.

## 4. Derivation of trends from qualitative information

### Trends identified from information received concerning Thematic Work carried out by NSAs

Although the information received on thematic work carried out by the NSAs is heterogeneous at times, for the NSAs that submitted information, the following main themes were identified:

- **Lack of disclosure of information** was a topic of thematic work in at least half of the NSAs who responded.

In some NSAs, complaints on different insurance products are based on **inadequate or misleading disclosure of information** and **poor advice** given; interestingly, this resonates with the concerns expressed about provision of information in the top three areas of consumer protection (see section below). Mystery shopping was in some cases the method of choice for investigating whether essential information on insurance contracts was disclosed.

- **Comparison websites** were the subject of investigation in about a quarter of the NSAs who responded, particularly where **price competition** could be acting as a driver of poor practice (see also references to price issues in the top three areas of consumer protection).
- A number of NSAs carried out thematic work on **complex products**. One NSA reported that it had a moratorium on sales of these products to retail investors. The work included gaining a better understanding of structured products and assessing to whom they should be sold and governance rules for the development of these products.
- Other NSAs dealt with **Payment Protection Insurance (PPI)**. The most significant issue was that consumers were not made aware of the exclusions and limitations contained in their policy, whether as a result of mis-selling (particularly sales of products to ineligible customers) or poor advice. As a result, beneficiaries did not receive what they expected.

- As regards **new or emerging products** that can lead to consumer detriment in areas such as cell phone insurance, a number of issues were identified including the consumer receiving insufficient information both on their contract as well as in the case of a claim or complaint and poor advice on the scope of the guarantee being provided. Another example is with packaged bank accounts where the sale of insurance is as part of a packaged bank account. The bundling of many different products together can make it difficult for consumers to focus on the important information when it comes to making informed choice.

## Trends identified from top Consumer Protection and Financial Innovation issues provided by NSAs

In order to determine these issues, some NSAs have used either one or more number of data or information sources (both qualitative and quantitative) to identify conduct of business risks. Quantitative market intelligence includes contacts (from the public, media and whistle-blowers) and advertising monitoring cases, Ombudsman publications and other reports. The qualitative market intelligence used included feedback from meetings with the Ombudsman and other key industry stakeholders (such as consumer associations), meetings with insurance undertakings and insurance intermediaries, on-site inspections and thematic work.

A number of NSAs decided on their top three consumer protection issues by analysing complaints and queries or information received from consumers either by the NSA itself or insurance undertakings.

### Consumer Protection issues

From the above national methodologies, the following trends in consumer protection issues could be identified:

- The lack of **disclosure of information** given to policyholders and/or the possible mis-selling of various insurance products including, but not limited to, unit-linked policies. Reasons reported for this include the drop in sales under the current economic conditions when different methods may be used to regain business. A number of NSAs reported concerns about the lack of internal governance of insurance undertakings and intermediaries. Other examples given were the practice of unilateral changes in the **terms and conditions**, and the development of business models to reduce pressure of high guarantees for insurers, during the life of the contract. These guarantees are costly to the insurers due to poor investment returns which are exacerbated by the financial crisis.
- Consumers have become more **cost-conscious** and they are often focusing more on the initial **price** rather than on the protection provided by the product. This development is assessed by some NSAs as a side effect of the financial crisis. The **strong industry competition** in the non-life sector is seen to be attributing to the decrease in prices.

- A number of NSAs reported a general **decrease in sales in the life insurance industry** as consumers are moving back towards classic life insurance, away from unit-linked products. Others note that consumers are seeking investments which offer more guarantees on capital. It has been observed by about a quarter of NSAs who responded that consumer confidence has decreased and therefore consumers seek products which offer them more guarantees.

Bearing in mind that the NSAs that submitted their consumer protection issues may not be the same as the ones who submitted information on complaints, it might nevertheless be worth noting that the above consumer protection issues identified by NSAs did not have a direct correlation to the complaints reported.

### Financial Innovation issues

NSAs identified the following three main financial innovations:

- An increase in the number of insurers which are installing **telematics** (also known as “black box” technology) to record variables such as a car’s location and speed. This technology is also used to monitor and control driving behaviour in order to assess the risk presented to the insurer. For the insurer, the information gathered is used to set the premium.
- The addition of various underlying funds to unit-linked policies or the embedding of guarantees in the policies in order to attract more consumers. This is seen as a reaction of insurance companies striving to maintain their positions on sales in the market and wanting to retain customer loyalty by increasing their range of products open to new business.
- The increase in the development by business firms of new channels for sales and marketing especially online and extensive use of popular social networks for their advertising campaigns. Online tools such as comparison websites have also remained very popular with consumers.

## 5. Conclusions and suggestions for future work

For the reasons explained above, the quantitative information set received for 2012 is not sufficiently accurate for deriving concrete and comparable trends for the purpose of this report. Notwithstanding this, there is sufficient further evidence gathered in the qualitative information collected for the identification of the following ‘top’ trends which may warrant further investigation, from a consumer protection perspective:

- **New or evolving channels for sales and marketing including social media, increasing advertising especially via the Internet, and the rise in the use of comparison websites;**
- **Issue of the lack of or misleading disclosure of information, and poor advice given to consumers, potentially leading to the mis-selling of various insurance products in particular life products such as unit-linked products;**



- **New or emerging products, for example cell phone insurance and packaged bank accounts bundled with the sale of insurance;**
- **Sale of complex products to retail investors and governance rules for the development of these products;**
- **Unilateral changes in the terms of the contracts by insurance undertakings; and**
- **Use of telematics (also known as 'black box' technology) by insurers in the sale of motor insurance.**

As a separate exercise to this report, the methodology used to collect the trends information and produce the trends report is being reviewed, based on lessons learnt in producing this report. Recommendations include clarification of the scope of the data to be submitted in order to provide more consistent information, alterations to the focus in the sales and complaints areas, review of timelines in terms of data collection and investigating the scope for additional data sources e.g. monitoring of social media with the assistance of specialist providers.