



THE EUROPEAN CONSUMER PERSPECTIVE - MAJOR TRENDS

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AGENDA

I. INTRODUCTION – MAIN CONSUMER CHALLENGES

II. MOTOR CLAIMS PRACTICES IN ROMANIA

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**III. TYING AND SIMILAR PRACTICES IN THE EUROPEAN
INSURANCE MARKET**

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Restoring trust in the insurance market is bilateral [...]; it involves everyone...

Roger MCCORMICK
London School of Economics
@ **Joint ESA's Consumer Protection Day**
London, June 4th, 2014



I. INTRODUCTION – MAIN CONSUMER CHALLENGES

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EIOPA Consumer Trends Report 2013:

- **New or evolving channels for sales and marketing** including social media, increasing Internet advertising especially & comparison websites usage
- **Lack of / misleading / and poor advice** given to consumers, potentially leading to the mis-selling of various products
- **New or emerging products:** mobile 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
- Use of **telematics** in motor insurance



Major challenges in 2014

- Major market conduct & consumer protection realities ,which bring consumer detriment in some countries, **might be overlooked** in the broader EU picture
- Careful consideration of trends being presented in the 2014 Report should be taken, as **many identified trends are only specific to developed markets** - while issues which bring consumer detriment in other countries might not be covered or not to the full extent

In example, in Romania we are facing different challenges. Many of these are also present in other emerging markets:

- **Motor insurance claims refusal; partial and delayed payments by some insurers**
- **Unfair cross-selling practices / conflicts of interest**
- Lack of regulatory consistency and proper enforcement
- Unconsistent complaints-handling legislation
- Insurance fraud & a difficult partnership with repair shops
- Effects of corruption and fiscal fraud upon the industry and their consequences



Major challenges in 2014

- **Major issues causing the most consumer detriment are in sync with market development**
- **Regulations have to follow this reality and try to use previous experiences in Western Europe while creating the level playing field across Europe**

This is why we have decided to focus now on two major issues:

- **Motor claims practices in Romania**
- **Tying and similar practices in the European insurance market**



II. MOTOR CLAIMS PRACTICES IN ROMANIA

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Overview (1)

- Romanian market, as other CEE countries, is dominated by motor insurance (more than 50% of the entire market of which 57% represents MTPL – Mandatory Third Party Liability insurance)
- More than 70% of the MTPL policies are issued by intermediaries (brokers)

Today, Romania has 37 registered insurance companies :

- 21 have motor insurance in their portfolio
- only 11 have the right to issue MTPL policies
- **3 of them (representing around 30% from the market share) are currently involved in authorities' investigations in various forms**



Overview (2)

- There is a transparent system, mandatory by law, for all insurance companies to inform their customers regarding the current number of petitions and complaints received
- More than 50% of the petitions sent to FMA – Financial Supervisory Authority in Q1 / 2014 refer to 2 companies
- **Romanians have very little trust in insurance due to general perception regarding poor motor claims services, big delays in payment and lack of payment of indemnities – systemic risk?**



Motor claims practices (1)

- General practices differ between CASCO (own motor hull policy) and MTPL (motor third party liability); **most complaints are related to MTPL claims**
- As the **MTPL premium is still very low** (~ 100 EUR), insurers are adjusting their balance sheets by refusing the claim settlement or by paying just a fraction of the claim without any proper explanation
- There is a common practice to have **big delays in paying claims**, generally by lack of information given to their client. Delays apply both to indemnities being paid to the customer and the ones paid to repair shops (bigger delays in the latter)



Motor claims practices (2)

- The law allows insurance companies a period of 3 months of **“further fraud investigation”** and it is a common practice to apply this for more claims than actually needed
- By law, injured parties can receive indemnities before the actual vehicle repair, based on the insurer’s evaluation => there were registered **many under-valued payments**
- **Intermediaries offer no added value in transactions with MTPL policies**, as their assistance and advice cannot be transferred towards the injured party
- In the past 3 years there is an **increase in bodily injuries paid indemnities**, as a part of MTPL cover / claims => a negative impact on the MTPL tariffs




Future of motor insurance in Romania

- **The Romanian insurance industry has been losing money for 8 consecutive years**
- After being found by their special administrator (KPMG) to have insufficient liquidity, **the biggest insurance company in Romania, by market share, is now likely to be sold**
- **The insurance market is expected to be affected again** by other media disputes
- **The population and businesses continue to lose their trust in the insurance system** and are waiting significant changes in market conduct of insurance undertakings, new legislation and, especially, **proper enforcement by the regulator**




The goal of the IRSG

- To give advice on **how to avoid future similar situations** across the EU – lessons learnt
- Play an **active role in identifying best practices** regarding motor claims and submit to EIOPA a report on that in order to trigger a possible guide
- To further stress that **market conduct and consumer protection are key to the industry's existence and future development**
- **To monitor local regulators even closer**



III. TYING AND SIMILAR PRACTICES IN THE EUROPEAN INSURANCE MARKET

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- In November 2009 EC published a detailed report (416 pages) on tying and similar practices in the financial market
 - The scope of this report: **DEFINING TYING AND OTHER POTENTIALLY UNFAIR COMMERCIAL PRACTICES**
 - The fact that tying and other practices are widespread does **not** lead to the conclusion that they should be considered as **always** anti-competitive or unfair to consumers
 - From a consumer policy perspective, approximately **90% of the cross-selling practices are found to be unfair**. The most unfair practices involved variety of insurance products: including life insurance, PPI, health/disability insurance and motor insurance.



The report identifies **cross-selling practices**:

- tying
- pure bundling
- mixed bundling
- multi-product rebates
- conditional sale of products and services
- aggressive commercial practices

These practices are subject to a wide variety of legal approaches in all European Member States: ban or limit of tying and other unfair practices or no provisions on tying exist, other potentially unfair practices are addressed by general consumer protection law.



The goal of the IRSG

- To give advice on **how to improve the landscape for consumers** across the EU regarding cross-selling
- **Identify** most favourable and unfavourable **cross-selling practices**
- **Provide a common approach for supervisory authorities** to cross-selling of insurance with other products.



THANK YOU !