



# SEVENTH CONSUMER TRENDS REPORT

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European Insurance and  
Occupational Pensions Authority

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# **SEVENTH CONSUMER TRENDS REPORT**

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## EXECUTIVE SUMMARY

While no major shifts have been observed in 2017, some trends reported in past years have become more remarked and concern more and more European markets. These range from the continuous shift from insurance with profit participation products to index-linked and unit-linked ones (or the shift from defined benefits – DB – to defined contribution – DC – schemes in the pension sector) to the increased use of technology throughout the insurance value chain affecting the whole life-cycle of a product and of the relationship between providers and consumers.

In terms of market developments, life insurance gross written premiums (GWP) increased +11%:

- This growth was led by a +42% increase in index-linked and unit-linked insurance, which for the first time since the beginning of the consumer trends work is the largest life insurance line of business.
- Insurance with profit participation continued to decrease at the EEA level (-9%), having dropped in several markets, including BE -11%, FR -10%, and IT -14%.
- 'Other life insurance' experienced limited (+0.8%) GWP growth.

Commission rates – which provide an indication of what percentage of the premium is used to pay commissions – for 'other life insurance' remain higher (12%) than for other lines of business. Interestingly, in 10 out of the 16 Member States, which experienced a year-on-year growth in terms of total number of new contracts for 'other life insurance', commission rates are above 20%. The reasons behind this could be multiple – and opposite trends also took place in some Member States – however it merits further attention as it could indicate potential consumer detriment.

For what concerns the non-life insurance sector, no GWP growth (+0.3%) took place at the EEA-level. Growth trends vary between Member States with several Eastern European markets reporting growth above 10%, possibly because insurance penetration rates in these Member States continue to remain lower.

Motor insurance (motor vehicle liability and other motor insurance lines of business) continues being the most prominent non-life insurance product. The motor insurance liability line of business grew in 24 Member States (in 5 of them above 20%).

Innovation, both in terms of distribution channels and usage of telematics, has been characterizing trends in motor insurance products:

- In the UK, in 2017 60% of motor insurance policies were either purchased or arranged through price comparison websites.
- In IT, 20.5% of motor insurance policies issued at the end of 2017 concerned a vehicle with a black box in it.

Medical expense insurance continues being the single most important non-life line of business, having experienced another year-on-year growth, ranging from +5% in BE to +33% in LT and RO. The reasons behind this growth include:

- › The increasing need for some consumers to complement the public insurance system in some Member States;
- › The cross-selling of personal accident insurance with motor vehicle insurance;
- › The fact that more and more health and accident policies recur to technology enabled solutions to offer more tailored and 'cheaper' coverage.

Overall, accident and health insurance products continue having high claims ratios and low commission rates, which could entail they are good value for money from a consumer's perspective:

- › The claims ratios for both workers compensation (60%) and medical expense insurance (85%) are still amongst the highest; and
- › Commission rates in both lines of business are the lowest in the non-life sector.

It is noteworthy that the non-life insurance line of business that experienced the highest growth (miscellaneous financial loss, +10% reaching € 11.7 billion GWP) is also the one with the highest commission rates and the second lowest claims ratio. Similar trends have also been observed with regard to income protection insurance and assistance lines of business.

The reasons behind these trends could be multiple but they merit further attention. In fact, several of the products falling under these lines of business (e.g., payment protection, travel, and mobile phone insurance) are often sold jointly with other financial and non-financial products or services. And, several NCAs continue reporting cross-selling practices, in both the life (mortgage life insurance) and non-life sector (payment protection and ancillary insurance), as an important phenomenon and area of concern.

In terms of digital technology, innovation is taking place across the entire insurance value chain. Technology-led innovations mostly concern the non-life sector and, in particular, the most common products such as motor, household, and accident and health insurance.

The usage of telematics in insurance is increasing across different products:

- › Motor insurance using in-vehicle data is becoming increasingly popular, in particular in Southern Europe. These types of products allow insurers to better tailor policies to drivers' specific habits and needs and to adjust premiums.
- › Big Data analytics in health insurance is not yet systematic; though with the potential for becoming a standard practice in future years. This could reduce costs and help identifying, assessing, and insuring new types of risks.
- › On the other hand, the usage of telematics in both motor and health insurance could lead to the potential exclusion of some consumers' segments, price-discrimination, and switching and competition issues.

With consumers generating more and more data and using connected devices, cyber-risk concerns are increasing. Adequate cyber-risk insurance products could address these protection needs and the demand for and offer of such products are slowly increasing across Europe. In fact, cyber-risk insurance represents an opportunity for both insurers

and consumers and addresses potential concerns relating to silent cyber-risk coverage, such as leaving room for potential arbitrage with regard to what cyber events are covered or not.

As consumers' demand to have insurance on an 'as needed' basis increases, the offer of on-demand insurance products is also growing. On-demand coverage ranges from enhanced life insurance when practicing extreme sports to extended coverage when using car-sharing services. On-demand products respond to consumers' needs to have limited coverage; however, it is important that such products are adequately understood by consumers and not perceived as a replacement of 'full' insurance coverage.

For what concerns complaints, the number of complaints in the non-life sector increased across all non-life insurance products. In particular, travel insurance related complaints experienced a +85% growth. This growth was mainly driven by claims' related issues, which continue to be the highest source of complaints across the majority of non-life insurance products. Sales related complaints also experienced significant growth.

In terms of areas of focus, NCAs are still concerned with potential conduct risks in relation to life insurance products. Hence, they carried out several activities in this area to identify, prevent, and manage risks. Such activities ranged across different issues. For example:

- › In FI, the NCA conducted inspections and found that complex investment products were being sold as underlying assets of insurance-based investment products and that such products were being targeted to elderly people without providing them with necessary information.
- › In IT the NCA continued the work on dormant life policies by asking insurers to adopt a plan to address the shortcomings identified and by assisting them in performing cross-checks with the Tax Authority, to verify the death of policyholders and identify beneficiaries.

On the pension side, with the pace of reform having slowed down, no major changes have been reported but the continuous shift from DB to DC schemes remains broadly noteworthy.

In terms of trends in total number of active members, in both personal and occupational pensions, Member States that experienced an increase include:

- › The UK, with the number of active members in occupational pension schemes continuing to grow due to the spill-over effect of the Auto Enrolment reform.
- › HR, as a result of a better economic environment and increasing awareness of the need for pension savings.

Albeit less than in the insurance sector, there are innovations taking place in both the occupational and personal pension sectors. Innovations reported by NCAs mainly concern DC schemes.

Sustainable finance is becoming a more and more prominent topic. Practices in terms of disclosing environmental, social, and governance investment strategies still vary amongst Member States and pension funds. With IORP II coming into force in 2019 and in light of the European Commission's action plan on sustainable finance further developments on these issues should be expected.

Disclosures and provision of information continue to be an area of concern in the pension sector; hence, some new requirements, in particular behaviourally informed ones, have been put in place at the national level. These aim at facilitating comprehension and increasing members' engagement with their pensions. Some funds are also adopting interactive tools for members to easily engage with their pension (e.g., make projections, simulations). Following the entrance into force of IORP II some more changes in terms of disclosures and provision of information will also take place (e.g., pension benefits statement).

In terms of complaints, the number of occupational and personal pension related complaints slightly increased; however, as in many Member States complaint numbers are very low, sector-wide conclusions cannot be drawn.

Finally, in 2017, NCAs worked to address issues relating both to personal and occupational pensions. These ranged from disclosure and provision of information to advice and governance related work.

Looking ahead, the regulatory changes that took place in 2018 and the forthcoming ones will affect trends in both sectors.

## INTRODUCTION

**Article 9 of EIOPA's founding Regulation** requires the Authority to “collect, analyse and report on consumer trends.”<sup>(1)</sup> As per the working definition devised by EIOPA consumer trends are “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 six Consumer Trends Reports, covering both **the insurance and pension sectors**.

One of the report's key objectives 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 non-confidential activities reported by NCAs for their respective jurisdictions, EIOPA also encourages a common supervisory culture amongst its Members through the promotion of exchanges of information between competent authorities.<sup>(2)</sup>

The report provides a description of the main market developments in the first section, complemented, for the insurance sector, with an analysis of quantitative data from EIOPA's Solvency II database. This is followed by a focus on selected financial innovations, and an analysis of trends in consumer complaints and NCAs' consumer protection activities. In addition, in this year's report, the analysis is complemented by additional information, such as a times-series analysis using 2016 and 2017 Solvency II data and consumers' <sup>(3)</sup> voices.

**Not all trends identified exist in all Member States;** in some, the trends described may not exist; in others, they may only be at an incipient stage; while in other Member States, the trends might be already consolidated for a number of years. 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.

EIOPA follows an agreed **Methodology <sup>(4)</sup> for producing a Consumer Trends Report on an annual basis** (see Annex I for further details). There are certain limitations to the methodology; for example, a number of NCAs were not in a position to provide all the input requested by EIOPA. Furthermore, **Solvency II data must be interpreted cautiously given that it is only the second year of the new Solvency II reporting framework and different reporting timeframes.**

# 1. INSURANCE SECTOR

## 1.1. MARKET OVERVIEW AND TRENDS

### 1.1.1. LIFE INSURANCE

**Total gross written premiums (GWP) for selected life insurance lines of business<sup>(5)</sup> in the European Economic Area (EEA) increased 11% in 2017.** <sup>(6)</sup> Overall, out of 30 Member States for which data is available, <sup>(7)</sup> 19 reported increases (Figure 1). There are some significant differences amongst Member States (e.g., +70% in the UK <sup>(8)</sup> and -28% in ES).

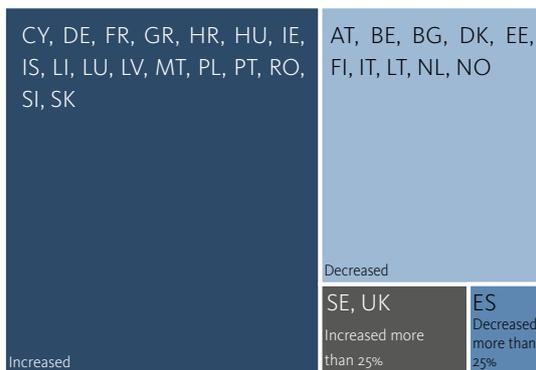
**The life insurance sector continues to be significantly larger than the non-life sector.** <sup>(9)</sup> Life premiums continue to represent 50% or more of total GWP in many Member States, <sup>(10)</sup> including large markets (e.g., IT, UK).

Growth in life insurance has been led by the **+42% increase in index-linked and unit-linked insurance premiums, a trend that has taken place in most Member States** (Figure 3). Considering the high GWP growth, index-linked and unit-linked insurance is now the largest life insurance line of business.

Insurance with profit participation continued to decrease at the EEA level (-9% in 2017), dropping in BE (-11%), FR (-10%), IT (-14%), NO (-13%), and PL (-10%). One of the reported reasons behind the decrease in insurance with profit participation in many Member States continues to be the low interest rate environment, affecting both the demand for these products (with consumer seeking higher returns) and the offer (with insurers shifting away from products with guarantees).

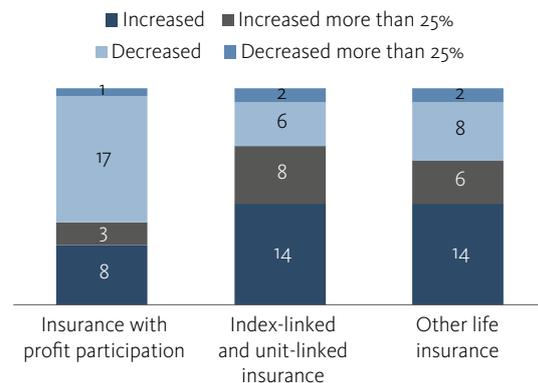
*'Life insurance products are offering such low returns right now that I would rather invest money in real estate'*  
 Silke, Consultant, 32, DE

Figure 1 – Growth in life insurance GWP in 2017, by number of Member States



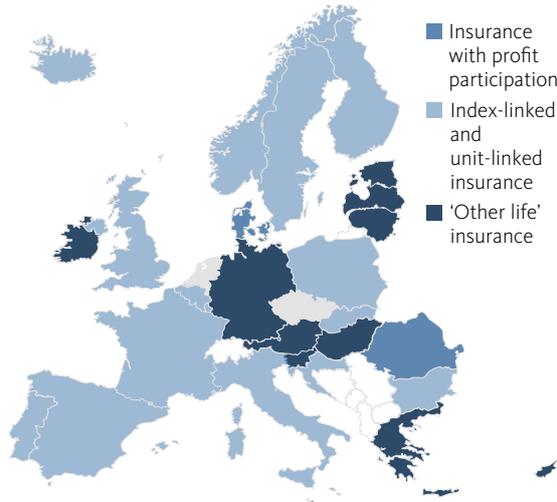
Source: EIOPA Solvency II Database

Figure 2 – Growth by number of Member States



On the other hand, in some Member States like SK, it has been stated that consumers **prefer insurance with profit participation to other types of life insurance products because they have a guaranteed return.**

Figure 3 – Life insurance lines of business that experienced the highest GWP growth in 2017\*



Source: EIOPA Solvency II Database

\* In the NL the only line of business which experienced a growth is insurance with profit participation; however, given that growth was minimal (+0.2%) and that with profit market is very small it has been decided not to indicate which line of business grew.

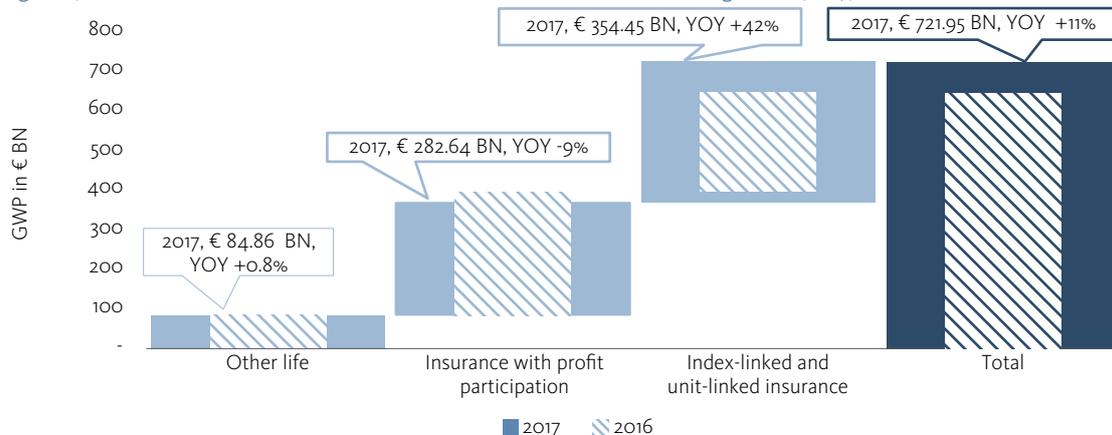
Index-linked and unit-linked insurance reached over **€354 billion (BN) GWP**. Growth was significant in countries like FR (+35%), PT (+26%), and the UK (+96%<sup>(1)</sup>).

In IT, following a drop in 2016, index-linked and unit-linked insurance GWP grew +24%. This would appear to be partially the result of a new law<sup>(2)</sup> aiming at stimulating the amount of household savings<sup>3</sup> conveyed towards Italian small and medium enterprises (SMEs), in concert with a consolidation of the offer of other 'hybrid' life insurance products. In PL, the underlying reason proposed for the +16% GWP growth is a stabilisation of the sector, following the drop in 2016 caused by a reduction of redemption fees.

It has been also noted by a number of NCAs that index-linked and unit-linked policies reaching maturity have not always delivered expected returns, **leading to negative media coverage that has been seen as a factor in a drop in sales in some Member States.** Indeed, when looking at contract numbers rather than GWP, at the end of 2017, the number of index-linked and unit-linked contracts was lower than the number of insurance with profit contracts (Figure 5).

**'Other life insurance' contracts continued to have the highest share of total number of contracts at the end of the year.** This is because 'other life' insurance saw relatively high growth in past years, in close linkage with the mortgage market, and continued to grow significantly in some Member States, despite the limited (+0.8%) GWP growth at the EEA level.

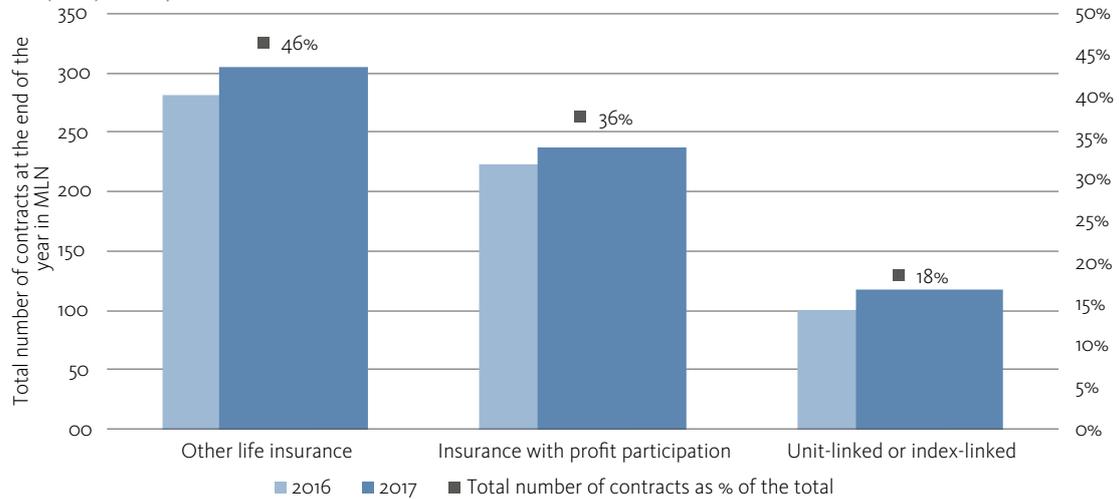
Figure 4 – EEA life insurance GWP for selected lines of business and YoY growth (2017)\*



Source: EIOPA Solvency II Database

\* The total figure only reflects the sum of the life insurance lines of business analysed in this report.

Figure 5 – Life insurance contracts at the end of the year (in MLN – LHS) and number of contracts as a % of the total (RHS) in 2017 for selected lines of business



Source: EIOPA Solvency II Database

Commission rates<sup>(3)</sup> for the life sector did not experience major changes (Figure 6), with **commission rates for 'other life insurance' remaining the highest (12%)**.

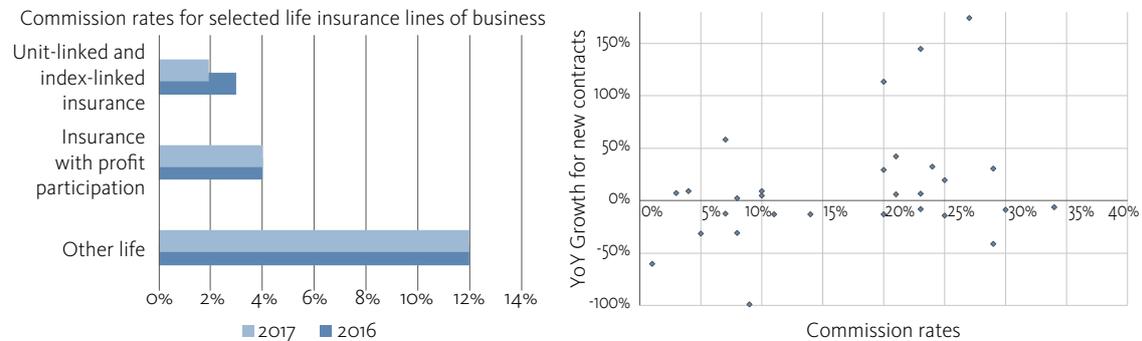
**In 10 out of the 16 Member States, which experienced a year-on-year growth in terms of the total number of new contracts, commission rates are above 20%.** On the other hand, it can also be seen that commission rates are also above 20% in 6 Member States which experienced a year-on-year decrease.

As shown trends are different in different Member States and causes could be multiple; however, it merits further

attention, as the high growth could also be caused by pressure sales tactics and potential mis-selling taking place, also considering that mortgage life insurance, with underlying cross-selling practices (see Box 1), often falls within 'other life insurance'.

Finally, regarding distribution channels data are limited – with only 1/3 of the Member States having been able to provide this information – making it difficult to identify trends. In most Member States that provided this information, direct sales is the distribution channel that increased the most across all life insurance products. This is most likely due to the increased use of technology.

Figure 6 – Commissions rates for selected life insurance lines of business; new contract growth and commission rates in Member States for the 'other life' line of business (2017)\*



Source: EIOPA Solvency II Database

\* The second graph does not include CZ, and LV.

BOX 1



## TRENDS IN CROSS-SELLING

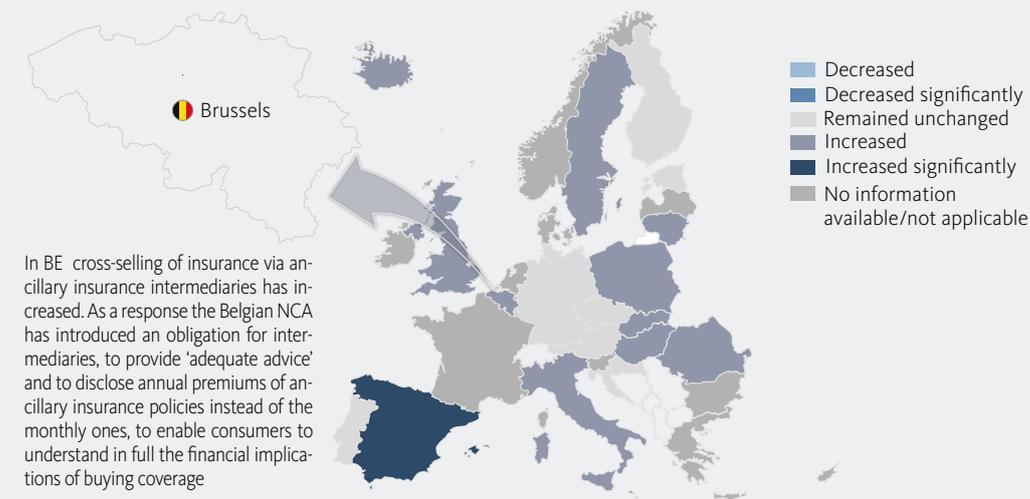
Cross-selling<sup>(14)</sup> has been reported as a recurring trend since the beginning of the consumer trends work; however, recent (and forthcoming) changes in the European legal framework may impact these trends, including limiting the potential risks arising from cross-selling practices.<sup>(15)</sup>

11 Member States have observed a steady increase in insurance being cross-sold with other consumer goods and services. In ES, with consumers buying more and more valuable electronics, including via instalment payments, the NCA has observed a significant increase in cross-selling practices of policies to protect electronic devices and in PPI. In BE, the sale of mobile phone insurance via ancillary insurance intermediaries has increased significantly. In IT and LT, bundling practices have a considerable presence in the market and vary, based on underlying products or services and the ancillary intermediary through which also insurance is sold.<sup>(16)</sup>

Beyond the cross-sale of ancillary insurance, the sale of mortgage life insurance or PPI jointly with consumer loans continues to be a practice in many Member States. Despite several measures put in place at the European<sup>(17)</sup> and national levels to address some of the challenges brought along by sale of mortgage life insurance, concerns continue to persist, substantiated by the increasing number of complaints (see Section 3).

On the other hand, often, jointly with cross-selling, there could be high commissions and remuneration structures which could potentially encourage the sale of these products even if consumers may not need or request them. This could lead to intermediaries potentially adopting pressure sales tactics, leveraging on the fact that consumers are focused on the primary product and that they could be reluctant to look for a better insurance product elsewhere. Finally, as both the number of ancillary intermediaries and the segmentation in the distribution chain increases, it may be difficult for supervisory authorities to assess whether these intermediaries have enough professional competence to properly advise consumers and explain them products' features, risks, and benefits.

Figure 7 – Overview of cross-selling in different European markets (NCAs' survey)



Source: EIOPA CCPFI

If adequately regulated and monitored, cross-selling has the potential of being beneficial to consumers. It can reduce costs for consumers by offering products as a package. Furthermore, it can be convenient, as it allows consumers to buy insurance jointly with the primary good or service or financial product, making just 'one stop'. It can also ensure that consumers understand the need for insurance protection and take advantage of it. To ensure that the benefits of cross-selling practices are realised and mitigate potential risks, specific rules have been put in place. These include:

IDD stipulates that – when an insurance product is sold with one that is not insurance – the distributor shall inform the customer whether it is possible to buy the different components separately and, if so, shall provide a description of the components and separate evidence of the costs and charges for each component.<sup>(8)</sup>

In BE, insurance all intermediaries are obliged to provide 'adequate advice' and to disclose to consumers annual premiums of ancillary insurance policies instead of the monthly ones, to enable consumers to understand in full the financial implications of buying coverage.

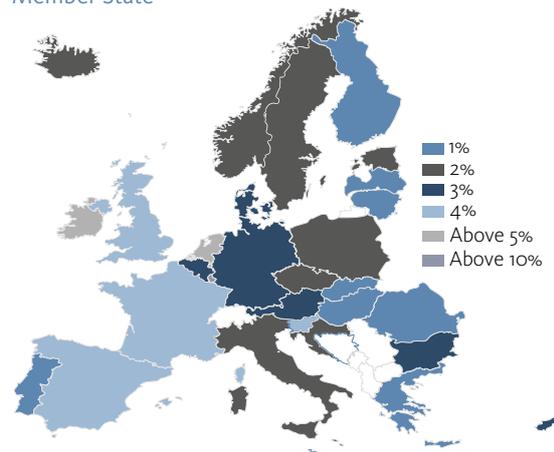
In IE, 'bundling' is prohibited,<sup>(9)</sup> except where it can be demonstrated that there is a cost saving for consumers. The customer must be provided with information on the overall cost of the package and on the individual cost of each product, and should be given the possibility to switch products offering similar coverage as well as to rescind any of the products within the package without penalty.

### 1.1.2. NON-LIFE INSURANCE

After continuous growth over the past years, at the EEA level there was no increase (+0.3%) for non-life insurance total<sup>(20)</sup> GWP. With an average of +10%, growth was strong in Eastern European Member States, while in Western and Southern Member States, it was rather weak. This is partially due to the fact that penetration rates (Non-life GWP/GDP) are higher in Western Europe (Figure 8).

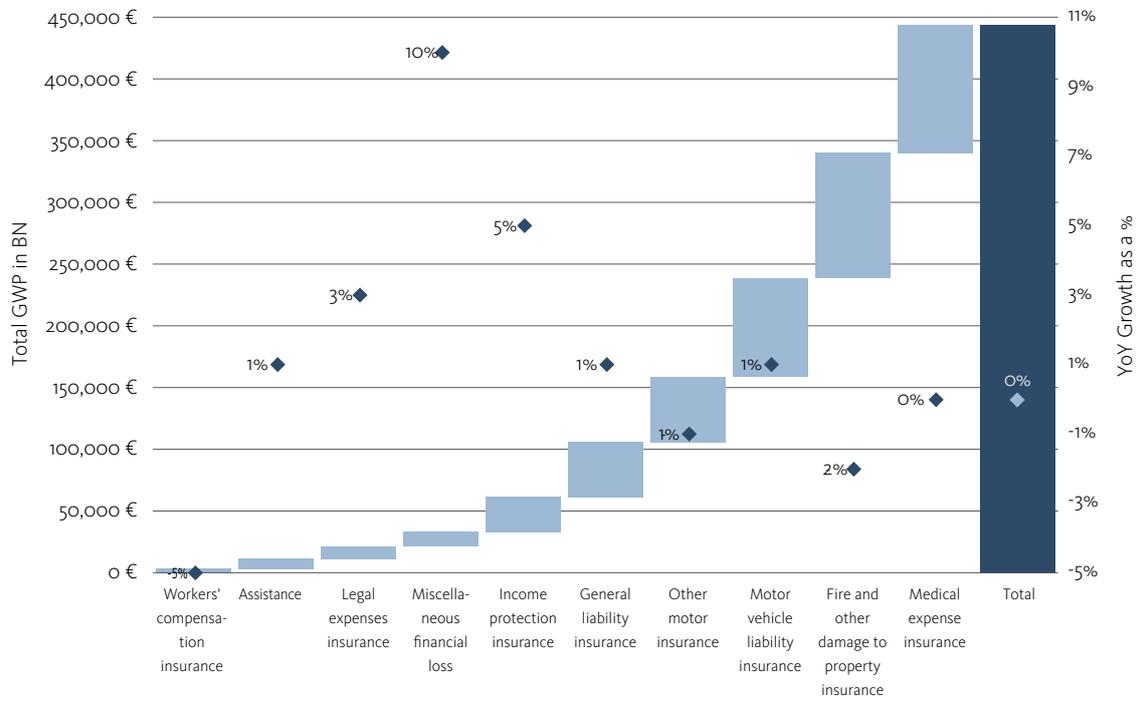
Motor vehicle<sup>(21)</sup> insurance continues to be the most prominent product in the non-life sector. However, medical expense insurance is the most important (in terms of GWP) single line of business (Figure 9).

Figure 8 – Non-life insurance penetration rates, by Member State



Source: EIOPA Solvency II Database

Figure 9 – Non-life insurance GWP in 2017 for selected lines of business and YoY growth\*



Source: EIOPA Solvency II Database

\* Total refers to the summation of the figures for the non-life insurance lines of business analysed in this report.

Motor liability insurance GWP grew in 24 Member States (in 5 of them above 20%) while other motor insurance GWP grew in 21 out of 30 Member States. In RO, based on information provided by the NCA, there was an increase in terms of motor insurance contracts partly because it is now allowed to sell sub-annual policies. Countries which experienced a high GWP growth in both lines of business include EE (+27% and 10%), LT (+48% and +21%), and PL (+34% and +23%).

'When I bought my car insurance, I used a price comparison website. My focus was mainly on price. For information beyond price, I had to do a bit of digging. I feel that these sites could highlight information more clearly.'

'In the end, I used the price that I had found on a price comparison website to go back to my insurer and ask for a better offer.'

Tom, Project Manager, 23, UK

**In several Member States, innovation has been characterizing trends in motor insurance products.** In the UK there is increasing evidence that consumers use price comparison websites (PCW): in 2017, 60% of policies were purchased with or arranged through PCWs. Similarly, in IT, motor insurance policies seem to be most greatly affected by technology (see Section 1.2.2).

**Interestingly, the claims ratio for motor liability insurance decreased at the EEA level, reflecting declines in 18 Member States** (in 8 Member States the year-on-year difference was above 4 percentage points). The reasons behind this decrease could be multiple, including less car accidents or higher premiums as well as stricter policy terms and conditions. Despite the decrease, both motor liability and other motor insurance claims ratios are still high (Figure 10) and steadily above 60% (69% and 64% respectively). Furthermore, for motor liability the gap between the country with highest and lowest claims ratio shrank, potentially signalling better outcomes for consumers across the EEA. Commission rates for these lines of business are below 15%.

**GWP in the medical expense line of business experienced an increase**, ranging from +5% in BE to +33% in LT and RO. In IT, there was growth in accident and health insurance products (+8% GWP growth for the medical expense insurance line of business), which, like in RO, reportedly is mainly driven by consumers needing to complement the public insurance system, in addition to an increase in technology-enabled health policies making

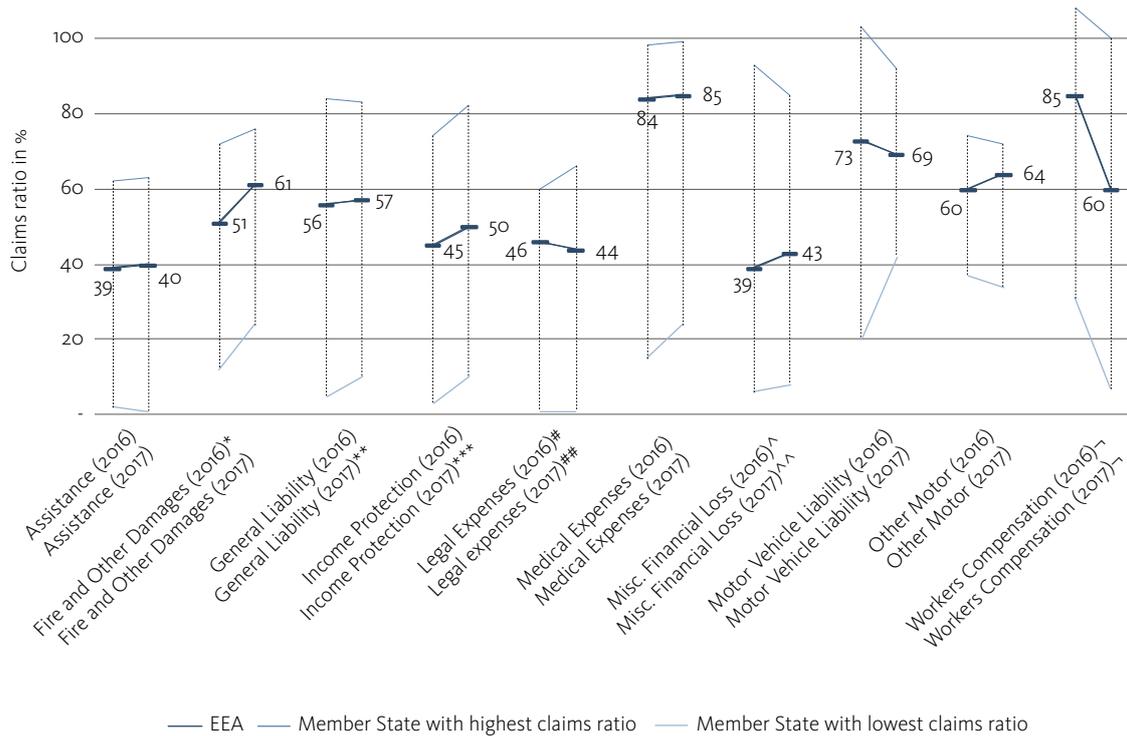
premiums cheaper and facilitating submission of claims. In PL, the rise in the number of accident and health insurance policies was partly driven by the increased (cross)sale of personal accident insurance jointly with motor insurance.

**The fire and other damages to property insurance line of business increased** in 23 countries (with 3 markets experiencing an increase above 20%). According to information provided by the NCA, in RO (+20% increase) growth was driven by continued expansion of the real estate market. While in IT there was no significant change (-2% decline), like for motor vehicle and accident and health insurance, a gradual diffusion of household policies that use digital devices has been observed.

Overall, **accident and health and household insurance have relatively high claims ratios:**

- The claims ratio for workers compensation insurance remains high, though it has dropped to 60% (from 85% in 2016) and the gap between the country with the highest claims ratio and the lowest has widened. Medical expense insurance's claims ratio also continues to remain high (85%).
- Regarding fire and other damages to property insurance, the claims ratio went from 51% in 2016 to 61% in 2017, and the gap between the Member States reporting highest and lowest claims ratio was reduced. The reasons behind this increase could be multiple (e.g., seasonality and other weather related issues).

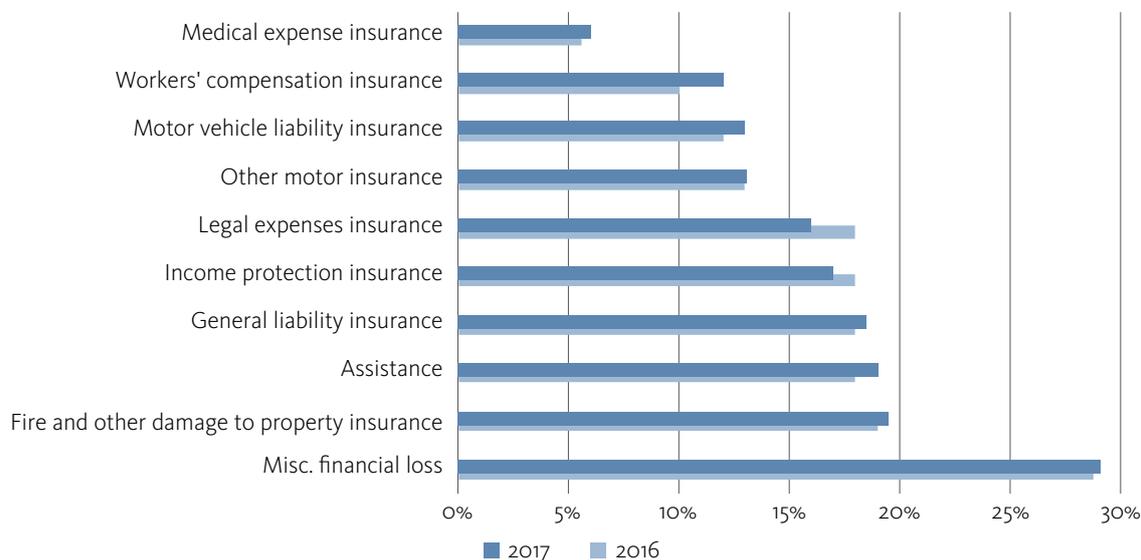
Figure 10 – Claims ratio in 2016 and 2017 for selected non-life insurance lines of business\*



Source: EIOPA Solvency II Database

\* It does not consider claims ratio for MT; \*\* It does not consider claims ratio for NO; \*\*\* It does not consider claims ratio for SE; # It does not consider claims ratio for IT; ## It does not consider claims ratio for BG; ^ It does not consider claims ratios for CY and DK; ^^ It does not consider claims ratios for BG, LT, and LV; - It does not consider claims ratios for FR and BG; - - It does not consider claims ratios for UK and RO

Figure 11 – Commission rates for selected non-life insurance lines of business in 2016 and 2017



Source: EIOPA Solvency II Database

'I bought travel insurance as part of a package holidays. I didn't really look into the terms and conditions; it was just part of the package.'

Tom, Project Manager, 23, UK

Although this is based only on a high-level analysis of the data provided via Solvency II Quantitative Reporting Templates (QRTs), it is noteworthy that, with relatively low claims ratios in many Member States and high commission rates (Figures 10 and 11), miscellaneous financial loss is the non-life insurance line of business which grew the most in 2017 (+10%). Income protection also saw +5% growth and has relatively low claims ratios and high commission rates (in particular in some Member States). Finally, the assistance line of business saw a significant increase in several Member States (above 25% in 6 of them) and has high commission rates and the lowest claims ratio at the EEA level.

The GWP increase in these lines of business could be due to the continued growth in travel, payment protection insurance (PPI), and mobile phone insurance sales:<sup>(22)</sup>

- Based on information from the Czech NCA, one of the reasons for a 20% increase in travel insurance sales was the fact that thanks to the positive economic development people have more resources to spend in leisure activities such as vacations.

- In SK reportedly the increase in travel insurance is mainly led by technology, as insurers also sell 'mountain insurance' (providing extra coverage for medical expenses, reimbursement in case of bad weather and assistance) which can be easily activated when needed via short messaging services (SMS) or online.
- Reportedly, PPI increased in LT because of aggressive marketing and sales tactics and, in PL and SK, because of bundling and tying of these policies with loans.
- Finally, it has been reported that mobile phone insurance experienced growth in CZ because new products were launched and consumers have more disposable income to buy expensive mobile devices.

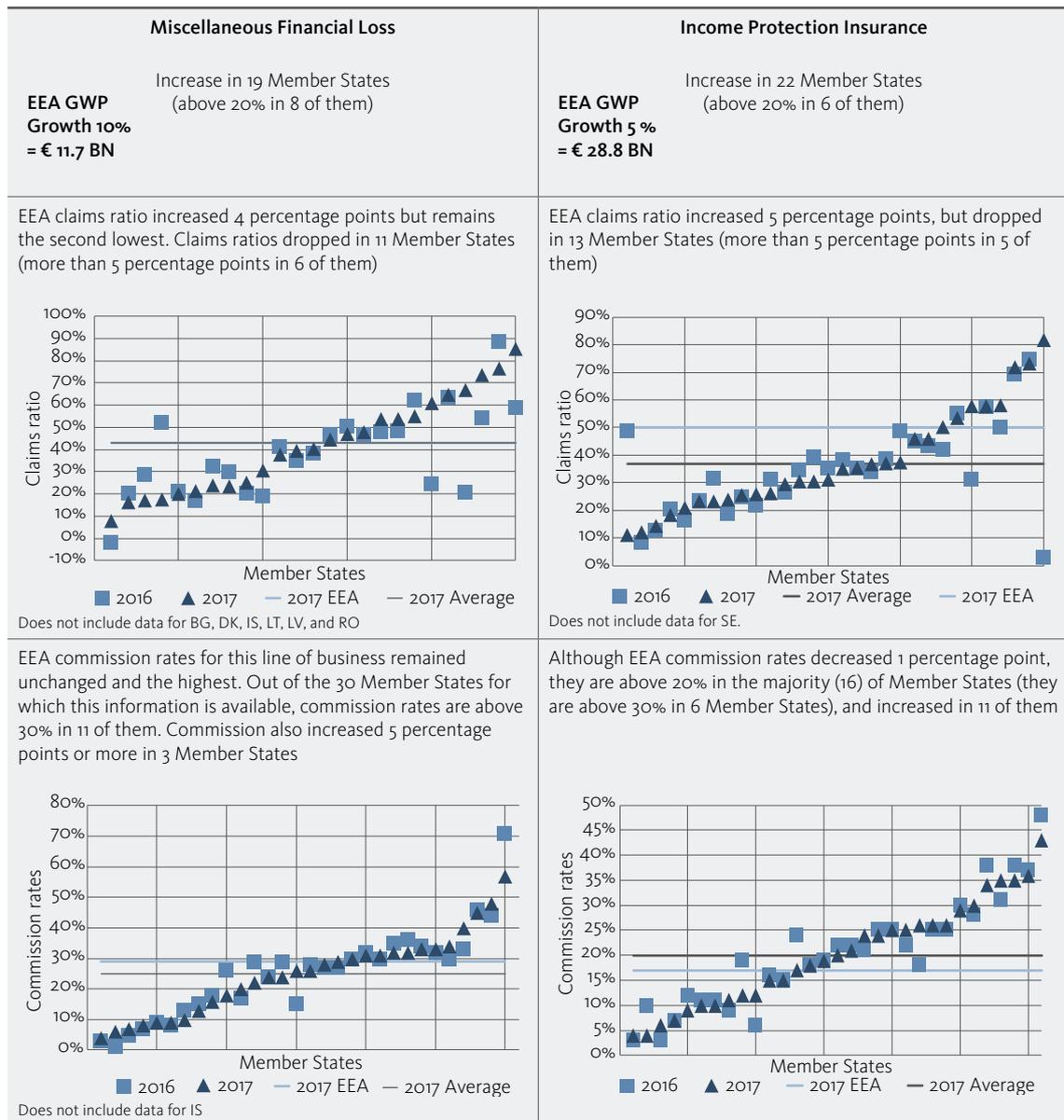
While there are many reasons which could explain these trends at the EEA and Member States' level, **it merits further attention**. In fact, it could denote potential consumer detriment via mis-selling (high commission rates without proper governance structure could provide incentives to sell products to consumers to generate commissions, also explaining the low claims ratios for these lines of business – see Box 2). On the other hand, it is not clear whether high commission rates necessarily correlate with higher consumer detriment, as there could be multiple reasons behind high commission rates.

In addition, it is important to note that based on the analysis conducted below there are different trends with some Member States with low commission rates/high claims ratios experiencing significant growth and vice-versa.

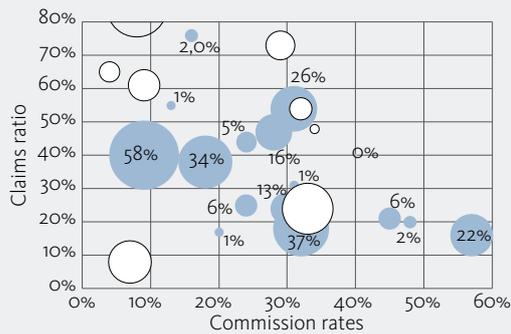
Finally, while there is no direct correlation between high commission rates, low claims ratios and specific distribu-

tion models, **it is worth noting that for PPI the most common distribution channel, in 8 out of 10 Member States that provided this information, is bancassurance.** For travel insurance and mobile phone insurance, 'other' distribution channels and ancillary intermediaries have both grown in the past years.

Infographic 1 – Analysis of selected retail risks indicators

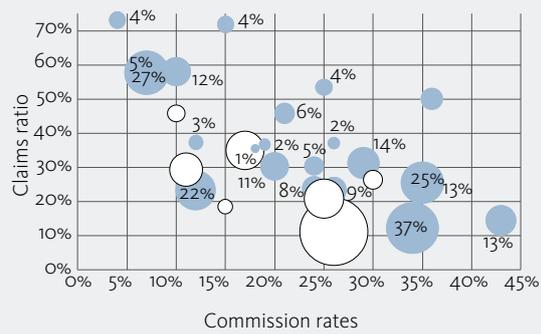


Amongst the Member States that experienced high growth (bubble size), there are also those with high commission rates and/or low claims ratios. In fact, with the exception of 3 Member States (one of these experienced the highest growth) all other Member States experiencing growth either had commission rates above 20% or claims ratios below 40% (8 of them had both, including the Member State with the second highest growth)



Does not include data for BG, DK, IS, LT, LV, and RO. It also does not include LI as new entrants in the market mainly led growth.

Amongst the Member States that experienced high growth (bubble size), there are also those with high commission rates and/or low claims ratios. In fact, with the exception of 5 Member States all other Member States experiencing growth either had commission rates above 20% or claims ratios below 40%. 10 of them, including the Member State with the highest growth, had both commission rates above 20% and claims ratio below 40%



Does not include data for SE. It also does not include LI as new entrants in the market mainly led growth.

Source: EIOPA Solvency II Database

## 1.2. FINANCIAL INNOVATION

'Digitalization provides insurers and distributors with the opportunity to introduce customers directly to their full range of products and offerings in a more efficient and tailored manner than traditional channels. In addition, stronger digital capability, if implemented appropriately, can lead to more efficient operational processes. Combined, these two factors, increase opportunities and facilitate customer-retention while also lowering costs and increasing profits for insurers over the medium to long term.'

*Robert Fleming, Head of Conduct Subject Matter Expertise, AVIVA Complete interview page 46*

A number of topics were selected to be analysed in more detail in this report: Big Data analytics in health insurance, on-demand insurance products, connected vehicles, cyber-risk insurance, and trends in cross-selling. Section 1.2.5 aims at providing a brief analysis of other trends observed, beyond the ones identified for specific focus this year.

**Innovation is taking place across the whole insurance value chain and the overall relationship between consumers and insurance undertakings.** This includes the way in which insurance undertakings advertise and target products, claim management processes and pro-

cedures, and ongoing post-sales communications. In fact, as insurance undertakings aim at targeting younger 'always connected' generations, they are also changing the way in which they engage with future and current policyholders.

Data provided by NCAs shows that **financial innovations are mostly taking place in the non-life sector** and, in particular, for most common products such as motor, household, other non-life, and accident and health insurance products (out of 41 reported financial innovations, 33 solely concerned these products).

### 1.2.1. BIG DATA <sup>(23)</sup> ANALYTICS IN HEALTH INSURANCE

Data have always been fundamental to insurance, as the entire business relies on quantitative data to assess risks and make decisions.<sup>(24)</sup> Consumers, in their everyday life, generate significant amounts of data through their online activity and through their use of smartphones.<sup>(25)</sup> Moreover, given the usage of wearable devices such as FitBit trackers and smart watches is also increasingly popular, in addition to traditional sources of data insurers can also

access new data sources to assess consumers' habits, behaviours, environment and patterns on an almost continuous basis.

'It's important to have a good health insurance. At the same, there are so many choices, it is also important to shop around and compare all the conditions. For my health insurance, I received a small discount for declaring that I am a non-smoker. They do not collect data on my lifestyle habits and I wouldn't really want to share any data with my health insurance provider to get a discount on the premium. I don't know what they would do with it and I would worry about my privacy.'

*Henk, Banker, 38, NL*

**Usage of Big Data analytics in the health insurance industry is not systematic and across the board, but it has a strong potential to increase and become a more standard practice.<sup>(26)</sup>**

Indeed, while the penetration of Big Data analytics is very limited in most European health insurance markets, there are signs of change. In IT, an increase in health insurance products linked to smartphones and other wearable devices has been observed. The data provided by such devices are often used by insurers to give a discount at renewal, but also to monitor health and offer specific programs to improve policyholders' health.

Further, in the UK, market-players are offering a wide variety of products using this technology. Some insurers sell traditional insurance, taking into account physical activity (monitored via smartphones and wearable devices) to calculate premiums. A number of insurers have begun exploring offerings, which include direct care provision (hospitals, clinics, care homes) based on the data collected and/or elements of risk prevention/marketing (e.g. gym membership and wearable technology devices) based on Big Data analytics.

In other Member States (e.g., FR and DE), the legal provisions are seen to ban or limit personal data collection and use for general accident and health insurance products; hence, the offering of add-on services using this technology is developing fast. In FR, where 98% of health insurance contracts fall under a regime<sup>(27)</sup> forbidding insurers from using personal data related to consumers' health in their risk assessment activities, insurers have begun offering add-on products using Big Data, such as coaching policyholders towards sickness and disease prevention.

This increasing availability and usability of structured and unstructured data sets, by allowing insurers to identify patterns of consumption, lifestyle, and behaviours and increasing the quality of risk-assessment, is enabling them to improve their offerings, pricing, marketing, claims prediction, and fraud detection and prevention.<sup>(28)</sup> This also allows to measure and control chronic diseases and promote healthier lifestyles<sup>(29)</sup> by nudging policyholders towards healthier behaviours and often rewarding them with lower premiums.<sup>(30)</sup>

**Better risk-assessment and such preventative measures can have a positive impact on consumers, as they help lowering prices and better tailoring products to their needs.** Thanks to Big Data analytics, insurers can identify and assess new types of risks and, consequently, insure them.<sup>(31)</sup>

Additionally, the constant communication between consumers and undertakings, including data collection, can also enable the automation of claim management processes (e.g., by directly recording when a consumer enters a health-care facility) and monitor whether products perform as intended, considering also the target market.

Nevertheless, as highlighted in the ESAs Joint Committee Final Report on Big Data,<sup>(32)</sup> in concert with potential benefits and opportunities, **Big Data analytics brings some challenges for consumers and supervisors.** For example, it raises the challenge of preventing this 'over-segmentation' and refinement of the 'risk-pool' from undermining the risk-pooling/solidarity principle, potentially making insurance unaffordable for some customer-segments, such as consumers with pre-existing health conditions.<sup>(33)</sup> Furthermore, as health insurance products become more personalized with premiums based on data collected by insurers, switching amongst products and providers may become more difficult and cumbersome.<sup>(34)</sup>

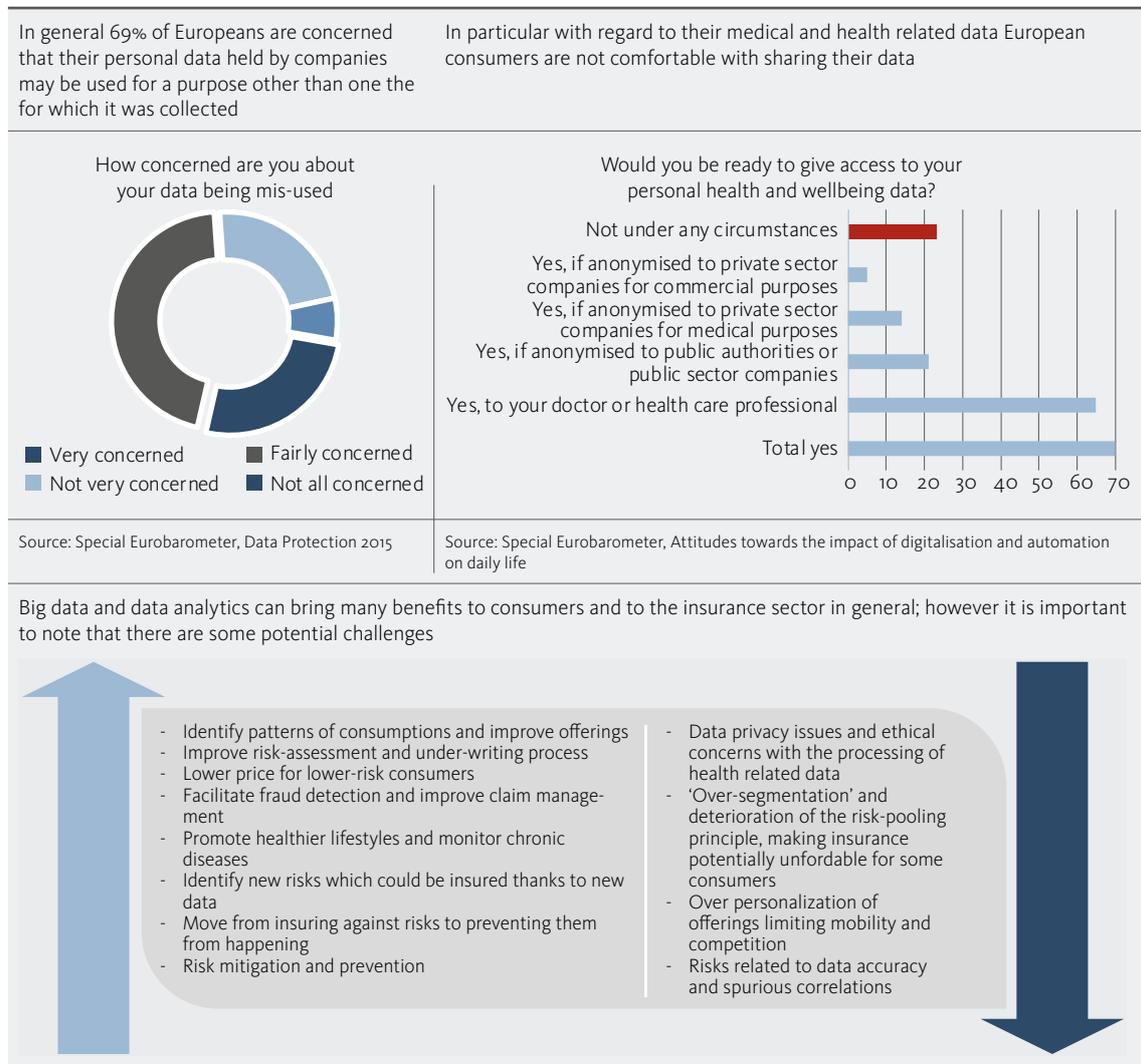
'Big Data enables insurers to more accurately price risks, thus potentially widening access to insurance for customers who might otherwise be uninsurable as well as insure new types of risks.'

*Robert Fleming, Head of Conduct Subject Matter Expertise, AVIVA Complete interview page 46*

Overall, the benefits outweigh the challenges, which, if monitored and addressed, may not necessarily lead to consumers' detriment.<sup>(35)</sup> EIOPA has been gathering further evidence through an *ad hoc* thematic review on Big Data, with the objective to determine what types of data, data sources and Big Data tools are being used by insurance undertakings, for what purposes, and what is their impact across the insurance value chain.<sup>(36)</sup>

There are also other initiatives at the European level to ensure that the usage of Big Data analytics is beneficial to consumers. The Dutch Association of Insurers continues its work with the solidarity monitor<sup>(37)</sup> to analyse the potential differentiation amongst premiums and identify whether, in the long run, this can lead to price discrimination and exclusion or more insurability. The UK NCA published a research note on interventions that can prevent price discrimination.<sup>(38)</sup>

Infographic 2 – Big Data analytics in the health insurance: benefits and challenges



Source: EIOPA's staff elaboration based on cited sources

### 1.2.2. MOTOR INSURANCE TELEMATICS

As more vehicles become connected to powerful navigation systems, insurers are starting to offer motor insurance policies that take advantage of the in-vehicle data to calculate risks and calibrate premiums. Most often, data is collected via the installation of black boxes into motor vehicles, but also via vehicles that are directly connected and other data collection tools such as mobile phone applications.

**In Southern Europe, these types of policies have a rather substantial presence:**

- › In MT, their adoption is expanding and, in GR, these products are popular amongst taxi drivers.
- › IT is the market mostly impacted by connected vehicles – 20.5% of the total number of policies issued at the end of 2017 concerned a car with a black box in it, raising from 19% in 2016 and just above 10% in 2013. Conscious of the potential benefits that this type of products can bring, the Italian Government passed a new law<sup>(39)</sup> mandating insurers to give discounts to consumers agreeing to install a black box in their vehicle or a device preventing the engine from starting if the driver has a high level of alcohol in the blood. Hence, connected vehicles policies are expected to further increase in IT.

In certain markets, such as IE, HU and PL, products based on the same rationale are being developed. However, rather than using data collected directly from motor vehicles, insurers use data collected via smartphones or directly inputted into smartphones by policyholders.

As connected-vehicle policies follow the same principle (i.e., use of telematics in insurance) of Big Data analytics in health insurance, challenges and benefits are similar:

- › Beyond the potential positive spill-over effect and societal benefit that better and safer driving can bring, **these products could also have a positive impact on policyholders.** Motor insurance products that collect and take into consideration vehicle data allow insurers to better tailor products to drivers' specific habits and needs and to adjust premiums, offering better prices to lower-risk drivers. These policies can often be complemented with nudges to improve driving behaviours.
- › Furthermore, as accident data can be immediately transmitted to insurers, **claims handling (including apportionment of liability) could be faster and semi-automated.** Precision in determining damages can also

be improved thanks to the data collected via these devices.

- › On the other hand, **the increasing number of these policies also raises some potential challenges that, although they have not yet manifested,** should be closely monitored. Some are similar to the challenges exposed in Section 1.2.1. Others, such as ensuring indiscriminate access for insurers and consumers, to the relevant vehicle generated data are of utmost importance to enhance the benefits brought along by these technological advancements.

### 1.2.3. ON-DEMAND INSURANCE PRODUCTS: OFFERING CONSUMERS THE POSSIBILITY TO ACTIVATE THEIR INSURANCE POLICY ONLY WHEN NEEDED

As the shared economy becomes more pervasive, new challenges and opportunities are arising for incumbents while they try to adapt to the way in which new generations of consumers think<sup>(40)</sup> and begin offering products that better suit their needs, such as coverage on a 'as-needed' rather than on an ongoing basis.<sup>(41)</sup> In recent years, the **number of on-demand insurance policies has been growing, with faster and easier activations and deactivations.**

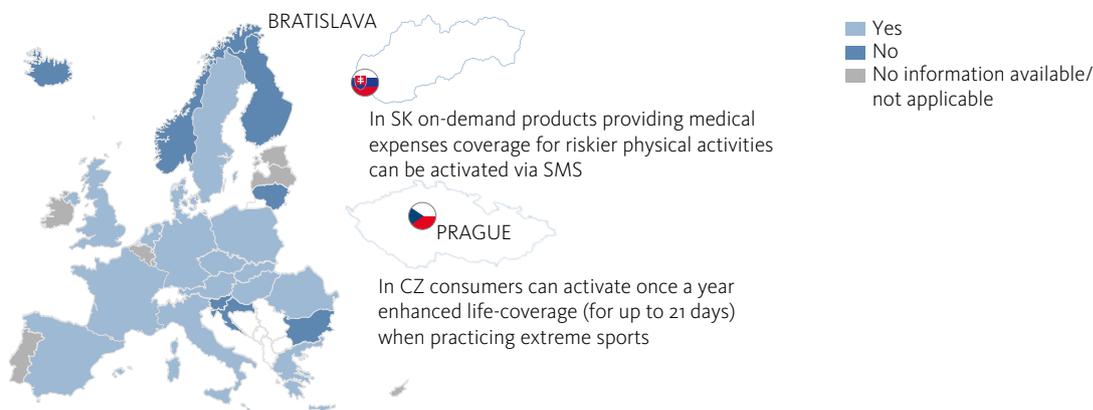
On-demand insurance is present in 15 Member States, mostly in the motor insurance sector and generally linked to the 'shared-economy' products (such as CAR2GO or BlaBlaCar).

In AT, DE, and IT, policyholders can access on-demand motor insurance either to temporarily extend policy's coverage to another driver or when using car-sharing services. In CZ, while still at a nascent stage, consumers can once a year activate, via SMS, an add-on coverage (for 21 days) to their life policy when practicing extreme sports. Products covering medical expenses from injuries relating to specific activities, also activated via SMS, are being sold in SK and in ES.

In IT, there are also products offering coverage for a limited amount of time and for specific risks such as injuries while working at home, injuries from extreme sports, etc

**On-demand insurance is responding to consumers' needs for temporary solutions.** This makes it easier for them to access insurance coverage or bridge and supplement existing coverage. Moreover, on-demand ad hoc policies commonly allow consumers to have more personalised products based on their specific situation.

Figure 12 – Markets in which on-demand insurance is present (NCAs' Survey)



Source: EIOPA CCPFI

**However, there are potential challenges relating to this business model, which if not properly monitored could lead to consumers' detriment.** If this phenomenon was to become the norm, there is a risk that consumers needing extended/constant coverage (e.g., high mileage drivers) may either end up paying a significantly higher price<sup>(42)</sup> or have to deal with burdensome insurance renewals and other types of policy servicing procedures. Moreover, if on-demand insurance is not adequately understood, it may be perceived by some consumers as a replacement for 'full' insurance coverage, without a full understanding of the potentially significant implications of not being covered in cases where the need for insurance was not recognised by the consumer.

#### 1.2.4. CYBER-RISK: A THREAT? OR POTENTIAL AREA FOR NEW PRODUCTS?

In the digital age, cyber risk is substantially increasing. This is not just a risk for insurance companies, which collect and store policyholders' data, but also a risk for SMEs, which may store data or use information and communications technology (ICT) systems in their day-to-day work, and for consumers, who may become subject of (digital) identity theft or suffer from cyber-attacks on the connected devices they use.

'Cyber-criminals are becoming more and more sophisticated, increasing data security related risks for large commercial enterprises, including insurers. In addition, the proliferation of interconnected devices and the dominant role of social networks in modern life is accentuating this threat.'

*Robert Fleming, Head of Conduct Subject Matter Expertise, AVIVA Complete interview page 46*

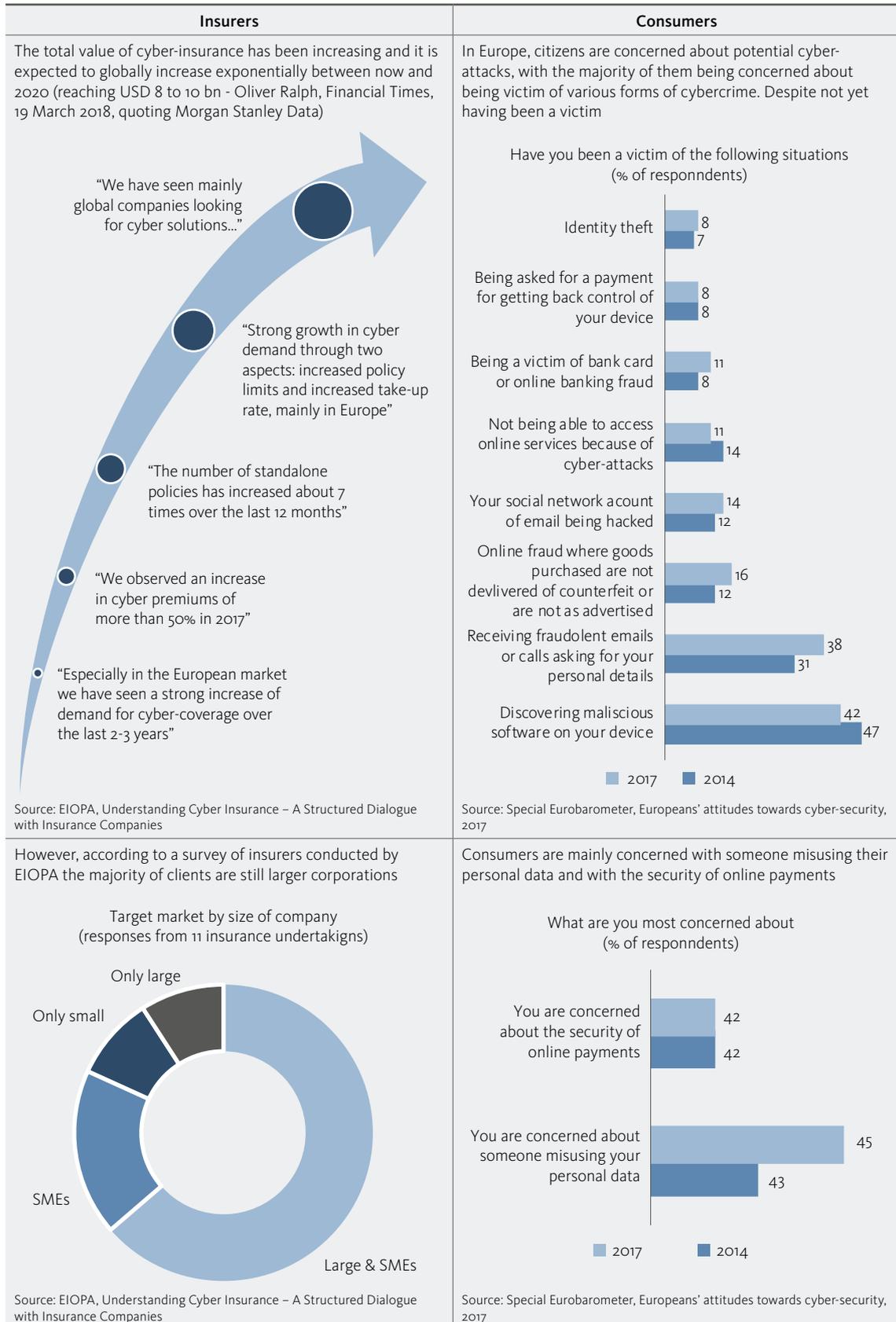
**As insurers' job is to protect people from the issues they worry about,**<sup>(43)</sup> cyber-risk insurance is an opportunity for consumers to seek protection against potential cyber-attacks.

Based on information collected from EIOPA's Insurance and Reinsurance Stakeholders' Group (IRSG):

- **In the NL, the premium volume of cyber-risk insurance has doubled over the period 2015-2017,** with policies having wide coverage;
- **In FR, the volume of premiums generated by cyber-risk insurance in 2016 reached approximately €40 million.** French insurers offer two types of coverage: (i) dedicated cyber-risk insurance, typically covering damages and civil liability but also including emergency handling services; and (ii) cyber coverage partially or totally included in property damage insurance or civil liability.

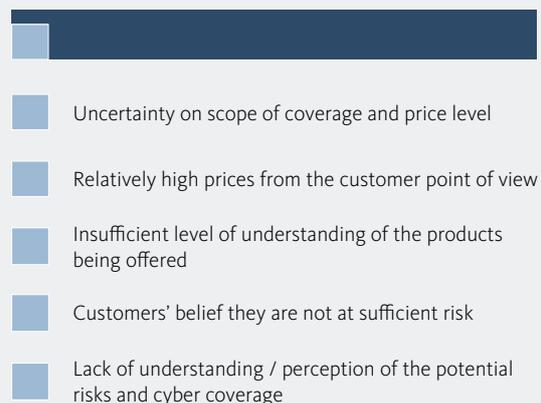
Specific cyber-risk insurance products are offered to larger companies; however, there is **an increasing demand from other segments for this type of insurance.**<sup>(44)</sup> As consumers' lives become more digital, they become exposed to a series of cyber-risks, ranging from identity-theft to potential attacks to connected products.<sup>(45)</sup>

Infographic 3 – Cyber-risk and insurance – insurers and consumers' perspectives



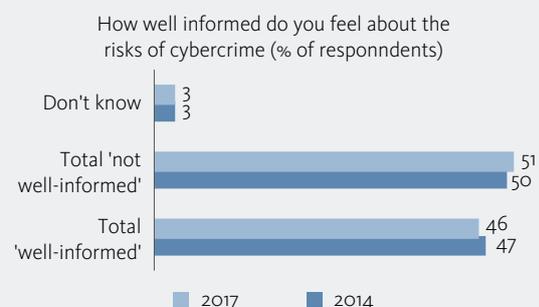
In fact, in particular for the retail sector, there is high demand but conversion rates are still low for several reasons

**Potential reasons why there is high demand but low conversion rates**



Source: EIOPA, Understanding Cyber Insurance – A Structured Dialogue with Insurance Companies

Despite being concerned with cyber-security, the majority of European consumers believe they are still not well-informed about cyber-risks



Source: Special Eurobarometer, Europeans' attitudes towards cyber-security, 2017

Source: EIOPA's staff elaboration, based on cited sources

While many policies may already cover potential risks brought along by cyber-attacks, **silent cyber-risk coverage raises concerns**, as it leaves room for insurers to decide what is covered within broader policies. In the past, issues have arisen where a product was used for a purpose other than the original intent – or where, for example, terms and conditions became obsolete due to external changes. Silent cyber-risks coverage also raises concerns for the entire insurance sector, as it could result in accumulation of losses within existing policies following the verification of a cyber-event.<sup>(46)</sup>

**On the other hand, it is still difficult to define, and for consumers to understand, the scope of cyber-risk insurance.** As many different types of coverage are offered.

Overall, **cyber-risk insurance, as a specific dedicated product, can be beneficial for consumers.** It ensures that consumers are protected against cyber events and shy away from the potential detrimental implications of a lack of coverage or 'silent' coverage. Moreover, new regulations and increased awareness of cyber-risk will lead to increasing demand for these types of products both from large corporations and from individual consumers and SMEs and cyber-risk insurance can respond to these needs.

However, as a common definition of cyber-risks does not exist and cyber-risk insurance is still at a nascent stage,

**there are some potential challenges.** For instance, clarity of coverage can be difficult to achieve with less mature products and unknown/uncertain customer expectations. This could lead to consumers not having clear information on product features and policy exclusions. Furthermore, as cyber-attacks vary in form and nature, it may be difficult to identify what falls within and out the purview of a policy. This can raise challenges in the identification of consumers' needs and in the sale of adequate and appropriate coverage.

**1.2.5. OTHER FINANCIAL INNOVATIONS**

With investments in the InsurTech world continuing to grow,<sup>(47)</sup> there are many other financial innovations taking place, and some of them may be critical enablers for or closely connected to the above-mentioned innovations. For example, Big Data analytics can take place thanks to improved cloud computing capacity. 14 NCAs reported that in 2017 **cloud computing** was being used at various degrees and depths by insurers in their respective markets. Although cloud computing drives innovation and lowers costs in the insurance industry, some undertakings reportedly see the current outsourcing regulatory framework as overly burdensome. Undertakings may also use it with caution as it could potentially expose insurers' financial and consumers' data.

Beyond cloud computing, **distributed ledger technology (DLT) continues to attract a lot of attention and insurance undertakings** in Europe are exploring ways to exploit this technology, despite its usage still being very limited. DLT has potentially several benefits such as: facilitating regulatory compliance, lowering operation costs and, hence, premium prices; reducing and facilitating claims' management processes; and marketing more standardized and comparable contracts. However, DLT and smart contracts may also raise consumer protection concerns and legal issues with regard to the validity and value of the contracts and increase cyber-risks. In DE and FR, in some instances DLT has been used for smart contracts both to automatically pay claims for flight delays, but also for reinsurance contracts. In SK, an undertaking has allowed consumers to pay with bitcoins.

Finally, many NCAs reported **innovations on mobile and online applications for undertakings to better interact with consumers and for consumers to better manage their insurance policies**. These range from simple to more sophisticated ones that provide automated/robo advice.

### 1.3. CONSUMER COMPLAINTS

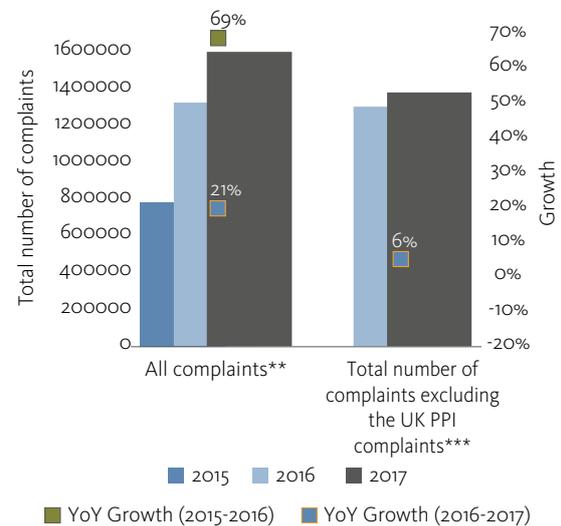
Complaints related trends should be analysed with other retail risks indicators (RRIs).

Following a substantial increase in 2016, **the total number of complaints only saw a slight increase**. In fact, if U.K. PPI data is not considered<sup>(48)</sup>, complaints increased +6%. In 14 out of 27 Member States for which 2016 and

2017 data are available, the total number of complaints increased, while in IS it remained unchanged.

It is important to look at these numbers jointly with the number of contracts. Based on data for 17 Member States,<sup>(49)</sup> in 2016 there were 3,1 complaints out of 1000 insurance contracts and, in 2017, this number dropped to 2,8 complaints. **Non-life insurance products continued to generate the highest number of complaints** (Figure 14), accounting for over 80% of total complaints at the EEA level<sup>(50)</sup> (in 8 Member States they are above 90% of the total number of complaints).

Figure 13 – Evolution of insurance complaints in the EEA\*



\* It does not include data from CY, EE, FR, and LU. In the case of EE, there was a change in terms of reporting; hence, 2016 and 2017 are not comparable.  
 \*\* Does not include data for FI and NL as 2015 complaints data were not available/there was a change in reporting framework  
 \*\*\* PPI disaggregated data were not available for 2015  
 Source: EIOPA CCPFI

BOX 2



## RETAIL RISK INDICATORS

The RRIs are a set of indicators developed by EIOPA,<sup>(51)</sup> with the purpose of assisting in identifying potential areas of concern. Rather than pinpointing concrete and specific risks for consumers, they assist in identifying ‘issues of interest’ that might warrant further analysis. Trends (in relation to one or more indicators) may signal potential consumer detriment but could also relate to other drivers – understanding these trends from a practical supervisory standpoint is an important way of doing market monitoring for NCAs.

Below is an overview of the indicators used in this report and potential explanations of relevant trends:

- › *Complaints*: A high number of complaints – or a significant increase – may indicate potential consumer detriment, including mis-selling, difficult product wording, issues in the claim management process (low pay out, high percentage of refusals, long processing times). However, it could also relate to the fact that undertakings have put in place proactive policies to make it simple and easy for consumers to complain. An analysis of complaints causes can assist in identifying potential issues; for example, a high number of claims related complaints could be the result of issues in the claim management process. What firms do with complaints information is an important indicator of how consumer-centric a firm is in practice.
- › *GWP growth*: High growth could be either a sign of good consumer policies or general market trends but also be related to aggressive sales practices. Rapid growth can raise operational and other risks.
- › *Claims ratio*: Claims ratios can help in assessing whether a product is ‘good value for money’ for consumers or whether the right target market has been identified. An extended period of time of low claims ratio or sharp decreases may be caused by high claim refusals or low claim pay-outs, indicating potential mis-selling and bad wording of contracts. A decrease, however, could also relate to positive developments or external factors; for example, a decrease in motor insurance’s claims ratio could mean fewer car accidents. Variations in claims ratios could also relate to other indicators, as claims ratios are relative measures based on two values (GWP and total amount paid out in claims). Persistent low claims ratios, if relating to low pay outs or high claim refusal could lead to an increase in claims related complaints.
- › *Claims management data*: Claims management data can be a useful source of information.

  - A high percentage of claims rejected could indicate potential mis-selling or bad wording of contract/ poor product design. On the other hand, it could also mean that consumers may not document their claims adequately or that they may submit claims for issues not covered.
  - A high percentage of claims still open at the end of the year can signal delays in handling claims. It could, however, also reflect claim complexity.
  - A high percentage of rejected claims or claims still open at the end of the year may lead to a high number of claims related complaints and in the long run to a decrease in claims ratios.
- › *Commission rates*: Without adequate governance and control frameworks, high commission rates could provide incentives for distributors to sell products to consumers with the purpose of generating commissions. High commission rates, however, need to be considered also with other factors relating to governance structures, including what is taken into account in specific remuneration policies. Furthermore, different products and distribution models can lead to significant differences in commission rates.

- › **Combined ratio:** This reflects also expenses, so is a good measure of final outcomes for consumers. A combined ratio below 100% indicates profits. High profits, without adequate governance structure, may provide incentives to sell certain products, even if they do not correspond to a genuine risk-protection need of consumers. Nevertheless, low combined ratios could also mean undertakings' efficiency. Persistent high combined ratios may lead an insurer to change its claims' management policies and to lower claims ratios.
- › **Surrenders:** A high volume of surrendered life insurance policies can either relate to the fact that a high number of policies reached maturity or signal early surrenders. Early surrenders can be caused by several reasons, including changes in macro or policyholders' economic circumstances, changes in the regulatory framework, taxation regime, etc. However, early surrenders could also signal potential mis-selling or churning. Exit penalties can also be a problem.

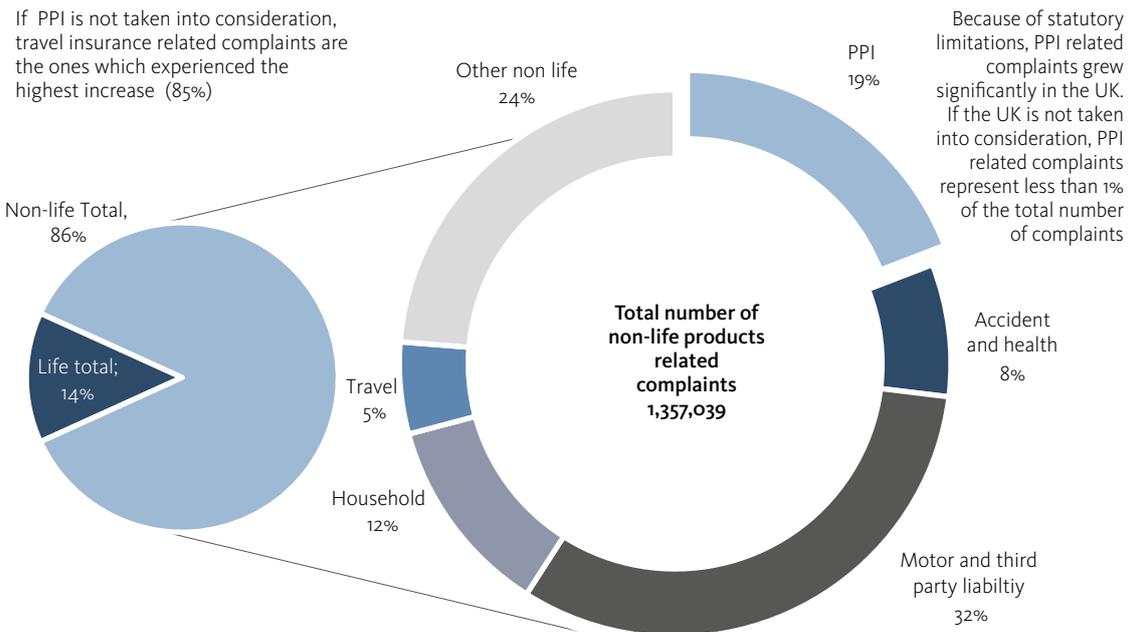
RRIs can be used to benchmark insurance undertakings to identify outliers, in fact, there is no specific threshold that signal detriment and RRIs vary significantly amongst different products and markets. In this report, the analysis has been conducted at EEA and Member States-level, meaning that insurance undertakings' values have been aggregated. This often hides significant differences amongst insurance undertakings.

Except for 'other non-life insurance', the number of complaints in all other non-life product categories increased.

**Travel insurance-related complaints experienced the highest growth (+85%),** having surged above +50% in 5 and above +100% in 3 Member States. The drivers of this phenomenon are mainly claims related.

'I only take travel insurance if it is included as part of the package'.  
 Markus, Senior Manager, 58, DE

Figure 14 – Distribution of complaints by different insurance products in the EEA in 2017\*

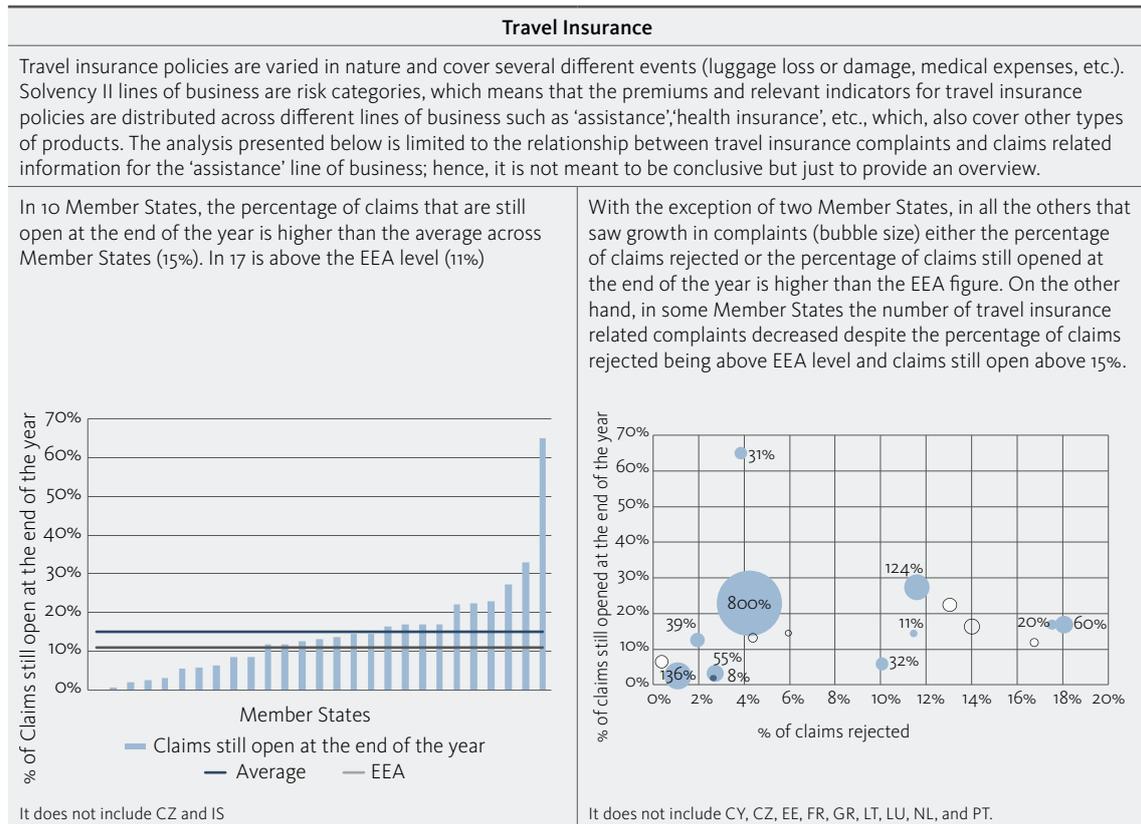


\* Does not include data from CY, FI, FR, and LU. EE data has been taken into consideration in this analysis as only 2017 is taken into consideration and the difference in reporting does not affect the analysis.  
 Source: EIOPA CCPFI

By looking at the lines of business under which travel insurance falls, (52) it can be noticed that claims ratios in the countries reporting a high increase of complaints are low-

er than EEA levels and below the average amongst Member States, potentially indicating low claim pay-outs. Other indicators are also below the average (Infographic 4).

Infographic 4 – Selected retail-risks indicators for travel insurance



Source: EIOPA Solvency II Database

Regarding **life-insurance products-related complaints, they continued dropping.** Insurance with profit participation (-60%) and index-linked and unit-linked insurance (-19%), like in 2016, reported a stronger decrease than other life insurance (-8%).

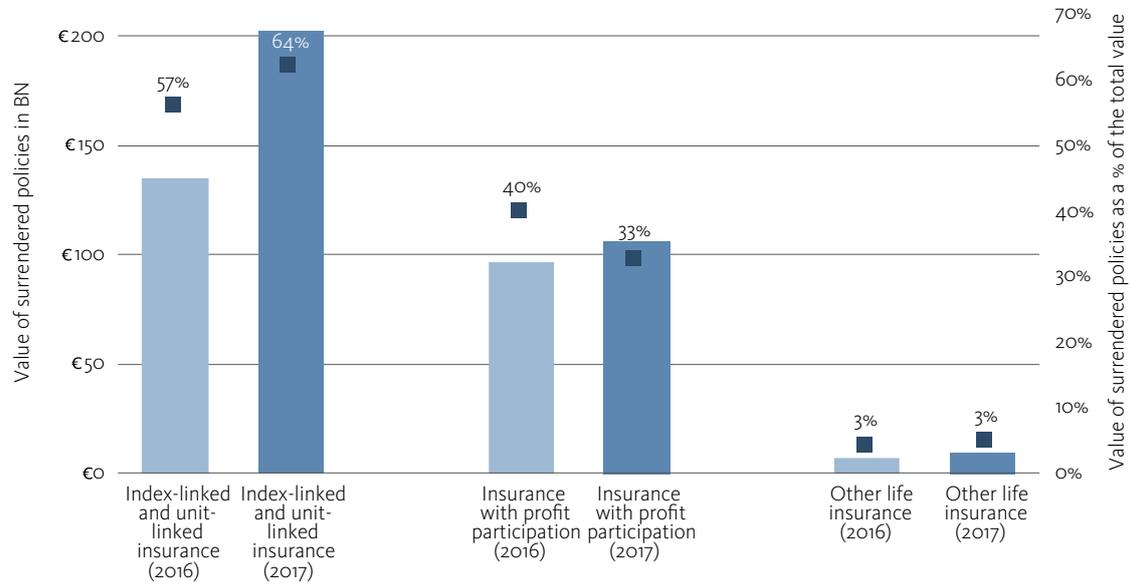
Despite the EEA decrease, in some Member States life insurance related complaints increased:

- In AT, it has been reported that low performance of index-linked and unit-linked products generated a higher number of complaints; and

- In RO, it appears that the (+47%) increase in index-linked and unit-linked related complaints was caused by consumers' unawareness of the features of these types of products.

It is also worth noting that the total value of surrendered policies (Figure 15) for life insurance policies grew. This could relate to more life policies reaching maturity but it could also signal a high value of early surrenders and potential churning.

Figure 15 – Value of surrendered policies for selected lines of business (in BN of € - LHS) and value of surrendered policies for selected lines of business as a % of the total\* (RHS)



\* Total refers to the summation of the figures for the life insurance lines of business analysed in this report.  
Source: EIOPA Solvency II Database

Claims-related complaints continue to be a major source of complaints across all products, except for 'other-life insurance' and index-linked and unit-linked insurance.

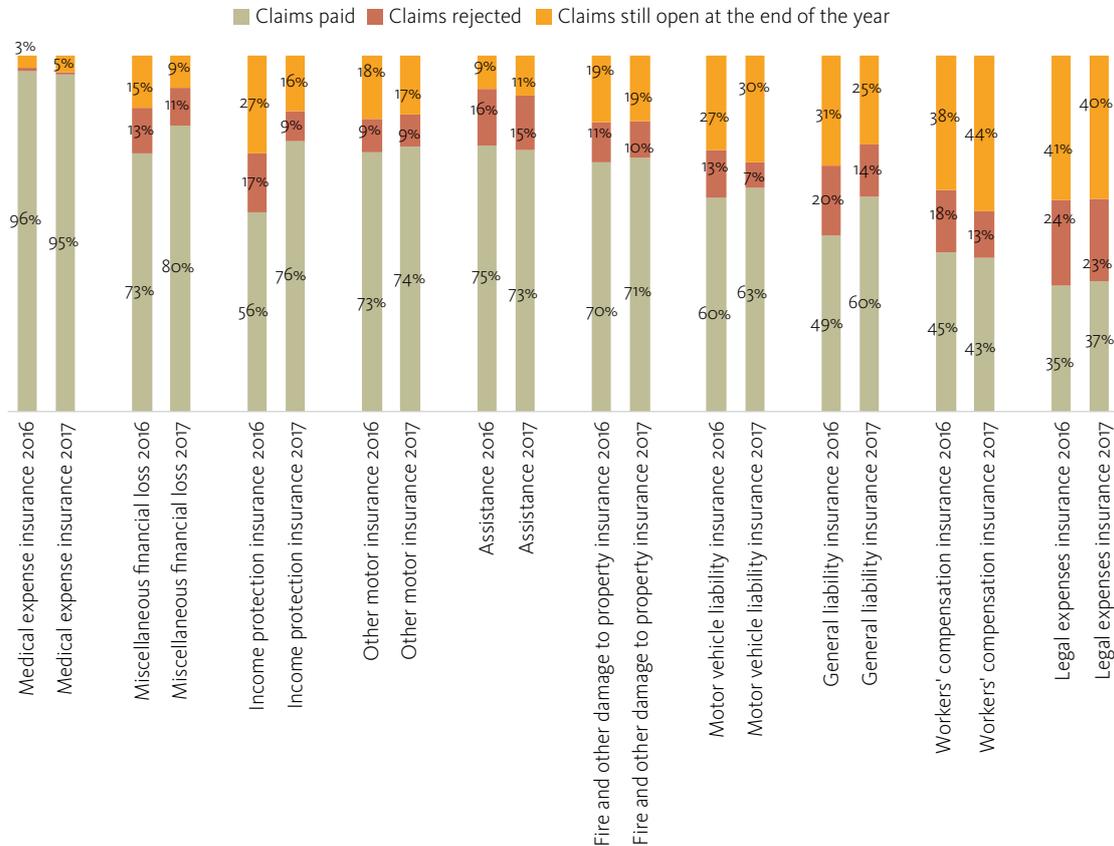
In terms of **claims related data**, at the EEA level it can be observed that **the percentage of claims paid increased across most lines of business (Figure 16)**. However, the percentage of motor vehicle liability insurance's claims that are still open at the end of the year increased from 27% to 30%, and is higher than for most non-life lines of business.

'Independent research shows that most unit-linked products are poorly performing over time, and this is mainly due to very high and mostly opaque and multi-tier fee structure.'

*Guillaume Prache, Managing Director of BETTER FINANCE – Complete interview page 44*

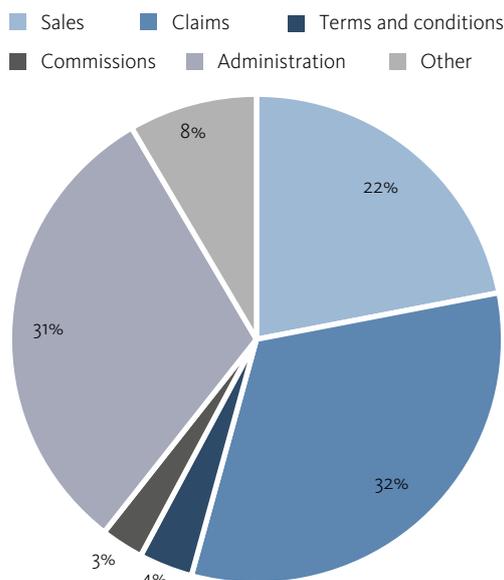
Finally, it is noteworthy that sales related-complaints increased +100% and represented 22% of the total number of complaints. In IE, sales-related complaints rose and amounted to 30% of the total number of complaints. This has been reported to be related to potential mis-selling coupled with the poor-performance – resulting from the low interest environment – of certain insurance-based investment products (IBIPs).

Figure 16 – Processing of non-life insurance claims reported in 2017 and comparison with 2016



Source: EIOPA Solvency II Database

Figure 17 – Number of complaints by cause as % of the total



Source: EIOPA CCPFI

## 1.4. NCAS' CONSUMER PROTECTION ACTIVITIES

NCAs perform several consumer protection related activities: some aim at **supervising that the distribution of insurance products** complies with the applicable legislation, **others seek to foster consumers' financial literacy**, and **others consist in updating or developing the regulatory framework**.

'I find the business of buying insurance so complicated'.  
Maca, small business owner, 48, HR

The different types of activities carried out are closely connected to the different trends and potential issues identified by NCAs in 2017:

- Non-transparent or non-comparable information, in particular regarding IBIPs;
- Limited consumers' understanding of insurance products and services, due to low levels of financial literacy;

- Potential detriment stemming out of cross-selling practices;
- Potential risks related to group insurance products;
- Potential risks stemming out of digitalisation and financial innovations;
- Potential detriment brought along by lengthy, complex, and burdensome claim management processes as well as non-payment of claims; and
- Risks relating to Brexit, as several UK (re)insurers do business on a passporting basis and after Brexit they may no longer have authorisation to do so in EEA / EU Member States, potentially causing significant disruptions.

In 2017, the **29 NCAs that participated in EIOPA's survey reported 65 specific consumer protection activities addressing one or multiple products and/or topics**<sup>(53)</sup>

### 1.4.1. PRODUCT-SPECIFIC ACTIVITIES

23 NCAs' activities reported to EIOPA focused solely on life-products, 14 focused on non-life products, and 20 covered both (Figure 18). This shows that, despite the decrease in the number of complaints, NCAs continued to be concerned with potential consumer risks arising from mis-selling of life insurance products, in particular IBIPs.

#### 1.4.1.1. Life insurance

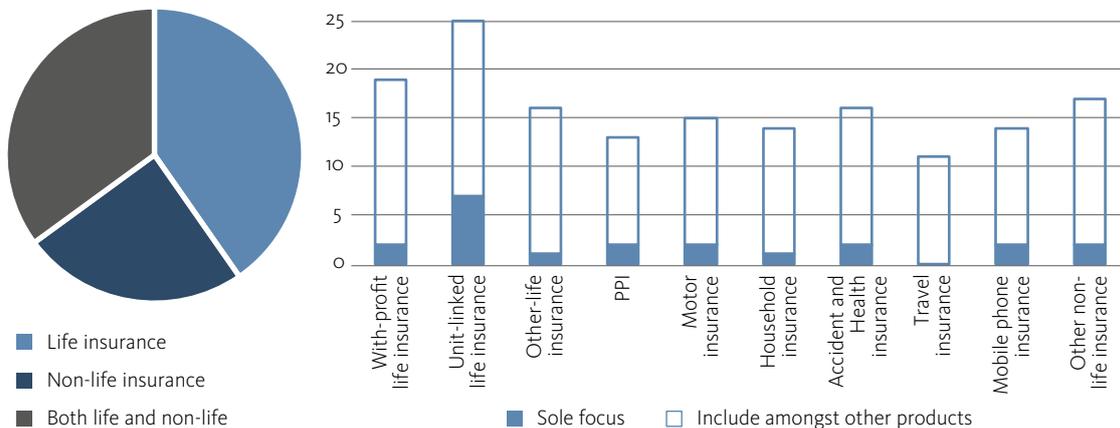
**Adequate product disclosures and suitable advice, in particular with regard to IBIPs, are an area of focus for several NCAs.** In FI, the NCA conducted inspections and found that complex investment products were being sold

as underlying assets of insurance-based investment products. In addition the NCA found that such products were being targeted elderly people without providing them with necessary information.<sup>(54)</sup>

In NL, following the entrance into force of legislation in 2015 obliging providers to inform policyholders about the possibility of switching amongst different savings-type products, the NCA begun work to monitor compliance as well as to stimulate insurers<sup>(55)</sup> to enable policyholders to make informed decisions. The NCA positively remarked that the majority of policyholders made informed decisions and that the behavioural / culture-related work undertaken to influence insurers towards adopting more customer centric behaviours and empowering policyholders has proven successful.

In IT, the NCA continued to focus on the work started in 2017 to identify issues with dormant policies. There is, in fact, a significant number of 'potentially dormant' policies; this is partially due to limitations in insurance undertakings' processes to verify deaths and identify beneficiaries and partially due to the lack of a national database where companies can perform checks. The NCA requested undertakings to adopt an action plan outlining their 'plans' to improve the processes for ascertaining policyholders' death and identifying beneficiaries. Furthermore, thanks to an agreement with the Tax Agency, the NCA also begun assisting the industry by collecting information from insurers on policyholders' tax/social security number and performing crosschecks with the Tax Registry. Thanks to these activities, **up to date 187,493 policies have been 'awakened', for a total value of €3.5 BN**<sup>(56)</sup>. To also raise awareness amongst potential beneficiaries, the NCA also published guidance for consumers (Figure 19).

Figure 18 – Products targeted by NCAs' consumer protection activities in 2017 (NCAs' survey)



Source: EIOPA CCPFI

Figure 19 – Example of guidance provided to avoid the phenomenon of dormant policies

## DORMANT LIFE POLICIES




2
How can you check if a deceased family member had underwritten a life policy?

Dormant life assurance policies are those policies that have not been collected by the beneficiaries and lie dormant at insurance undertakings until they become time-barred. These may be either policies on the death of the insured, of which beneficiaries were not aware, or savings policies which, upon maturity, were not collected for various reasons.


1
How long do you have to claim the benefits?


3
Tips to follow when underwriting a contract to facilitate the collection of benefits by beneficiaries.

IVASS suggests two ways:

- 1) contact the "search service for life insurance covers" of ANIA ( the National Association of Insurance Undertakings) which provides applicants (for example the spouse of a deceased person) information on the existence of life covers, at Italian undertakings, relating to allegedly insured deceased persons. The search verifies if the name of the applicant is among the names of the beneficiaries of the policy. Therefore, we suggest to make searches for each potential beneficiary. For example: if the deceased family member was the father of two children, it is advisable that both the wife and each of the two children request the search, so as to expand its scope.
- 2) contact the insurance intermediary, the bank or the insurance undertaking the family member was a customer of, asking for information – ideally in writing - on the existence of the policy. Download a [facsimile request](#). This information can also be requested from the contact points available on the websites of Italian insurance undertakings. For any further information and assistance you can call IVASS' **Consumer Contact Centre** at the free phone number **800486661**, from Monday to Friday 8.30 to 14.30

The rights arising from life policies are barred after 10 years from the event:

- death of the insured;
- contract maturity.

After that deadline undertakings must assign the relative amounts to the Dormant Accounts Fund set up within CONSAP. The time limit of 10 years applies to the events occurred after 20 October 2010.

When you take out a life policy it is for pension or saving purposes, thinking about your future and that of your loved ones. To be sure that the beneficiaries receive the amounts due it is advisable to mention them with their own name, without using general indications (such as for example legitimate heirs, spouse, children and the unborn...) and provide the undertaking with all the information (address, telephone number and/or e-mail address) necessary to contact them in case of death of the insured. If you do not want that the beneficiaries become aware of the existence of the policy in advance, it may be useful to inform a third party who can inform the beneficiaries when the insured event occurs.

Source: IVASS, Italy, [Link]

Other life insurance related thematic work include the work done by the Austrian and Portuguese NCAs to monitor compliance with the obligation for insurance undertakings to adequately **disclose account statements and remuneration policies**. In both cases, it was found that **insurers implemented the requirements adequately**; however, some recommendations for improvement were also made.

Finally, there were also some initiatives at the industry level to improve advice and consumers' understanding of life insurance products. In ES, for example, insurers adopted a 'Good Practice Guide on individual life insurance'<sup>(57)</sup>, signed by a large number of insurers, representing over 70% of the Spanish insurance market. The aim of this Guide is to improve transparency for consumers to better understand how they work.

### 1.4.1.2. Non-life insurance

In the non-life insurance sector, several activities **focused on the most common and popular products** and others looked at products that have seen an increase in the number of complaints over the years (e.g., PPI). In some jurisdictions, NCAs also begun looking at emerging products (e.g., mobile-phone insurance) to understand their features, different distribution models used, and underlining risks.

**The work conducted by NCAs with regard to motor insurance mainly relates to claim management.** In HU, there is ongoing work to map different practices adopted by insurers with the aim of understanding how insurers consider depreciation when paying out claims. In SK, as insurers systematically refuse to pay compensation for

windscreen damage caused by stones, the NCA conducted thematic work and identified that insurers argue that the causality between the damage and the accident is generally not proven. As a response, sanctions have been imposed on some undertakings.

Regarding PPI, the Belgian NCA launched a specific thematic review following the high number of complaints and issues identified during inspections. The thematic review concluded that disclosure documents were not transparent enough and comparable amongst insurers and the terms and conditions were overly complex (i.e., they contained a lot of exclusions) for the target-market. An analysis of claims ratios and claims paid out between 2011 and 2015 showed that both volume and value of paid out of claims were very low, denoting potential mis-selling.

**Following a trend already established last year, some NCAs continued looking into the commercialisation of ancillary insurance products.** They examined the different distribution models to better understand them and prevent mis-sales, but also looked at specific product features to ensure they respect the principle of customer fair treatment. Following a number of complaints submitted to the Financial Ombudsman, the Polish NCA undertook an extensive analysis of selected terms and conditions for insurance sold in conjunction with electronic products. It found that terms and conditions for these types of products were difficult to understand, despite being relatively short. Moreover, as consumers are generally interested in the features and costs of the main product/good and not of the ancillary insurance, which is proposed in a pressure environment, it was noted that there is potential for consumers' detriment.

#### 1.4.2. CROSS-PRODUCT ACTIVITIES

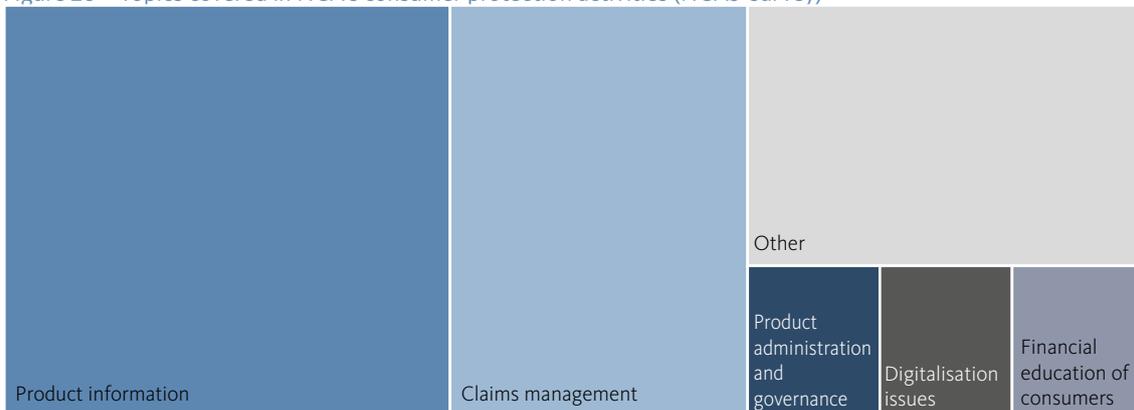
**A substantial number of NCAs' activities concerned specific topics across a range of products.** Disclosures related activities continued to be the most common, with 9 of them solely focusing on disclosure related issues (Figure 20). However, NCAs also conducted work to raise awareness and ensure adequate implementation of forthcoming legislation<sup>(58)</sup> **6 NCAs' activities focused on claims' management.**

In terms of activities on disclosure, the Italian NCA noticed that the structure of many insurance contracts, including the language used, is difficult and outdated. Therefore, it created a panel of experts and worked with the industry and consumers' associations to develop voluntary Guidelines. These Guidelines have now become mandatory.

In terms of new legal requirements, many NCAs looked at how POG requirements were being implemented and how undertakings consider consumers' interest throughout the product life-cycle. In AT, the NCA begun monitoring the implementation of POG requirements and established that overall implementation and preparation on undertakings' part was adequate. The Italian NCA issued a letter to insurers raising awareness amongst manufacturers and distributors.

Despite the increasing number of regulatory requirements to address this issue, **mis-selling remains a problem, also demonstrated by the increased number of sales-related complaints. For this reason, some of the activities focused on the provision of advice** and also looked at potential digitalisation related risks. The Swedish NCA conducted work to monitor professional compe-

Figure 20 – Topics covered in NCA's consumer protection activities (NCAs' survey)



Source: EIOPA CCPFI

tence and intermediaries' ability to provide adequate advice in an evolving environment. It concluded that there was broadly compliance.<sup>(59)</sup>

'BETTER FINANCE recently released its third annual report on robo-advice. While this phenomenon is increasing, it is still limited in the area of insurance and personal pension products. I see it both as an opportunity and as a risk'

*Guillaume Prache, Managing Director of BETTER FINANCE – Complete interview page 44*

**Two NCAs looked specifically at robo-advice**, noting that it can have benefits for consumers by increasing the accessibility and the quality of advice while lowering costs. However, in FR the NCA remarked that online applications fail to provide enough warnings to consumers regarding

the need for providing accurate information during the simulation phase. The Dutch NCA published a paper on robo-advice<sup>(60)</sup> and another report on semi-automated asset management<sup>(61)</sup> and will continue to dialogue with the industry about these types of financial innovations, challenges, and opportunities and publish relevance guidance.<sup>(62)</sup> A number of NCAs' activities focused on financial literacy. In HR, presentations and workshops were made to students<sup>(63)</sup> and a specific educational brochure was published. The Romanian NCA launched a program entitled "*Let's talk about the non-banking financial markets*"<sup>(64)</sup> aiming at providing guidance to consumers on what to look at when making choices with regard to non-banking financial products and services.

## 2. PENSION SECTOR

### 2.1. MARKET GROWTH

As the reform pace has slowed down since 2015, **no major changes have been reported in the European pension sector, for both occupational and personal pensions.** In fact, with the improvement of public finances in many Member States, the pressure to reform public pension systems has eased,<sup>(65)</sup> which translates in less fluctuations in the three pillars.

However, concerns regarding the sustainability of some pension funds remain. In fact, the European pension sector continues to be adversely impacted by low interest rates<sup>(66)</sup> and, while risks (for the schemes at least) are generally offset by the continuous shift from Defined Benefit (DB) schemes (now being only marginal) to Defined Contribution (DC) ones, this raises challenges on conduct of business aspects. In fact, members need to understand (and choose) between different underlying investment options and strategies, requiring better advice and more transparency (see Section 2.2).

#### 2.1.1. OCCUPATIONAL PENSIONS

**In 2017, the total number of active members across the EEA continued to gradually increase.** Drivers vary among Member States but they mainly reflect the continued economic recovery and improvements in many labour markets. Post-crisis labour and pension reforms also continue to have some spill-over effects in the occupational pension sector.

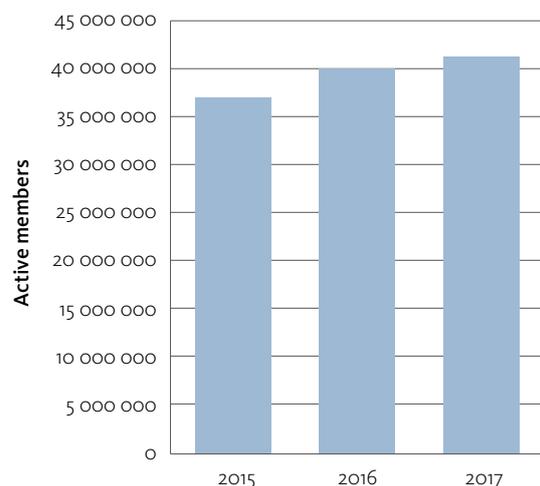
Considering the significant variations in pension markets it is, however, important to interpret any trends with caution, bearing in mind the size of the occupational pension sector in different European countries.

Based on data provided by NCAs, active members grew +3% in 2017 in the 24 Member States for which information is available. Figure 21, provides an overview of trends in recent years for active members.

'I am part of an occupational pension scheme as I've been 'auto-enrolled'. Retirement seems a long way off for me – I'm 23 – so I don't pay much attention to the scheme or the investment options. I guess if I wanted to change job, I would want to make sure that the contributions I've made – and that the company have made – aren't lost.'

*Tom, Project Manager, 23, UK*

Figure 21 – Occupational pension active members – 24 Member States



Source: EIOPA Financial Stability Report December 2018 under BoS written procedure

**In the UK, the occupational pension sector continued to grow with the spill-over effect of the Auto Enrolment reform.** This has led to an increase in DC schemes in terms of total active members. A similar scenario has taken place in NO, where, albeit lower than in the UK (+1% vs +17%), there has been also an increase. In fact, in NO, a similar Auto Enrolment reform was enacted in 2006, which also explains the steadily moderate growth. In BG, active members increased +7% in 2017. This is because, despite the limited popularity of these types of pensions, awareness about them and their benefits is increasing.

**Several Member States reported limited to no growth for a wide variety of reasons.** AT reported a +2.7% increase in 2017 possibly due to the slowly increasing awareness amongst employers and employees that the public pension system by itself may not be sufficient, despite remaining the most popular type of scheme where

workers opt to save. The Austrian occupational pension market has been characterized by an increase in terms of concentration, because single-sponsor funds are being merged into or taken over by larger multi-sponsor pension funds. In fact, in 2016, total assets held by the largest 3 occupational pension funds was to 77% of the total.

*'In many Member States, given the economic crisis and high unemployment rates, pension's issues became marginal in collective bargaining.'*

*Claudia Menne, Member of the German Trade Union Confederation – Complete interview page 48*

**In some Member States, the number of active members in occupational pension schemes decreased.**

In ES, the total number of active members decreased because of the continued lack of prioritization of pensions related benefits in labour related negotiations. In fact, following the country's economic crisis, collective wage agreements do not give high consideration to pension issues.

In PL, the number of active members dropped 6% and one pension fund was liquidated. An auto enrolment law is under debate, which could potentially boost the growth of this sector. In FI, total active members continued to decrease (-9%) because occupational pension schemes have been closed in the '90s. In 2016, only 15% of total members of occupational pension schemes were active members.

## 2.1.2. PERSONAL PENSIONS

**The evolution in terms of number of members of personal pension schemes is diverse across Member States** as the drivers behind these fluctuations.

In IS, over the last 4 years, the legislation regarding voluntary personal pension schemes has changed, allowing members to use a part of their pension contributions to buy a home or get a mortgage or to pay/refinance existing mortgages. As a result, pension funds have begun 'lending', competing with credit institutions. From a consumers' perspective, pension funds' 'loans' are more beneficial, and rising real estate prices and tax-regime (this is exempt from income tax) changes have made refinancing more appealing. This, in concert with pro-active awareness campaigns, has resulted in a 4% increase in the total number of members in the country. This raises particular financial stability concerns<sup>(67)</sup> as well as some consumer protection concerns, as consumers may not be fully aware of the impact of this practice on their future savings.

**A better economic environment and an increasing awareness of the need for pension savings have contributed to a significant increase in the total number of members in HR.** Assets under management also reported a two-digit increase, meaning that old and new members are continuing to contribute to their personal pension accounts. Furthermore, as the difference between the average annual rate of return on pension savings and the interest rate for bank savings accounts is widening, the personal pension sector is gaining momentum.

In RO, the number of active members of both mandatory (+3.5%) and voluntary schemes (+8.75%) saw an increase. Economic growth coupled with the removal of minimum age requirements contributed to an increase in the total number of policyholders in CZ. An improved tax benefit regime is also expected to support growth in this sector in 2018.

Finally, in terms of Member States that reported a decrease, in the UK, with the continued growth of DC occupational pension schemes, the number of active members in these schemes continues to outgrow the ones in personal pension plans.

## 2.2. FINANCIAL INNOVATION

For what concerns financial innovation, the topics 'sustainable finance' and 'trends in providing information to consumers' have been selected this year. Several other financial innovations have also been reported by NCAs, but, as DB schemes are slowly disappearing, most reported financial innovations relate to DC schemes.

### 2.2.1. SUSTAINABLE FINANCE

In March 2018, the European Commission adopted an action plan on sustainable finance that has three main objectives: (i) reorient capital flows towards sustainable investments, to achieve sustainable and inclusive growth; (ii) manage financial risks stemming from climate change, environmental degradation, and social issues; and (iii) foster transparency and long termism in financial and economic activities.<sup>(68)</sup> Hence, some further developments in the area of sustainable finance are forthcoming.

Pension funds are long-term investors, needing to secure benefits for current and future pension savers, having access to assets or asset classes to which short-term investors may not have access. Given the long-term nature of these investments, however, **pension funds need to consider long-term risks, which may be associated to their investments, including climate change.** They also need to consider such risks as they become more and more important for their members.

For these reasons, talking about sustainable finance, broadly comprising environmental, social, and governance (ESG) issues, is becoming increasingly prominent in the pension sector. Under the forthcoming IORP II Directive,<sup>(69)</sup> occupational pension funds are encouraged to take into account the long-term impact of investment decisions on ESG factors.

There are **many different ways in which Member States (and pension funds) are currently implementing these ESG requirements.** Even regulatory approaches differ, with some Member States not requiring pension funds to disclose their approach to ESG investments, others requiring them to disclose it in their annual reports (such as BE), others requiring them to disclose it upon request (such as AT), and others requiring them to disclose ESG investment strategies in contracts (such as DE).<sup>(70)</sup>

In terms of investment strategies, based on the information that 22 NCAs provided to EIOPA, 6 NCAs reported that in their jurisdiction ESG factors are being considered by pension funds in investment decisions, 15 reported

not having yet enough information on this, and 1 indicated that ESG factors are not yet considered by pension funds (Figure 22). In HR, PL, RO, and SI, pension funds are obliged to invest in the best interest of members. In NL,<sup>(71)</sup> BE, DE, DK, and IT, pension funds also need to report how ESG factors are taken into consideration in investment strategies.

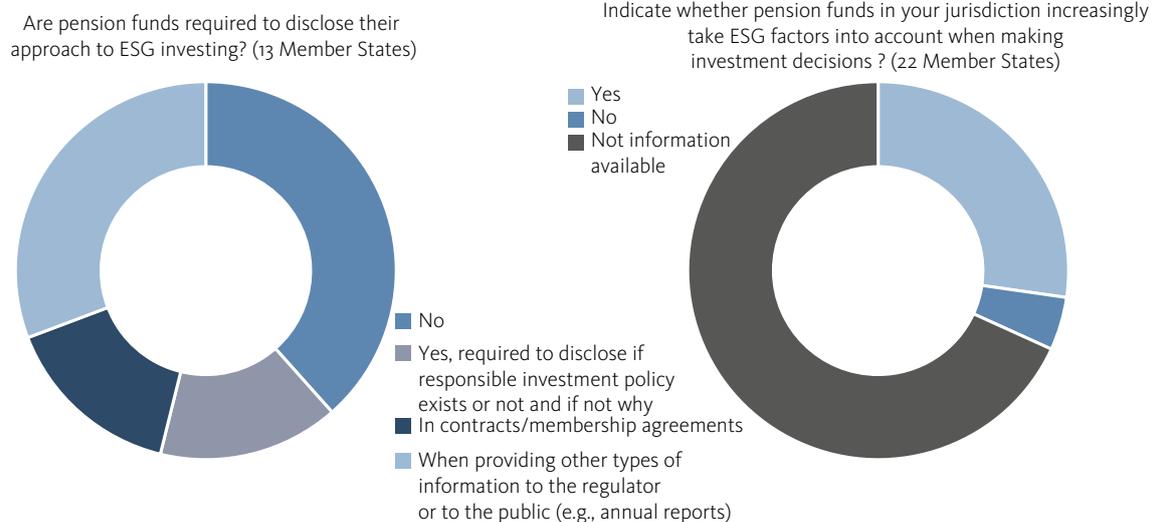
'In general, employees' representatives are very much in favour of introducing ESG principles in the pension sector. Although single members may not be interested in or aware of this, employees' representatives need to consider and need to push ESG principles in funds' investment strategies.'

*Claudia Menne, Member of the German Trade Union Confederation - Complete interview page 48*

**Taking into account ESG factors** is likely to be beneficial for members and policyholders, **as it push pension funds to consider ESG related risks. It also obliges them to consider the long-term sustainability of the assets in which they invest.** However, some challenges exist. Without a common definition, it can be challenging for national supervisors, pension funds, and members/policyholders to define what is sustainable finance. Furthermore, some pension funds may confuse ESG with ethical investing, which could result in lower financial returns<sup>(72)</sup> and have an impact on the overall fiduciary duty that pensions funds have towards their members.

At the European level, the new IORP II provisions on ESG will enter into force in 2019 and some further developments should be expected in light of the European Commission's action plan.

Figure 22 – Implementation of ESG factors in different Member States



Source: EIOPA CCPFI and OECD - Investment governance and the integration of environmental, social and governance factors

## 2.2.2. TRENDS IN PROVIDING INFORMATION TO CONSUMERS

'Because of pension's long-term nature, the main challenge is ensuring that both members and beneficiaries receive adequate information throughout the life-cycle of their relationship with a pension fund.'

*Claudia Menne, Member of the German Trade Union Confederation – Complete interview page 48*

**Disclosure of information is particularly important in the pension sector, as members need to make important choices** with regard to relatively complex products, both prior to and in the accumulation and in the pay-out-phase. Disclosure rules need to ensure that members but also beneficiaries, even those without a high degree of financial literacy, easily understand the conditions of pension products and their individual pension outlooks.<sup>(73)</sup>

Issues with disclosure of information have been reported since the beginning of the consumer trends work by both NCAs and consumers associations. The significant differences in disclosure rules and practices amongst Member States also raised concern.<sup>(74)</sup>

However, it is noteworthy that with the entrance into force of IORP II in 2019, new disclosure requirements will be implemented across Member States.

In terms of recent developments, in IT the NCA publishes on its website comparable information related to costs and returns of different pension products: an interactive tool<sup>(75)</sup> also aims at helping (potential) members in easily comparing the cost of different pension products. Pension funds must also provide potential members with a short document, containing the most relevant information about the scheme and potential members are asked to fill in a self-assessment questionnaire (on financial attitudes and objectives) aimed at helping them in identifying the most appropriate investment options.

Some Member States have also already implemented IORP II provisions and conducted work to improve disclosures on real return rates and net performance.

Despite efforts to improve disclosure and information transparency, it has been recognized that **standardization and simplification at times may not be sufficient**. In fact, often inertia in reading information provided and compare amongst different schemes and investment options limits the effectiveness of disclosures.

'Better standardized disclosure rules need to be applied. Disclosure requirements should be further improved by complementing existing best practices with findings from behavioural studies and consumer testing. The second issue is that even when disclosures requirements are properly implemented, products remain complex.'

*Guillaume Prache, Managing Director of BETTER FINANCE – Complete interview page 44*

As a response, **some NCAs have incorporated behavioural findings from consumer testing into regulatory requirements**, and some pension funds have developed interactive tools to enable engagement:

- In the UK, the National Employment Savings Trust, which is an important provider in the Auto Enrolment framework, has developed a carefully selected vocabulary not only for pensions beneficiaries to be able to better understand but also to demystify pensions and enhance beneficiaries' engagement.<sup>(76)</sup>
- The UK NCA, also recently issued a regulatory package, requiring firms to inform consumers, before a potential annuity purchase, on how much they could gain from shopping around and switching provider. In fact, behavioural testing demonstrated that prompting this comparison is capable of increasing consumers' shopping around from 13% to 40%.
- Beyond these initiatives, many pension funds in the UK have adopted technology-based solutions for beneficiaries to go online and view their overall accumulation and benefits as well as make projections, as behavioural research showed that this is more effective than just providing regular benefit statements.
- In NL, the Pension Communication Act (2016) introduced a three-layered communication approach.<sup>(77)</sup> In fact, while it is important that consumers receive all relevant information, often 'less is more' with consumers being overwhelmed by large amounts of details.<sup>(78)</sup> Thus, the new Act is principles-based, translating into the fact that pension funds can choose how to communicate to their members, as long as they respect the principles included in the Act (e.g., providing adequate and not misleading information). For this reason, also considering behavioural aspects,<sup>(79)</sup> many funds in the NL are moving towards digital channels, as it allows them to adjust the message to the specific target group.

Overall and especially for DC schemes, **it is fundamental that consumers receive adequate information prior to choosing a scheme, during the accumulation, and finally in the pay-out-phase**. They need to be aware of their rights, compare services and investment options, and understand costs in full as small differences, given the long-term nature of these products, can have a significant impact.<sup>(80)</sup> To man-

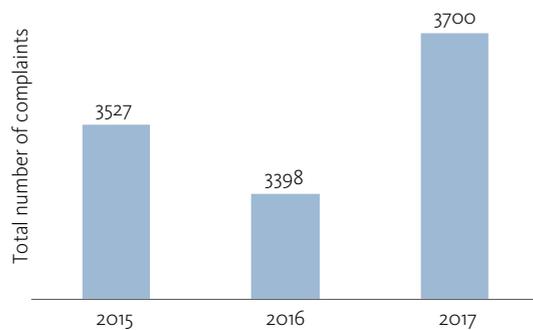
age potential risks resulting from over-information or lack of information as well as to engage consumers and members with the information they receive, **behavioural findings can be helpful when looking to improve disclosure requirements.**

### 2.3. CONSUMER COMPLAINTS

The analysis of complaints data allows NCAs to identify issues that may arise in their jurisdiction. However, **the small number of these complaints makes it harder to identify trends.**

The total number of pension-related complaints continued to grow in 2017. If the UK is not taken into consideration, because of changes in its reporting requirements, the total number of complaints grew +9% in 2017<sup>(81)</sup> (Figure 23). Given the long-term nature of pension products and the fact that issues tend to arise at a later stage (e.g., prior to or in the pay-out-phase) this increase may concern issues from the past.

Figure 23 – Evolution of complaints in the EEA over the period 2015-2017<sup>(82)</sup>



Source: EIOPA CCPFI

However, very few complaints are received in many Member States, and data from bigger schemes influences significantly the total number of complaints. Therefore, it is more accurate to look at single Member States. In 2017, complaints increased in 16 Member States out of 25 that provided data.

#### 2.3.1. OCCUPATIONAL PENSIONS VS PERSONAL PENSIONS

For occupational pensions, the number of complaints increased in most Member States for which data are available. Figure 24 below shows the split amongst the 18

Member States<sup>(83)</sup> that were able to provide disaggregated data for occupational pension-related complaints and the 16 Member States<sup>(84)</sup> that were able to provide disaggregated data for personal pension-related complaints.

For occupational pensions, the number of complaints increased in 11 Member States (10 if the UK is not taken into consideration because of the changes in reporting requirements), while 5 reported a decrease, and in 3 Member States the total number of occupational pension-related complaints remained unchanged.

For personal pension-related complaints, 11 Member States (10 excluding the UK) reported an increase, while 5 reported a decrease. These numbers need to be interpreted with caution, as an increase in complaints in most cases does not signal an issue with the market because of the very low figures. For example, in SK, in 2016 there was only 1 personal pension-related complaint which increased to 2 complaints in 2017.

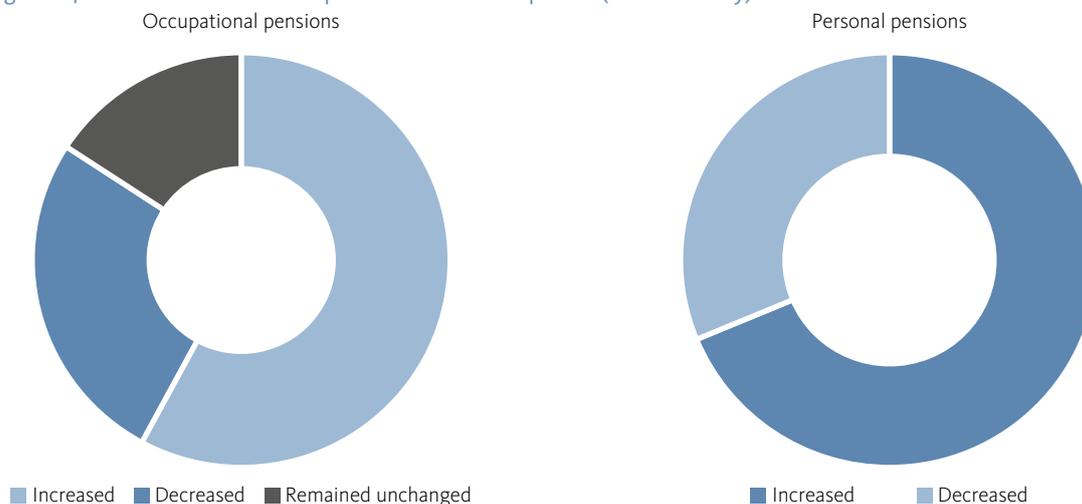
The reasons behind growth vary. For example, in DE, Riester-Rente (personal pension) received negative coverage in the media, including doubts on the benefits this product offers and criticism of the costs, and this could be one of the causes in the increase in the number of complaints (from 176 to 227). In RO, on the other hand, the number of personal pension-related complaints decreased. One of the reasons explaining this decrease could be that the system to access data on personal pension plans significantly improved, and campaigns to increase awareness on the benefits of personal pension products took place.

#### 2.3.2. CAUSES OF COMPLAINTS

Although the limited number of complaints and different reporting systems across Member States make it difficult to identify trends on causes across the EEA, some conclusions for single Member States can be drawn.

In the pension sector, there are issues with regard to information and transparency. In BE, there was an increase in information and transparency-related complaints because people began consulting online databases, and when they determine that their pension's rights are inaccurate they raise a complaint, not implying less transparency, but rather more awareness with regard to pension's rights.

Figure 24 – Overview of trends in pension-related complaints (NCAs' Survey)



Source: EIOPA CCPFI

## 2.4. NCA CONSUMER PROTECTION ACTIVITIES

In 2017, NCAs performed several conduct of business- and consumer protection-related activities to ensure that conduct risks leading to potential detriment were identified, managed, and addressed. **Most of the activities conducted in 2017 related to potential emerging risks identified in the pension sector.** These spanned across both occupational and personal pensions. In fact, 25 of the top issues identified by NCAs exclusively related to personal pension products, 15 to occupational pensions, and 18 to both occupational and personal pensions. They ranged across a wide variety of topics:

- High and potentially hidden costs of pension products;
- Members/policyholders' inertia and limited financial capability;
- Burdensome procedures limiting transferability as well as aggressive acquisition tactics and poor levels of advice to encourage the transfer of pensions' rights;
- Finally, as also emphasized in the EIOPA's Financial Stability Report (June 2018), the persistent low interest rate environment putting a strain on pension funds.

**Out of the 30 reported activities, there was an equal split between activities focusing on personal pensions**

**and occupational pensions.** Information and transparency is an area to which NCAs are dedicating significant resources, with 11 activities solely focusing on it and 9 focusing on it amongst other issues, probably to counter-balance, the continuous shift towards DC schemes (Section 1). In terms of types of schemes, **NCAs focused more on DC schemes, with 16 activities focusing solely on this type of schemes and 14 focusing on all types of schemes.**

Avoidance of mis-sales and adequate advice are also a good way to promote good outcomes for members/policyholders; hence, many NCAs-led activities focused on these topics as well as on good governance and administration of pension plans. Finally, financial literacy continued to be an important topic to ensure good outcomes for members and NCAs also conducted relevant work in this field.

### 2.4.1. OCCUPATIONAL PENSIONS

The Portuguese NCA, in line with the priorities identified in its annual inspection plan, not only closely monitored the quality of and format in which information is provided prior to and in the accumulation phase; but it also conducted work in relation to the pay-out phase. In particular to check timeliness of information.

In DK, as many policyholders are given the possibility to move from old guaranteed products towards index-based ones, the NCA is currently investigating whether adequate

information on risks is given. The NCA also conducted other thematic work on how members could, change via digital channels, the risk profile of the underlining investments of their pensions. It concluded there are significant differences amongst the digital solutions implemented to facilitate this switch, raising some concerns.

Sales and arranging as well as administration and governance of pensions funds are areas on which the Dutch NCA focused in 2017 to ensure that newly introduced legislation, allowing DC savers to have options between choosing a variable or a fixed annuity, is being duly applied by pension funds. Finally, in BE, to ensure legislation is adequately applied and supervisory actions become more predictable, the NCA continued to publish its interpretation of legal requirements on its website<sup>(85)</sup> so that they can be correctly and consistently applied. It also continued to handle complaints, providing redress to pension savers, but also analysing complaint-related data to adapt consequently its supervisory plans and priorities and adopt a more risk-based approach.

#### 2.4.2. PERSONAL PENSIONS

In FR, following the entrance into force of a new law obliging pensions funds to inform policyholders when they

reach the retirement age / contract maturity, the NCA dedicated some resources to monitor its application by launching a survey of providers.

In the UK, following changes in the legislation allowing for greater flexibility in the way in which pension savings can be accessed, the NCA monitored whether customers were given adequate information in light of the complex decision to be made. Where deficiencies were found, recommendations for improvements have been made. Furthermore, as some investment platforms in the UK distribute non-workplace DC pensions, the NCA launched a market study to assess potential competition issues already outlined in the Asset Management Market Study<sup>(86)</sup> interim report and in the 2016/17 Retail Investment Sector View.<sup>(87)</sup>

Finally, in LT, the NCA conducted an extensive review of the personal pension system to assess whether changes to the accumulation phase were needed in order to have a more efficient, effective, and balanced pension system. This work resulted in a proposal to the government advocating a systemic reform to improve the overall pension system.

### 3. STAKEHOLDERS' INTERVIEWS

#### GUILLAUME PRACHE, MANAGING DIRECTOR OF BETTER FINANCE

Guillaume is the Managing Director of BETTER FINANCE<sup>(88)</sup>. He is also one of the experts representing financial services users before EIOPA and the Autorité des Marchés Financiers (FR). He has been a user side expert for the European Commission, the European Securities & Markets Authority and the European Banking Authority. He started as a magistrate in the French Court of Auditors and has an extensive and international experience in financial matters, most recently as Chief Financial Officer of US-based Rhône-Poulenc Rorer, Inc.<sup>(89)</sup> until 2000, and then as Managing Director of the European subsidiary of the Vanguard Group, Inc. (2000-2006).



#### **What is causing the most detriment to consumers and what are the major potential risks they could face?**

I believe that there are two main factors affecting insurance consumers and pension savers: (i) limited transparency on past performances and costs for insurance-based and pension investment products and (ii) the excessive complexity of products, which are very often not understandable for the majority of consumers, including those with relatively good levels of financial literacy.

In my opinion, some new regulatory requirements may be increasing these challenges,<sup>(90)</sup> while others are going in the right direction. For example, the product intervention powers granted to the ESAs under the PRIIPs Regulation are a positive and welcomed development, but they entail an *ex-post* intervention. Similarly, POG goes towards the right direction by shifting the burden on providers to develop and offer products, which respond to consumers' needs. However, POG could go further and ask providers to think whether products are suitable at all for any market.

**Interest rates remain low; as a response, insurance undertakings offer increasingly complex unit-linked products, as consumers seek both higher returns and safety. In this environment, how can consumers buy**

#### **products they understand while having the returns they want?**

These are complex products and typically most of the investment risks are borne by policyholders. Independent research shows that most unit-linked products are poorly performing over time, and this is mainly due to very high and mostly opaque and multi-tier fee structure. Hence, more should be done to identify the underlining risks with these products and ensure they are not harmful for consumers. EIOPA's recent paper<sup>(91)</sup> on the risks around the distribution of unit-linked insurance products begins to identify some of the issues with unit-linked products.

#### **There is a trend of consumers buying more ancillary insurance products. Do you see this as good sign of consumers becoming more aware of their needs and of the benefits of insurance? Do you see potential risks?**

These products may address genuine risk-protection needs for European consumers. However, their distribution models may lead to mis-selling due to excessive and hidden commissions that (ancillary) intermediaries receive. While IDD is an improvement, it is weaker than MiFID II on disciplining commissions and inducements. National and European authorities should investigate this

issue further. Initiatives, like the thematic review on travel insurance launched by EIOPA,<sup>(92)</sup> should be promoted as they can help better identify the potential benefits and risks relating to these products.

**Mis-selling remains a major issue. What could further prevent or significantly reduce, mis-selling cases? Do you see limits in what regulation can address? If so, how could these limits be overcome?**

Mis-selling is indeed widespread ten years after the financial crisis. I believe that, first of all, EU rules should be aligned, as often the same distributors are selling products which fall either under MiFID or IDD rules. Further, I believe that improved disclosure rules can help standardise performance and cost related information and allow consumers to more easily compare and decide. Disclosure requirements should include an obligation to provide benchmark performances alongside product's ones.

As regulatory requirements need to be properly supervised, I also believe that to ensure consistent outcomes for European consumers, 'supervisory convergence' must be thoroughly pursued to help identifying and reducing mis-selling cases. Finally, consumers should also be given the possibility to seek redress collectively, via accessible redress mechanisms.

**Better disclosures and improved consumers' financial capability can help them better understand, compare, and select products that suit their needs. However, do you see any limitations in this approach?**

The first limitation I see is that better standardized disclosure rules need to be applied. Disclosure requirements should be further improved by complementing existing best practices with findings from behavioural studies and consumer testing. The second issue is that even when disclosure requirements are properly implemented, products remain complex. Hence, beyond simplifying disclosures, products should be simplified.<sup>(93)</sup>

These efforts should be complemented with financial education programs. While basic financial education should be taught at school, teachable moments should also be exploited ensuring, however, that education channelled through financial service providers is not (and not perceived by consumers as) marketing.

**Innovation is catching up in both the pensions and insurance markets. Do you consider robo-advice and other innovations more as an opportunity or more as risk for consumers?**

BETTER FINANCE recently released its third annual report on robo-advice.<sup>(94)</sup> While this phenomenon is increasing, it is still limited in the area of insurance and personal pension products. I see it both as an opportunity and as a risk. An opportunity, as it provides access to low-cost products with mostly fee-based business models minimizing the risks of conflicts of interest. A risk, as it is accessible only to digitally and financially savvy users and the algorithms used provide very diverse outcomes in terms of financial advice for a given need. This raises concerns in terms of reliability and suitability.

**In personal pensions' products we have seen a growing trend in policyholders transferring their pensions' rights or switching funds within a product. Do you think this is a good sign, reflecting more diligent consumers that are shopping around to identify better products? Is there enough transparency on costs?**

Barriers to switching are identified as a major issue in the EU Consumer scoreboards published by the EU, in particular for pension products themselves. For what concerns switching between funds within a product, we see much less barriers and a potential danger that the distributors influence these switches as unfortunately, commissions' structures, rather than policyholders' needs, often influence providers to push for these switches. Better disclosure on switching costs can definitely help.

## ROBERT FLEMING, HEAD OF CONDUCT SUBJECT MATTER EXPERTISE, AVIVA

Robert has over 30 year experience working in insurance and reinsurance markets in the UK and in other Member States, initially as a lawyer in private practice. More recently he has worked in Compliance functions in UK based insurance businesses, focusing on regulatory matters and regulatory relations. He has worked for Aviva for six years.

### **Beyond low interest rates and digitalization, what are, in your opinion, the most important external factors affecting the European insurance sector?**

Digitization and low interest rates have been affecting the European insurance sector for quite some time; however, there are several other external factors affecting the European insurance sector. These range from political issues such Brexit and the future of EU-UK relations to climate change related issues. Examples of these factors include (in no particular order):

- EU-UK relations – There is significant uncertainty on Brexit. As the UK is the largest insurance market in the EU and a significant amount of services are provided across the continent on a passporting basis, this uncertainty is affecting the European insurance sectors as some disruptions may take place.
- Climate change – We have seen in recent years an increase in weather related ‘disasters’. This could potentially result in higher than expected weather-related claims, which raises underwriting / pricing challenges. Further climate change could have a negative impact on investment markets.
- Cyber-crime – Cyber-criminals are becoming more and more sophisticated, increasing data security related risks for large commercial enterprises, including insurers. In addition, the proliferation of interconnected devices and the dominant role of social networks in modern life is accentuating this threat.
- Disproportionately complex regulation – Regulation is becoming increasingly detailed and complex and is not keeping up with the fast-paced innovation affecting the entire insurance sector. This could discourage innovation, negatively affecting the insurance sector.
- Impact of new technologies – we believe artificial intelligence and robotic automation are likely to



transform insurance operations such as claims and underwriting.

### **Consumers demand more and more personalization of insurance products, including a more personalized relationship with insurance undertakings. This is pushing towards more digitalisation in the insurance sector. Do you see this as a challenge or as an opportunity for the insurance sector?**

At AVIVA, we see this as a positive opportunity for the sector, although the challenges should not be ignored. Digitalization provides insurers and distributors with the opportunity to introduce customers directly to their full range of products and offerings in a more efficient and tailored manner than traditional channels. In addition, stronger digital capability, if implemented appropriately, can lead to more efficient operational processes. Combined, these two factors, increase opportunities and facilitate customer-retention while also lowering costs and increasing profits for insurers over the medium to long term. Digitalisation also provides an opportunity to offer new and innovative products to customers, responding to their insurance needs.

We believe customers will continue to want to be much more in control of their finances, expecting self-service and simpler, faster access to products and services. In fact, at present consumers have a wide range of insurance (protection and savings) needs and can find it challenging to manage them (i.e., having to deal with several intermediaries, different providers, etc.). With digitization, customers can be served across the full range of products offered by an insurer, more quickly and cheaply. Cost efficiencies can lead to lower premiums/charges for customers. In addition, operational efficiencies and

ease of access offered by digitization increase the likelihood of customers purchasing more than one product from the same insurer, which presents opportunities to offer multi-product discounts, thereby rewarding customer loyalty.

On the other hand, this also raises challenges that should not be ignored. One of the principal challenges is the current complexity of regulation and its failure to keep pace with innovation (e.g., disclosure requirements may not fully grasp the potential of innovations and/or impose stringent requirements based on old concepts – such as providing paper-based documents).

**Digitalisation is also affecting distribution of insurance products. Trends in some countries show that more and more non-life products are being sold via PCWs. Do you think this can benefit insurance undertakings and consumers?**

PCWs allow consumers to benefit from getting a large number of quotes from a wide range of providers in an easy and time efficient manner.

Moreover, PCWs have undoubtedly been effective in driving competition and price transparency in the motor insurance sector. On the other hand, they have also encouraged more price-oriented consumer behaviour, with little or no consideration for other features (e.g., coverage, exclusions). This price-orientation, raises concerns in terms of pricing distortions with insurers lowering their prices to attract new customers and then relying on existing 'customer inertia', charging higher prices at renewal regardless of the claims' history/experience. It also increases the risk that some customers may become marginalised and unable to find insurance cover (for example, travel insurance for customers who have suffered an illness).

**There has been a lot of discussion about the importance of and risks associated with 'data', including on cyber-security, Big Data, etc. Do you think the availability of large amount of data is an opportunity for both insurance undertakings and consumers?**

I believe this is an opportunity for both insurance undertakings and customers. As noted in AVIVA's strategic report<sup>(95)</sup>, published earlier this year, a five-fold growth in digital data over the next 2-3 years is expected to take place. A growing number of customers are willing to receive computer-generated advice about the type of insurance coverage they need to purchase. Furthermore, Big Data enables insurers to more accurately price risks, thus potentially widening access to insurance for customers who might otherwise be uninsurable as well as insure new types of risks. Those insurers who interpret data quickly and intuitively to inform the development of products and services that provide real value for customers will lead the way.

**What about cyber-risks?**

Cyber-risk is an increasing threat for both businesses and consumers. At AVIVA, we are continuing to make significant investments in ICT security, introducing additional automated controls to protect our data, and detect and prevent cyber-attacks. We employ our own 'white hat' hackers to regularly test our ICT defences and we undertake regular activities with our employees to promote awareness of cyber and data security. Such activities include employee phishing exercises and regular communications on specific threats, if and when they are identified.

We also try to educate consumers about these risks: our customer website includes a page setting out practical advice for our customers on how to stay safe online.

## CLAUDIA MENNE, MEMBER OF THE GERMAN TRADE UNION CONFEDERATION

Claudia is currently working for the German Trade Union Confederation (DGB). She is also the vice chair of the European Pension Forum. After obtaining her Master's Degree, Claudia has held numerous and reputable positions in the German and European Trade Union Movement (ETUC). At the European level, she has represented German Trade Unions in several working groups, social dialogue committees, and executive committees. In May 2011, Claudia was elected to the post of ETUC Confederal Secretary and became a member of the ETUC secretariat. Until the 13th ETUC congress, she oversaw social protection, including occupational pensions.

### **With IORP II entering into force in 2019, do you see any opportunities for pensions' members and beneficiaries? What about risks and concerns?**

Pensions are complex products: it is important that members' and beneficiaries' needs are taken into consideration throughout the product life cycle. Furthermore, decisions affecting one's pensions are often led by other factors (e.g., job change).

Because of pension's long-term nature, the main challenge is ensuring that both members and beneficiaries receive adequate information throughout the life-cycle of their relationship with a pension fund. This is particularly important in light of the continuous shift from DB to DC scheme. Receiving adequate information means taking into account the adequateness and appropriateness of information in relation to the stage at which a member is.

When regulating disclosures, it is important to consider these specificities but also to take into account that pension-related decisions are connected to life-decisions. Therefore, regulation should aim at pushing funds (and employers) to provide adequate pension-related information not only at key stages of the pension life cycle but also when workers need to take important life decisions which could affect their pension.

IORP II is a significant improvement. It helps in ensuring that clearer and better information is provided. On the other hand, I think more should be done on governance structures, in particular for occupational schemes. In fact, adequate governance helps in ensuring that mem-



bers' needs are adequately taken into account. The role of employees' representatives should be further emphasized.

### **Lack of adequate and proper disclosures and limited financial capability/literacy of members are often cited as areas of major concern, leading to potential detriment. Do you agree with this?**

Yes. Financial literacy, in particular for no or low-skilled workers, is a major concern. Improved disclosures, taking into consideration behavioural findings can partially address this. However, it cannot replace adequate governance structures. In fact, employees' representatives, who better understand pension products, can complement the limited levels of financial literacy and also organize different initiatives aiming at increasing financial literacy and workers' engagement with their pension.

### **What do you think can be done to limit members' and beneficiaries' 'inertia' for them to be aware, informed, and be more actively engaged?**

Involving workers' representatives can definitely help. They need to be more involved in the governance structure as individual workers are concentrated on their 'daily' jobs and their salary and do not take a long-term perspective when making decisions.

### **Do you think that freedom of movement in the EU can further limit members' engagement with their pension?**

Trans-European mobility is now allowing workers to easily cross-borders. Differences in pension sectors' traditions, regulation, tax incentives and taxonomy make it difficult for these workers to understand and actively engage with pension's related issues. This is one of the biggest challenges we face. Newer generations have much more mobility; hence, to prevent future pensions' gaps, it is fundamental to ensure that they do not 'loose' on their pension by seeking work-opportunities in another Member State.

PEPP is definitely a positive development and can (will) address some of these issues; however, there is room from improvement including at the national level (e.g., by adopting standardized terminology, harmonize tax incentives).

**We observed that in some Member States pension related issues have been de-emphasized in collective bargaining. With improved economic growth across the EU, do you think they can become again a priority?**

I agree that in many Member States, given the economic crisis and high unemployment rates, pension's issues became marginal in collective bargaining. While unemployment is decreasing, it is still high across the EU. Therefore, I think it is too soon: occupational pensions are not yet a priority and trade unions and employees' representatives are not yet again focusing on this.

Given my background and the role I played in the German and European trade union movement, I regret this very much because, although ensuring adequate working conditions is important, if pension's issues are not adequately taken into account, this can have a significant impact on people's lives. We see reforms taking place but they are not yet being fully implemented. Awareness with regard to pension is still limited.

**We see more and more innovation in disclosures, including interactive tools to make projections and check pension's rights. Do you think members understand and take full advantage of these new opportunities? Do you see any risk with these new tools?**

Because of the nature of pensions, there are different points in time where members can be more engaged (and need to be) with their pensions. These tools can help in these occasions; however, it should not be assumed that this is a frequent process. In terms of concerns, there are some challenges in particular in relation to over confident members, as they could misinterpret the information provided and make important decisions without receiving adequate advice. It should be emphasized that these tools do not replace adequate and competent advice.

**Since you mentioned advice, good advice or good disclosures?**

I firmly believe that you need both good disclosures (even aided by technological advancements) but also good advice and one cannot replace the other. People providing advice need to be trained and commissions need to be regulated and monitored to ensure that advisors act on members' best interest. The duty of care is already well established in the insurance sector but it is not fully developed in the pension sector. We need to move away from the idea that sponsors 'are taking care' of members.

**Do you think members are fully aware of ESG issues and take them into consideration when choosing between funds/investment options?**

In general, employees' representatives are very much in favour of introducing ESG principles in the pension sector. Although single members may not be interested in or aware, employees' representatives need to push ESG principles in funds' investment strategies. This also ensures the long-term sustainability of the assets in which funds invest. Of course, ESG is still an evolving concept and it is quite technical; henceforth, it is crucial that employees' representatives are adequately trained on these issues.

Of course, for single members, this is an extra layer and often they may not fully understand it. Therefore, in my opinion, the importance lies in having adequately trained employees' representative whom they trust and who can accompany them in making these decisions.

## ANNEX I - METHODOLOGY

### INPUT FROM NCAs

The Consumer Trends methodology was adopted in 2012<sup>(96)</sup> and revised in 2013<sup>(97)</sup> to produce more robust Consumer Trends Reports. It includes the collection of information from NCAs on a number of quantitative and qualitative metrics.

As far as the qualitative information is concerned, NCAs were requested to fill-in four surveys: two for insurance and two for pension. The two surveys covered: Top 3 Consumer Issues and Thematic Work and financial innovations.

In the first survey, NCAs were asked to report on their main consumer protection activities undertaken during the previous year. In the financial innovation survey, NCAs had to identify the 3 most relevant financial innovations in their respective jurisdictions. This survey also included specific questions about concrete topics, such as the use of Big Data analytics in health insurance or ESG investments in pensions.

Regarding the quantitative data for the insurance sector, NCAs provided data on contracts sold for a series of product categories for insurance and number of active members and policyholders for pensions. In addition, they also provided complaints data.

Insurance sector submissions were more complete than pension sector submissions. This could be partly explained because this is the seventh year that insurance data is collected, while on the other hand it is only the fourth time for pension-specific data.

#### › Input from Stakeholders

For the second time the report includes interviews with individual stakeholders. Moreover, in accordance with the revised methodology to recur to more data sources, EIOPA asked the IRSG<sup>(98)</sup> and the Occupational Pensions Stakeholder Group (OPSG)<sup>(99)</sup> to provide inputs.

In addition, EIOPA gathered inputs from other stakeholders (Insurance Europe, Pensions Europe, BIPAR, BEUC, and BETTER FINANCE) which either answered directly a questionnaire or shared their views via their respective representatives in the IRSG and the OPSG. EIOPA also regularly meets with stakeholders to discuss concrete insurance and pensions issues. This year EIOPA also conducted some informal consumers' interviews which were used to include 'Consumer Voices' included throughout the report.

#### › Solvency II data

The new Solvency II reporting framework represents the most comprehensive database about the European insurance sector to date. Amongst other features, it collects harmonised premiums, claims, and costs data from insurance undertakings on a line of business basis, which has been used in the present report.

However, given its prudential nature, Solvency II's lines of business are risk categories and not product categories (see Annex IV for further information), meaning that, for example, part of premiums collected through motor insurance policies can be distributed through different lines of business. It also captures the premiums gathered from retail individual consumers as well as from corporate clients. The data is analysed for "growth direct business", i.e., gross of reinsurance, since the reinsurance information is not immediately relevant from a consumer protection information.

Moreover, it is the second year of reporting under this new comprehensive framework. While data quality checks are regularly performed by NCAs and EIOPA, the quality of the data as well as the value that can be extracted from it (e.g., evolution of the indicators over time) will surely improve over the years and therefore the data of this second year must be interpreted cautiously.

#### › Publications

EIOPA has complemented the information received from NCAs and stakeholders with a series of publications that

are accordingly referred in the footnotes of the report. These sources have provided valuable information about certain trends in the insurance and pension sectors.

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

As the present report has a supervisory nature, the input received by NCAs is prioritized over other sources. The

input gathered from stakeholders and from 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 NCAs that were not able to provide input, EIOPA can use this information to have an overview of developments in these Member States.

Table 1 – Number of NCAs that participated in each survey

Survey	Number of Responses
Insurance - Complaints	29
Insurance – Financial Innovations	29
Insurance - Sales	27
Insurance – Top 3 Issues and Thematic Work	29
Pensions – Active Members	26
Pensions - Complaints	27
Pensions – Financial Innovations	22
Pensions – Top 3 Issues and Thematic Work	26

Source: EIOPA Committee on Consumer Protection and Financial Innovation

Given that the input collected is extensive, it is not possible to incorporate all the information gathered into the report. In cooperation with NCAs and the CCPFI, EIOPA does a selection of the most relevant information taking into account its availability, relevance, and nature.

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 complaint data lodged before the Authority, while the majority of NCAs used complaints data reported by insurance undertakings), or the differences in resources (e.g., industry organisations commonly have more resources than consumer organisations, and also some NCAs have more resources than others), are some of the limitations to this methodology.

EIOPA is aware of these limitations and tries to approach them with a balanced perspective. For example, in order to address issues such as the limited comparability of data provided from different Member States, the quantitative information on GWP, Active Members, or complaints is complemented with qualitative questions asking NCAs to indicate, on a best-effort basis, if the number of complaints and sales have increased significantly, increased, remained unchanged, decreased, or decreased significantly.

Overall, information gathered is extensive and from a wide variety of sources, allowing EIOPA to confidently identify trends in the European insurance and pension markets.

## ANNEX II - LIST OF NATIONAL COMPETENT AUTHORITIES

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	Finantsinspeksioon (Estonian Financial Supervision and Resolution 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	GR	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 and 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)

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Romania	RO	Financial Supervisory Authority (ASF)
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

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## ANNEX III - PENSIONS DEFINITION AND SCOPE

The Consumer Trends Report covers both occupational and personal pension plans and products **under the direct supervision of EIOPA Members.**<sup>(100)</sup>

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/prod-

ucts 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,**<sup>(101)</sup> being the definitions included therein relevant for the present report.

## ANNEX IV - SOLVENCY II

### LINES OF BUSINESS

Non-life lines of business	Definition <sup>(102)</sup>
(1) Medical expense insurance	Medical expense insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in the line of business 3.
(2) Income protection insurance	Income protection insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in the line of business 3.
(3) Workers' compensation insurance	Health insurance obligations which relate to accidents at work, industrial injury and occupational diseases and where the underlying business is not pursued on a similar technical basis to that of life insurance.
(4) Motor vehicle liability insurance	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land (including carrier's liability).
(5) Other motor insurance	Insurance obligations which cover all damage to or loss of land vehicles (including railway rolling stock).
(7) Fire and other damage to property insurance	Insurance obligations which cover all damage to or loss of property other than those included in the lines of business 5 and 6 due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.
(8) General liability insurance	Insurance obligations which cover all liabilities other than those in the lines of business 4 and 6.
(10) Legal expenses insurance	Insurance obligations which cover legal expenses and cost of litigation.
(11) Assistance	Insurance obligations which cover assistance for persons who get into difficulties while travelling, while away from home or while away from their habitual residence.
(12) Miscellaneous financial loss	Insurance obligations which cover employment risk, insufficiency of income, bad weather, loss of benefit, continuing general expenses, unforeseen trading expenses, loss of market value, loss of rent or revenue, indirect trading losses other than those mentioned above, other financial loss (non-trading) as well as any other risk of non-life insurance not covered by the lines of business 1 to 11.

<b>Life insurance lines of business</b>	<b>Definition</b>
(29) Health insurance	Health insurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance, other than those included in line of business 33
(30) Insurance with profit participation	Insurance obligations with profit participation other than obligations included in line of business 33 and 34.
(31) Index-linked and unit-linked insurance	Insurance obligations with index-linked and unit-linked benefits other than those included in lines of business 33 and 34.
(32) Other life insurance	Other life insurance obligations other than obligations included in lines of business 29 to 31, 33 and 34.

## ANNEX V - LIST OF ABBREVIATIONS

ADR	Alternative Dispute Resolution
AM	Active Members
DB	Defined Benefit
DC	Defined Contribution
DGB	German Trade Union Confederation
DLT	Distributed Ledger Technology
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environment, social and governance
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
FSAP	Financial Sector Assessment Program
IAIS	International Association of Insurance Supervisor
IBIPS	Insurance Based Investment Products
ICT	Information and Communications Technology
IDD	Insurance Distribution Directive
IMF	International Monetary Fund
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
PCW	Price Comparison Website
PID	Product Information Document
PEPP	Pan European personal pension products

POG	Product Oversight and Governance
PPI	Payment Protection Insurance
PRIIPS	Packaged Retail and Insurance-based Investment products
QRT	Quantitative Reporting Template
RTS	Regulatory Technical Standard
SME	Small and Medium Enterprise
SMS	Short Messaging Service
UBI	Usage-based insurance

## ENDNOTES

- (<sup>1</sup>) Article 9(1)(a), Regulation 1094/2010 establishing EIOPA. [Link].
- (<sup>2</sup>) Article 29 of EIOPA Regulation
- (<sup>3</sup>) EIOPA decided to interview some selected consumers and capture their views on selected issues. However, the sample chosen is not a representative sample of European consumers, nor is it meant to provide an overall view of how European consumers felt about insurance and pensions products and services.
- (<sup>4</sup>) EIOPA, Consumer Trends Methodology, November 2012. [Link]. Review of Consumer Trends Methodology, October 2013. [Link].
- (<sup>5</sup>) This calculation was made using data collected via the Solvency II Database for the following lines of business: Insurance with profit participation, Index-linked and unit-linked insurance, and Other life insurance. Unless otherwise specific, in this report total life insurance means the summation of relevant figures for these three lines of business.
- (<sup>6</sup>) For all Solvency II Database data quoted in this report, it was last accessed on 11/09/2018. Unless otherwise specified this data does not take into considerations currency forex fluctuations for non-euro countries and inflation. Where specified, currency forex fluctuations have been calculated using the average exchange rate in 2016 and in 2017.
- (<sup>7</sup>) Because of minor discrepancies between the data available in the Solvency II database and data reported by the NCA, CZ has not been included in the life insurance market trends' analysis.
- (<sup>8</sup>) +82% taking into consideration currency fluctuations between EUR and GBP.
- (<sup>9</sup>) EIOPA Financial Stability Report, June 2018.
- (<sup>10</sup>) EIOPA Financial Stability Report, June 2018.
- (<sup>11</sup>) +110% taking into consideration currency fluctuations between EUR and GBP.
- (<sup>12</sup>) Law 11 December 2016, n. 232 (2017 Budget Law), art. 1 (100) to (114).
- (<sup>13</sup>) Commission rates are calculated using data reported by insurance undertakings via QRTs (reporting template S.05.01). They are calculated by taking reporting data on total acquisition costs over total gross written premium. It is important to note that, acquisition costs are broader than commissions.
- (<sup>14</sup>) Cross-selling has been defined by the ESAs as a phenomenon that occurs "where a firm groups together one or more products or services and sells them to customers as a distinct package". This report also considers as cross-selling the selling of an insurance product by an ancillary intermediary jointly with another good or service that is not necessarily a financial product.
- (<sup>15</sup>) The Insurance Distribution Directive that applies from October 2018 provides specific rules on this. Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, Articles 17, 19, 24, and 25.
- (<sup>16</sup>) The type of intermediaries selling ancillary insurance products include: tour operators and travel agencies, car-dealers, banking institutions, energy suppliers, telecommunications companies, electronics stores, and shipping companies.
- (<sup>17</sup>) The Mortgage Credit Directive includes a general prohibition on tying insurance coverage to a mortgage product, unless the mortgage provider can demonstrate that the packaged product has a clear benefit for the consumer. Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.
- (<sup>18</sup>) Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, Article 24 (1).
- (<sup>19</sup>) Central Bank of Ireland, Consumer Protection Code, 2012.
- (<sup>20</sup>) This has been calculated only based on the lines of business presented in Figure 9.
- (<sup>21</sup>) Considers both motor vehicle liability and other motor insurance lines of business but does not consider assistance line of business, which, however, could also be part of moto insurance products, with road assistance services.
- (<sup>22</sup>) These lines of business however also cover other products. For example, under income protection line of business not only PPI products are covered but also income protection insurance; under miscellaneous financial loss fall several different products covering different types of risks, such as loss because of weather related events or loss or malfunctioning of certain types of personal properties; and assistance line of business also covers road assistance or other assistance needs when the policyholders is not at his habitual place of residence and not only travel insurance.
- (<sup>23</sup>) In the ESAs Joint Committee Discussion Paper on the use of Big Data by Financial Institutions, the definitions refers to the three "Vs" definitions.
- (<sup>24</sup>) Technology and innovation in the insurance sector, 2017, Organisation for Economic Cooperation and Development (OECD), p. 26.
- (<sup>25</sup>) Europe has the largest regional level of subscriber penetration. By mid-2017, 84% of the population in Europe, subscribed to mobile services. See, GSMA, The Mobile Economy, Europe 2017. [Link]
- (<sup>26</sup>) In a survey conducted by Swiss Re, 80% of insurance executives stated that, in their opinion, this would revolutionise interactions between insurance undertakings and consumers. Swiss Re Institute, Life in-force management: improving consumer value and long-term profitability, Sigma, NO. 6/2017, p. 36.
- (<sup>27</sup>) Law EVIN n° 89-1009, 31 December 1989.
- (<sup>28</sup>) FinTech Developments in the Insurance Industry, 21 February 2017, IAIS, p. 11.
- (<sup>29</sup>) A recent industry survey conducted by Ernst & Young showed that many providers believe that insurers will soon move from traditional health insurance to promoting healthier, more secure, and safer living. EY's 2016 Sensor Data Survey: Disrupt or Be Disrupted.
- (<sup>30</sup>) Swiss Re Institute, Life in-force management: improving consumer value and long-term profitability, Sigma, NO. 6/2017, p. 23.
- (<sup>31</sup>) Insurance and more perfect information: transforming approaches to risk, Insurance Governance Leadership Network, July 2018, Tapestry Networks and Ernst & Young.
- (<sup>32</sup>) Joint Committee of the ESAs, Final Report on Big Data, March 2018. [Link].
- (<sup>33</sup>) FinTech Developments in the Insurance Industry, 21 February 2017, IAIS, p. 5.
- (<sup>34</sup>) FinTech Developments in the Insurance Industry, 21 February 2017, IAIS, p. 5.
- (<sup>35</sup>) For example, in many countries, universal healthcare systems or open enrolment limit the risk of exclusion.
- (<sup>36</sup>) EIOPA, Press release, EIOPA seeks evidence on the use of Big Data, July 2018. [Link]
- (<sup>37</sup>) The outcomes of this work are yet to be determined. Solidarity Monitor, The baseline measurement, September 2017. [Link]
- (<sup>38</sup>) UK Financial Conduct Authority, Research Note – Price discrimination in financial services: How should we deal with the question of fairness? [Link]
- (<sup>39</sup>) Law 124/2017, the Insurance Code has been modified (Article 132-Ter), mandating insurers to offer mandatory discounts if policyholders agree to install black boxes or devices monitoring alcohol levels in their vehicles and IVASS Regulation N. 37, dated 27 March 2018 specifying the criteria under which such discounts should be given.

- (40) In the 2017 Ernst & Young European Insurance Outlook, making customers the centre of gravity, including adapting to millennials' needs who may be more inclined to sharing assets than owning them, was identified as one of the milestones for the strategic 2017 roadmap.
- (41) Technology and innovation in the insurance sector, 2017, OECD, Section 4 and EIOPA Financial Stability Report, June 2018.
- (42) KPMG, Will on demand insurance become mainstream?
- (43) Stephen Hester Chief Executive of UK-based RSA, quoted by Oliver Ralph, *Cyber attacks: the risks of pricing digital cover*, Financial Times, 19 March 2018.
- (44) EIOPA, Understanding Cyber Insurance – A Structured Dialogue with Insurance Companies, 2018.
- (45) BEUC position paper, Cybersecurity for connected products, 2018, outlines several cyber-risks related to connected products and identifies a number of products for which there are high risks, such as connected motor vehicles.
- (46) EIOPA, Understanding Cyber Insurance – A Structured Dialogue with Insurance Companies, 2018.
- (47) It is estimated that investments in InsurTech reached USD 2.3 BN, growing 36% from 2016. Quarterly InsurTech Briefing Q4 2017, January 2018.
- (48) This was the last year allowing complaints in relation to PPI before statutory limitations entered into force; hence there was a surge in the number of PPI related complaints.
- (49) Data from AT, BG, HR, HU, IC, IE, IT, LI, LT, LV, MT NO, PL, PT, RO, SI, and SK. These are the Member States that have provided data on the total number of complaints and the total number of contracts both in 2016 and in 2017.
- (50) This also takes into account PPI related complaints in the UK.
- (51) [Link].
- (52) For this analysis, assistance, medical expenses, and miscellaneous financial loss insurance lines of business have been taken into consideration.
- (53) NCAs reported the most relevant activities undertaken during 2017, but this does not represent an exhaustive list of all the consumer protection activities undertaken by the NCAs that participated in the survey. Some of the activities reported were confidential so they have not been included in the report.
- (54) As a response, the Finnish NCA issued sanctions, press release [Link]. However, the decision has now been appealed.
- (55) This involved mainly more suasion/soft enforcement techniques consisting of rating each individual insurer on the way the insurer was helping policyholders as well as publicly disclosing the average rating of all involved insurers.
- (56) Thematic review on dormant life policies: "awakening" of dormant policies [Link], Letter to the insurance sector, September 2018 New cross-check on tax/social security numbers against the Tax Register [Link].
- (57) [Link].
- (58) Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 and Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.
- (59) The findings of the survey showed that 80% of the total number of intermediaries are affiliated with InsurSec AB, which provides regular trainings for intermediaries to keep up with the changing environment and professional competence requirements. The remainder 20% takes other vocational courses to comply with professional competence requirements.
- (60) [Link].
- (61) [Link].
- (62) See for example the factsheet on robo-advice [Link], in addition to the two detailed papers on this topic.
- (63) [Link].
- (64) [Link].
- (65) OECD, Pensions at Glance: OECD and G20 Indicators, 2017.
- (66) EIOPA Financial Stability Report, June 2018.
- (67) Some prudential concerns have been outlined in EIOPA's Financial Stability Report, June 2018.
- (68) [Link]. In May 2018, the European Commission also presented a package of measures as a follow up to the action plan, these are aimed at: (i) establishing a unified EU classification system of sustainable economic activities ('taxonomy'); (ii) improving disclosure requirements on how institutional investors integrate environmental, social, and governance (ESG) factors in their risk processes; and (iii) creating a new category of benchmarks that will help investors compare the carbon footprint of their investments.
- (69) Recital 41 a) outlines the importance of ESG factors in terms of both the impact that ESG factors can have on investments as well as IORPs' role as long-term investors. Article 20, 22, and 26 outline the rules in more detail, stating that IORPs should be allowed to take into consideration ESG when considering investment decisions, the system of governance should include ESG factors, and that ESG factors should also be considered for risk-management purposes.
- (70) OECD, Investment governance and the integration of environmental, social and governance factors, 2017. Table 2.
- (71) In 2016, the Dutch Central Bank carried out a research into the status of sustainable investment in the pension sector and identified that 88% of pension funds comply with the legal requirement of publishing how they take into account ESG factors in their investment strategy.
- (72) OECD, Investment governance and the integration of environmental, social and governance factors, 2017. See also, Pensions Europe response to the European Commission's public consultation on long-term and sustainable investment.
- (73) Good Practices for Financial Consumer Protection, 2017 Edition. World Bank, Washington, DC. World Bank. [Link].
- (74) EIOPA Report on Costs and Charges of IORPs, 2015.
- (75) [Link].
- (76) Good Practices for Financial Consumer Protection, 2017 Edition. World Bank, Washington, DC. World Bank. [Link].
- (77) One of the main ideas was to provide information on pensions in layers. Pension 1-2-3 has been developed for this purpose. After reading layer 1, members are familiar with the most important aspects of their pension scheme. They can then decide if they would like to find out more. If so, they can click on the link to layer 2 (your pension in 30 minutes) or layer 3, which contains specific documents concerning pensions. From 1 July 2016, each pension organization must provide its own Pension 1-2-3
- (78) World Bank Group. 2017. Good Practices for Financial Consumer Protection, 2017 Edition. World Bank, Washington, DC. World Bank. [Link].
- (79) Pension funds in NL are increasingly conducting consumer testing and using reference panels prior to implement new way of communication with their members.
- (80) Good Practices for Financial Consumer Protection, 2017 Edition. World Bank, Washington, DC. World Bank. [Link].
- (81) The UK has the highest number of complaints; however, reporting requirements changed between 2016 and 2017, so it is appropriate to make this differentiation.
- (82) It does not included data from CY, FR, GR, IS, IT, LU, NO, and UK.
- (83) If no split between occupational and personal pensions was provided, the complaints data is included in the occupational pensions section and graphics. The Member States for which data are available are AT, BE, DE, DK, EE, ES, FI, HR, HU, IE, LI, MT, NL, PL, SE, SI, SK, and UK.
- (84) These Member States are BG, CZ, DK, DE, EE, ES, IS, LI, LT, LV, NL, PL, RO, SK, SI, and UK.
- (85) [Link].
- (86) [Link].
- (87) [Link].
- (88) The European Federation of Investors and Financial Services Users. [Link].
- (89) A "Fortune 500" publicly-listed pharmaceutical company (today Sanofi).

<sup>(90)</sup> An example is the PRIIPs KID. In fact, BETTER FINANCE believes that while it aims at standardizing and simplifying the information that consumers receive, on the other hand, it limits transparency, as it does not provide for an obligation to give standardized and comparable information on long-term past performance products and relative to their benchmarks.

<sup>(91)</sup> See EIOPA, Opinion on monetary incentives and remuneration between providers of asset management services and insurance undertakings, December 2017. [Link].

<sup>(92)</sup> See press release. [Link].

<sup>(93)</sup> EIOPA and the other ESAs have a mandate to promote simplicity. See Article 9 of EIOPA's regulation.

<sup>(94)</sup> [Link].

<sup>(95)</sup> [Link].

<sup>(96)</sup> EIOPA, Consumer Trends Methodology, November 2012. [Link].

<sup>(97)</sup> EIOPA, Review of Consumer Trends Methodology, October 2013. [Link].

<sup>(98)</sup> Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, IRSG, 2018. [Link].

<sup>(99)</sup> Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, OPSG, 2018. [Link].

<sup>(100)</sup> This would mean that pension plans such as the so-called book reserves and PAYG schemes are out of scope

<sup>(101)</sup> Guide for Compilation and Methodology of EIOPA's Pension Database. [Link].

<sup>(102)</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), pages 227 and 228. [Link].







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