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CONSUMER PROTECTION ISSUES IN TRAVEL INSURANCE: A THEMATIC REVIEW

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European Insurance and Occupational Pensions Authority

PDF	ISBN 978-92-9473-211-8	doi:10.2854/069800	EI-02-19-509-EN-N
Print	ISBN 978-92-9473-212-5	doi:10.2854/86236	EI-02-19-509-EN-C

Luxembourg: Publications Office of the European Union, 2019

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EXECUTIVE SUMMARY

The European Insurance and Occupational Pensions Authority (EIOPA) launched in 2018 a thematic review aimed at better understanding travel insurance products, to identify potential sources of conduct risk and consumer detriment, so as to take relevant supervisory actions if needed.

With economic recovery, in the aftermath of the financial crisis, coupled with decreasing travel costs, travellers' numbers have been growing each year. This has led to growth in the travel insurance market.

Travel insurance has however been in the spotlight of supervisors in some European countries given the specific conduct risks it entails, related to conflicts of interest arising from mis-aligned incentives in distribution channels, consumer behaviour issues arising in so-called 'add-on' markets, and consequential risks of poor value at the level of the product offer. Travel insurance is mostly a 'small-ticket' business, but it can be critical for consumers, since the impact of insufficient cover or denied claims – in particular for medical expenses while travelling – can be extensive at the individual level. Issues around coverage, denied claims, unclear and conflicting terms and conditions have also been highlighted in EIOPA's engagement with stakeholders and input gathered in view of reporting on consumer trends.

Moreover, the travel insurance sector is also facing important changes that may bring opportunities whilst also heightening existing problems and bringing new risks. Insurance undertakings have been integrating new technologies into their business models leading to changes across the entire value chain, while new kinds of distributors have entered the market. Particular concerns arise with regard to rising commissions, the exploitation of behavioural biases when selling online travel insurance policies, and the potential erosion of product value and features.

Some of the key findings of the thematic review are:

- The travel insurance market as a whole does not appear to face a general market failure, and travel insurance products remain valuable for consumers. However some business models entail heightened conduct risks, including remuneration structures based on very high commissions. This leads to consumer detriment.
- While the average commissions in travel insurance are around 24% of the gross written premium (GWP), there are insurers that pay extremely high commissions to distributors, of significantly more than 50% of the premium. (see Section 1.4)
- The average claims ratio is 40% of the GWP and there is limited difference in the average regardless of the distribution channel. However, there are very wide variations in these ratios; some insurers have claims ratios below 20% of the GWP. These are a strong indicator of potential low value for consumers. (see section 1.5)
- New market players are entering the market, typically selling travel insurance products online as an ancillary activity (airline and ferry companies, price comparison websites, aggregators, banks and supermarkets);

- Partnerships with new distributors are established via international tenders, which in some cases are solely based on commissions to be paid to distributors rather than on the quality of the products to be distributed. As highlighted by 19 insurers, this can result in very high commission rates reaching in some cases well above 50% of the premium, yet these higher commissions are not correlating with improved services for the customer from the distributor;
- Around 70% of insurers exclude pre-existing medical conditions from the coverage of travel insurance products and most of these insurers do not use pre-contractual medical screening. Such screening is more common at the claim stage in order to identify if the incident is caused by a pre-existing medical condition, as a basis for dismissing the claim;
- Overlaps in cover are not assessed in the sale process in most cases. The assessment is done at the claim stage in order to identify which policy will cover the incident and the expenses will be split between insurers. This can be anticipated to increase costs for consumers.

Given these findings, EIOPA will now work on a number of measures to improve the quality of outcomes for consumers in this market. EIOPA considers that improvements are necessary, and will examine all the tools available for driving these improvements. Tools available include:

- a warning to the industry on high commissions and business models that rely on such remuneration structures. Such practices are not acceptable and the conduct risks are difficult to justify;
- a dialogue with the industry including new market players (e.g. involved in distribution), NCAs and consumer representatives on how to best tackle consumer behaviour in the context of such markets from a practical standpoint, including the setting out of expectations on how to achieve value for customers buying through ancillary distributors and in the context of 'add-ons';
- a setting out of expectations on the practical implementation of IDD - as a reinforcement of the importance of rules on acting in the best interests of the customer, on conflicts of interest and on product oversight and governance;
- working with national supervisors to identify priority parts of the business where enhanced supervisory attention would be justified; and
- a dialogue on the use of commission caps as a stronger intervention as necessary.

INTRODUCTION

Alongside other add-on and ancillary insurance products, travel insurance has been under the spotlight for a number of years. In 2017, 11 National Competent Authorities (NCAs) reported an increase in cross-selling of ancillary insurance products in general, and specific issues in relation to travel insurance have been reported for several years via EIOPA's Consumer Trends work.

For example, although the total number of travel insurance related complaints are a small part of all complaints, the Consumer Trends work showed that in 2017, travel insurance related complaints increased 85% (from 23.499 to 43.363 complaints), having increased in 14 of the 20 Member States which reported information on travel insurance (in 3 Member States more than 120%).

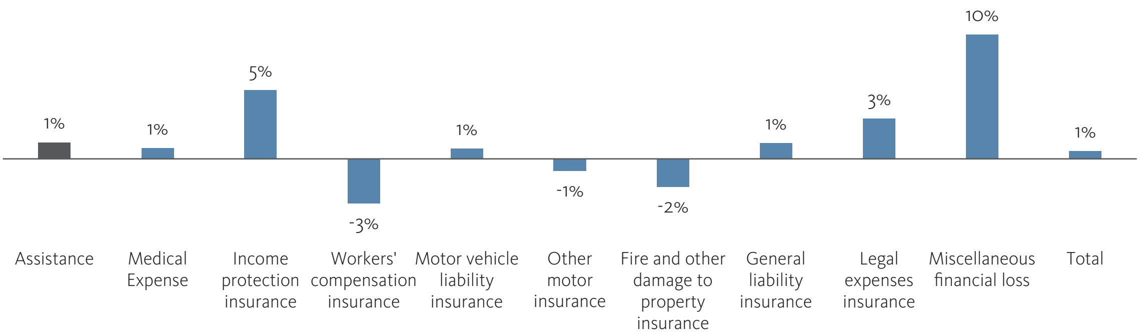
In light of these concerns and the potential for consumer detriment NCAs have increased their focus on add-on/ancillary insurance in general and on travel insurance in particular. [1] Amongst the 64 thematic activities reported by NCAs to EIOPA in 2017, 11 looked at travel insurance amongst other issues and in 2018, out of the 63 activities, 12 covered travel insurance.

Turning to Solvency II data, this is only available by line of business, preventing clear conclusions on conduct risks in the travel insurance market being drawn. While travel insurance data mainly falls under the Assistance line of business it can also be reported under other lines of business (e.g., Medical Expense, Miscellaneous Financial Loss); in addition, these lines of business also cover other products (e.g., road-assistance). Moreover, conduct relevant data, in particular qualitative data, is limited.

Despite this, an analysis of certain retail risk indicators based on available Solvency II data can show where potential issues and causes for consumer detriment might arise in relation to travel insurance.

By looking at the assistance line of business, it can be noticed that the 1% - average GWP growth in 2017 for the assistance line of business in the EEA [2] has been in line with the non-life insurance as a whole. (*Figure 1*)

Figure 1 - GWP growth in the EEA for 2017 vs 2016



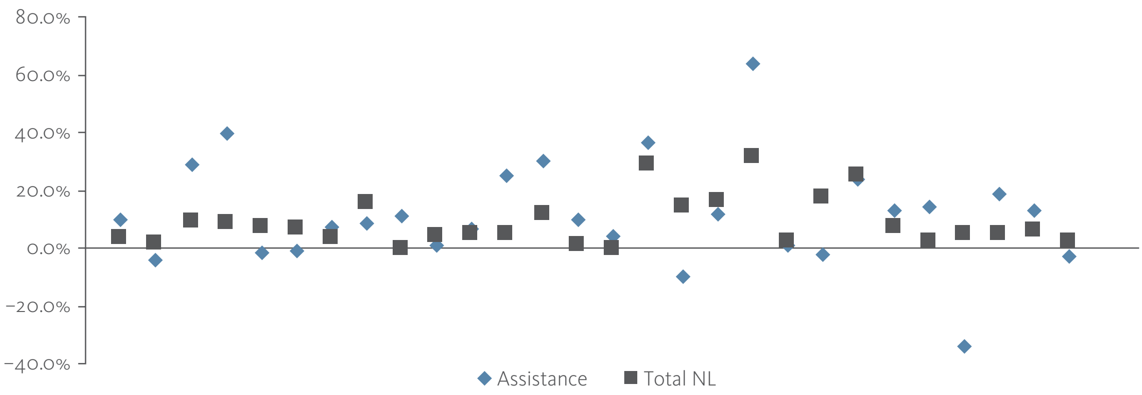
Source: EIOPA Solvency II Database

(1) For example, the Financial Conduct Authority (FCA) recently published a report on a thematic review on 'General Insurance' that included travel insurance. The Australian Securities and Investment Commission (ASIC) has focused on 'add-on insurance through car dealers'. The Istituto per la Vigilanza Sulle Assicurazioni (IVASS) conduct several thematic reviews covering add-on and ancillary insurance.

(2) Data available for 28 EEA countries out of 31

However, in 16 countries of the European Economic Area (EEA), the average GWP growth has been higher in the assistance business line than for non-life insurance as a whole. Moreover, in 19 countries, the GWP growth rate has been higher than the average EEA GWP growth rate of 1%. In 7 EEA countries, the GWP experienced a significant growth of more than 20%.

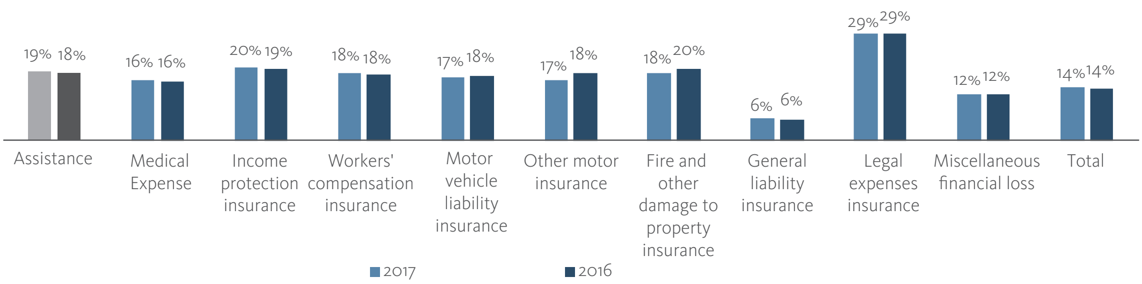
Figure 2 - EEA GWP growth for assistance vs non-life in 2017



Source: EIOPA Solvency II Database

The EEA (3) average commissions in the assistance business line in 2017 were 19% compared to 14% for non-life insurance as a whole.

Figure 3 - Average commissions in the EEA in the non-life insurance

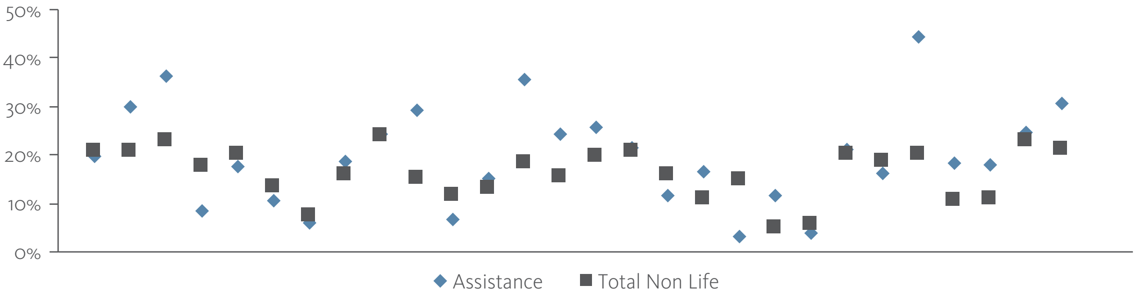


Source: EIOPA Solvency II Database

(3) Data available for 28 countries of the EEA out of 31.

In 16 countries, the average commission rates in the assistance business line were higher than the average commissions in non-life insurance as a whole (*Figure 4*).

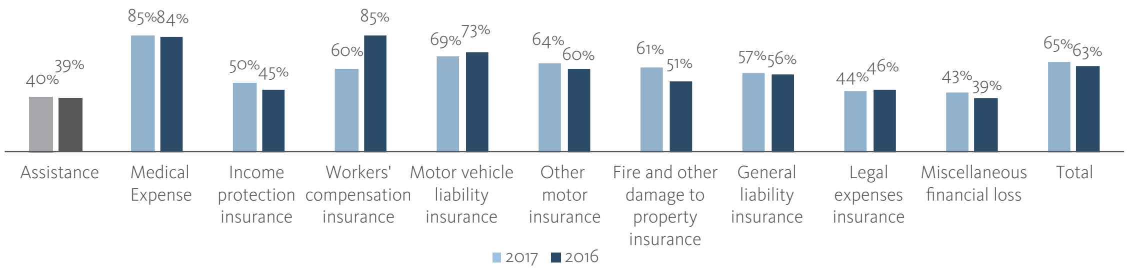
Figure 4 - Commission levels in assistance vs non-life



Source: EIOPA Solvency II Database

The average claims ratio for assistance in 2017 in the EEA (4) countries has been 40%, compared to 63% for the non-life insurance as a whole, being the lowest claims ratio amongst non-life insurance lines of business.

Figure 5 - Average claims ratio in non-life insurance in 2017 vs 2016

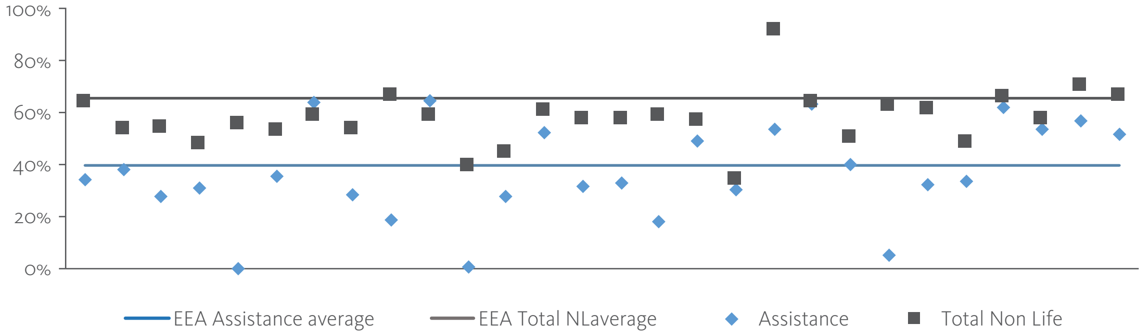


Source: EIOPA Solvency II data

At the Member State level, it can be noticed that in 26 countries, the average claims ratio in 2017 for assistance was lower than for non-life insurance as a whole. Furthermore, in 17 countries, the claims ratio for the assistance line of business was lower than the EEA average and in 8 countries the claims ratio was lower than 30%.

(4) Data available for 28 EEA countries out of 31.

Figure 6 - Average claims ratio in non-life insurance in 2017



Source: Solvency II data

Considering the reported potential for consumer detriment as well as the emergence of a trend, in 2018 EIOPA launched a thematic review on travel insurance, with the aim of better understanding possible drivers and their materiality for consumer detriment.

METHODOLOGY

As explained in the published industry questionnaire, for the purpose of this thematic review EIOPA followed an agreed upon methodology. EIOPA gathered information from insurance undertakings and a selection of stakeholders:

1. **Insurance undertakings**: Evidence from insurance undertakings was collected via an Industry Questionnaire (IQ) sent to a sample of 201 insurance undertakings operating in 29 Member States. ([5]) The questionnaire has been distributed by the NCAs to the selected insurance undertakings only – no information has been collected directly from intermediaries.

   The decision on the sample composition has been taken by each NCA considering local market specificities, to ensure market representativeness. In selecting which insurance undertakings to include in the sample, NCAs considered the following principles:

   - Include insurance undertakings of different sizes;
   - Include 7 of the largest 10 insurance undertakings;
   - Represent 60% of gross written premiums.

   The questionnaire covered quantitative ([6]) and qualitative information on:

   - The main characteristics of travel insurance products;
   - Sales practices and consumer behaviour, and
   - Emergence of new distributional channels and new business models.

   The collected information from participating insurance undertakings provided a market-oriented and practical perspective on the degree and extent to which new innovative distribution channels and business models are affecting, or are expected to affect the travel insurance market.

2. **Stakeholders**: Evidence from stakeholders mainly included discussions with the industry and consumers' associations as well as EIOPA's Insurance and Reinsurance Stakeholders' Group (IRSG). Information requested from stakeholders mainly concerned emerging distribution channels and business models and how these can affect consumers.

([5]) EEA Member States excluding CY and LI.

([6]) The reference reporting date was 31.12.2017

1. OVERVIEW OF TRAVEL INSURANCE MARKET

1.1. GENERAL OVERVIEW

According to the United Nations World Tourism Organisation (UNWTO), international tourism has been experiencing accelerating growth [7] since 2010. In 2017 in Europe, international arrivals grew 8.4% against a global average of 7%. [8] European travel demand increased and Europeans have retained the status of the most travelled nations in the world, accounting for 48% of the outbound tourism in 2017. According to Eurostat, in 2017 the EU residents made around 1.3 billion trips. Moreover, around 62% of EU residents made at least one personal trip in 2017. [9]

In this regard and considering that very often travel insurance is bought jointly with trips, from a consumer's perspective, the cost of travel insurance represents only a fraction of the total cost of the primary travel product. [10] Despite this apparent reduced relevance for industry and consumers, from a forward-looking consumer protection perspective, travel insurance is expected to grow in importance, and the aggregate impact of poor value for money can be notable. In addition, from an individual perspective, detriment could be significant e.g. where the financial impact of medical expenses while traveling can be large (see Section 3.4).

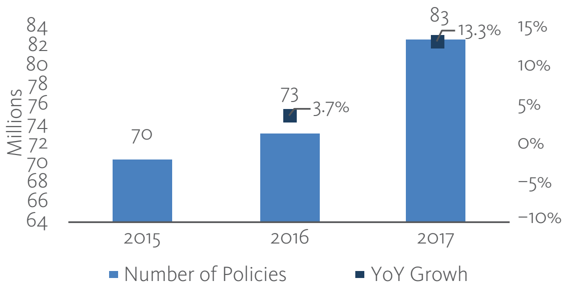
The demand for travel insurance is expected to follow the growth in the tourism industry fuelled by a recovering economy and higher demand from a growing number of wealthier senior citizens and to benefit from greater awareness of this type of product by consumers. [11]

Furthermore, the competitive and distribution dynamics of the market are expected to continue to evolve. The shift in the market from being primarily local and in-person to global and remote (i.e., online access) is leading to the emergence and consolidation of new distribution channels, new ways of engaging with customers, and a new breed of competitors and disruptors of the traditional business models (see Section 2.3). These changes are relevant for consumers and the insurance industry as a whole given that these changes may well find parallels in other insurance products.

From an industry perspective, travel insurance is one of the smallest non-life lines of business. Based on the data reported by the insurance undertakings in the IQ on GWP, travel insurance accounts for 4% of the total non-life insurance business. The year-on-year growth in travel insurance was around 3% in 2016 compared to 2015. In 2017, travel insurance experienced a significant growth of 9%, while non-life insurance in general experienced a growth of 5% both in 2016 and in 2017.

Alongside growth in travel, travel insurance has also increased; in fact, as shown in *Figure 7* the travel insurance market experienced a significant growth in terms of number of policies. In 2016 the number of new policies underwritten by the participants in the questionnaire was 73 million (+3.7% compared to 2015) and 2017 it reached 83 million (+13.2% compared to 2016).

Figure 7 - Number of new policies



Source: EIOPA Travel Insurance thematic review

(7) This is calculated based on arrivals.

(8) UNWTO Tourism Highlights: 2018 Edition https://www.e-unwto.org/doi/book/10.18111/9789284419876

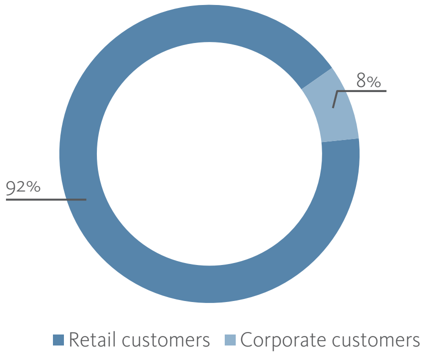
(9) Tourism statistics for 2017, Eurostat https://ec.europa.eu/eurostat/statistics-explained/Tourism_statistics

(10) A general rule of thumb is that a package plan will cost between 5% and 7% of the total trip cost depending on the plan.

(11) Global travel insurance market – Allied Market Research; available at: https://www.alliedmarketresearch.com/travel-insurance-market.

In fact, while often being low cost products, (12) travel insurance coverage can bring significant benefits to consumers; indeed this is a fundamentally retail business - the vast majority of customers are retail (92% of the total travel insurance GWP concerns policies sold to retail customers, while corporate customers account only for 8%).

Figure 8 - Travel insurance customers



Source: EIOPA Travel Insurance thematic review

(12) This can be seen from a comparison of GWP with numbers of policies reported for 2017 – leading to an average policy of around 30 EUR.

1.2. TRAVEL INSURANCE PRODUCTS ([13])

As mentioned, travel insurance products are generally low cost products covering a wide variety of risks. One of the key characteristics is that travel insurance is often sold as ancillary to other products and/or it is often included in a package, leading to important behavioural biases in the sale process. ([14]) (see Section 4.1.1)

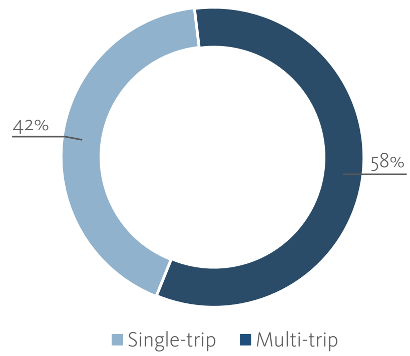
This also implies that, while for other types of insurance products specific distribution channels are prevalent (e.g., in many markets agents and comparison websites are the most common distribution channels for Motor Third Party Liability – MTLP – policies ([15])) travel insurance is placed on the market via a wide variety of distribution channels. These include direct writers, insurance brokers and agents, mainstream travel agents, tour operators, airlines, ferries/railway operators, banks, credit card providers, online travel specialists and comparison websites/ aggregators.

Travel insurance is generally available in two forms: (i) as a **single-trip** insurance policy, which provides cover for a specific trip and is matched to the exact characteristic of the trip (e.g. number of travelling days and destination) and (ii) as an **annual insurance policy**, which covers multiple trips in a year.

The split appears to be equal; in fact, in 2017 travel insurance GWP collected by the participants in the IQ accounted for 2.9 billion euros split as follows (*Figure 9*): 58% of the GWP have been collected through Multi-trip policies and 42% through Single-trip policies.

Single-trip policies are mainly sold via ancillary insurance intermediaries (52% of total single trip GWP) and by insurance agents/ brokers (24% of total single-trip GWP), followed by direct sales (17%). Single-trip policies sold via bancassurance represented only 2% and comparison websites/ aggregators only 3%.

Figure 9 - Collected GWP for Single-trip and Multi-trip policies



Source: EIOPA Travel Insurance thematic review

With regard to Multi-trip policies the situation is reversed. Multi-trip policies are mainly sold via bancassurance (46% of the multi trip GWP) followed by insurance agents/ brokers (22%) and direct sales (20%). In this case, ancillary insurance intermediaries collected only 9% of the total GWP for multi-trip policies.

Within these two broad groups, several types of cover are available to consumers, e.g. trip cancelation & interruption, emergency medical costs, rental car insurance excesses, etc. Travel insurance may also be available as individual policies or group policies intended to cover multiple individuals (e.g. families, groups or employees of the same entity). In addition to single-trip or annual travel insurance, some products sold under the label of travel insurance are designed to provide cover for long uninterrupted stays abroad, for instance for students studying abroad. These tend to cover medical costs only.

([13]) All types of travel insurance were within the scope of the thematic review with the exception of products covering long uninterrupted stays abroad, given their unique purpose and characteristics, in particular in which concerns the specific cover they offer (in most cases limited to explicit medical costs).

([14]) A general rule of thumb is that a package plan will cost between 5% and 7% of the total trip cost depending on the plan so consumers do not pay much attention to the travel insurance product.

([15]) Evaluation of the Structure of Insurance Intermediaries Markets in Europe in accordance with Article 41(5) of the Insurance Distribution Directive (IDD), EIOPA https://eiopa.europa.eu/the-European-Insurance-Intermediaries-Markets.aspx

1.3. FINANCIAL RATIOS IN TRAVEL INSURANCE

From an analysis of selected financial ratios, travel insurance seems to be a more profitable business for insurers compared to non-life insurance business as a whole.

- Insurers make more profit by underwriting travel insurance: the net underwriting result in travel insurance (15%) is higher than for non-life insurance business as a whole (10%).
- The average claims ratio, as reported by the insurance undertakings is lower in travel insurance (40%) compared to the non-life insurance as a whole (53%).
- Moreover, average commission levels in travel insurance are higher (24%) compared to the entire non-life insurance business (18%). These averages mask significant divergences however: extreme commissions are highly concerning from a supervisory standpoint. (see Section 1.4)
- Average levels of expenses, as reported by the insurers are in line with non-life business as a whole, around 19%.

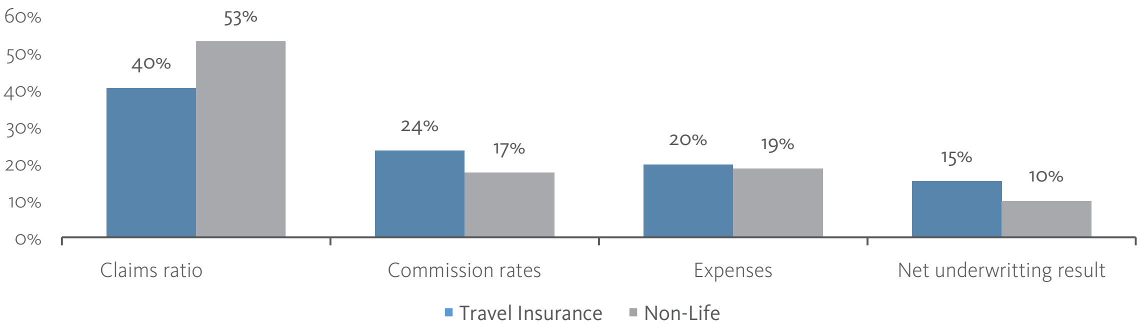
Insurers reported a trend of growing collected premiums over the last three years preceding 2017. Indeed, based on the data reported by the insurance undertakings in the IQ, the total collected GWP experienced a growth of 3% in 2016 compared to 2015 and a growth of 7% in 2017 compared to 2016.

Figure 11 presents the GWP split per distribution channel. Ancillary insurance intermediaries collected 27% of the total GWP, bancassurance 26% and insurance agents/brokers collected 23%. Insurers collected 18% of the total GWP through direct sales. Price comparison websites and aggregators are still at an emergent stage and the total collected GWP accounts only for 2%. However, in the case of those insurers that use price comparison websites and aggregators, collected premiums via this channel go up to 15%-25% of the total collected GWP.

The above average claims ratio and average commission levels in travel insurance are not representative for the whole sample of participants in the IQ. There are cases where the two indicators for some insurance undertakings are extremely divergent from the average.

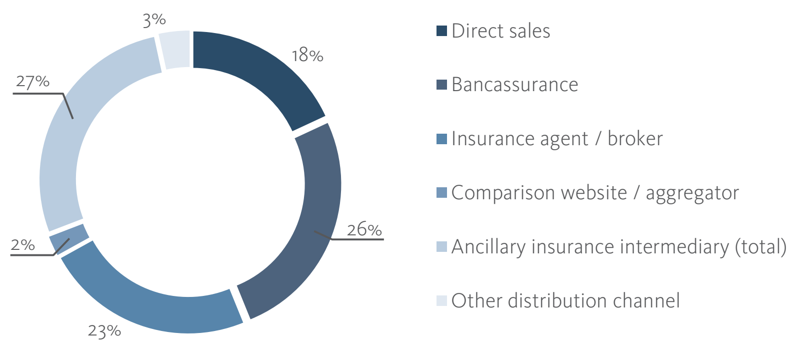
A more detailed analysis on commission levels and claims ratios is presented in the next Sections 1.4 and 1.5.

Figure 10 –Average financial ratios in travel insurance vs non-life insurance as a whole



Source: EIOPA Travel Insurance thematic review

Figure 11 - GWP split by distribution channel



Source: EIOPA Travel Insurance thematic review

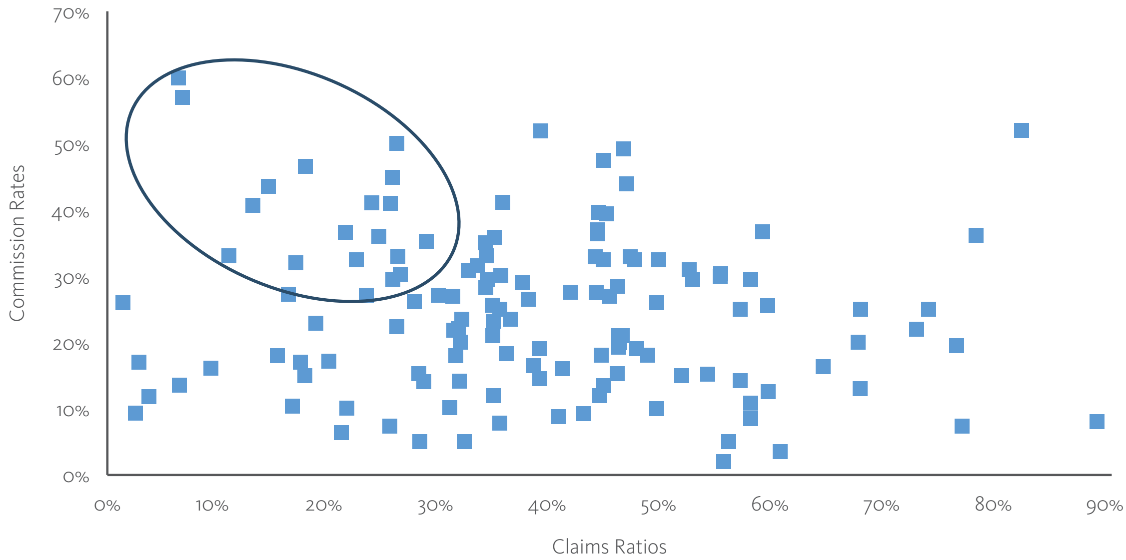
The *Figure 12* presents the average commission levels and claims ratios for each insurance undertaking. It is noticeable that 38 insurance undertakings paying commissions above the average of 24% of the GWP have claims ratios below the average of 40% of the GWP. As shown in the bubble in *Figure 12*, 18 insurance undertakings have average commission levels above 30% of the GWP and claims ratios inferior to 30% of the GWP.

Additionally, when analysing the maximum commissions paid to distributors together with the claims ratios for each insurance undertaking, the connection between high commissions and low claims ratios is accentuated. *(Figure 13)*

24 insurance undertakings pay commissions above 50% of the GWP and have claims ratios below 35% of the GWP. The number increases if the threshold for the claims ratio is increased to 50% of the GWP. (*Figure 13*)

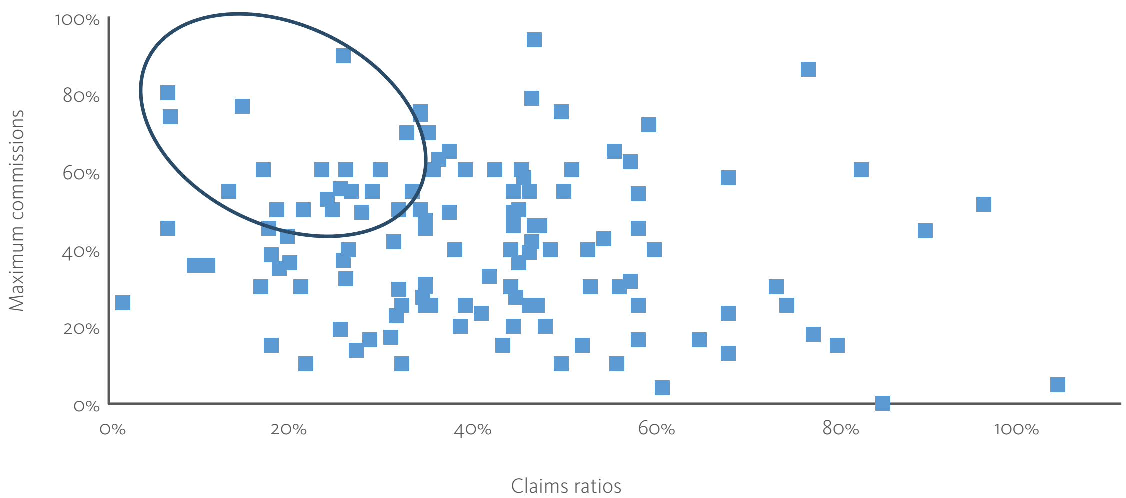
Out of the 24 insurance undertakings, 14 sell mainly single-trip policies (more than 50% of the total collected GWP) and 4 sell mainly multi-trip insurance policies. 6 out of 14 insurance undertakings use ancillary insurance intermediaries as the main distribution channel to sell their single-trip policies.

Figure 12 - Average commissions and claims ratios



Source: EIOPA Travel Insurance thematic review

Figure 13 - Maximum commission levels and claims ratios



Source: EIOPA Travel Insurance thematic review

1.4. COMMISSION LEVELS IN TRAVEL INSURANCE

Although the premiums for travel insurance products are relatively small compared to other insurance products, high commissions paid by insurers to distributors may lead to increased prices for consumers. High levels of remuneration of firms that incur little costs and do not deliver services corresponding to the received commissions might raise significant potential for harm and poor outcomes for consumers. High commissions paid to distributors can indicate excessive pricing for products of which the costs are very low.

As reported by insurers in the IQ, commission levels vary by type of distribution channels and the main determinants of the commission levels paid to distributors are:

- Volume of policies sold;
- Profitability and performance of the distribution channel;
- Claims ratio;
- Market power and size of the customer base;
- Exclusivity clauses;
- Activities performed (i.e. marketing);

Around 80% of insurance undertakings said they considered that the actual commission levels paid to distributors are justified based on the activities performed by the distributors (i.e., marketing, on-boarding of customers, claims management, etc.). However, this is not the case for all distribution channels, and it is not clear that this conclusion would apply also to higher than average commissions. Some respondents consider that in the case of online insurance aggregators, travel agencies and tour operators, the commission levels are very high and not justified, as the efforts made to sell the policies are low in comparison with other distributors.

It can be argued that commissions charged by these distributors may relate more to their market power than to the actual customer acquisition and policy-servicing work they perform. According to some insurers, commission levels above 30%-40% of the premium are not justified.

Although the average commission levels reported in the question on financial ratios in the IQ (*Figure 10*) indicate that on average insurers pay 24% of GWP in commissions to distributors, a more in-depth data analysis paints a different picture. There is significant dispersal in commission levels, which raises significant consumer protection concerns.

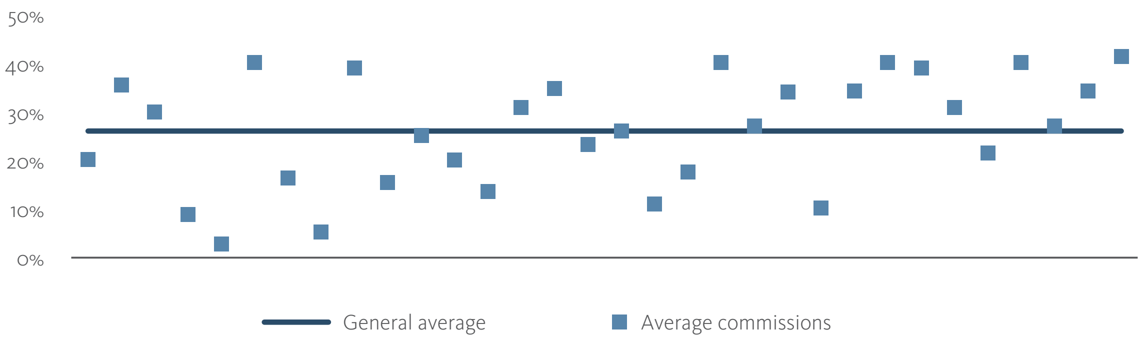
1.4.1. BANCASSURANCE

The average commission paid by insurers to banks is around 26% of the GWP. However, half of the respondents pay commissions higher than the average, going up to 40% of the GWP. (*Figure 14*)

Out of those respondents that use bancassurance as a distribution channel, 47% reported paying maximum commission levels of 40% of GWP and more. (*Figure 15*)

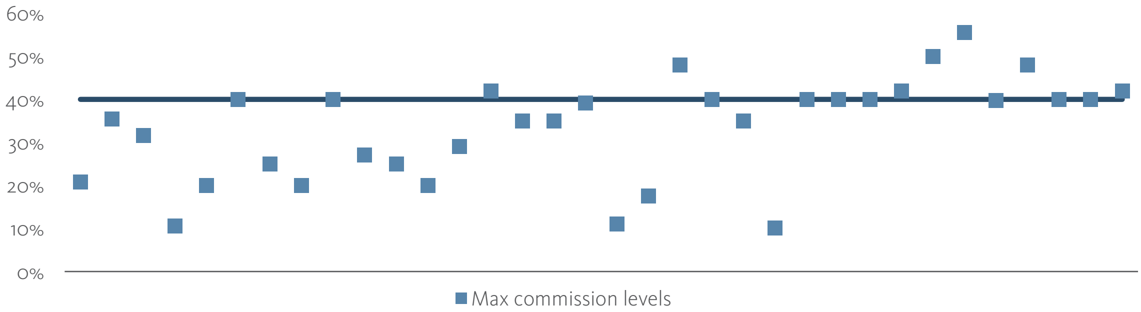
In some cases, the commissions paid to banks are high, reaching 56% of the GWP.

Figure 14 - Average commissions in Bancassurance



Source: EIOPA Travel Insurance thematic review

Figure 15 - Maximum commissions in Bancassurance



Source: EIOPA Travel Insurance thematic review

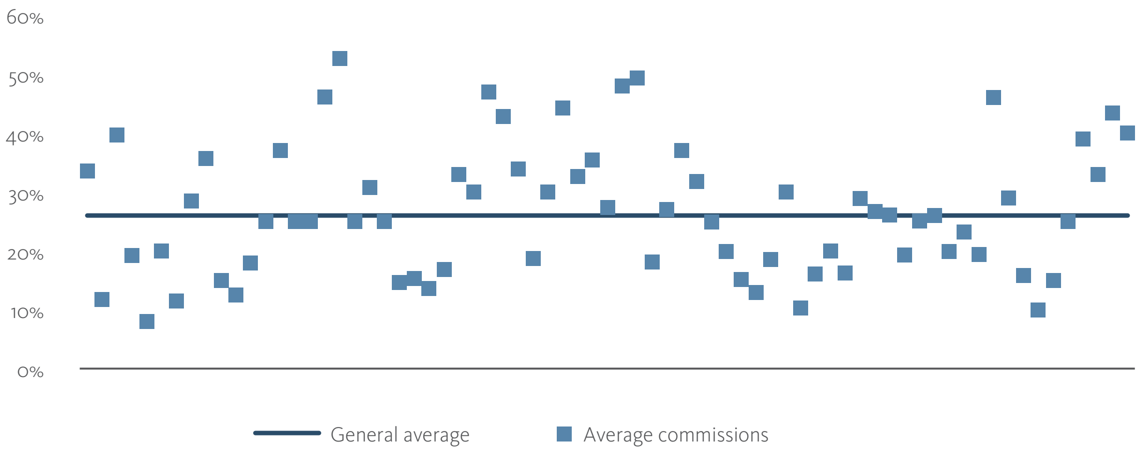
1.4.2. INSURANCE AGENTS/BROKERS

Based on the data reported by the respondents, the average commission levels paid by insurers to insurance agents/brokers is around 27% of the GWP. However, 40% of insurers pay commissions higher than the average, going up to 50% of the GWP in some cases.

Although insurance agents/brokers execute the main functions for concluding a contract with consumers, such higher levels of commission may not be considered appropriate.

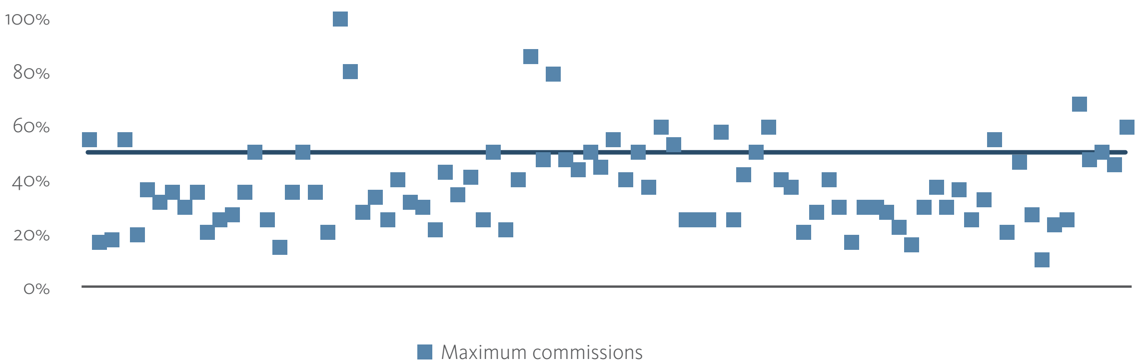
Around 23% of respondents reported maximum commissions over 50% of the GWP and 4% reported commissions above 78% of the GWP, which is extremely high. (*Figure 17*)

Figure 16 - Average commissions to Insurance agents/ brokers



Source: EIOPA Travel Insurance thematic review

Figure 17 - Maximum commissions to insurance agents/ brokers



Source: EIOPA Travel Insurance thematic review

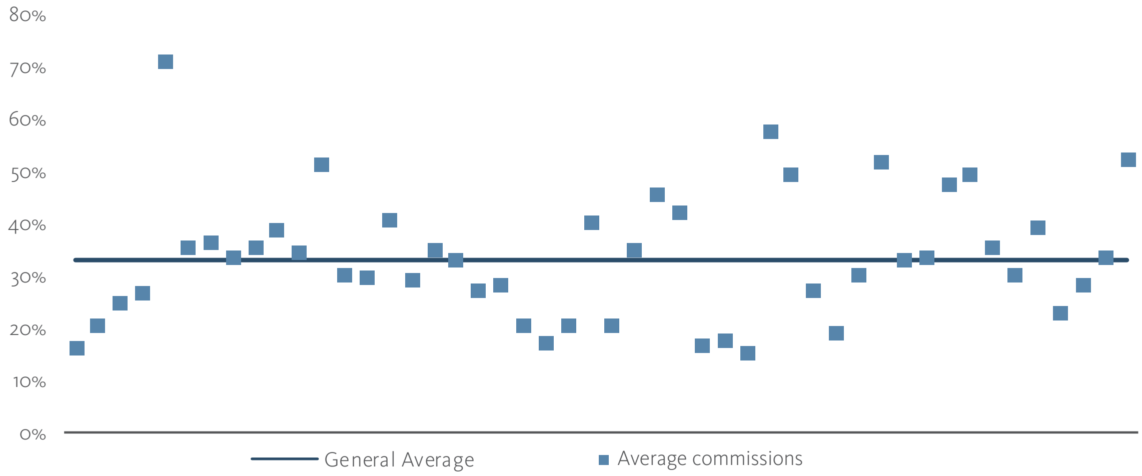
1.4.3. ANCILLARY INSURANCE INTERMEDIARIES

The average commissions paid to ancillary insurance intermediaries by the insurance undertakings are around 33% of the GWP. (*Figure 18*)

Over 40% of respondents reported maximum commissions of more than 50% of the GWP, and 14% reported paying maximum commissions of more than 70% of the GWP. (Figure 19) In one case, the insurer reported paying maximum commissions of 94% of the GWP.

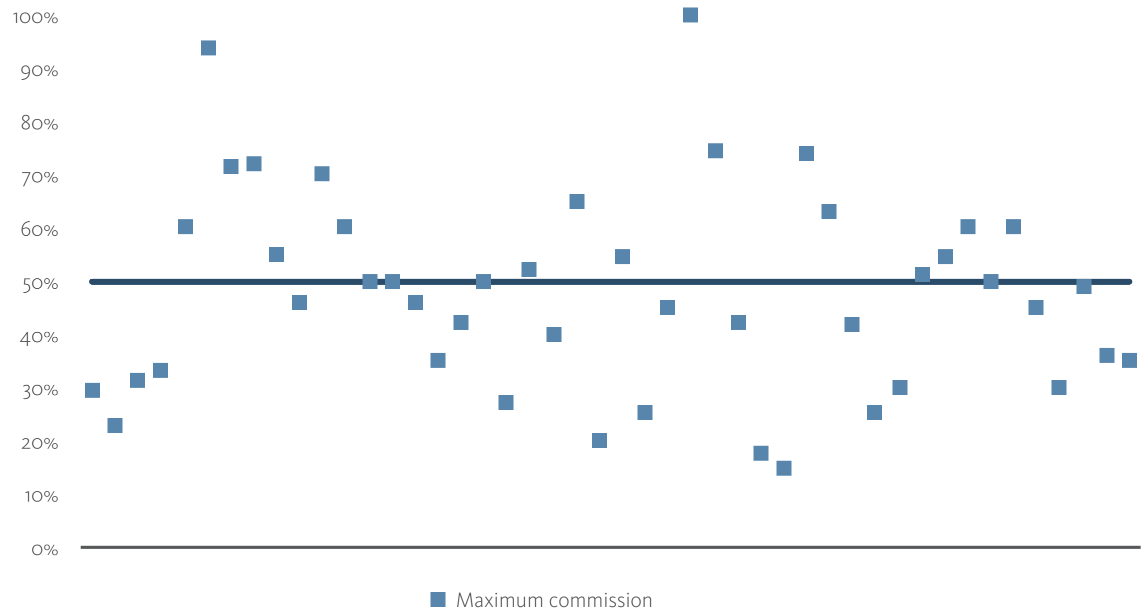
An analysis of the data on maximum commissions and proportion of denied claims in total claims showed that 16 insurance undertakings that pay maximum commissions of more than 30% of the GWP have proportions of denied claims above the average of 17% of total number of claims. Out of the 16 insurance undertakings, 9 pay maximum commissions of more than 50% of the GWP and have proportions of denied claims going from 20% to 69% of the total claims. (see more in Section 1.5 on denied claims)

Figure 18 - Average commissions to ancillary insurance intermediaries



Source: EIOPA Travel Insurance thematic review

Figure 19 - Maximum commissions to ancillary insurance intermediaries



Source: EIOPA Travel Insurance thematic review

1.4.4. COMPARISON WEBSITES/ AGGREGATORS

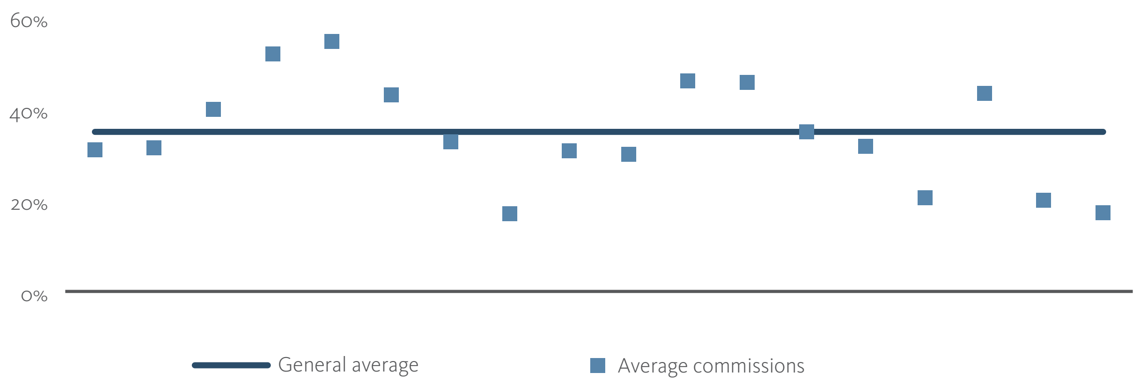
As shown earlier in *Figure 11*, comparison website/aggregators are accounting for only 2% of the total collected GWP by the participants in the Industry Questionnaire. This distribution channel is still at an incumbent stage in many of the EU Member States.

This type of distribution channel is in theory a very useful tool for consumers that are looking to compare different travel insurance products. Providing products from different insurance undertakings with varying prices allows consumers to compare and choose among a variety of travel insurance policies.

The respondents that use comparison websites/aggregators as a distribution channel reported paying on average 35% of the GWP in commissions. (*Figure 20*)

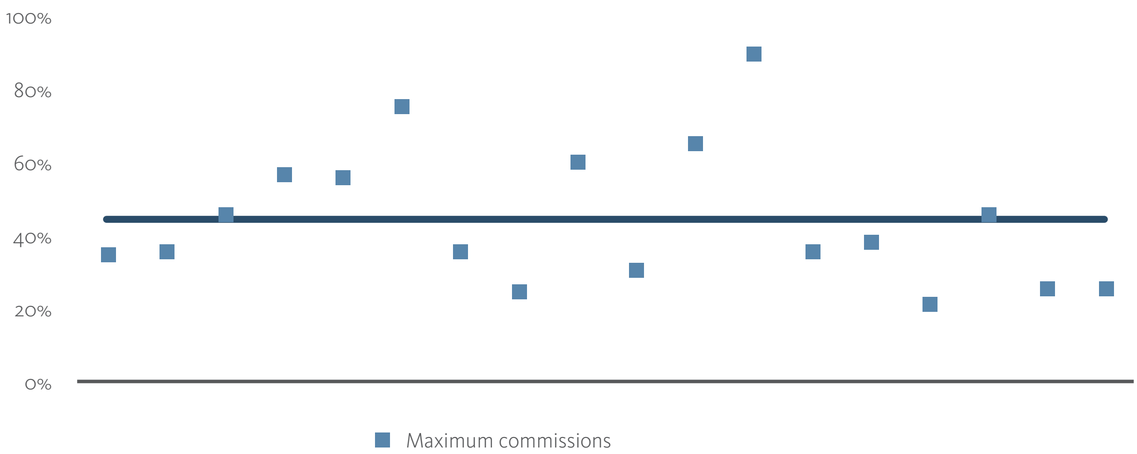
A third of respondents reported maximum commissions of more than 55%, going up to 89% of the GWP. (*Figure 21*)

Figure 20 - Average commissions to comparison websites/aggregators



Source: EIOPA Travel Insurance thematic review

Figure 21 - Maximum commissions to comparison websites/aggregators



Source: EIOPA Travel Insurance thematic review

1.5. CLAIMS RATIO

Claim handling is one of the key parts of an insurance product's lifecycle. Claims ratios are an indicator used to measure profitability but also consumer outcomes such as value-for-money. Low claims ratios might suggest issues around high volumes of denied claims or consumers not making claims because they have not been adequately informed about the limits of the coverage of the insurance contract. It could also point towards issues around mis-selling of a travel insurance product or customers not having the information on the claim processes. Low claims ratios could also indicate poor value products. Finally, this might also indicate lower incident rates than anticipated, consumers staying healthy during their travel and infrequent cancellations etc.

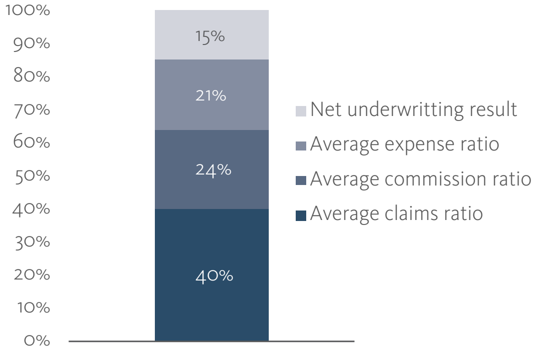
In the IQ, the respondents reported the average claims ratio as part of the financial ratios question. Additional reporting on claims has been done separately, insurers indicating the:

- Total number of claims;
- Total value of claims;
- Total value of claims per cover;
- Number of denied claims;
- Number of denied claims per cover.

The average claims ratio ([16]) based on the data reported by the participants to the IQ is 40% of the GWP.

([16]) Median claim ratio calculated as a percentage of the total gross written premiums collected by the Insurers.

Figure 22 - Claims ratio



Source: EIOPA Travel Insurance thematic review

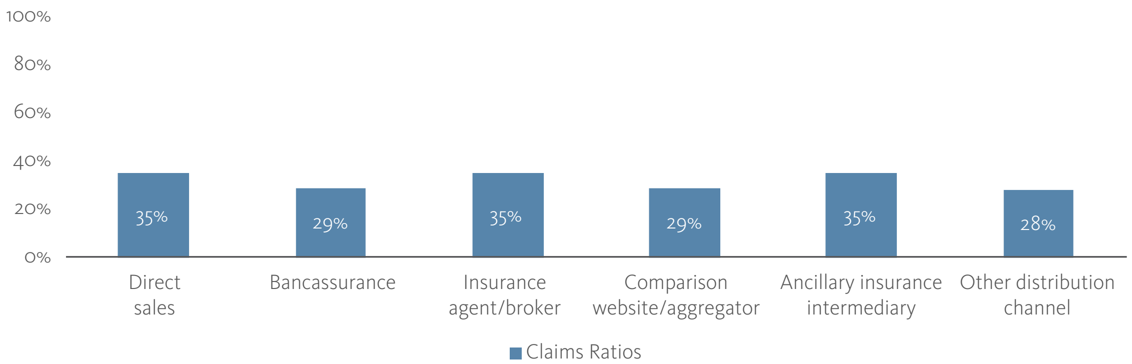
A more granular analysis on claims value per distribution channel shows that the claims ratios are not very different from one channel to another. ([17]) The claims ratio for each distribution channel has been calculated as a percentage of GWP. The *Figure 23* presents the median claims ratio for each distribution channel.

The lowest median claims ratio is in bancassurance (29%), comparison websites/aggregators (29%) and other distribution channels (28%).

The average and median claims ratios give a general overview, however a more granular analysis of the individual claims ratios for each participant in the IQ gives a different perspective, and shows significant dispersal in results.

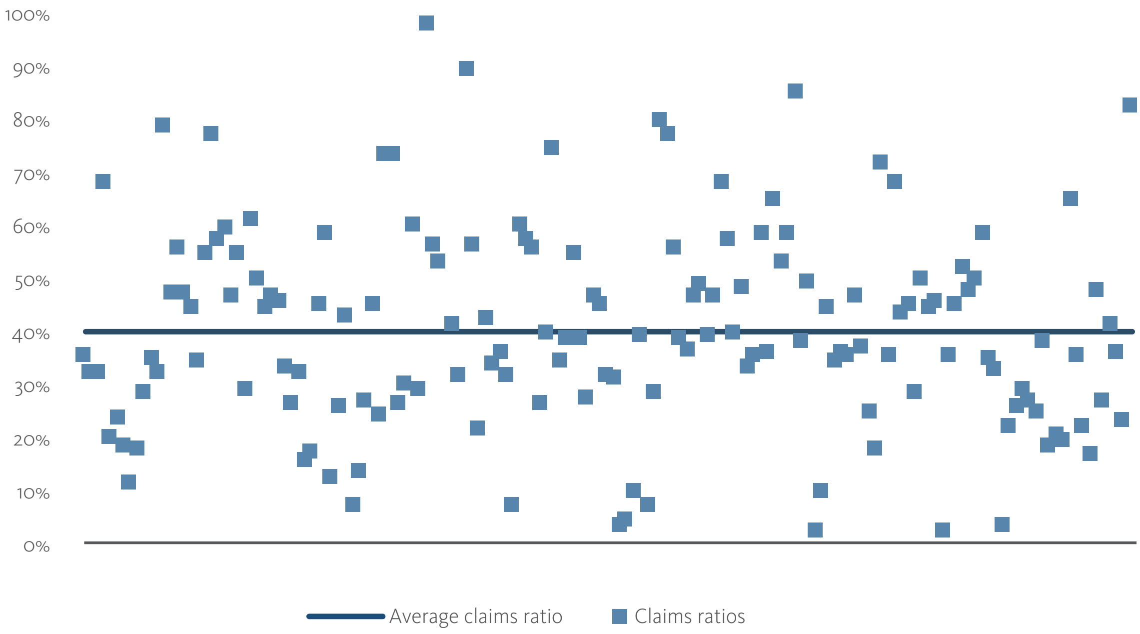
([17]) It should be noted that not all respondents were able to provide the data on claims for each distribution channel. Some of the respondents provided only the totals of claims value

Figure 23 – Median claims ratios per distribution channel



Source: EIOPA Travel Insurance thematic review

Figure 24 - Claims ratios



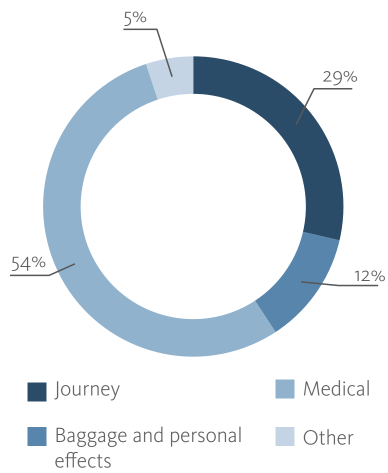
Source: EIOPA Travel Insurance thematic review

More than half of the respondents (55%) have claims ratios below the average of 40% of the GWP. Around 15% of respondents have claims ratios under 20% of the GWP.

In the questionnaire, the insurance companies also reported the number of paid claims for the following coverages: travel journey, baggage and personal effects, medical and other. As expected, the *medical claims* account for around 54% of total paid claims. Claims paid on *baggage and personal effects* are accounting for 29% of the total number of claims, and the claims on the *journey* are around 12% of the total.

When looking into the value of claims paid per cover (in Euros), based on the data reported by the insurance companies, the medical claims account for 58% of the total value of claims paid to consumers.

Figure 25 – Total claims paid per cover



Source: EIOPA Travel Insurance thematic review

1.6. DENIED CLAIMS

Denied claims are those that have been submitted by the policyholder and dully processed by the insurance undertaking, which have ended without payment to the policyholder. For the purpose of the thematic review, only the claims that have been completely denied have been considered. Claims partially denied were not considered as claims denied.

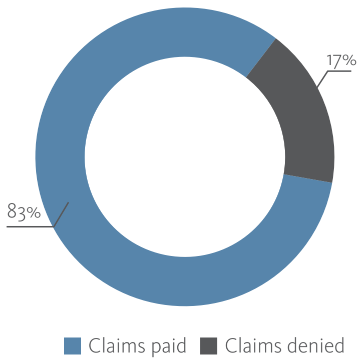
Based on the data reported by the insurance undertakings participating in the IQ, the total number of denied claims accounts for 17% out of the total number of claims. (*Figure 26*).

When looking at the spread of denied claims per distribution channel, bancassurance ([18]) (34%) and ancillary insurance undertakings (22%) account for more than half of the total number of denied claims. This is in line with the total collected GWP per distribution channel, bancassurance and ancillary insurance undertakings having the highest share.

A more detailed analysis of the numbers of denied claims out of total claims shows that:

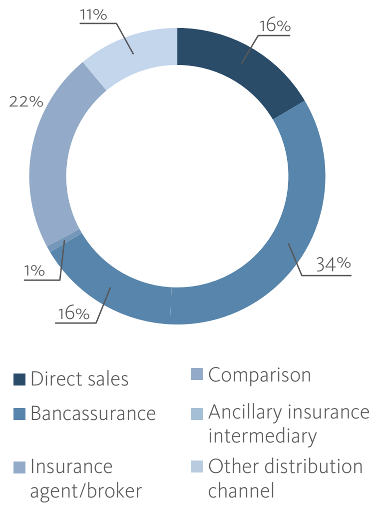
- Out of 61 insurance undertakings that reported the numbers of paid and **denied claims for bancassurance,** for 28 the proportion of denied claims out of total number of claims represents more than the average of 17%. Moreover, for 11 of them the proportion of denied claims is above 30% of the total claims. Considering that the travel insurance products sold via bancassurance are mainly multi-trip policies (97% of the GWP collected via bancassurance), this might indicate that the coverage offered by some policies does not fit consumer's expectations or that in some cases the terms and conditions contain exclusions consumers are not aware of.
- With regard to **insurance agents/ brokers** out of 75 insurance undertakings that reported the numbers of paid and denied claims, for 25 the proportion of denied claims is above the average of 17% of total number of claims and for 12 the proportion is above 30% of total number of claims.
- In the case of **comparison websites/ aggregators**, out of 22 insurance undertakings that use this channel and reported the numbers of paid and denied claims, 11 insurers have proportions of denied claims above the average 17% of total number of claims and for 5 of them the proportions are higher than 30% of total number of claims.

Figure 26 - Proportion of denied claims



Source: EIOPA Travel Insurance thematic review

Figure 27 – Proportion of denied claims per distribution channel



Source: EIOPA Travel Insurance thematic review

([18]) The share of bancassurance in total denied claims might be higher if to consider the data from one company that has a partnership with Visa. The company reported the data under "other distribution channel" and not under "bancassurance". With regard to the share of "other distribution channel" in the total number of denied claims, there is one company that has a partnership with Visa where its travel insurance products are sold together with credit cards.

- For **ancillary insurance intermediaries,** out of 48 insurance undertakings that reported the numbers of paid and denied claims, 18 insurers have proportions of denied claims above the average of 17% of total number of claims and 8 have ratios higher than 30%.

When talking about the number of claims denied per type of cover, the denied claims related to the travel journey have the highest percentage of the total denied claims (44%). Medical claims account for 29% of the total denied claims.

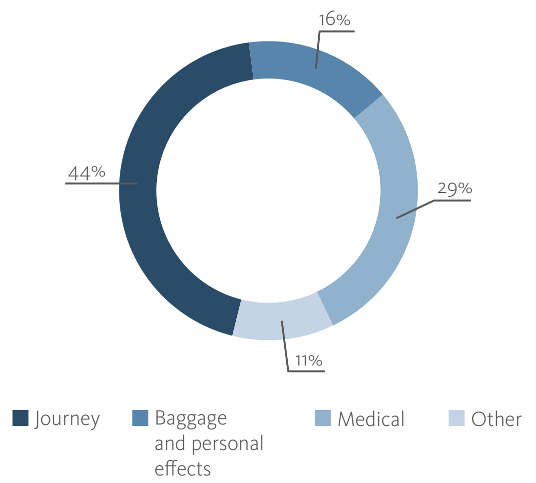
As highlighted earlier in the report this might be related to the pre-existing medical exclusions that are excluded from the cover but are not registered at the moment of sale of the travel insurance product. As most of the participants in the industry questionnaire **do not use medical screening** before the signing of the contract, the pre-existing medical conditions are not taken into account when selling the travel insurance policy.

A more granular analysis of the denied claims per coverage shows that those insurers that reported having a medical screening in place before contracting a travel insurance policy have lower percentages of denied claims for medical coverage of the total denied claims. This could indicate a positive impact of the medical screening on the number of the denied claims related to medical coverage. With an upfront medical screening, consumers are able to declare their health situation and pre-existing medical conditions and the insurer is able to inform the consumer on the offered coverage

However, the data does not show a strong correlation between the medical screening and low rate of denied claims for the medical coverage, so conclusions must be tentative at this stage.

Without a medical screening, the needs of the consumer with pre-existing medical conditions may not be fully respected, as the coverage offered by the travel insurance product is not tailored to their individual situation (see Section 3.4 which presents how undertakings take into account pre-existing medical condition and causes for potential consumer detriment).

Figure 28 - Proportion of denied claims out of total claims per cover



Source: EIOPA Travel Insurance thematic review

2. BUSINESS MODELS

> “Some IU are moving from mainly direct sales to selling online, through comparison websites.”

Travel insurance related business models vary significantly based on the distribution strategy, product features, and product complexity. A business model analysis on one hand can help identifying inherent conduct risk on the other hand it can assist in understanding the impact on digitalisation and underlying conduct risks.

2.1. CHANGES IN THE BUSINESS MODELS

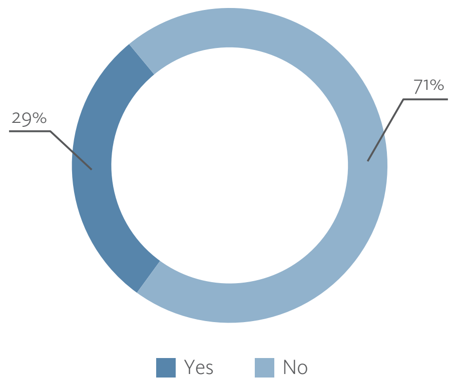
Despite a general digitalisation trend, the majority of respondents (71%) when asked if they faced major changes reported that no major changes have happened in the recent years in the travel insurance market and in the business models of the insurance undertakings.

The remaining 30% reported changes in relation to:

- Integrating new technologies to sell travel insurance products (mobile applications and other online distribution channels);
- The de-bundling of the travel insurance products from certain bank accounts to give customers the option to decide whether they would like to buy the travel insurance or not.
- The development of tools allowing the customers to complete their end-to-end journey online, including renewal, claims notifications and electronic notifications of loss.

One insurer mentioned in the questionnaire that there are several Insurtech companies using new technologies such as mobile GPS location to reach out to customers when they are on holiday.

Figure 29 - Changes in Business Models



Source: EIOPA Travel Insurance thematic review

In fact, with changing consumer behaviours, demanding better, easier and faster customers' experience and more personalized products, several incumbents are:

- Changing their travel insurance products ([19]); and/or
- Changing their distribution strategies.

To adapt to new technologies, two insurance undertakings reported outsourcing part of the business operations to reach more customers and decrease administrative costs.

([19]) For example, one insurance undertaking reported its willingness to develop new insurance products to differentiate from other providers: it has launched a new type of insurance for camping covering material damages to the tent, expenses for temporary accommodation and third party liability.

2.2. DIGITALISATION AND INNOVATION - THE DRIVERS FOR CHANGE

Technological innovations are beginning to change the way the travel insurance market is operating. Benefits and potential risks need to both be considered. As shown in EIOPA's recent thematic review on **Big Data Analytics** ([20]) while there are numerous benefits and opportunities, risks should not be underestimated. Amongst the specific benefits, it is noteworthy that:

- Consumers can increasingly buy travel insurance alongside their online booking of flights or train tickets.
- Web tools and mobile applications facilitating customers' experience and driving efficient and optimal coverage are being developed.
- Purchasing online travel insurance can enable the consumer to access better information about coverage and nudge consumers towards paying more attention to the travel insurance policy.
- The introduction of price comparison websites is generating a more competitive field and promoting comparisons.

Innovation both in the insurance and tourism sector are not the sole factor driving innovation with regard to travel insurance products. Respondents highlighted that consumers' habits are also changing, with more and more consumers switching from buying full travel package from a tour operator to creating bespoke itineraries. Hence, insurance companies noted that consumer's awareness about the need to be covered for unforeseen events while travelling is increasing.

Finally, in a constantly 'online environment' more and more customers' segments, especially millennials, expect to get serviced and communicate with insurers at any time of the day. Respondents noted that quick and effective engagement with these consumers is crucial and the development of new technologies – apps, web portals, chatbots – is perhaps already making an effective contribution.

([20]) Big Data Analytics in Motor and Health Insurance, EIOPA – 2019 https://eiopa.europa.eu/EIOPA-reviews-the-use-of-Big-Data-Analytics

2.3. NEW DIGITAL DISTRIBUTORS OF TRAVEL INSURANCE

Participants reported that transport companies with large customer bases and direct customer interfaces, such as airlines, have started to enter the travel insurance industry, mostly as distributors. The business models used by such companies are not only having an impact on the insurance industry but can have a potential detrimental impact on consumers (see Section 4.1.2 on commissions and Section 4.3).

In fact, they often operate as business originators and leverage their large customer base and market power when setting the terms of the distribution agreement with insurance undertakings.

Around 30% of respondents have worked with these partners and reported some benefits relating to this business model such as: enabling them to easily and rapidly increase their customer base giving more access to travel insurance as well as allowing them to integrate travel patterns/travel behaviour data in their risk models.

However, they have also indicated that some of these companies set upfront (unnegotiable) commission rates, often more than 60% plus additional fees on exclusivity, marketing, IT costs, etc. (21) This not only affects market dynamics but also creates new sources of consumer detriment (see Section 1.4 on commissions) or increase the scale of existing potential detriment.

BOX 1 - ONE RESPONDENT IN THE INDUSTRY QUESTIONNAIRE

"We have taken part in an offer to sell travel insurance to an airline company, we came second. We also took part in a tender to provide credit card travel insurance to a newly merged bank. They had very strict requirements about the coverage to be offered and it was made clear that price is the key factor in deciding. It was also implied that we could get creative with exclusions in coverage. We came second again."

Source: EIOPA Travel Insurance thematic review

(21) For example, one respondent reported that its average paid commission to OTAs are around 70%-75% of the written premiums.

2.4. EMERGING BUSINESS MODELS – BIG TECH ENTERING THE MARKET

The increase in online distribution may be further boosted as online travel specialists (22) play an increasing role in distribution and if large technological/internet companies (23) enter the travel insurance market, at least as a first step, in distribution. Companies in other sectors with a distribution network and a large pool of customers (e.g. supermarket chains) are also potential contenders to entering the market as intermediaries.

Players like Google, Amazon, Facebook and Apple (GAFAs) are already providing financial services to their customers and some have been starting to take steps to enter the insurance market. (24) Due to their financial capacity, large scale, trusted reputation, brand recognition and access to a large customer base and personal data, they have the capacity to be important disrupters. Rather than operating as conventional insurance intermediaries, new entrants may operate as business originators and aggregators.

When answering whether new large entrants will change the dynamics of the market and create new sources of consumer detriment or increase the scale of existing ones, respondents indicated that these changes are yet to happen, but also articulated extensive concerns.

It was noted how new entrants would be in a strong position to leverage their large customer base and market power and squeeze business margins potentially at the detriment of the insurance sector and/or consumers. In addition, as already noted, they may also be able to set the terms of distribution agreements with insurance undertakings by setting upfront commission rates when putting up their 'distribution business' for tender among competing insurance undertakings.

In EIOPA's thematic review on Big Data Analytics, a specific part was dedicated to how Big Tech firms could enter the insurance market. In the questionnaire circulated to the industry, ***"the majority of respondents stated that they have observed an increasing interest of some Big Techs in entering the insurance market."*** (25)

Respondents to the current thematic review broadly endorsed the same picture: Big Tech firms have an unusually large customer base and access to large amounts of different types of data, which are not available to traditional insurance companies. Should Big Techs decide to enter the insurance market, many insurance firms consider that this would take place in the form of intermediaries / brokers / price comparison websites; they consider that they could disrupt the distribution of insurance products by selling insurance products through their platforms. This is even more relevant for the travel insurance market since online price comparison websites are already in place selling travel insurance products.

Participants in both questionnaires indicated that large platforms with strong bargaining power could define the 'rules of the game' by favouring certain products in the ranking criteria of their platforms or by controlling the entities that can sell products through their platforms.

(22) E.g. Bookings.com, TripAdvisor, Expedia or Trivago.

(23) E.g. GAFAs (Google, Amazon, Facebook and Apple).

(24) E.g. Amazon Protect provides accidental damage insurance to product bought via Amazon; Apple offers limited insurance for its own products via Apple Care; Google Compare, which was discontinued in 2016, was an online comparison tool for, among others, car insurance.

(25) Big Data Analytics in Motor and Health Insurance, EIOPA – 2019 https://eiopa.europa.eu/EIOPA-reviews-the-use-of-Big-Data-Analytics

2.5. RISKS FOR DISTRIBUTORS NOT INTEGRATING NEW DIGITAL MODELS

Digitalisation has already started transforming the travel insurance market. With new digital distributors acquiring parts of the markets, traditional distributors might be impacted by the new developments.

As reported by the insurance companies in the IQ, those insurance distributors that will not adapt to the new environment and will not integrate the new technologies in their distribution models might face some challenges and risks.

- The main risks highlighted by the respondents are the risk of losing potential customers and the risk of reduction in market share. Due to changes in consumer behaviour and buying preferences, distributors that do not integrate new technologies and do not implement digital distribution channels will not be able to survive in an environment of market consolidation. They may experience significant drop in sales and face issues around decreasing profitability and business sustainability.
- Traditional distributors risk becoming too expensive for customers that buy similar travel insurance products online, therefore, they might have to lower their commission levels in order to maintain contracts and business relations with insurers. Traditional offline agencies require investments in sales animation and marketing campaigns, which are key for stable sales but that can become very costly.
- In the era of digitalisation and development of online sales, it is anticipated that traditional distribution channels (brokers, tied-agents, call centres) will gradually disappear.
- The traditional geographic broker or the niche provider often does not have the same marketing and digital customer journey expertise as Insurtechs. This means they cannot reach customers in a cost-effective way, or their websites do not appeal on mobile channels compared to the new, responsive designs.
- Finally, the insurance distributors that would not use digital channels to sell travel insurance may have to identify niche markets fulfilling the needs of a specific target market.

3. IDENTIFIED ISSUES IN PRODUCT DESIGN

All types of travel insurance were within the scope of the thematic review except for products covering long uninterrupted stays abroad, given their unique purpose and characteristics, in particular with regard to the specific cover they offer (in most cases limited to explicit medical costs).

3.1. PRODUCT COMPLEXITY

Insurance is, in general, a complex area for consumers to understand.

The design of travel insurance products might increase the level of complexity when compared to other similar types of insurance. Significant variations exist regarding the type and the level of coverage and applicable restrictions and exclusions. Travel insurance policies can include various coverages like medical expenses, private liability, personal accident, trip cancellation, loss of baggage, etc. For instance, a medical condition that is excluded in one policy might be included in another ([26]). This level of diversity is indicative of a high level of complexity in the market.

Product complexity has an impact on consumers' ability to fully understand the product in particular with regard to the level and extent of cover. Terms and conditions may also be complex and difficult to understand, in particular with regards to the use of technical medical terms linked to medical coverage (and exclusions). This in addition to the context and manner in which travel insurance policies are sold.

High complexity makes it difficult for consumers to navigate the market, compare coverages and prices and find the insurance policy that best fits their needs.

The majority of respondents to the IQ indicated, however, that from their perspective, travel insurance products do not have a high level of complexity and that the products are not assessed for complexity. Moreover, most of the respondents reported that no restrictions on selling specific travel insurance products are applied when it comes to distribution channel or type of customer.

BOX 2 - COMPLEXITY OF TRAVEL INSURANCE POLICIES

The complexity and diversity of products available on the market can also be a source of detriment for consumers. Customers expect travel insurance to cover any eventuality. However, the reality is that no two policies are alike, and travel insurance policies often comes with strict limitations and exclusions as to the type of cover that is provided and the amount an insurer may have to pay. Consumers' organisations therefore frequently warn consumers to carefully consider the fine print to understand which risks are covered. The extensive usage of exclusions in contracts can contribute to product complexity for consumers and impede their ability to successfully navigate and compare the market. This is also complicated by the fact that the terms and conditions of insurance policies are not always straightforward. For instance, a recent Which? study ([27]) found that insurance policy document can be so hard to understand that university-level reading abilities may be required to make sense of them and even industry experts struggle to cut through the jargon. Our Austrian Member Arbeiterkammer found that even subtle language differences in the terms and conditions of travel insurance policies can have a significant impact on whether an individual will be covered by the policy or not. ([28])

Source: BEUC

([26]) Especially for consumers with pre-existing medical conditions, this may be difficult since the conditions on and the result of a prior approval can differ from undertaking to undertaking.

([27]) Which?, Crime and punishment: insurance policies complex and full of jargon. https://press.which.co.uk/whichpressreleases/crime-and-punishment-insurance-policies-complex-and-full-of-jargon/

([28]) Arbeitkammer, 'Reisestornos – Blick ins Kleingedruckte lohnt sich', https://www.arbeiterkammer.at/beratung/konsument/Reise/Reisestornos.html

3.2. TERMS AND CONDITIONS - TRANSPARENCY AND DISCLOSURE

On average around 17% of the complaints consumers make, are related to the terms and conditions of a travel insurance policy. This indicates that there might be some issues on how terms and conditions are disclosed and explained to consumers. (see Section 5 on complaints).

Providing clear and transparent information to customers is key. Moreover, consumers tend to pay very little attention to what is indicated in the terms of an insurance policy. The responsibility is shared between the insurers and distributors on one side, making sure that they put efforts into explaining them and on the consumers on the other side, making sure that they acknowledge and understand the products as well as the terms and conditions.

- A large majority of insurance undertakings participating in the questionnaire reported that terms and conditions of their travel insurance products are available and presented to the consumers before contracting a policy.
- In most cases, terms and conditions are published on the websites and available for download. Depending on the distribution channel the terms and conditions are shared with the customers in electronic or in paper form, by email or by post.
- Respondents mentioned initiatives like brochures, factsheets and flyers that present information on the travel insurance products in 'clear and simple' language. Moreover, a comprehensive and user-friendly product explanation is available on some insurers' websites that explain the scope of coverage offered by a product.
- One respondent mentioned that along the terms and conditions, consumers receive a file with frequently asked questions (FAQs), a detailed benefits table and a summary with the policy wording.
- In view of the application of the Insurance Distribution Directive (IDD), two respondents reported in the IQ, the use of the Insurance Product Information Document (IPID) (29) already in 2017. The IPID provided to customers details on the key features of the product, exclusions, limitations and coverage.

As a general measure, prior to the contract conclusion, some respondents ask the customers to confirm that it has received sufficient information about the insurance contract and the insurance contract complies with its needs and requirements.

However, there are cases where the terms and conditions are not very clear and do not provide the adequate information. For example, when it comes to trip cancellations, in some cases insurers do not provide details with regard to accepted reasons for cancellations. Some insurers may not specify in the terms and conditions of the travel insurance policy in which cases the trip cancellation will not be covered by the policy. The use of general terms like "force majeure" or "serious illness" without give concrete details on these situations can raise confusion for the consumer.

BOX 3 - ISSUES RELATED TO TERMS AND CONDITIONS

Trip cancellation insurances mostly have a clause which includes "unexpected serious illness" ("unerwartet schwere Krankheiten") as reason for trip cancellation. However, insurer X did not explain in its terms and conditions which illness could be considered as "unexpected" as well as "serious" (e.g. pneumonia or influenza). That is why BdV considered this clause as non-transparent and therefore not applicable and went to court.

Only shortly, after this action, the Association of German Insurers (GDV) asked BdV for a settlement of dispute resulting in a press release amending the standard policy.

The amendment consisted in providing an additional explanation of the criteria of "unexpected" and of "serious" with regard to illness by elucidating several examples. Although these standard policy conditions are non-binding, the insurer X included these additional explanations in its terms and conditions for the new trip cancellation contracts. The court has not yet decided with regard to the previous similar cases.

Source: Bund der Versicherten (BdV)

(29) Under the Insurance Distribution Directive (IDD), consumers benefit from a simple, standardised insurance product information document (IPID), which aims to provide clearer information on non-life insurance products, so that consumers can make more informed decisions.

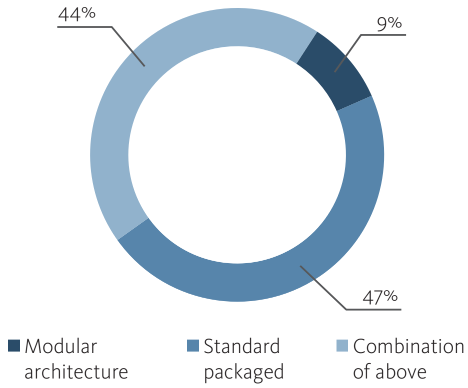
3.3. PRODUCT DIVERSITY AND PRODUCT STANDARDIZATION

Product diversity and/or tailor-made products may be advantageous for consumers since these products may be able to better meet specific needs to a greater extent than standardized products. On the other hand, product diversity may enhance the complexity of those products and make them difficult to compare.

(Apparent) product standardization also bears the risk of consumers being under or over-insured if available products either do not meet their specific needs or have coverage (and costs) above the customers' needs. The risk of a lack or of underinsurance is especially relevant for holders of annual policies. These policies tend to have little or no possibility of adjusting the terms during the life of the contract, while customer needs may change depending on the characteristic of each trip (e.g. need for additional cover for sports and adventure activities or travel to remote locations).

Based on the answers to the questionnaire (*Figure 30*), around 47% of the travel insurance products are standardised. However, 44% of respondents reported using the *modular architecture approach*, whereby the policyholder is able to tailor his policy by selecting from a significant range of pre-set coverages, resulting in individualised insurance policies.

Figure 30 - Approach to product offering



Source: EIOPA Travel Insurance thematic review

3.4. PRE-EXISTING MEDICAL CONDITIONS

> "Around 70% of insurers exclude pre-existing medical conditions from the offered cover"

Exclusions in cover are a crucial element in the design of insurance products and travel insurance is no exception. Terms and conditions normally list the various types and circumstances, which are excluded from cover. The most common exclusions are linked to pre-existing medical conditions.

Exclusions have a direct impact on the quality (type and coverage level) and the value of the product. From a consumer perspective, it is also important that clear, adequate and timely information is provided about applicable exclusions. Otherwise, customers may either be unaware or have a wrong understanding of the exact level of cover they actually have.

When it comes to travelling with pre-existing medical conditions, it is very important that consumers are aware of the coverage they have and understand the limits of their travel insurance policy. (30) Travellers should inform undertakings about their conditions in order to get the best policy for them and avoid taking huge risks of travelling under-insured. Moreover, insurers should inform customers about the pre-existing medical conditions that are excluded in the travel insurance policy. Ideally, an insurer would advise the consumer on the options available to buy adequate and appropriate travel insurance based on their medical conditions. (31)

In the questionnaire, participants have been asked to answer what type of cover is generally offered for consumers with pre-existing medical conditions and whether they are excluded or a higher premium is charged.

Around 70% of the respondents exclude pre-existing medical conditions from the offered cover. However, some insurers would cover the expenses for emergency measures for saving the life of the insured up to a maximum of €500 Euros or €1000, different insurance companies apply different ceilings. Some respondents indicated that they would also cover the expenses for medical assistance for saving the life of the insured without mentioning maximum costs to be paid.

Some insurance undertakings only excluded pre-existing medical conditions if the insured has been hospitalised, treated by a physician or experienced a change in its condition six months prior to the trip. Insurers would also apply additional criteria when excluding the pre-existing medical conditions, for example if the insured had a change in its medication, refused to take treatment, omitted to go to pre-arranged controls, etc.

Out of those 30% of insurers that include pre-existing medical conditions in the travel insurance policy, one third of respondents charge a higher premium, whereas the remaining two thirds include them at no additional charge.

Some insurers use medical screening tools to assess the risks and calculate the premiums. This is very relevant especially in the case of consumers with pre-existing medical conditions. Participants in the IQ have been asked if they have in place a medical screening for persons with pre-existing medical conditions.

Around 72% of respondents indicated that they do not use medical screening before contracting a travel insurance policy. However, some of the insurance undertakings indicated that in case of a claim, the consumer is asked to provide a medical report or pass a medical evaluation by a doctor appointed by the insurer. Based on this medical screening by the insurer a decision is taken on the acceptance or denial of the claim.

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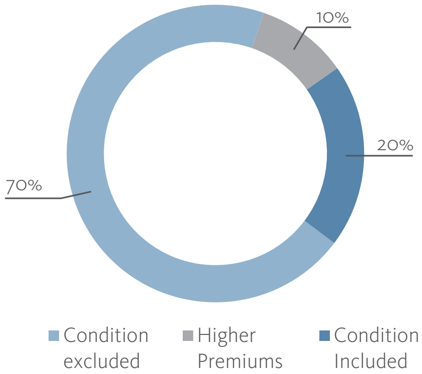
(30) A recent paper on 'Access to insurance' for people with pre-existing medical conditions, published by the Financial Conduct Authority (FCA) in the UK, highlighted the issues faced by this category of consumers when buying travel insurance policies. The worst case for a traveller with pre-existing medical conditions is travelling thinking that it has the right insurance coverage when in fact it does not. Travelling to destinations like the USA, where the cost of medical treatment is very expensive, without an appropriate travel insurance policy can be a disastrous situation for the consumer. Feedback statement on "Access to Insurance", the FCA – June 2018 https://www.fca.org.uk/fs18-01.pdf

(31) According to the Association of British Insurers (ABI), a four-day stay in a hospital would cost on average €37,000 and a stroke in the USA would cost up to €880,000. https://www.abi.org.uk/the-abi-reveals-the-jaw-dropping-costs-of-falling-ill-abroad-this-year

Figure 31 - Pre-existing medical exclusions



Source: EIOPA Travel Insurance thematic review

One respondent mentioned that in case of a suspicious claim, the medical staff would require the medical history of the insured to determine whether the incident has been caused by a pre-existing medical condition.

Such practices are not very effective, and might raise consumer detriment. As highlighted earlier in the report, most of the insurers participating in the IQ exclude the pre-existing medical conditions from the cover offered by their travel insurance policies. When this information is communicated beforehand, the consumer with pre-existing medical conditions has the option to look around for other travel insurance products that cover its individual situation.

But in the case where a consumer buys a travel insurance product with the thought in mind that it has the right coverage and when a medical incident happens, the insurer undertakes a medical screening in order to identify if the incident is caused by a pre-existing medical condition, this comes as a surprise to the consumer. Because in this situation, the medical costs would not be covered by its travel insurance policy, therefore, the value for the consumer of the purchased insurance product in this case is very poor (see Section 1.5 on claims ratio).

Issues around transparency and disclosure to consumers on these exclusions are key for persons with pre-existing medical conditions.

The remaining 28% of insurers use medical screenings to get more information on the pre-existing medical conditions of the consumers before contracting a travel insurance policy. Some of the medical screening tools used by different insurers are:

- Online questionnaire on pre-existing medical conditions;
- On the phone with an agent asking questions on these conditions;
- A doctor selected by the insurer studying the medical record of the patient in coordination with the local medical team where the patient lives;
- Analysis of a copy of the medical history issued by patient's generalist doctor;
- Declaration from the consumer on his pre-existing medical conditions;
- Individual medical screening by an appointed doctor;
- Evaluation of the medical file by an in-house medical team;
- Outsourcing the medical screening to an external emergency call centre;
- Set of questions answered by the consumer and processed with a risk rating tool provided by a specialised company;
- Provision of medical certificates from a generalist doctor.

3.5. OVER-INSURANCE AND DOUBLE INSURANCE

Over-insurance arises when the level of cover is higher than needed by the customer (32). This can be a potential source of consumer detriment in the form of higher costs without equivalent cover if the customer is unable to adjust the level of cover to his needs or chose a different product.

Double insurance arises when there is an overlap in cover from different policies held by the same policyholder. In case of subsidiarity, customers end up paying for the same risk twice but are only compensated once. Double insurance appears to be particularly relevant where an annual policy exists subsequent to which add-on to credit cards or bank accounts are offered or sold together with another insurance policy.

For example, 97% of the GWP collected via bancassurance is coming from multi-trip policies. Out of 63 insurance undertakings that reported selling their products through bancassurance, 23 collect more than 50% of the total GWP via this distribution channel. For 9 insurance undertakings selling mainly multi-trip policies via bancassurance, the claims ratios are inferior to 40% of the GWP. This could mean that consumers might be purchasing annual travel insurance policies with their credit cards and not be aware of it. In this case, double insurance might occur - consumers having multiple insurance policies for the same risks.

Most of the respondents to the IQ reported that the assessment of an overlap in cover from different insurance policies held by the same policyholder is not part of the sales process.

Some insurers assess the overlap in cover only at the claim management stage in order to identify which policy will cover the incident. If the incident would be to happen, the travel insurance policy will cover only the exceeding sums not covered by the primary insurance held by the consumer. Respondents also mentioned that in case of a claim where the policyholder holds another insurance, the expenses are split between the two insurance undertakings on a pro-rata basis.

Some insurance undertakings mention in their terms and conditions that in the case of a claim where the consumer has another insurance policy covering the same risks, the claim will be denied.

However, some respondents reported that before contracting a travel insurance product the consumer is asked about other policies that might cover the same risks. In the case if the consumer has an existing policy that covers the same risks, the insurer would make a discount in premium.

Although it must be acknowledged that consumer detriment resulting from over-insurance and double insurance could potentially be minimized at the point of sale (33), this could be also feasible at the product development and design stage. For instance, in which concerns medical cover, it is worth considering if travel insurance complements public medical services, i.e., by covering the costs that are charged to customers rather than the full medical cost. In this regard, a special reference must be made to the European Health Insurance Card (EHIC).

The EHIC is a free EU-wide health care cover which gives access to public healthcare for citizens from EU-member states, Norway, Iceland, Liechtenstein and Switzerland on equal conditions as the citizens of the country visited. With regard to the EHIC, consumer detriment may arise under various scenarios. There might be a case of over-insurance if the travel insurance policy is not complementary to the EHIC, that is, when the insurance product is not designed on top of the cover provided by the EHIC. Customers may end up paying for a (partly) health cover they already have. A contrasting risk to over-insurance arises if consumers believe that the EHIC is a replacement for travel insurance. In this case, they might end up having to cover themselves medical expenses in excess of the limits under the EHIC.

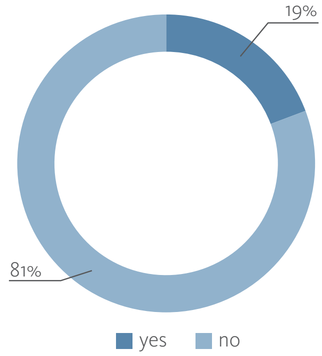
(32) E.g. if the cover for lost luggage is high but the customer only has hand luggage of low value.

(33) E.g. through adequate consumer on-boarding procedure such as questioning customers about other insurance policies they may have covering the same risk.

Around 81% of the insurers participating in the IQ reported that their travel insurance products are not taking in consideration the EHIC. Moreover, respondents indicated that no information is given to consumers on the EHIC.

According to Eurostat, three out of four trips made by EU citizens (74.4%) were domestic trips in their own country of residence. Out of the remaining 25.6% of trips made to a foreign country, 19.8% were made to another EU Member State and only 5.8% outside the Union. (34) Therefore, the importance of having the EHIC is obvious. Europeans travel most of the time within the EU.

Figure 32 - Products built on EHIC



Source: EIOPA Travel Insurance thematic review

(34) Tourism statistics – top destination in 2017, EUROSTAT https://ec.europa.eu/eurostat/statistics-explained/

3.6. PREMIUM CALCULATION – FACTORS CONSIDERED

Insurance undertakings take in consideration various factors when calculating the premiums charged to the consumers. For travel insurance policies, the main two factors for the premium calculation of single-trip and multi-trip policies are the duration of the trip and the destination. Longer trips and holidays in exotic destinations will be insured at higher prices. Other factors like the age of the traveller is also taken in consideration. Some insurers provided other factors that are considered for premium calculation:

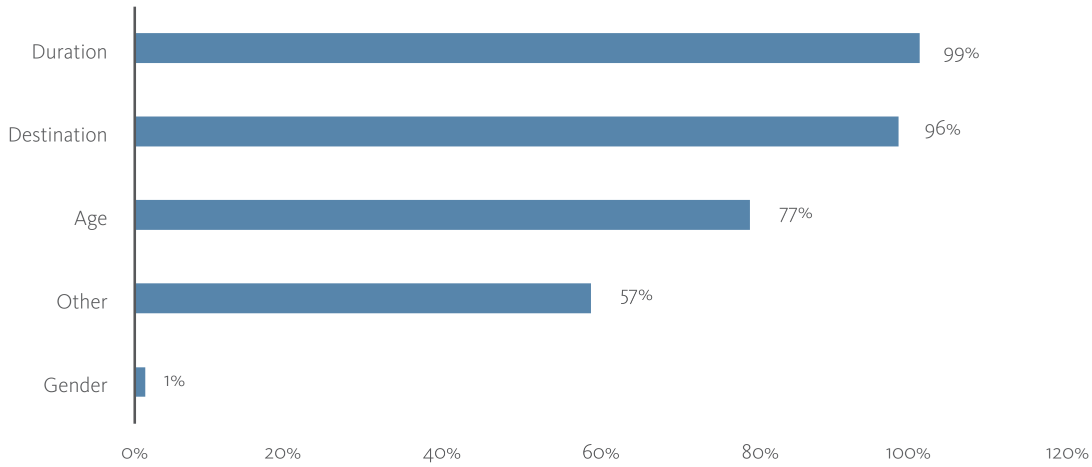
- Type of activities carried during the trip;
- Pre-existing medical conditions;
- Total price of the trip;
- Number of travellers;
- Means of transport;
- Number of claims.

Figure 33 and 34 show that a big majority of respondents (99%) reported that the gender of the traveller is not considered when calculating the premium paid by the customer.

However, two insurers reported that they take in account the gender of the traveller when calculating the premium. This is discriminatory and should not be taking place, the sex of the insured person should not be considered in the pricing of travel insurance products. A ruling of the European Court of Justice in 2011 in the Test-Achats case (C-236/09) [35] clearly states that the Directive 2004/113/EC prohibits the use of gender as a factor in the calculation of insurance premiums.

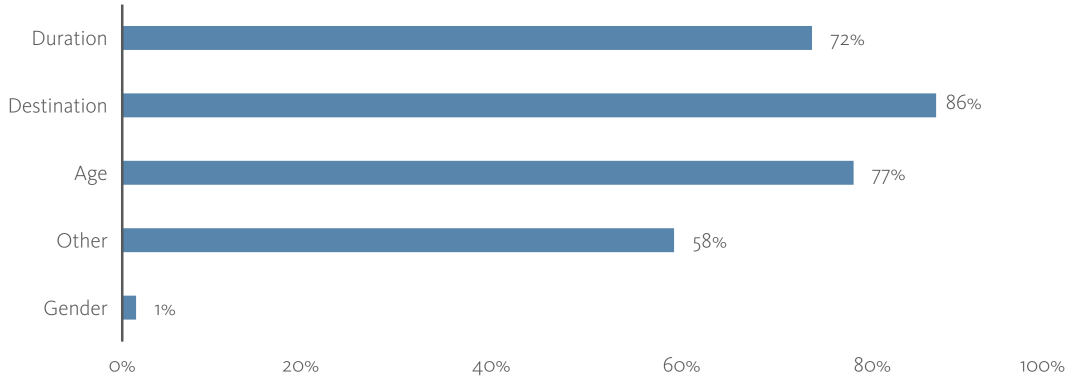
(35) Judgement in the Test-Achats case (C236/09) of the European Court of Justice http://curia.europa.eu/juris/C-236/09

Figure 33 - Single-trip policy



Source: EIOPA Travel Insurance thematic review

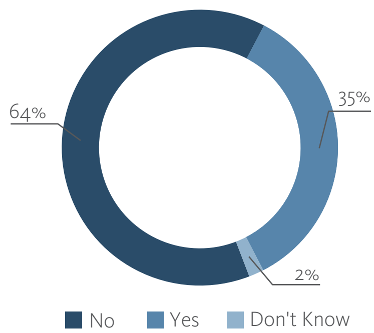
Figure 34 - Multi-trip policy



Source: EIOPA Travel Insurance thematic review

Around 35% of respondents, as showed in *Figure 35*, indicated that the premiums vary depending on the type of the distribution channel. In most of the cases, those customers that buy the travel insurance products directly on the insurers' websites would benefit from a discount. As reported by the participants in the IQ, each distribution channel has different expenses dependant on the commission levels, administrative costs, claims ratio and IT costs.

Figure 35 - Premium variation per distribution channel



Source: EIOPA Travel Insurance thematic review

4. DISTRIBUTION AND SALES PROCESSES

Travel insurance is distributed through a variety of distribution channels ([36]), allowing undertakings to reach a large customer base and providing customers with ease of purchase and convenience. It is not uncommon for the same insurance product to be distributed through various channels. However, while the product can be the same, potential consumer detriment may differ in magnitude depending on the distribution channel(s) used. For instance, differences in premiums, commission levels or claims ratios or a combination of these per distribution channel would point to such differences being present and relevant.

Such differences could be linked to the ability of different distribution channels to discriminate between customers, target specific customer groups or take advantage of consumer behaviour. In this sense, the differences in indicators could result from differences in sales practices. A quantitative assessment is set out above in Section 1.4 and 1.5, which found that:

- In **bancassurance** 47% of insurers pay maximum commission rates of 40% of the GWP and more. The median claims ratio in bancassurance is 29% of the GWP.
- Around 23% of insurers pay maximum commission rates of more than 50% of the GWP to **insurance agents/brokers**. The median claims ratio is 35% of the GWP.
- **Ancillary insurance intermediaries** receive the highest commissions, over 40% of insurers reported paying maximum commissions of more than 50% of the GWP going up to 80%-90% of the GWP. The median claims ratio is around 35% of the GWP.
- For **comparison websites/aggregators**, although still at an incumbent stage, one third of insurers that use this distribution channel reported paying maximum commission rates of more than 55% of the GWP. The median claims ratio is around 29% of the GWP.

In the sections to follow we summarise qualitative input provided through the IQ and from stakeholders.

4.1. CROSS SELLING AND ADD-ONS

Travel insurance is frequently sold by a wide variety of distribution channels through cross-selling as an ancillary product to travel tickets or other travel packages. As noted above, it is also often offered as an add-on to other (non-travel) primary products like credit cards, bank accounts or other types of insurance.

([36]) E.g. direct underwriting, insurance brokers and agents, mainstream travel agents, tour operators, airlines, ferries/railway operators, banks and credit card providers and online travel specialists.

BOX 4 - TRAVEL INSURANCE AS AN "ADD-ON"

"Market studies by our members show that such 'add-on' travel insurance policies offered by travel agents and airliners often offer poor value for consumers. For instance, in 2013, our Dutch member, Consumentenbond carried out a 'mystery shopping exercise' ([37]) to study the add-on policies offered by travel agents in the Netherlands. Mystery shoppers were sent to 100 travel agents to inquire about a packaged holiday. Three in four times, mystery shoppers were offered an 'add-on' insurance by the salesperson. While the add-on policies offered by the travel agents provided adequate cover to consumers, the policies were among the most expensive available on the Dutch market. The salespersons selling the insurance were not always knowledgeable about the terms and conditions of the policies they sold, and strongly encouraged mystery shoppers to take out the add-on insurance offered by them. Travel agents also encouraged customers to take out insurance with larger coverage, even though a more limited insurance may have been an equally or potentially better choice for the consumer."

Source: BEUC

Cross-selling and add-ons can provide benefits to consumers (e.g. convenience in buying and servicing) but can also represent practices where the interests of customers are not adequately considered. For instance, consumers might be provided with unclear and/or incomplete information that they might overlook, especially if they are less attentive and interested in the travel insurance product than the primary product. This may lead to situations of consumers not being aware that they buy a product that offers a different cover than expected or that they buy an insurance product at all, increasing the potential for under-insurance, over-insurance or double insurance. Consumer choice, at the point of sale, may also be limited, leading to less competitive markets and not allowing consumers to adequately compare products or choose the product that best suits their needs.

BOX 5 - ISSUES IN DISTRIBUTION MODELS

"The way travel insurance products are distributed to consumers in Europe can be a source of consumer detriment. Travel insurance policies are frequently cross-sold as an 'ancillary' product to consumers when they purchase their travel tickets online through their airliner, or when they book a packaged holiday with their travel agent. The airliners and travel agents who distribute these products in turn receive a commission from insurers for selling their policies. The commissions paid to remunerate the sellers of these product can create conflict of interests, where intermediaries are highly incentivised to sell particular travel insurance policies, leading to problematic sales practices or aggressive marketing techniques. As a result, consumers can be 'nudged' into taking out poorer quality products. Consumers may also be steered into purchasing high-commissioned products, and not necessarily the product that would best suit their needs."

Source: BEUC

As seen earlier, ancillary insurance intermediaries collected 27% of the total GWP for the participants in the IQ. (*Figure 11*) The IDD does not apply to ancillary insurance intermediaries carrying out insurance distribution activities that meet certain conditions. (See Annex I)

([37]) Consumentenbond, 'Bij ons afsluiten is echt handiger', https://www.consumentenbond.nl/binaries/content/assets/cbhippowebsite/gidsen/geldgids/2013/nummer-8---december/gg201312p30_Test__Reisbureaus_prijzen_dure_polis_aan.pdf

BOX 6 - DISTRIBUTION THROUGH ANCILLARY INSURANCE INTERMEDIARIES

"Travel agencies are not regulated by the minimum standards of IDD due to the exemptions already fixed in the directive: amount of premiums not exceeding 600 Euro on a pro rata annual basis or not exceeding 300 Euro for a duration of service lasting not more than three months (cf. article 1 (3) IDD).

In Germany in 2016 there were more than 25 million contracts – exclusively - of medical travel insurances (with a total sum of gross written premiums of around 360 million Euro; cf. GDV Statistical Yearbook 2017).

Due to these exemptions this big part of insurance business is mostly not submitted to any supervisory authority. Additionally the consequence is that there is no obligation of professional registration and no control of the minimum standards of professional knowledge and competence requirements of these ancillary intermediaries. No need to assess that the risk of consumer detriment is still ubiquitous despite IDD"

Source: Bund der Versicherten (BdV)

4.1.1. CONSUMER BEHAVIOUR WITH ADD-ON INSURANCE

A key element of travel insurance as noted is that policies are frequently sold through cross-selling as ancillary products to travel tickets or other travel packages or are often offered as an add-on to other primary products like credit cards, bank accounts or other insurance products. Issues with 'add-on' products include significant behavioural challenges (where the consumer is focused on the 'primary' product).

BOX 7 - CONSUMER BEHAVIOUR WHEN BUYING INSURANCE AS AN ADD-ON

When purchasing insurance as an add-on to the main product, consumers tend to allocate less attention to the insurance product and focus on the main product of interest. As a result, the impact of information problems and behavioural biases on the purchasing decision can be intensified.

Consumers might prepare their purchasing decision for the main product by comparing prices and gathering information on the value and the characteristics of the product. When insurance is sold as an add-on, the additional search costs that would enable the same consumers to make informed purchasing decisions can be prohibitively high.

Insurance contracts are complex and consumers with insufficient knowledge about insurance products and the calculation of the respective premium cannot adequately assess the value of the product. Comparing the insurance contract at hand with alternative products requires time to determine and search for the relevant contract parameters of these products. In the case of travel insurance, these relevant parameters could include the premium, the deductible, losses covered, the maximum length of the travel period, and the travel destination. These additional search costs can give rise to inertia, i.e. consumers stick with the default offer.

An important factor for consumers' decision to purchase insurance is the probability of having a claim or facing a loss. This probability is difficult to assess, and consumers' perception of it is often biased. The knowledge of a friend or a family member who has experienced such a loss or recent media coverage on the topic can lead to a very high-perceived loss probability. This phenomenon is known as the **Frequency Illusion**. The perceived loss probability and therefore consumers' decision to purchase insurance can also be influenced by framing, for instance by stating relative frequencies of the insured event for a longer time horizon. Similarly, framing can be used to trigger consumers' regret aversion.

Consumers' willingness to buy add-on insurance can be affected by loss aversion. If the main product covered by the add-on insurance has been purchased in a previous step, consumers might already perceive it as their own and hence place a higher value on it than they would place on it before the purchase. This phenomenon is known as the **Endowment Effect**.

Further, the price of the main product of interest can create an **Anchoring Effect** for the add-on insurance, such that a consumer with limited information perceives an insurance premium with a high loading as fair, because the absolute premium for the policy seems sufficiently small in comparison to the price of the main product.

While every insurance purchase decision tends to be subject to behavioural biases, the effect of these biases on consumer behaviour when buying insurance sold as an add-on can be intensified due to the subordinate nature of the add-on. Ideally, insurance buyers should be aware of their own biases when making such a purchasing decision.

Source: Dr. Irina Gemmo, Goethe University and International Center for Insurance Regulation

4.1.2. ONLINE DISTRIBUTION: IMPACT ON AND RISKS FOR CONSUMERS

Sales via the internet have become an important distribution channel for travel insurance, complementing more traditional distribution channels - a substantial percentage of consumers already use the digital and remote channels and this number will only increase. ([38])

Online distribution allows for new ways of engaging with customers and of distributing travel insurance that may raise specific consumer protection concerns. These include: (i) the risk of 'fast sales' which can make it difficult for consumers to obtain the necessary information to take informed decisions prior to the conclusion of the contract; (ii) an increasing number of teaser-products and aggressive marketing techniques; and (iii) neglect of vulnerable customers such as senior citizen less engaged in online purchases.

BOX 8 - STUDIES ON TRAVEL INSURANCE

"In 2017, our member, the UK consumer organisation Which? carried out a similar market study ([39]) of the travel insurance 'add-on' policies offered by airlines and travel agents to British consumers. The study found that holidaymakers who opt for travel insurance at the click of a button could end up paying up to eighteen times more for inferior cover. The add-on policies analysed by Which? were not only overpriced, but often also full of holes. For instance, one travel insurance policy only offered medical cover up to £10,000, which falls woefully short of what consumer organisations would recommend as minimum cover. Additionally, the policy offered no cover at all in cases of: cancellation or curtailment, damage to baggage and belongings, or travel delay. Of the thirty travel insurance add-on policies analysed by Which?, almost half did not meet their minimum criteria for what should be considered minimum criteria for comprehensive cover."

Source: BEUC

([38]) EIOPA Fifth Consumer Trends Report p. 32; available at: https://eiopa.europa.eu/Publications/Reports/06.0_EIOPA-BoS-16-239%20-%20EIOPA%20Fifth%20Consumer%20Trends%20report%20-%20Clean%20after%20BoS.pdf.

([39]) Which?, Rip-off travel insurance: Add-on policies from airlines and travel agent can be up to 18 times more expensive https://www.which.co.uk/news/2018/03/rip-off-travel-insurance/

The development of digital distribution models in travel insurance can be expected to have a strong impact for consumers and could carry some risks. The participants in the IQ were asked to share views on impacts and risks and highlight the main consequences of the travel insurance being mainly distributed via digital channels.

Most of the respondents mentioned that the new distribution channels might have a positive impact on consumers.

- Travel insurance products would become easier to access and consumers could get coverage in better circumstances.
- The process would become considerably shorter, simple and accessible at any time of the day. Consumers would be able to compare prices and choose between various insurers offering travel insurance policies.
- The 24-hour service would allow customers to receive assistance would be highly valuable for travellers as well as the facility to ask questions online and receive answers in real time.
- Consumers might expect potential savings by receiving multiple quotations in a short time and selecting the most appropriate one.

However, respondents highlighted some risks for consumers that may emerge with the development of the new distribution models.

- Some insurance companies indicated that the move to the online distributors, especially ones not acting as aggregators but those selling single insurance products attached to other travel services could be a source of consumer detriment.
- This would limit the offer and move the competition from price and quality of services, to competition on commissions and other factors relevant for the distributor.
- In the short term, the new distribution channels will increase competition with new entrants on the market and a diversified range of travel insurance products. Consumers would benefit from competitive premiums, attractive terms and easy access to travel insurance products. However, in the long term, as competition for the market share increases, this could lead to some insurers reducing the policy coverage and decreasing the quality of services in order to maintain competitive premiums.
- Another downside of the online purchase of travel insurance policies might be a drive towards standardised products designed to compete on metrics used, leading to poorer service for non-standard needs.
- It was mentioned again that, since travel insurance policies are mainly offered as an add-on, consumers' attention is on the primary product (e.g. travel arrangements). Less attention is given to the coverage offered by the travel insurance policy and the claim process. The risk is that when the incident occurs the consumer does not know the claims procedures and does not know the right contact for assistance in completing the claim form.

BOX 9 - SALES PRACTICES IN ONLINE DISTRIBUTION

"Online business is more and more important for the distribution of travel insurance products. This is why the pre-contractual information duties of travel agencies, of websites offering flights or of other comparison websites are highly important. Pre-fixed tick-boxes for the conclusion of a single trip insurance contract may often lead to double coverage, if the potential customer has already an annual travel insurance contract (and if additionally there is no previous test of the demands and needs of the customer).

Already in January 2015 EIOPA published its Opinion on sales via the Internet of insurance and pension products ([40]), in which the main "type of consumer protection issues" were described. EIOPA clearly emphasized that consumers wishing to research premiums via the internet may not be fully aware that they may inadvertently enter into unsolicited contracts. Therefore online distributors must have a "duty of advice" in order to provide consumers with appropriate information and "with a view to avoiding unsolicited, or mistakenly concluded contracts". Only by this "proactive approach" consumer detriment will be reduced."

Source: Bund der Versicherten (BdV)

([40]) EIOPA Opinion on sales via the Internet of insurance and pension products, January 2015 https://eiopa.europa.eu/Pages/Opinion-on-sales-via-the-Internet.aspx

4.2. CHANGING DISTRIBUTION CHANNELS

The travel insurance market has seen an increase in sales through digital and remote channels complementing more traditional distribution channels. In addition, transport companies with large customer bases and direct customer interface, such as airlines; have entered the travel insurance industry, mostly in distribution. This trend may be further boosted as online travel specialists play an increasingly role as distributors of travel insurance and if large technological/ internet companies decide to enter the travel insurance market, at least as a first step, in distribution. Companies in other sectors with a distribution network and a large pool of customers (e.g. supermarket chains) are also potential contenders to entering the market as distributors (see Section 2 on business models).

Insurance undertakings have highlighted to EIOPA that some of these new entrants set upfront their (unnegotiable) commission rates when putting up their distribution business for tender among various insurance undertakings. A key issue is whether this trend will change the dynamics of the market and create new sources of consumer detriment or increase the scale of existing ones.

Insurers are investing in developing new systems that decrease administrative costs and improve processes. According to the results presented in EIOPA's recent thematic review ([41]), Big Data Analytics (BDA) is widely used in sales processes and distribution of insurance products. By using BDA insurers can easily profile customers and identify the target market (e.g. based on marital status, number of insured persons, geolocation, premium size, etc.) enabling them to model cross-selling, up-selling and churn propensities with the help of BDA tools such as Artificial Intelligence and Machine Learning. The results are then used to develop targeted and personalised marketing campaigns and adapt sale strategies.

([41]) Big Data Analytics in Motor and Health Insurance, EIOPA – 2019 https://eiopa.europa.eu/EIOPA-reviews-the-use-of-Big-Data-Analytics

BOX 10 - INNOVATION IN TRAVEL INSURANCE

"In recent years there has been an increase in innovation in products and processes in response to consumer demands and evolutions in preferences. Advances in technology have enabled such a development.

For instance, in some markets, insurers have developed travel insurance policies that can be purchased by SMS. Mobile phone applications are also an increasingly common way for consumers to purchase a travel insurance policy. Some innovative products such as 'pay-per-day' have become more common, thanks to app-based distribution models.

Insurers have also recently formed partnerships to develop solutions, such as in the case of online platforms that allow consumers to keep track of their insurance policies and optimise their coverage.

Insurers are also making use of "smart contracts" to automatically process claims. For example, a number of (re)insurers are offering flight delay or cancellation insurance via a smart contract, which allows for compensation to be paid out automatically and immediately to policyholders, without having to go through the process of filing a claim.

In order to further foster innovation, it is important to ensure that regulations are digital and innovation-friendly so as to not restrict digital channels in any way. For example, it must be ensured that any information disclosures, including the IPID for non-life products, can be equally provided digitally to customers, rather than on paper by default."

Source: Insurance Europe

4.3. ISSUES WITH TENDERS FOR ONLINE DISTRIBUTION

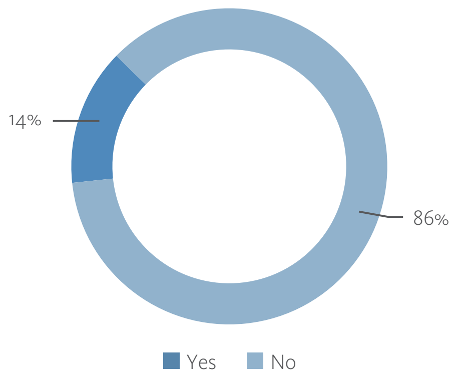
One of the main trends highlighted by the respondents in the IQ is the internationalisation of the travel insurance market. This phenomenon is often strengthened by the growing importance of international tenders. In EIOPA's IQ participants were asked to report if they participated in any tendering processes over the last three years, i.e., where distributors set upfront their commission rates when putting up their distribution business for tender among various insurance undertakings.

Almost all respondents provided answers to this question - 190 out of 201. Only 14% of the insurance undertakings reported to have participated in tenders and gave more details about the participating conditions.

Participants highlighted that very often, the distributors organising such tenders have pre-defined non-negotiable commissions. The pre-set commissions are part of the tender documentation and are very high, reaching 50%-60% of the premium and more. One respondent mentioned that in international tenders the competition is primarily based on commissions, the distributors selecting the insurance provider that offers the highest commission. (see Section 2.3 and 2.4 on business models)

The participants that responded not having participated in tendering processes have also highlighted the issue around very high commissions in such tenders. Some insurance undertakings are deliberately not participating in tenders because of the pre-set high levels of commissions. Moreover, some distributors would also set in the tendering terms fees for exclusivity, profit share, marketing and IT costs.

Figure 36 - Participation of insurers in tenders



Source: EIOPA Travel Insurance thematic review

BOX 11 - ANSWERS OF INSURANCE UNDERTAKINGS IN THE INDUSTRY QUESTIONNAIRE

"A distributing partner for [xxx] contacted us for participating in a tender in 2017. Although the business opportunity was very interesting offering the possibility to expand our client base, the commission level was very high – more than 60% of the premium. Therefore, we decided to skip this offer, participating in the tender would have eaten up all our profits."

"Online travel agencies (OTAs) determine "minimum" provisions in advance that have to be accepted in order to participate in the tender. In addition, commissions are usually pre-set and very high, together with other fees like commercial support, technological compensations, profit share, etc. Depending on the provisions accepted by the IU, a conversation with the OTA might engage in a conversation. The first assessment is based on the provisions an IU is ready to accept and not on the quality of its travel insurance products."

"We participated in an international tender organised by a travel agency. The winner obtained a five-year exclusive contract worldwide. The pre-specified commission ratio was around 60% complemented by conditions on profit share as well as low limits of claim ratio recognised by the travel agency. After making our calculations considering the annual gross written premium, commissions paid, claims and expenses the profit would have been zero, only covering the total costs"

"We considered participating in a tender organised by an OTA specialised in the marketing of cruises. The pre-set commission was more than 60% of the premium; therefore we chose not to participate in the tender"

Source: EIOPA Travel Insurance thematic review

Such practices can have a negative impact on competition and impose barriers to entry. Pre-set high commissions can thereby discourage the development of diverse online distribution models.

4.4. SALES PRACTICES

The thematic review sought to gain insight on distribution and sales practices in the main by means of the analysis of commissions, claims ratios and complaints by different distribution channel, complimented by qualitative input. The quantitative aspects have been set out already in this report in Sections 1.4, 1.5 and 5. The qualitative input was more limited, though as set out above respondents provided useful views on changes in distribution and business models that appear to be happening. This section contains a few remaining remarks.

The main reason reported for denied travel insurance claims is exclusions in cover. This raises the question whether or not consumers are misled during the sales process or if they receive inadequate information (see Section 1.6 on denied claims).

More generally, in a market characterised by complex products and low consumer interest, correct and sufficient information provision during the sale is crucial for consumers to get the correct type of insurance and level of cover. Misleading and inadequate information and advice could lead to lack of cover (and denied claims) but also to double-insurance or over-insurance.

Consumers could also benefit if correctly informed of the procedures to file a claim, in particular of any specific documentation that must be obtained prior to leaving the destination (e.g. hospital or police report). Otherwise, it could affect the customers' ability to submit a claim and the right to compensation.

High commission rates can be a significant source of consumer detriment as they can provide an incentive for aggressive selling practices and misleading consumers to buy products paying higher commissions, rather than products that would better suit customer needs. As seen earlier, in some cases insurers pay commissions of more than 50% of the GWP. (see Section 1.4 on commissions).

5. COMPLAINTS

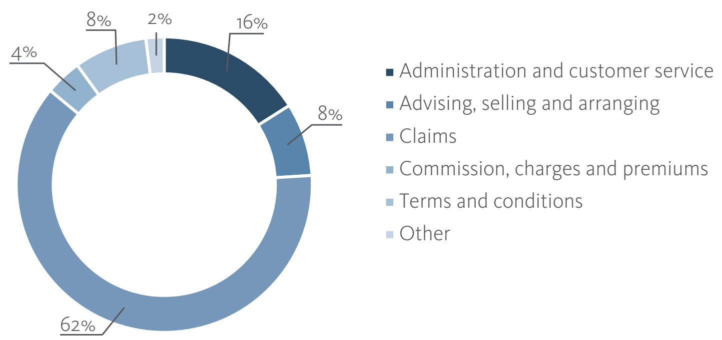
Participants in the IQ were asked to report on complaints received from consumers. The term "complaint" refers to formal written expression (including in an electronic form) of dissatisfaction submitted to supervisors regarding the provision or a failure to provide a service or a product of the insurance undertaking.

As shown in *Figure 37*, most of the complaints received from consumers are related to claims handling (62% out of total number of claims). It indicated that most of the time, consumers are not happy with the outcome of their claims.

In the IQ insurance undertakings have been asked if they have formal processes to analyse, on an on-going basis, the complaints data. Around 90% of respondents reported that they do have such processes in place.

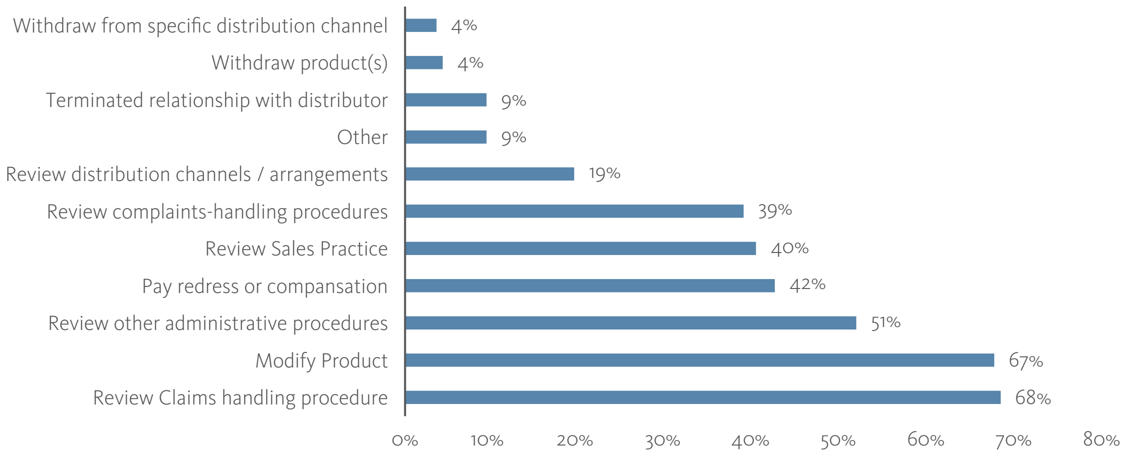
Insurance undertakings have also been asked what they are doing in a case where recurring or systemic problems have been identified through complaint analysis and which specific measures have been taken in the past by the insurance undertakings to address the identified problems. Most of the participants review the *claims handling procedure* (68%) and *modify the product* (67%). Around half of the respondents (42%) indicated that they pay compensations to consumers following a complaint.

Figure 37 - Number of complaints per reason



Source: EIOPA Travel Insurance thematic review

Figure 38 - Measure taken as a follow-up to complaints



Source: EIOPA Travel Insurance thematic review

6. CONCLUSIONS AND NEXT STEPS

The thematic review has revealed some positive developments in travel insurance. Digitalisation and new technologies allow insurers to provide travel insurance products adapted to the changing consumer preferences. Consumers can engage with insurers, subscribe to policies and receive assistance at any time of the day. EIOPA acknowledges and welcomes the benefits that innovation can bring both for consumers and insurers.

In addition, the review indicates that the travel insurance market as a whole does not carry significant market failures.

However, the thematic review has brought under the spotlight a number of issues related to certain business models that warrant follow up work. The IDD, which recently entered into force, sets out a framework for addressing many issues in this report. EIOPA considers also that specific attention should be considered to address identified risks, including those arising from certain business models and accompanying high commissions, in order to ensure that fair outcomes for consumers are achieved in practice.

Given a growing travel insurance market, aiding that market in developing products that better meet consumer needs is essential.

The main conclusions from the thematic review are as follows:

- Digitalisation is starting to transform the entire experience of consumers, allowing them to complete their end-to-end journey online.
- Product offers are evolving, travel insurance policies becoming more flexible and adjustable to individual cases. Some insurers are innovating, trying to cover the new emerging needs of consumers by designing new products.
- Although the average commissions in travel insurance are around 24% of the GWP, there are insurers that pay extremely high commissions to distributors.
- New digital distribution models generate significant business opportunities for insurers, increasing sales and reaching larger numbers of customers. However, some new distributors that are entering the market seem, according to respondents, to be driving commissions up and product quality down. Some insurance undertakings reported to EIOPA that in some cases high commissions put a significant pressure on profit margins and the quality of the products offered to consumers. This can lead to consumers paying high premiums for poor value products - a problem also evident in more traditional distribution models.
- There are also issues around product design of travel policies. Pre-existing medical conditions are most of the time excluded from the travel insurance product. Most insurers do not use medical screening before signing a contract and pre-existent medical conditions are not declared. Consumers might not be sufficiently aware of the impact that pre-existing medical conditions have on the outcome of a claim.
- In general, the average claims ratio in travel insurance is around 40% of the GWP, however individual claims ratios are divergent from the average, in some cases inferior these are very low, accounting for less than 20% of the GWP. Taken together with the above-mentioned issues, the value for money of some travel insurance products is too low.

To summarise, the main issues identified in the Review are related to high commissions, the add-on nature of the travel insurance jointly with the exploitation of behavioural biases, and the consequent tendency for low value products.

- The high levels of commissions have a direct impact on consumers and some of the new distribution models that exploit such remuneration structures may not be beneficial to consumers nor to underwriters.
- Some insurers pay very high commission rates to distributors and have very low claims ratios.
- Such business models can negatively affect the value and the quality of products, leading to consumer detriment.

- Customers may be purchasing and insurers are offering travel insurance products that are not sufficiently adapted to their needs, due to exclusions in cover (i.e., pre-existing medical conditions), limitations in coverage or even overlapping coverage.

These issues are interlinked and can be address jointly for a better outcome. A holistic supervisory approach to these problem is recommended as to eliminate the risk of obtaining short-term results and a worsening of the situation in the market in the long run.

The existence of cases with very high commission payments appears to be a central issue. In this regard, EIOPA believes that disclosure on commission levels to consumers may not have sufficient impact on its own, however in the long term it could improve remuneration structures and could incentivise shopping around for consumers. In some EU Member States, the national supervisors have taken measures to address high levels of commissions through caps. The option of setting industry-wide caps on commissions by national supervisors may need to be considered, reflecting of course national market specificities.

Given the findings of the thematic review, EIOPA intends to put together a package of actions reflecting all available supervisory tools.

It will assess a warning to the industry on high commissions and the business models that use them. A renewed focus on the quality and value of products would also be needed. Specific action may also be necessary to address the exclusion of pre-existing medical conditions from the coverage offered by some travel insurance products, in order to ensure that the needs of consumers are met.

Considering the new regulatory framework, EIOPA will also assess setting out its expectations on the implementation of IDD in this context - as a reinforcement of the importance of rules on acting in the best interests of the customer, on conflicts of interest and on product oversight and governance. In addition, EIOPA will continue following the implementation of the IDD in the Member States and prepare for the IDD review exercise in 2021.

Finally, EIOPA will also begin a dialogue with the industry including new market players (e.g. involved in distribution), NCAs and consumer representatives on how to best tackle consumer behaviour in the context of such markets from a practical standpoint.

ANNEX I – REGULATORY FRAMEWORK

The Insurance Distribution Directive (IDD) (42) extends the scope of regulated entities captured beyond its predecessor, the Insurance Mediation Directive (IMD), by covering direct writers and entities that distribute insurance products on an ancillary basis. The aim is to promote a level playing field and competition on equal terms between different distribution channels and a consistent level of consumer protection. (43)

The article 24 (1)(3) of the IDD (44) covers the insurance products offered together with an ancillary product or service which is not insurance. In the case where both are part of a package or the same agreement, the insurance distributor shall offer the customer the possibility of buying the good or the service separately.

Under the IDD, the term 'ancillary insurance intermediary' refers to natural or legal persons whose main business is not insurance-related who, for remuneration on an ancillary basis, take up or pursue insurance or reinsurance distribution as a secondary activity.

To qualify as an ancillary insurance intermediary, the person or entity must satisfy all the conditions set out in Article 2(1)(4) of the IDD. (45) In particular, banks and investment firms cannot be ancillary insurance intermediaries.

Certain ancillary insurance intermediaries may, however, be exempted from the scope of the IDD under certain conditions. The exemption under Article 1(3), IDD applies when:

(a) The insurance is complementary to the good or service supplied by a provider and where that insurance covers:

    (i) the risk of breakdown, loss of, or damage to, the good or the non-use of the service supplied by that provider; or

    (ii) damage to, or loss of, baggage and other risks linked to travel booked with that provider.

(b) The amount of the premium paid for the insurance product must not exceed €600 calculated on a pro rata annual basis.

(c) By way of derogation from the above limit, the exemption may also apply when the amount of the premium paid per person does not exceed €200 where the duration of that service is equal to, or less than, three months.

The above exemption is key to the distribution of travel insurance as in many instances it is distributed through ancillary insurance intermediaries. The IDD is minimum harmonisation so which means that Member States can introduce more stringent rules to bring within scope ancillary insurance intermediaries (which would normally be exempted). Regardless of whether ancillary intermediaries are within or out of scope based on the exemptions explained above:

- IDD (46) requires insurance undertakings and/or insurance intermediaries using an ancillary insurance intermediary to provide information prior to the conclusion of the contract, including the Insurance Product Information Document (IPID), the identity and address of the insurance undertaking and the procedure to lodge complaints.
- Insurance undertakings must have in place appropriate and proportionate arrangements to comply with certain conduct of business rules when distributing travel insurance through ancillary insurance intermediaries who are exempted from the application of the IDD. These include:

(42) Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution; available at: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0097&from=en.

(43) Recital 16 of the IDD.

(44) Recital 24 of the IDD

(45) "Ancillary insurance intermediary" means any natural or legal person, other than a credit institution or an investment firm as defined in points (1) and (2) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (1), who, for remuneration, takes up or pursues the activity of insurance distribution on an ancillary basis, provided that all the following conditions are met:

(a) the principal professional activity of that natural or legal person is other than insurance distribution;

(b) the natural or legal person only distributes certain insurance products that are complementary to a good or service;

(c) the insurance products concerned do not cover life assurance or liability risks, unless that cover complements the good or service which the intermediary provides as its principal professional activity.

(46) Article 1(4).

- The demand and needs test;
  - A general duty to act honestly, fairly and professionally in accordance with the best interests of their customers (Article 17(1) of the IDD);
  - A general obligation to provide fair, clear and not misleading information (Article 17(2) of the IDD). Insurance undertakings are also required to comply with the IDD provisions applicable to cross-selling (Article 24 of the IDD) when the insurance policy is sold together with an ancillary service or product or where the insurance product is ancillary to a good or service which is not insurance. This last situation is particularly relevant as to how travel insurance is distributed.
  - According to the Article 17(3) of the IDD, Member States shall ensure that insurance distributors, including ancillary insurance intermediaries in scope (Article 2.1 (8) of the IDD), are not remunerated or do not remunerate or assess the performance of their employees in a way that conflicts with their duty to act in accordance with the best interests of their customers. In particular, an insurance distributor shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to itself or its employees to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product which would better meet the customer's needs.
- Finally, Product Oversight and Governance (POG) requirements (Article 25 of the IDD) apply to insurance undertakings, insurance intermediaries including insurance ancillary intermediairies and all products except those which consist of the insurance of large risks.

ANNEX II – REPORTED CONSUMER PROTECTION ISSUES

Over the last five years via EIOPA's Consumer Trends work, National Competent Authorities (NCAs) have reported several consumer protection issues relating to travel insurance. Further issues have, likewise, been highlighted by analysing retail risk indicators ([47]) (RRIs) at EU-wide and Member State level. Several of the identified issues and additional ones have also been reported to EIOPA by stakeholders.

Complaints offer a natural starting point. Pre-existing evidence has been that complaints are typically related to claims handling. ([48]) These include delays in and complexity of the claims handling process (e.g. extensive forms and supporting documentation), insufficient compensation and denied claims. It should however be noted that travel insurance presents relatively low levels of complaints, both in absolute terms as well as in relation to the number of contracts (e.g. 0.28 complaints per 1000 contracts compared to 1.04 complaints per 1000 contracts for motor insurance in 2015 ([49])).

The main reason put forward in existing evidence as to why claims are denied is exclusions in cover, in particular linked to pre-existing medical conditions. This raises questions as to whether consumer detriment arises from how travel insurance products are designed ([50]) or from consumers being provided with misleading or inadequate information about the product.

Considering the above, reported claims ratios for travel insurance are among the lowest when compared to other lines of business. ([51]) While low claims ratios are positive for insurance undertakings in terms of the solvency position, from a conduct perspective there may be more concern. Low claims ratios can be a sign of miss-selling products, of bad wording of the product terms or of high claim refusal rates. It could, furthermore, be a sign that consumers are not fully aware of the cover they have or that they have travel insurance at all. ([52]) It may also be possible that (some) consumers simply opt to not formally file a claim due to predetermined beliefs that the claim will not be accepted. Notwithstanding the above, it must be noted that there could be non-conduct-related reasons why claims ratios are low, for instance as a result of low casualty rates or a low number of accidents. Nevertheless, the persistence of low levels of claims ratios over time should be examined.

In addition, the travel insurance market appears to be characterised by relatively high commission rates – as reported to EIOPA through retail risk indicators. ([53]) Such high commission rates could provide an incentive for misleading or aggressive selling practices, while reducing the overall value of the policies on offer.

Stakeholders have also brought to EIOPA's attention some recent trends in the distribution of travel insurance, which may contribute to consumer detriment. The increase in sales through digital and remote channels complementing more traditional distribution channels (e.g. travel agents) may bring benefits to consumers, but could also create specific consumer detriment or increase the scale of difficulties that already exist in offline distribution.

This trend may be further boosted as online travel specialists ([54]) play an increasingly role as distributors of travel insurance and where large technological/internet companies ([55]) decide to enter the travel insurance market, at least as a first step, in distribution. Of potential significance

([47]) Retail Risk Indicators Methodology Report; available at: https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-15-260%20-%20Retail_Risks_Indicators_Methodology_Report_update-15-02-2016.pdf#search=retail%20risk%20indicator.

([48]) In 2016, claims-related issues were the main cause of complaints in insurance across the different product categories; source: EIOPA Sixth Consumer Trends Report; available at: https://eiopa.europa.eu/Publications/Reports/Sixth%20Consumer%20Trends%20report.pdf.

([49]) Source: Retail Risk Indicators - Phase II (EIOPA-BoS/17-220).

([50]) It seems that a significant number of complaints relate to the terms and conditions of policies.

([51]) In 2015 the lowest claims ratio were for household insurance (50.8%), followed by travel insurance (51.3%); source: Retail Risk Indicators - Phase II (EIOPA-BoS/17-220).

([52]) This could be particularly the case where travel insurance is automatically included as add-on insurance to other primary financial products such as credit cards or bank accounts.

([53]) In 2015 travel insurance products displayed the highest commissions (28%); source: Retail Risk Indicators - Phase II (EIOPA-BoS/17-220).

([54]) E.g. Bookings.com, TripAdvisor, Expedia or Trivago.

([55]) E.g. GAFAs (Google, Amazon, Facebook and Apple).

for consumers is the business model used by new large entrants in travel insurance distribution. Rather than operating as conventional insurance intermediaries, they may operate as business originators and leverage their large customer base and market power when setting the terms of the distribution agreement with insurance undertakings. Insurance undertakings have highlighted to EIOPA that some of these new entrants set upfront their (unnegotiable) commission rates when putting up their distribution business for tender among various insurance undertakings. Some accounts point to commission of up to 80 percent.

Finally, considering travel insurance's prices vary significantly, depending on the destination, duration and purpose of the specific trip as well as whether its ongoing or on-demand coverage, comparison between different products and shopping around could be beneficial for consumers. However, consumers do not tend to search the market and compare different products. This could be due to the way in which products are commercialized but also by an inherent difficulty in comparing products due to product variation and complexity.

ANNEX III – GLOSSARY

Ancillary insurance intermediary	Natural or legal person whose main business is not insurance-related who, for remuneration on an ancillary basis, takes up or pursues insurance distribution as a secondary activity; satisfy all the conditions set out in Article 2(1)(4) of the IDD.
Bancassurance	Distribution carried out by a banking and credit institution (e.g. retail and commercial bank, internet bank, mortgage and credit provider, credit card provider, etc.) resulting from partnership or relationship between the insurance undertaking and the banking or credit institution where the later acts as agent and the insurance undertaking uses the banking or credit institutions' sales channels such as bank branches or websites.
Big Data Analytics (BDA)	Large volumes of data that can be generated, processed and increasingly used by digital tools and information systems for making predictive, descriptive and prescriptive analysis. This capability is driven by the increased availability of structured data, the ability to process unstructured data, increased data storage capabilities and advances in computing power.
Chatbot	A computer program that simulates human conversation through voice commands or text chats or both. Chatbots are typically embedded into messaging applications.
Claims denied	Claims submitted by the policyholder and dully processed by the insurance undertaking which have ended without payment to the policyholder. For the purpose of the thematic review, only claims completely denied should be considered as claims denied. Claims partially denied should not be considered as claims denied.
Claims ratio	Claims paid (excludes claims reserves and Incurred But Not Reported - IBNR) as a percentage of gross written premium charged during a specified period.
Commission ratio	Commissions paid to insurance distributors as a percentage of gross written premium charged during a specified period.
Comparison website and aggregator	Online interface (website or other media) with the purpose of providing information concerning one or more insurance contracts in accordance with criteria selected by customers and the compilation of an insurance product ranking list, including price and product comparison, or a discount on the price of an insurance contract, when the customer is able to directly or indirectly conclude an insurance contract using the online interface.
Complaint	Formal written expression (including in electronic mode) of dissatisfaction submitted to regulators regarding the provision of, or failure to provide a service or a product of the insurance undertaking
Direct sales	Sales by the insurance undertaking without the use of an insurance intermediary, comprising sales through the insurance undertaking's branches, employee sales agents/staff or the insurance undertaking's website.
Expense ratio	Expenses (all expenses other than commissions) incurred as a percentage of gross written premium charged during a specified period.
Gross written premium	The total premium on insurance underwritten by the insurance undertaking during a specified period, before deduction of reinsurance premium.
Insurance agent	Insurance intermediary authorised to conduct business on behalf of the insurance undertaking and who negotiates insurance contracts as an insurance undertaking's representative. Can operate exclusively for the insurance undertaking ("single-tied agent") or for more than one insurance undertaking ("multi-tied agent").

Insurance broker	Insurance intermediary who negotiates insurance contracts on behalf of an insured party (policyholder) with insurance undertakings. In contrast with an insurance agent, the broker's primary alliance is with the insurance buyer not the insurance undertaking and usually works with multiple insurance undertakings to place coverage for customers.
Insurance overlap	Situation where the policyholder has two or more policies covering the same risk. E.g. double insurance where two policies cover the same risk.
Modular product architecture	Approach whereby the policyholder is able to tailor his policy by selecting from a significant range of pre-set coverages, resulting in individualised insurance policies.
Multi-trip	Insurance policy also known as annual plans, providing coverage for multiple trips during a calendar year.
Net underwriting result	Gross written premium less claims payments, commissions and expenses as a percentage of gross written premium charged during a specified period; excludes investment income earned on held premiums.
Online travel specialist	Online-based company specializing in travel-related services and products to consumers including hotel and restaurant reviews and other travel-related content, accommodation and travel bookings and travel metasearch engines. E.g. Bookings.com, TripAdvisor, Expedia or Trivago.
Online travel agency (OTA)	Online-based company specialized in offering travel-related planning sources and booking capabilities.
Over-insurance	Situation where the level of cover a policyholder has is higher than needed. E.g. coverage for more than the value of item that is insured.
Single trip	Insurance policy providing coverage for a specific trip and is matched to the exact characteristic of the trip (e.g. number of travelling days and destination).
Standard packaged product approach	Approach whereby the insurance undertaking offers pre-designed products which vary by coverage type, limit etc. In this approach, it is common for products to range from those providing basic coverage to those providing comprehensive coverage. Product are often named using terms suggestive of the level of coverage (e.g. bronze, silver, gold).
Travel agent / tour operator	Natural or legal person that engages in selling or providing travel and tourism related services to the public on behalf of suppliers such as activities, airlines, car rentals, cruise lines, hotels, railways, and package tours.
Under-insurance	Situation where the level of cover a policyholder has is inadequate and lower than needed. E.g. coverage for less than the value of item that is insured.

ANNEX IV – LIST OF ACRONYMS

ASIC	Australian Securities and Investments Commission
BDA	Big Data Analytics
BEUC	The European Consumer Organisation
CCPFI	Committee on Consumer Protection and Financial Innovation
EEA	European Economic Area
EHIC	European Health Insurance Card
EIOPA	European Insurance and Occupational Pensions Authority
FCA	Financial Conduct Authority
GAFAs	Google Amazon Facebook Apple
GPS	Global Positioning System
GWP	Gross written premium
IDD	Insurance Distribution Directive
IPID	Insurance product information document
IQ	Industry Questionnaire
IRSG	Insurance and Reinsurance Stakeholder Group
IVASS	Italian Institute for the Supervision of Insurance
MTLP	Motor Third Party Liability
NCA	National Competence Authority
UNWTO	United Nations World Tourism Organization

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60327 Frankfurt am Main, Germany

Publications Office of the European Union