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Innovation is crucial to incentivise retail investments

The COVID-19 pandemic accelerated the digitalisation of the insurance sector, resulting in easier delivery of products and services, lower distribution costs, and more tailored offers, thanks to increased interactions between insurers and consumers.

However, digitalisation focused primarily on the distribution of non-life insurance, while the availability of online platforms for insurance-based investment products (IBIPs) remains limited.[1]

Digitalisation and innovation can enhance access to retail investments and promote the uptake of retail investment products by enabling consumers to make informed choices that are aligned with their needs. At the same time, behavioural research highlights the challenges of using consumer disclosures as a tool to protect consumers and to promote their decision-making. Indeed, consumers often fail to read the information they receive and can be overwhelmed when presented with too much information. This hinders comparability, making it difficult to make informed decisions. The current regulatory framework, although intended to be technology-neutral, was designed before the app revolution and without considering digital distribution.

EIOPA is of the view that consumer disclosures need to be presented in a radically simpler and more user-friendly format. Presenting essential information upfront, and offering more in further layers, can facilitate the comparison of key information. And innovation can help in doing so.

Innovative tools, such as simple personal finance aggregator apps, could also enable consumers to access consolidated information on all their investments: from pension entitlements to insurance policies and investment funds, thus improving consumer engagement and decision-making. Virtual agents, chatbots, or oral disclosures could replace traditional paper-based documents, making investment information more appealing and interactive, including on complex concepts such as market risk or biometric risk coverage.

In addition, increased information exchange between insurance undertakings and consumers, including in relation to their demands and needs, is essential to tailor the IBIP design to consumer needs. Innovation can promote well-designed and low-cost methods of meeting the needs of customers with straightforward investment objectives and smaller amounts of money to invest.

A consumer-centric approach will boost retail investments whilst managing risks.

On the other hand, an increase in digitalisation that is not customer-centric can limit retail investments. Two studies carried out by EIOPA in 8 Member States have shown that consumers are more reluctant to buy complex, long-term products (i.e. IBIPs) online, as they commonly require greater consideration and professional advice. Moreover, consumers with limited digital skills can be excluded or discouraged from investing through online tools.

In addition to financial exclusion, data sharing and exchanges pose other risks, not only in relation to data privacy. The more information about individuals that insurance undertakings have and share, the higher the probability that some parameters, or a combination thereof, can be used as a disqualifier or a proxy for a traditional parameter. Consequently, some consumers may unjustly pay higher costs or not be able to access retail investments which meet their needs. There is also the risk that all the data is held by a few, thus restricting competition. Moreover, digital distribution can include aggressive marketing techniques, such as so-called ‘dark patterns’ or leveraging on social media. Finally, some consumers may have difficulties discerning whether the advice provided through chatbots is that of adequately registered and qualified advisers.

The current Retail Investment Strategy (RIS) proposes measures to leverage opportunities whilst also addressing emerging risks. It calls for a more digital-by-default approach, allowing the layering of information. It further proposes to present the key information document using an interactive tool and to prevent ‘finfluencers’ who are not registered or adequately qualified from using social media to promote products.

The legislative proposal on a Framework for Financial Data Access (FIDA) could also improve investment advice for consumers and facilitate their access to a comprehensive overview of their financial and investment situation. However, not all risks of digitalisation are addressed by FIDA, for instance the potentially deceptive insurance practice of combining the sale of financial products with other non-financial goods. There are also opportunities that are not directly addressed by the RIS but that can be developed by the industry, such as personal finance aggregators, providing aggregated information on consumers’ financial situation.

The key is to continuously monitor risks to ensure regulation and supervision remain fit for purpose for the digital age.

1. *Consumer Trends Report 2022 (europa.eu) and EIOPA publishes advice on Retail Investor Protection (europa.eu)*