



CONSUMER TRENDS REPORT 2022

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#INSURANCE #PENSIONS #CONSUMERS #FINANCIAL HEALTH



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European Insurance and
Occupational Pensions Authority

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EXECUTIVE SUMMARY

Over the past years, an increased emphasis has been put on ensuring that the financial sector contributes towards improving consumers¹ financial health. Given the current disruptions (i.e., the Covid-19 pandemic, the increase in natural catastrophes' frequency, the Russian invasion of Ukraine, the cost-of-living crisis) this has become an increasingly important priority. While most NCAs highlighted that new regulatory requirements coupled with initiatives put in place by the insurance and pensions sectors have led to improved financial health, concerns are increasing.

As of June 2022, access to insurance and pensions products remained low. According to the Eurobarometer survey carried out by EIOPA, over a third of European consumers do not own any savings products, including insurance-based investment products (IBIPs) and pensions. Because of the limited access to savings products and important pensions gaps, over 50% of European consumers are not confident they would have enough money to live comfortably throughout their retirement. And, while the percentage of consumers who do not own an insurance product is significantly lower (8%), this is driven by motor insurance (58%) – mandatory in all Member states - and household insurance (63%) as access to other products remains low.

Current disruptions are having a direct impact on consumers and SMEs² financial health with the macro-economic environment affecting both negatively, while some opportunities are offered by digitalization. The current macro-economic trends are having an impact on consumers, particularly vulnerable groups. Consumers might delay the purchase of needed insurance coverage, have difficulties in keeping up with regular premium payments, or opt to temporarily stop their contributions to voluntary pension schemes. In fact, affordability and budgetary constraints are the main reason why 19% of European consumers do not buy or renew insurance. Rising inflation is also having an effect on real returns for consumers, lowering future disposable income. On the other hand, the continued digitalisation of the insurance and pension sectors could lead to expanded access to insurance and pensions products and services, cheaper delivery, and improved pricing. This despite the need to closely monitor cyber-risks and possible discriminatory pricing practices.

Ensuring sustainability claims are substantiated to avoid loss of trust and broader societal impact is also important to contribute to consumers' and society's financial health. Consumer appetite for sustainability-related IBIPs and pension products has grown. To meet this increase in demand, insurance and pension providers have adapted their offers. While this is a welcomed development, with 25% of EU consumers saying they have heard about sustainable or “green” insurance products, issues arise when sustainability-related claims by providers are misleading or unsubstantiated. Evidence of greenwashing has been identified in some Member States, and 58% of reporting NCAs are planning to carry out supervisory activities to tackle greenwashing.

Adequate and consumer-centric product design and distribution processes can significantly contribute to consumers' financial health, particularly considering that life insurance GWP continued increasing (14% year-on-year growth in the EEA in 2021). NCAs witnessed positive developments in product design, product distribution and product monitoring and review process. However, instances of poor product design and concerns in relation to some unit-linked products offering poor value for money remain. Further, risks relating to poor or inadequate advice and conflicts of interest continue to be an area of focus for NCAs, with 12 of them having reported that mis-selling of unit-linked products is an important risk in their market.

The increase in systemic events³ has led to an increase in un-insurable risks and/or risks which can only be insured at high prices impacting consumers' and SMEs' financial health. Lack of clarity in terms and conditions leads to further consumer detriment when systemic events materialize. Sufficient and appropriate insurance coverage allows consumers and SMEs to be compensated in case shocks materialize. However, important protection gaps exist. For example, only half of consumers and SMEs are covered in case of a NATCAT event, and 69% of SMEs had no cyber risk coverage. Further, lack of clarity in terms and conditions, particularly in exclusions, continue to be an issue and cause further consumers' and SMEs' detriment when systemic events materialize.

Overall, while European pension markets are highly diverse, the pension saving gap is major trends across most Member States. The overall estimated coverage through registered IORPs in Europe stood at 13.9% in 2021, an increase of 1.1% from the previous year. The continuous shift towards DC schemes is re-shaping the occupational pension landscape with both potential benefits (e.g., higher levels of income) and potential risks (e.g., shifting of risks to members). Moreover, persistent differences in terms of mechanisms and regulatory treatment impact the development of the pension sector across Members and impact its relevance as a source of future retirement income. Pensions come in a variety of forms and are influenced by a broad range of factors. As a result, there is no one-size fits-all approach to tackle these challenges.

Digitalisation and technology are gradually transforming the pension value chain, lower costs and improving members and beneficiaries engagement with their pensions, leading to improved financial health. Multiple digital initiatives have been reported across EU pension markets with the pandemic acting as a catalyst for further digitalisation of various pension-related processes, as members want to increasingly interact online. Moreover, greater digitalisation could lead to younger generations taking an interest in their pension and not see it as a faraway event, hence ensuring they save more for retirement. Still, there is a risk that less tech savvy members are excluded from increasingly digitalised processes. Data protection and privacy issues also exist.

INTRODUCTION

Article 9 of EIOPA's founding regulation requires the Authority to 'collect, analyse, and report on consumer trends'⁴. EIOPA interprets trends in a broad sense to include developments in the nature, spread and materiality of conduct risks, on the one hand, and conduct risk mitigants, on the other. A trend can be prevalent for several years, or a recently emerging one. For a trend to be included in the report, it does not necessarily have to be present in all Member States. One of the report's key objectives is to identify risks for consumers, savers and beneficiaries arising from trends in the insurance/pension market (including exogenous ones), which may require specific policy proposals or supervisory actions from NCAs and/or EIOPA.

EIOPA follows an agreed upon methodology to produce Consumer Trends Reports on an annual basis which has been updated in June 2021 (see Annex document). EIOPA has also been gradually introducing consumer and behavioural research as part of its consumer trends work, to better capture consumers', savers' and beneficiaries' experiences with insurance and pension products. In particular, to better inform the identification of risks and trends, in 2022, EIOPA carried out an EU-wide Eurobarometer survey covering a representative sample of European consumers⁵ and SMEs⁶ with a view of having a comprehensive overview on consumers' financial health.

The results of the Eurobarometer survey are integrated across the report, whose focus is highlighting key trends affecting consumers' financial health (for its definition, see box 1). In fact, over the past years, regulators, policymakers, and providers have put an increased emphasis on ensuring that the financial sector contributes towards improving consumers' financial health and given the current disruptions (i.e., the pandemic and its consequences, the increase in natural catastrophes, the invasion of Ukraine by Russian Forces, the energy and cost of living crisis) affecting consumers' financial health, this has become an increasingly important priority.

This introductory section provides a general overview of the current status of consumers' and SMEs' access to selected insurance and pensions' products as of 2022. It is followed by a section highlighting cross-sectoral trends and then by two specific sections: one focusing on insurance and one on pensions trends respectively.

While this year's report focuses on financial health and different trends contributing to or affecting financial health, the cross-sectoral section also includes key highlights relating to the offering of products with sustainability-related features. Even though this trend does not have a direct impact on consumers' financial health, it can undermine the transition towards a more sustainable economy and consumers' trust in this transition with – in the medium to long term – important implications for society and consumers' financial health.

BOX 1



DEFINITION OF FINANCIAL HEALTH

The Principles of Responsible Banking⁷ developed by the United Nations Environment Programme (UNEP) finance initiative define financial health as a state in which a person or organization can smoothly manage their financial obligations and have confidence in their financial future. This includes four elements:

Day-to-day	Resilience	Goals	Confidence
Smooth short-term finances to meet short-term needs	Absorb financial shocks	Reach future goals	Feel secure and in control of finances

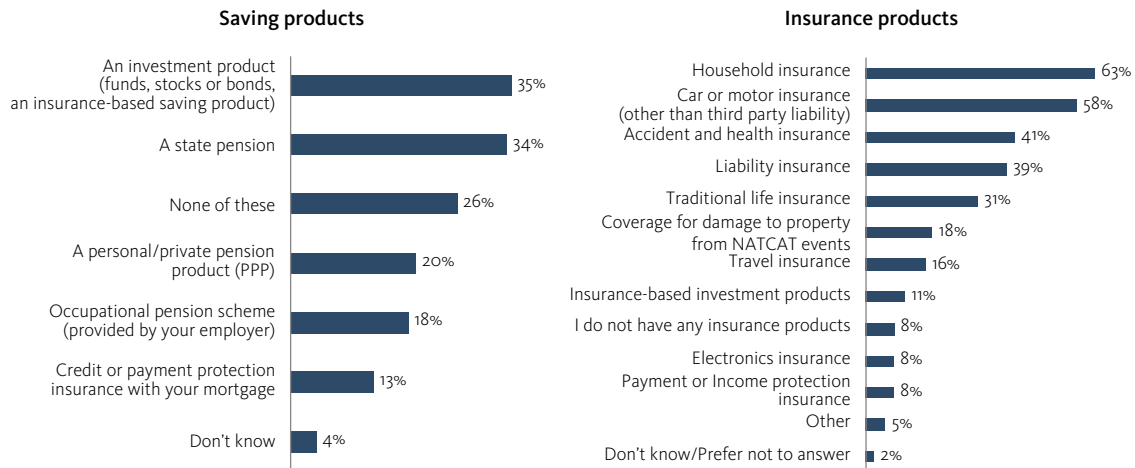
The United Nations Secretary-General's Special Advocate (UNSGSA) for Inclusive Finance and Development provides a similar definition.

Financial health in the insurance and pensions sector means that consumers and SMEs have access to insurance and pensions products and/or are Members of pensions' schemes which allow them to (i) have sufficient coverage for several possible financial (e.g., job loss) and non-financial shocks (e.g., accident) and lead a healthy financial life and (ii) reach financial goals and objectives (e.g., adequate returns) and have income security for retirement.

CONSUMERS' FINANCIAL HEALTH

Access to a broad range of financial products and services, including insurance and pensions, contributes to increased financial health. According to the EU-wide Eurobarometer survey (June 2022), over a third of European consumers do not own any type of product which would allow them to save. And, while the percentage of European consumers who did not own an insurance product is significantly lower (8%), this is driven by motor insurance (58%) which is mandatory in all Member States and household insurance (63%) which is mandatory in most Member States when the house is financed with a mortgage. Accident and health insurance is the third most owned product (41%).

Figure 1 - Percentage of consumers who own one or more of selected saving products⁸ (left) and insurance products (right)

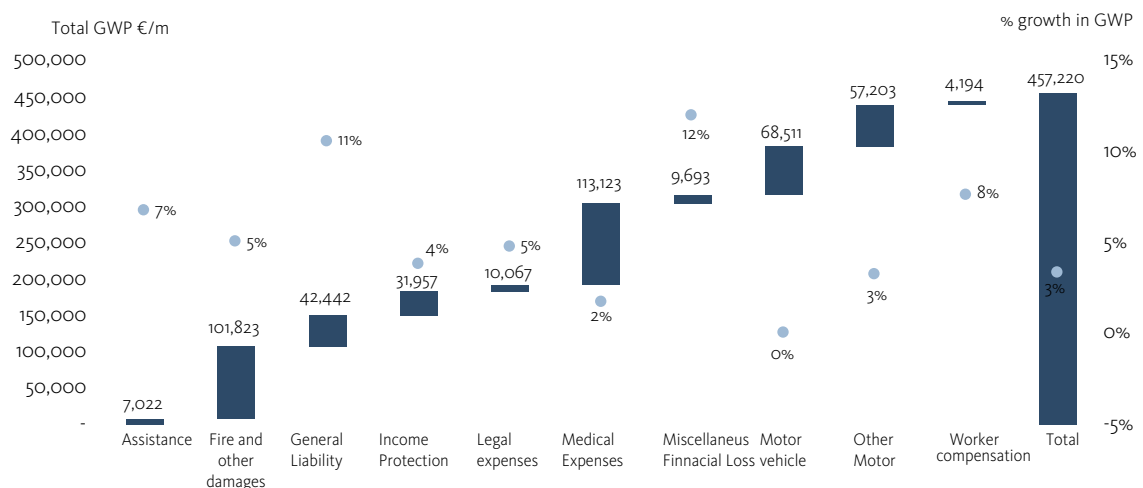


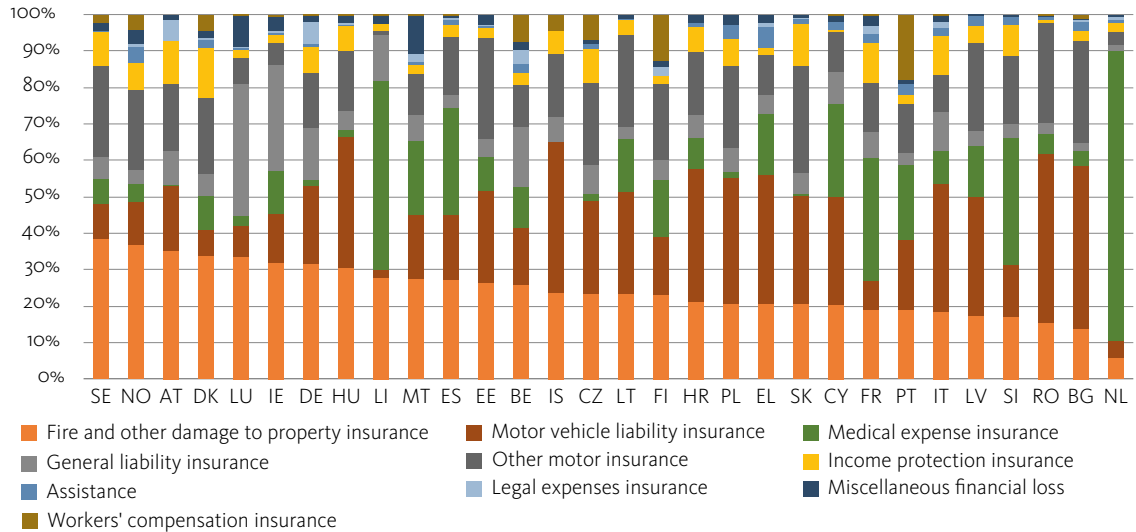
Source: EIOPA Flash Consumers' Eurobarometer 2022

However, there are significant differences across Member States. For example, the percentage of consumers not owning any type of product allowing them to save ranged from 47% in Greece to only 8% in Sweden. On the other hand, Latvia reported the highest percentage of consumers who do not own a protection product. Penetration of traditional term life insurance products is very high in France (41%) and Poland while a high percentage of Dutch (77%), German (76%), and Luxembourgish (76%) consumers own liability insurance products. Travel insurance penetration is high in Denmark (53%), the Netherlands (50%) and Finland (46%).

While from different sources and therefore their relationship should be interpreted with caution, the Eurobarometer trends are generally reflected in total gross written premiums (GWP) taken from EIOPA's Solvency II database. In fact, in 2021 motor insurance (motor vehicle liability and other motor insurance) accounted for almost 30% of total European economic area non-life GWP, and medical expense and fire and other damage to property continue being the first and second largest lines of business respectively.

Figure 2 - Non-life insurance GWP at the EEA level (above) and by Member States (below) split by line of business – 2021



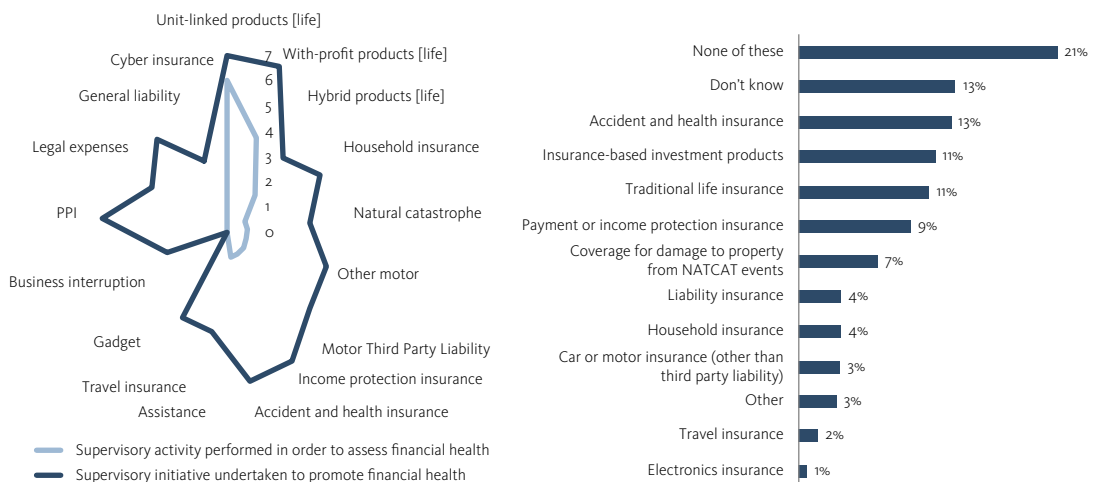


Source: EIOPA's Solvency II Database (S.05.01)

According to the Eurobarometer results (Figure 3), consumers view life insurance, including unit-linked products and health and payment protection insurance products, as the most important for their financial health alongside accident. This is aligned with NCAs' and EIOPA's activities performed in 2021 to ensure that these products contribute to consumers' financial health by promoting adequate product design.

In November 2021, EIOPA issued a supervisory statement to address value for money risks⁹ in the unit-linked market and in 2022 it developed a common methodology, addressed to NCAs, to promote supervisory convergence in the implementation of the supervisory statement¹⁰. EIOPA, in 2021, also carried out a thematic review on credit protection products¹¹ and, in October 2022, it issued a Warning to address risks identified in the thematic review¹². Similarly, as shown in Figure 3, in 2021 NCAs focused most of their supervisory activities on IBIPs and credit and income protection products. These products, when designed in a customer-centric manner, can significantly help consumers in smoothing shocks and in achieving their financial goals.

Figure 3 – Number of NCAs' supervisory activities aimed at promoting financial health (left) and consumers' perception of products which contribute the most to their financial health (right)



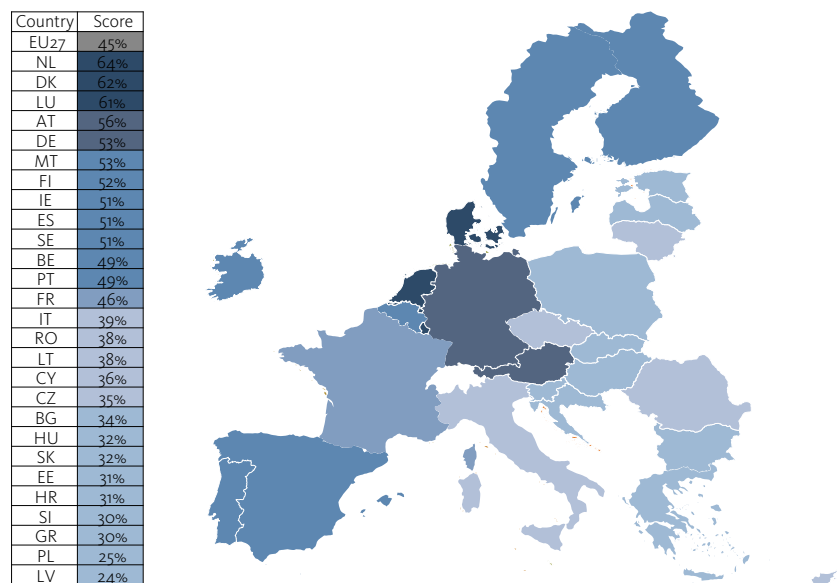
Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022¹³; EIOPA Flash Consumers' Eurobarometer

The Eurobarometer results highlight that a considerable number of consumers do not believe they are able to sustain shocks either because they do not have access to the products, products have limited coverage, or because they do not understand coverage (for specific shocks relating to risks stemming out systemic events see Section 3.2 on protection gaps). For example:

- In case of a sudden loss of employment only 6% of European consumers have private insurance, which would help them cover their monthly expenses without specific limits. 41% of them would rely on support from the government and 10% are not sure about coverage.
- In case of a sudden need for a medical intervention 16% of European consumers would be able to fully rely on a private health insurance, an additional 10% would also be able to rely on a private health insurance but with a high deductible, and 17% have coverage only for certain medical procedures. 11% of European consumers are not sure about exclusions of their private health coverage. While in most Member States there is no need for private health care (due to good national health systems), the pandemic stressed the public health system and consumers may benefit from additional coverage.

Finally, having a closer look at pension coverage, over 50% of European consumers are not confident they would have enough money to live comfortably throughout their retirement. As with other highlighted trends, there are important differences across Member States. In the Netherlands for example, where there is a strong and large occupational pension sector, the percentage of consumers who believe they would have enough money to live comfortably throughout their retirement is 20 percentage points above the European average (45%) while in Greece, Poland, and Latvia this is below 30%. To close this gap, many Member States have recently introduced important pensions reforms (see Section 4.2).

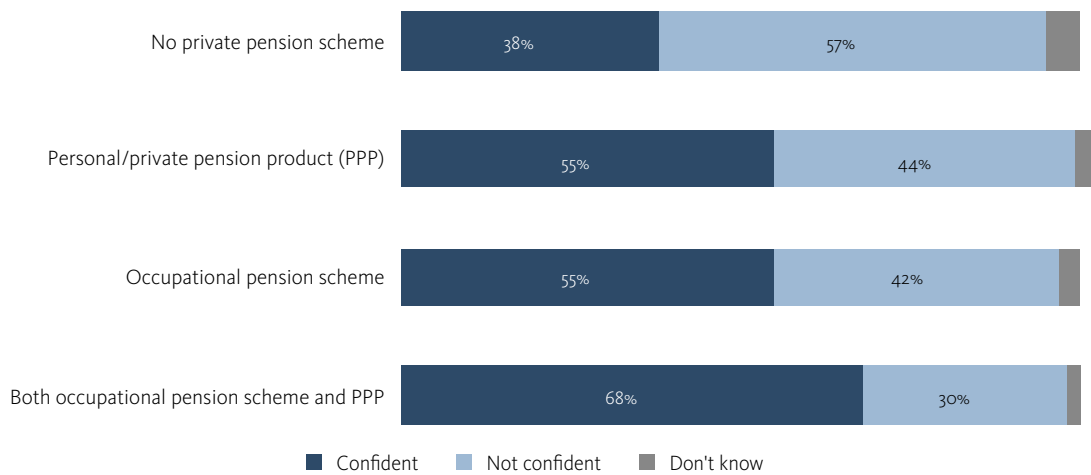
Figure 4 – Percentage of consumers’ that are confident in their financial ability to live comfortably throughout retirement



Source: EIOPA Flash Consumers' Eurobarometer 2022

Further there is a strong relationship between consumers having pension products/schemes and their confidence in their financial ability to live comfortably throughout retirement (Figure 5).

Figure 5 - Percentage of consumers' that are confident in their financial ability to live comfortably throughout retirement by pension product/schemes that consumers reported having/being a part of

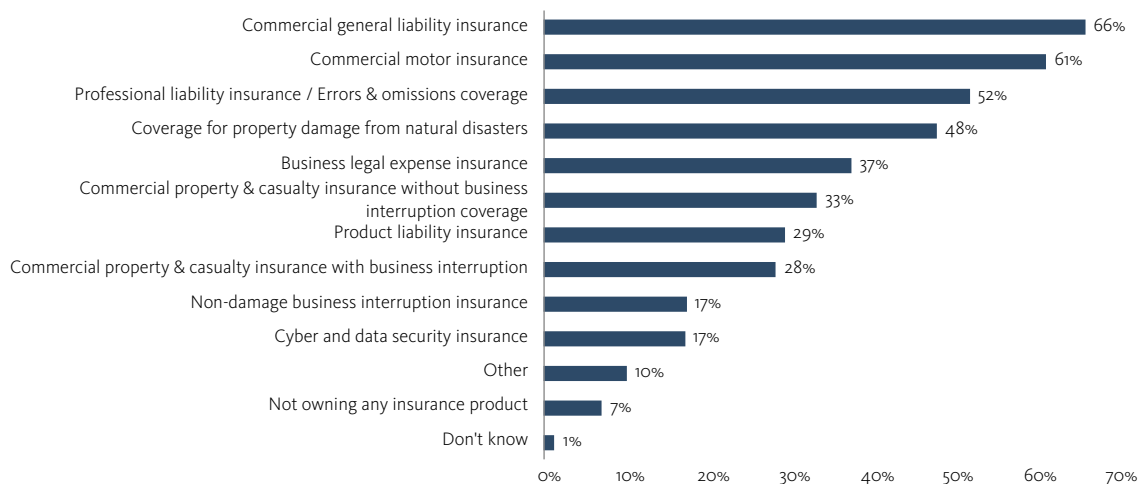


Source: EIOPA Flash Consumers' Eurobarometer 2022

SMES' FINANCIAL HEALTH

Looking at SMEs' access to insurance products, it can be observed that despite important protection gaps in some areas (see Section 3.2), SMEs have access to a broader range of insurance products, with most SMEs (over 60%) having commercial motor and commercial general liability insurance and over 50% of them having liability and professional indemnity products.

Figure 6 – Percentage of SMEs owning one or more insurance product for business purposes



Source: EIOPA Flash SMEs' Eurobarometer 2022

Commercial property and casualty insurance with business interruption is considered the product which contributes to most to SMEs' financial health (16% of SMEs), followed by commercial property and casualty insurance without business interruption (9% of SMEs) and non-damage damage business interruption and cyber and data security (8% of SMEs).

While liability is one of the most common insurance products which SMEs have access to, in the event of having to pay damages only 38% of SMEs would be covered – with 24% of them only up to a certain amount. 21% of SMEs are unsure about the coverage and 37% do not have such insurance.

1. INTERVIEW — FLORE-ANNE MESSY, OECD

› Who is Flore-Anne Messy?

Flore-Anne Messy is the Head of Consumer Finance, Insurance and Pensions Division of the OECD Directorate for Financial and Enterprise Affairs, Secretary General of the International Organisation of Pension Supervisors (IOPS) and Executive Secretary of the OECD International Network on Financial Education (INFE).



She joined the OECD in June 2000 to develop the activities of the Insurance and Private Pensions Committee. After several years working on the development of pensions, insurance, and financial market policy issues, she launched and steered the OECD work on financial literacy and consumer protection (including the OECD/INFE, PISA financial literacy exercises, the G20/OECD Task Force on Financial Consumer Protection and the secretariat of FinCoNet). From 2016, she headed successively the OECD Insurance Private Pensions and Financial Market Division and the Consumer Finance, Insurance and Pensions Division.

Prior to the OECD she worked as a consultant and auditor for banks and insurance companies at Deloitte Touche Tomatsu. She graduated from the Institute of Political Studies of Paris and received her thesis in international economics from University Pantheon-Sorbonne of Paris.

Financial education is one of the key drivers of improved consumers' and SMEs' financial health. However, financial education levels remain low across a number of European Member States and there is a risk, that with the worsening macro-economic environment, consumers and SMEs, may not take suitable financial decisions. Based on your extensive experience in assisting policymakers and supervisory authorities in developing financial literacy initiatives, what would you recommend NCAs focus their attention on to ensure that consumers have the right tools to make financial decisions in these challenging times?

Before making recommendations on what NCAs should focus their attention on, let me take a step back and highlight that the OECD International Network on Financial Education (OECD/INFE) regularly collects data on the levels of financial literacy of various types of consumers such as adults (OECD/INFE financial literacy survey¹⁴), Micro, Small & Medium Enterprises¹⁵ (MSMEs), and students (PISA financial literacy assessment¹⁶). Based on this data and in discussion within the OECD/INFE, we find that the current environment of increasing living costs is challenging the financial resilience and well-being of consumers and MSMEs, and that the rapid digitalisation, and the emergence of sustainable but complex investment opportunities, is creating further financial education needs. This same data also points to a limited resilience to financial shocks, for example in the EU countries participating in the survey only 30 to 40% of consumers have enough savings to live beyond one month without income/financial help.

Now to address the main premise of the question, we would recommend NCAs focus their attention on three main areas to ensure that consumers have the right tools to make financial decisions in these challenging times:

1. The first area is to support the development of National Strategies for Financial Literacy, which would create coordinated platforms and mechanisms that allow relevant stakeholders to act in a quick and coherent way at times of crisis.
2. The second area is to strengthen core financial literacy competencies that allow all consumers and MSMEs to have a solid foundation of basic financial skills that can help them navigate a changing financial landscape, particularly in the current inflationary environment, and also in relation to emerging trends such as digitalisation and sustainable investments. The Financial competence framework for adults in the EU¹⁷ is a useful tool in this respect.
3. The third area is to keep in mind the long-term perspective in financial education by focusing on financial preparedness and long-term savings by way of pension and insurance – for example, younger generations might not fully understand the importance of

pension savings as they see it as a far-away event. It is also important to develop a solid financial literacy foundation from a young age, including by teaching financial education in schools.

Any particular aspects they should take into account to ensure they also address the need of more vulnerable consumers which are expected to be the most impacted by the current situation?

Results of our recent research and discussions, among the OECD/INFE, suggest that low-income households have been affected the most by the COVID 19 pandemic and are suffering the most from the current growing inflation. Other groups that are more likely to experience limited financial resilience/higher vulnerability include youth, women, refugees and seniors.

To ensure that financial education addresses vulnerable consumers' needs, it is important first to understand their needs via behavioural insights – the Eurobarometer survey carried out by EIOPA is a great tool for this. Based on these insights, tailored financial education initiatives can target specific groups of consumers based on their behaviours and preferences. Moreover, there should be a careful mix of digital and traditional delivery channels to adequately target the different groups of consumers depending on their digital access and skills.

The draft proposed revisions to the Recommendation on the G20/OECD High-Level Principles on Financial Consumer Protection identified sustainability and digitalisation as new key cross-cutting themes. EIOPA 2022 Consumer Trends Report identifies digitalisation as a key driver for improved financial health, but it also highlights that a number of risks exist (such as discriminatory pricing practices in insurance, data privacy issues, etc). What would you recommend NCAs focus on to ensure digitalisation leads to good consumer outcomes in the insurance and pensions sectors?

Digitalisation is transforming the way that financial consumers interact with financial products and services and financial services providers, including insurance and pensions providers.

It offers opportunities as it allows consumers to compare products and carry out simulation of their future financial situation to support decision making. This can be particularly useful for long-term saving such as pensions. Moreover, digitalisation allows for the delivery of cost effective and tailored financial education. Greater digitalisation can also integrate behavioural nudges or reminders which

can be particularly useful for long term saving. However, it is important to keep in mind the limited digital access and skills of some consumers, for example seniors. Other types of consumers such as many younger generations have good digital skills but lack in financial skills, potentially making them more prone to risks, for example due to “finfluencers”, or to fraud and scams.

Digitalisation is also impacting oversight and supervisory activities, both in terms of NCAs' operations and the supervision of financial services providers. For these and other reasons, digitalisation is included as a new cross-cutting theme in the updated G20/OECD High Level Principles on Financial Consumer Protection (FCP), which means that NCAs should focus on all of the areas covered by the Principles to ensure that digitalisation leads to good consumer outcomes. For example, in relation to FCP Principle 6 on Equitable and Fair Treatment of Consumers, NCAs should, among other things, ensure that the enhanced use of digital technology supports good consumer outcomes rather than leading to inappropriate or discriminatory outcomes for consumers, as also highlighted in EIOPA's recent supervisory statement on differential pricing practices issued for public consultation. In insurance, this would mean ensuring that the use of technology to support individualised pricing of cover does not inadvertently lead to exclusion from accessing insurance for some. Another example is FCP Principle 7 on Disclosure and Transparency, where NCAs should promote the use digital formats and digital delivery, as it could be used to enhance member engagement in pension schemes.

Beyond this, the G20/OECD Task Force on FCP has developed some effective approaches for FCP in the Digital Age⁸ that provide guidance for NCAs. For example, NCAs should aim to achieve the right balance between allowing fintech innovations to occur without undue limitations in order to realise the potential benefits for consumers, while ensuring an appropriate level of FCP is maintained. NCAs should also ensure that they have the right mix of resources and capabilities, including new expertise to understand and respond appropriately to new business and distribution models driven by technological innovation.

In relation to sustainability, what risks do you see and how can these be effectively mitigated?

Sustainable finance is one of the new cross-cutting themes of the updated Principles on FCP and is very much integrated across all areas of OECD's work also beyond financial consumer protection. We are currently

seeing that the market for sustainable financial products and services is developing rapidly, in large part due to the growing consumer demand for sustainable financial products and services at the retail level. This is leading to both opportunities and risks for financial consumers.

We have identified three inter-related areas of risks to consumers. First, there is the risk associated with a lack of consistency and clarity about definitions and terms associated with sustainable financial products and services. While this is less of a problem in the EU, some issues related to clarity and consistency remain. Secondly, there is the risk that consumers do not understand what sustainable financial products and services are, as well as how to compare them and how to choose one that meets their goals and objectives. Thirdly, and this is a risk associated with possible misconduct by financial services providers, is the risk of intentional “greenwashing”.

Supervisory and policy responses and experiences are still evolving; however, some of the risks can already be mitigated through the appropriate use of financial consumer protection policies and tools, which NCAs already have at their disposal, such as adequate disclosure, manufacturing and distributing quality financial products, ensuring adequate suitability assessment and financial education initiatives related to sustainable products and preferences.

EIOPA 2022 Consumer Trends Report shows that there is a gender gap in access to insurance and pension products (e.g. according to the Eurobarometer survey 56% of women – vs 46% men – say they are not confident they would have enough money to live comfortable through retirement). Do you think that this may be related to a gender gap in financial literacy? If so, what actions would you recommend to reduce this gap?

The OECD report *Towards Improved Retirement Savings Outcomes for Women*¹⁹ published in 2021 also highlights that women participate less in retirement savings plans and build up lower pension assets and entitlements than men. What is causing this? A variety of factors, which relate to the labour market such as lower labour market participation, shorter or discontinuous careers, employment in lower paid sectors, lower wages. Financial literacy is also likely to play a role as in a recent survey conducted by the OECD/INFE, we found that women display lower financial knowledge than men and that they tend to be less confident in their financial skills. This in turn may limit their engagements with complex products like insurance and pensions or may lead them to choose conservative

pension/investment options. More research and discussion around the relationship between gender differences in financial literacy and in retirement planning/insurance behaviour is needed.

To reduce the gap, public authorities and more generally stakeholders should continue to develop evidence-based financial education policies and programmes. This implies collecting gender disaggregated data on financial literacy levels, and more efforts to collecting gender disaggregated data on the impact of financial education programmes, and to design well-informed tailored policies and programmes. Authorities and stakeholders should also take into account gender differences in financial literacy in their financial education programmes: for instance, by supporting women’s financial knowledge and confidence in financial decision making, or providing tailored guidance and advice on complex topics (such as insurance and pensions). Some countries are developing dedicated financial education programmes targeting women (or their needs) to create environments where they may feel more at ease in discussing about their financial problems/needs.

Finally, the 2022 Consumer Trends Report, like a number of other EIOPA’s activities identifies continued issues in relation to some products not being of high-quality – i.e., not offering value for money, having complex exclusions. Ensuring quality financial inclusion products is also one of the new proposed Principles as part of the proposed revision to the Recommendation on G20/OECD High-Level Principles on Financial Consumer Protection. What do you think the focus of supervisory authorities should be in order to ensure better quality products? How can they avoid entering into price regulation?

The quality of financial products that are sold to financial consumers has been an increasing area of focus for many FCP policy makers, regulators, and supervisors around the world, this is in part due to an increasing recognition of the limitation of an approach that is overly dependent on disclosure. The EU has been at the forefront of the developments relating to the quality of financial products, for example via EU legislation such as the Insurance Distribution Directive (IDD) and guidance provided by the European Supervisory Authorities, including EIOPA in the area of value for money.

In relation to the OECD’s work, the concept of Quality Financial Products (Principle 8) has been introduced as a new Principle in the updated Principles on FCP that I already mentioned. This Principle sets out that quality fi-

nancial products are those designed to meet the interests and objectives of the target consumers and to contribute to their financial well-being.

In line with this new FCP Principle, we would suggest supervisory authorities seek to ensure appropriate product oversight and governance measures or requirements, for example requiring providers to define a target market, so as to ensure that quality financial products are designed and distributed. This is a consideration throughout the lifecycle of the products, and with the goal of ensuring good consumer outcomes. Moreover, while dialogue with providers is key, NCAs should also consider, where appropriate, a range of available compliance and enforcement measures to ensure product adequacy.

In relation to insurance, a key area of focus in improving the value offered by insurance products relates to the issue of product coverage, including careful attention to deductibles and exclusions. It is essential that deductibles and exclusions from coverage are clearly explained

to consumers. In terms of insurance cover limits, product features, such as index-linked sum insureds, are important in terms of value, especially in these times of rising costs.

In terms of pensions, a key area of focus in improving the value offered by asset-backed pension products relates to the issue of fees and charges. The fees and charges deducted by pension providers reduce the level of assets accumulated by consumers for their retirement. Work conducted by the OECD's Working Party on Private Pensions indicates that, for example, a 1% asset-based fee reduces total assets accumulated at retirement by 20.5% relative to a situation without fees, after 40 years of contributions under certain assumptions²⁰. Without entering into price regulation, it is important that consumers are assisted in comparing pension products and that they understand the impact of fees. This is in line with the updated FCP Principle on Competition, which stipulates that consumers should be able to search and compare between financial products, and of course the FCP Principle on Financial Education & Awareness is very important here as well.

2. CROSS SECTORAL TRENDS

2.1. FINANCIAL HEALTH IN A DISRUPTING ENVIRONMENT

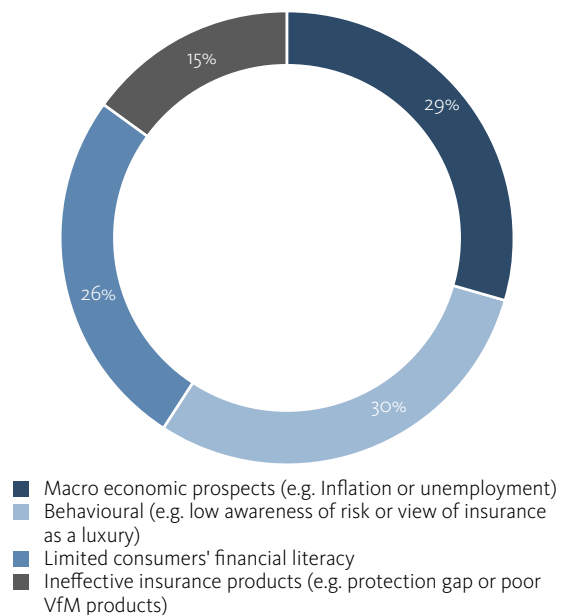
Key takeaways from section 2.1:

- The current macro-economic trends are having an impact on consumers, particularly vulnerable groups. Consumers might delay the purchase of needed insurance coverage, have difficulties in keeping up with regular premium payments, or opt to temporarily stop their contributions to voluntary pension schemes.
- The on-going digitalisation of the insurance and pension sectors can lead to further financial inclusion and improved financial health, however concerns around price walking, dual pricing practices, data privacy and cyber risks arise.
- Over the last two years, consumers' financial health has improved according to NCAs, in part due to financial literacy initiatives put in place in various Member States.

2.1.1. FINANCIAL HEALTH IN THE CURRENT MACRO-ECONOMIC ENVIRONMENT

Recent price surges in food, energy and petrol pushed inflation up and increased the cost of living. This has a direct impact on consumers' financial health: lower disposable income due to inflation, which can lead consumers to make financial decisions impacting their broader financial health. Certain categories of consumers, including vulnerable groups, could encounter difficulties in keeping up with payments for regular premium insurance products or may opt to temporarily stop their contributions to voluntary pension schemes. They may also consciously decide to delay the buying of insurance they may need making them more vulnerable and prone to present and future shocks. Behavioural aspects, which also include the fact some consumers may perceive insurance and voluntary pension as expensive and/or as a luxury, and the macro-economic prospects are, in NCAs' view, the issues currently having the highest impact on consumers financial health.

Figure 7 - Issues which are most impactful on consumers financial health according to NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²¹

This adds onto a situation where consumers and SMEs already faced issues in buying insurance because of budgetary constraints or because it is perceived as being too expensive:

- The main reported reasons by consumers for not owning an insurance product are pricing and budget related considerations with the ‘premium being too high’, ‘budgetary constraints’ and ‘premium being too high vis-à-vis the coverage offered’ being the most common reasons for consumers not buying insurance products (Figure 8).
- While not the most common driver of SMEs not buying insurance products, budgetary considerations and costs are also important factors.

Beyond deciding to limit their spending on financial products and services, given the current macro-economic en-

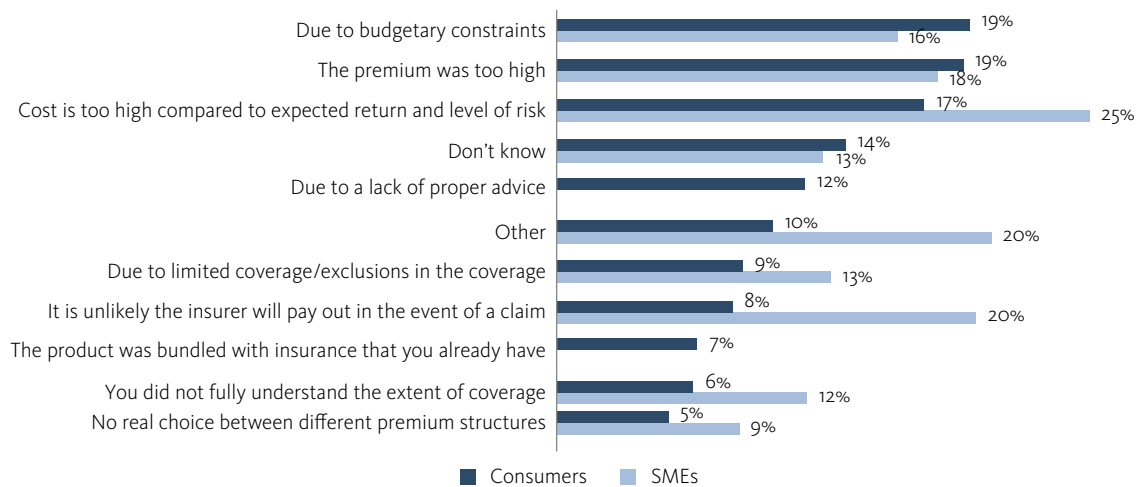
vironment some consumers may also decide to surrender their life insurance policy early to have more income to face day-to-day expenses and address financial needs.

While 2022 surrender rates data is not yet available, Solvency II data already at the end of 2021 showed an increase in surrender rates:

- For the index-linked and unit-linked insurance line of business having increased in 18 Member States increasing to 6.3% in 2021 from 5.8% in 2020 at the EEA level;
- For the insurance with profit participation line of business having increased in 14 Member States increasing to 6.6% in 2021 from 5.1% in 2020 at the EEA level.

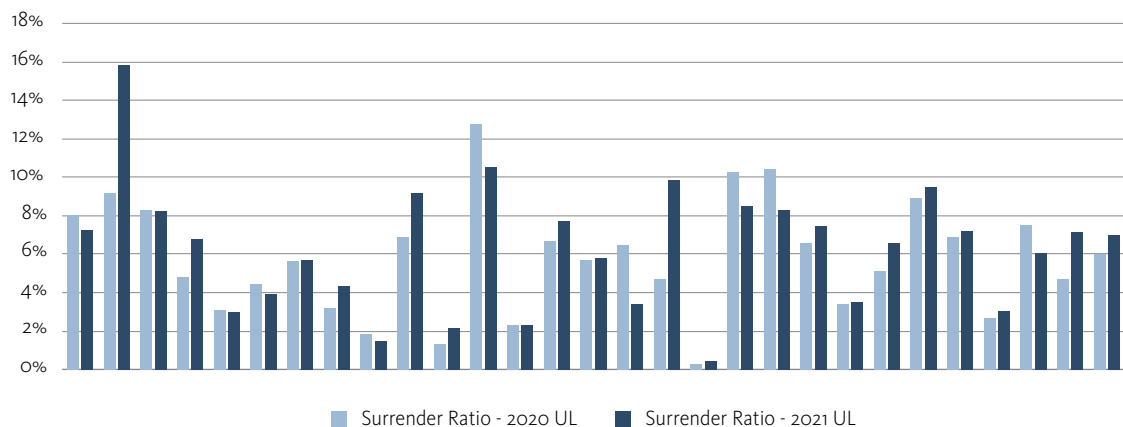
The increase in interest rates in 2022 as well as the above-mentioned events may trigger similar (if not higher) surrender rates in 2022.

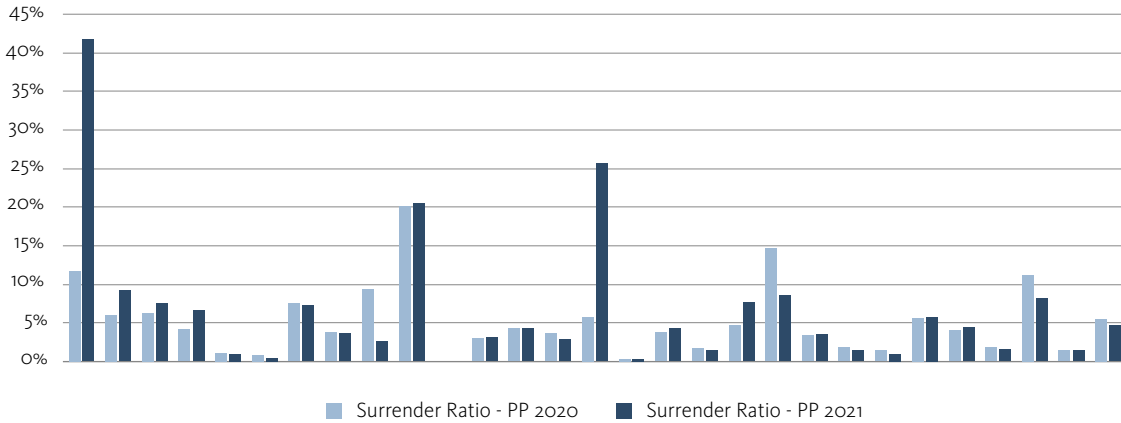
Figure 8 - Reasons for which consumers and SMEs did not buy or renew insurance products



Source: EIOPA Flash Consumers' and SMEs' Eurobarometer 2022

Figure 9 – Surrender ratio for the index-linked and unit-linked (UL) insurance line of business (above) and with profit participation (PP) line of business (below) by Member States – 2021, 2020²²





Source: EIOPA Solvency II Database (S.05.01, S.12.01)

Like for the pandemic, despite the rapidly evolving situation insurers are providing solutions for example, in Spain some insurers have developed initiatives to allow for a more flexible payment of insurance policies – including postponement of premium payments if needed.

Inflation also means the real return which consumers get is lower, leading to lower disposable income now or in the future when the insurance contract terminates or when consumers surrender their IBIP or start receiving their pensions. The current inflationary trends are also leading to market turbulence which could lower returns having an impact on consumers’ investments and pensions.

The high inflation not fully reflected in higher interest rates and the ongoing market turmoil makes it challenging to provide high pension benefits in real terms for both defined benefit schemes which do not have indexation mechanisms and defined contribution schemes:

- On one hand beneficiaries’ purchasing power – if their defined benefit is not adjusted – is reduced and,
- On the other hand, for defined contribution schemes there is a risk that the capital accumulated may not be sufficient to have good replacement ratios. This risk will materialize above all if inflation remains over

the longer term above the European Central Bank’s target.

As their top 3 issues in the pension market, NCAs ranked first ‘low financial literacy’, followed by ‘lower accumulation for defined contribution schemes because of market shocks and the low yield environment’ and ‘lack of transparency of information on expected retirement income’.

For more information on return related trends see EIOPA’s 2023 Cost and Past Performance Report.

In relation to IBIPs, there is concern that ongoing market turbulence and low-performance – coupled with stable costs – could add onto existing value for money concerns (see Section 3.1 for more details), above all for not (minimum) guaranteed products.

Beyond life products, some NCAs also reported concerns related to home insurance given increasing inflation as the amount covered might not be sufficient to cover the costs of re-construction materials, which have increased due to inflation. Indeed, in those instances where there is a cap on the amount covered, consumers might be left under-insured if they need to rebuild parts of their houses.

BOX 2



THE GENDER GAP IN ACCESS TO INSURANCE AND PENSIONS PRODUCTS

A key trend which emerged from EIOPA's Eurobarometer is the gender gap, with female consumers in most instances having lower access to insurance and pensions products.

Looking at savings products, with a focus on IBIPs and pension products, the gap reaches 7 percentage points with 29% of surveyed female consumers (vs 22% men) not owning any of the products presented in Figure 1. As a result, 56% of women say they are not confident they would have enough money to live comfortably through retirement (vs 46% men).

While the gap is lower in terms of protection products (2 percentage points) this is mostly driven by access to household insurance products for which there is no gap. As a result, women may be more prone to financial shocks:

- In case of the loss employment 43% percent of female consumers would rely on the government to face monthly expenses because they do not have coverage for this (although this is a general trend, the percentage of men consumers is slightly lower, i.e. 38%).
- In case of a medical emergency only 23% of women would be able to rely on private insurance coverage with or without a high deductible (vs 29% of men).

It is important to note that initiatives are being observed to address the gender gap and ensure adequate products are developed to meet female consumers' demand and needs.

2.1.2. DIGITALISATION BRINGING OPPORTUNITIES BUT POSSIBLE RISKS FOR CONSUMERS' FINANCIAL HEALTH

The on-going digitalisation of the insurance and pension sectors can lead to further financial inclusion and improved financial health. For example, digital distribution channels, robo-advisors, digital identification systems or mobile payments can facilitate access to financial services to consumers that cannot easily access physical branches or are not willing to.

Beyond facilitating the delivery of products and services and lowering distribution costs, financial innovation can also improve pricing practices making products more affordable and more tailored to consumers' needs, attracting new customers (e.g., millennials). New products and services such as telematics-based motor and health insurance products reportedly enable access to more afforda-

ble insurance products for some consumers (e.g. young drivers).

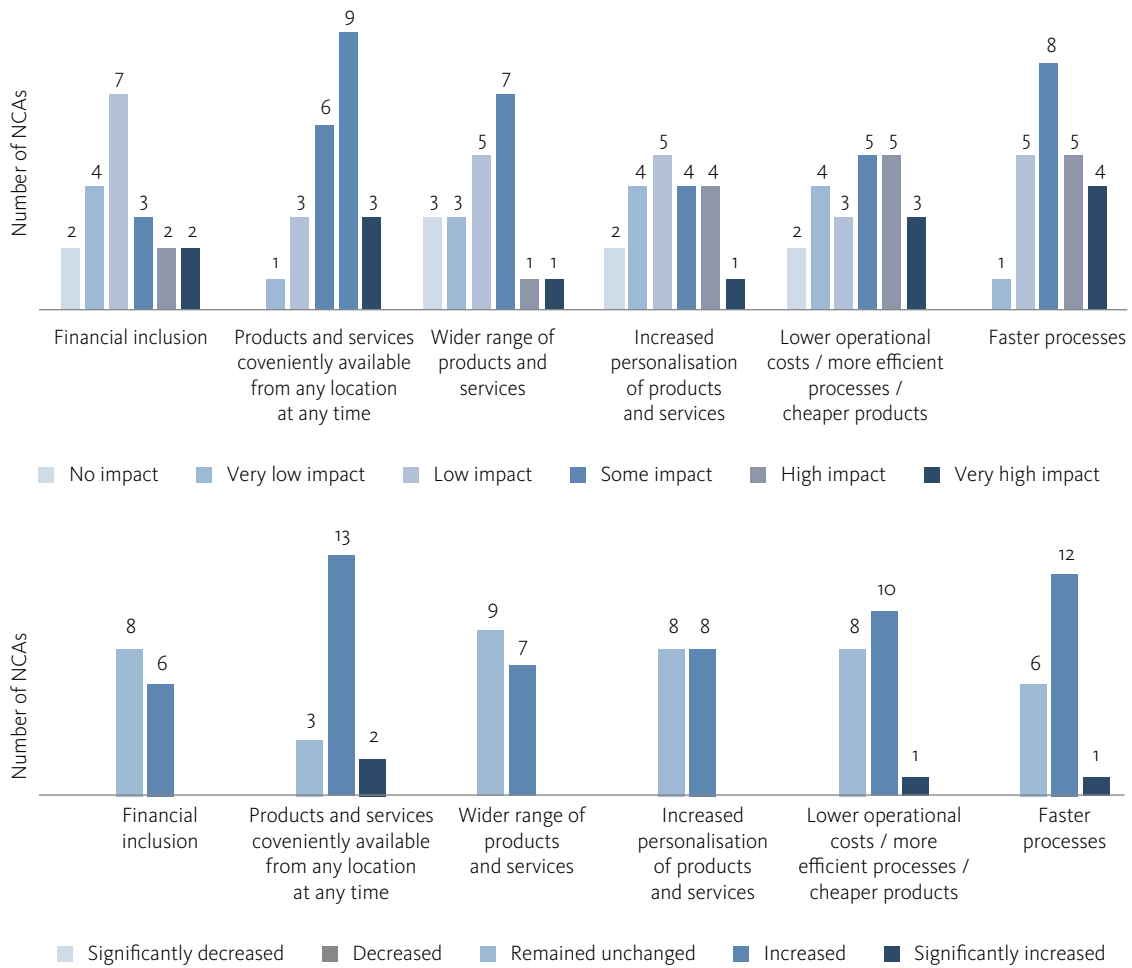
More convenient delivery of products and services and fast processes, including claims management processes, are among the opportunities offered by financial innovations which, according to NCAs, have been most impactful and which grew the most over the past years.

More accurate risk assessments enabled by Artificial intelligence (AI) can also allow to insure people with pre-existing conditions and insure buildings in high-risk areas. In fact, AI allows insurers to evaluate data from a wider variety of sources and in a better way. For example, AI-supported text recognition systems can also optimize workflows and prioritize customer concerns by processing complaints and routing them to the correct department. Fully automated processes can also enable faster claims settlements allowing policyholders to directly upload pictures for faster assessment.

While digital distribution trends vary depending on the products, non-life insurance is the most impacted line of business based on the input provided by NCAs (Figure 11). This could be due the fact that when consumers make im-

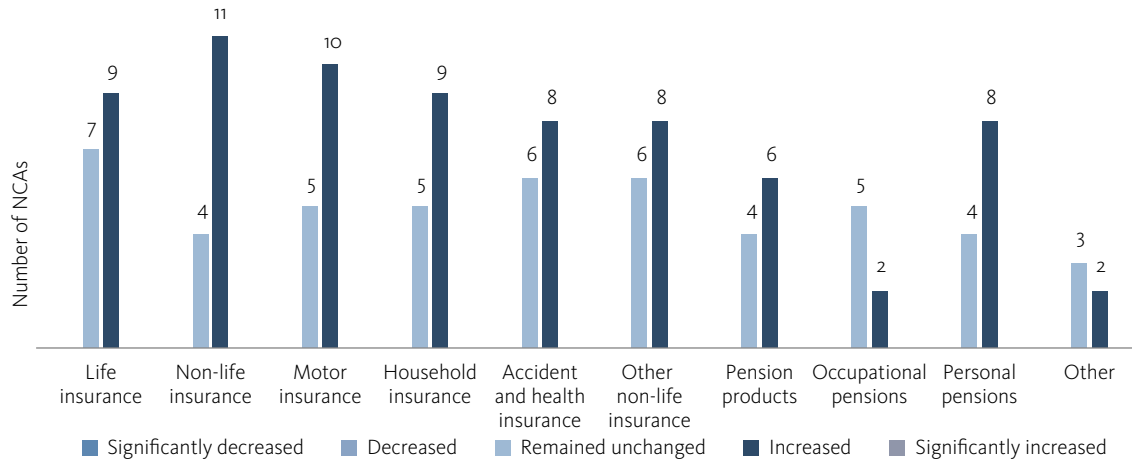
portant decisions about life insurance products and long term savings, they may still prefer in person advice and more traditional distribution channels.

Figure 10 – Impact (above) and evolution (below) of opportunities offered by financial innovations over the past 3 years in number of NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²³

Figure 11 – Evolution in the last 3 years of digital distribution trends by selected lines of business in number of NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²⁴

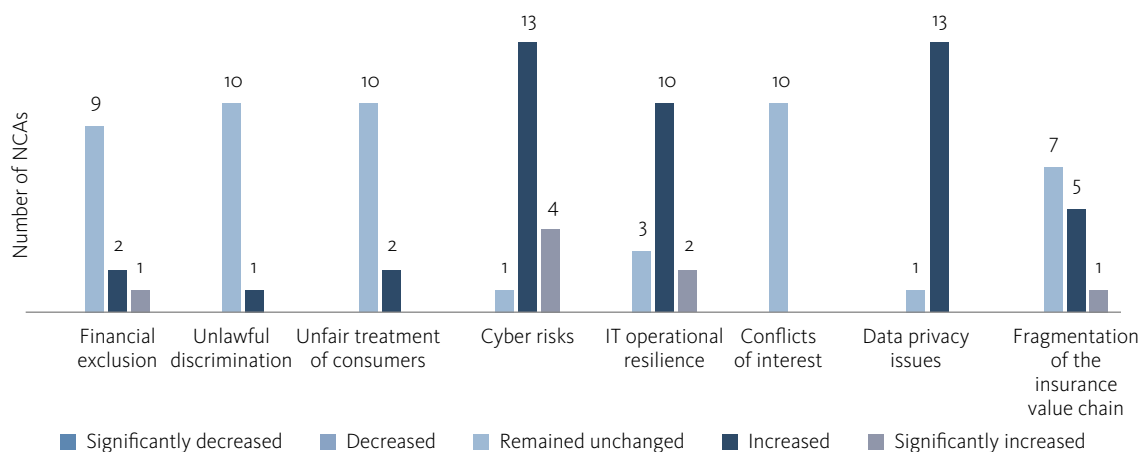
Despite obvious benefits, the trend towards increasingly data-driven business models across all areas of the insurance and pension value chain also raises important challenges, including from a financial inclusion and financial health perspective. If adequate data governance measures are not put in place, biases in data may lead to unfairly discriminate certain categories of more vulnerable consumers by charging them more premiums.

For example, when asked about the reasons for terminating their insurance contracts, cancellation because the premium increased without justification was the most cited reason with over 10% of European consumers having been in this situation over the past 3 years, according to the Eurobarometer survey. More and more NCAs are

reporting so called price walking and differential pricing practices²⁵ as an issue with 10 NCAs – out 21 NCAs which provided this information – noting a medium to high presence of such practices in their market.

Data-driven business models also raise data privacy concerns and cyber risks for consumers. 13 NCAs reported having observed increased risks of data privacy breaches and cyber risks over the past 3 years (Figure 12). As consumers become increasingly dependent on digital channels the frequency, the number, and the scale of cyber threats and misuse of their data can increase, exposing consumers to more vulnerability and threatening their overall financial health.

Figure 12 – Evolution over the last 3 years of digitalisation related risks in number of NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²⁶

2.1.3. ENHANCED CONSUMER PROTECTION AND FINANCIAL EDUCATION IMPROVING CONSUMERS' FINANCIAL HEALTH – DESPITE SOME PERSISTENT ISSUES

A strong and robust consumer protection framework alongside a high level of financial literacy are important elements to ensure financial health. Over the past years, several supervisory initiatives – such as enhanced regulation and supervision – as well as industry initiatives – and broad financial education programs have been put in place in several Member States.

Despite the deteriorating situation, which will have an impact on financial health, those NCAs that reported this information, highlighted that over the last two years financial health has improved.

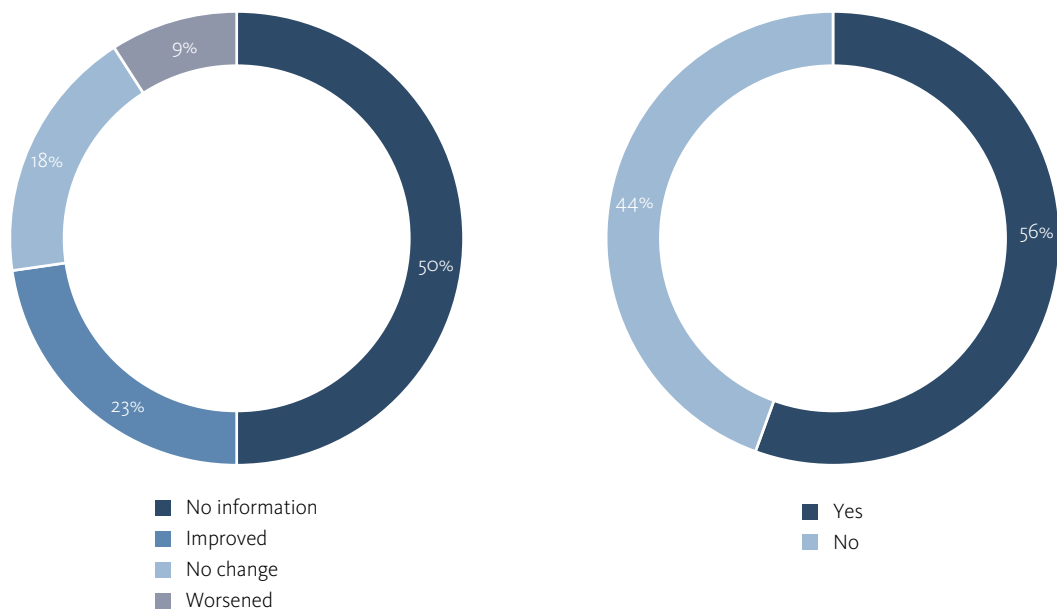
Several positive developments reported by NCAs relate to product which consumers deem important for their financial health and a majority of NCAs are of the view that insurance product manufacturer sufficiently contribute to consumers' financial health. Out a total of 48 positive developments reported by NCAs most relate to:

- **Life insurance:** 5 exclusively relate to life insurance products, 34 relate to life insurance products among other products.
- **Household insurance** – including Natural Catastrophe products: 5 exclusively relate household insurance, 16 relate to household insurance products among other products.
- **Accident and health insurance:** 3 exclusively relate to accident and health insurance, 12 relate to accident and health insurance products among others.

Improvements relating to exclusions, disclosures and digitalisation are the most frequently reported.

It is also worth highlighting that, despite instances of complaints from consumers 'who did not know they had additional coverage' continuing to be reported by NCAs, overall cross-selling practices of add-on insurance – unlike in past years – in 2021 have not been a major area of concerns. This trend is also reflected in consumers' perception of their insurance-buying process with 22% of them reporting they have been forced to buy broad/add-on coverage despite only requesting/needing simple coverage. Despite this, commission rates increased for the assistance and miscellaneous financial loss lines of business and NCAs continue reporting issues.

Figure 13 – NCAs' view on the evolution of consumers financial health over the last two years (left) and NCAs' views as to whether insurance manufacturers sufficiently contribute to ensuring consumers' financial health (right)



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²⁷

Issues with lack of sufficient customer-centricity in scheme designs and in product design and product distribution continue to persist – this is further explored in Section 3.1 given the relevance of product oversight and governance (POG) requirements for insurance products.

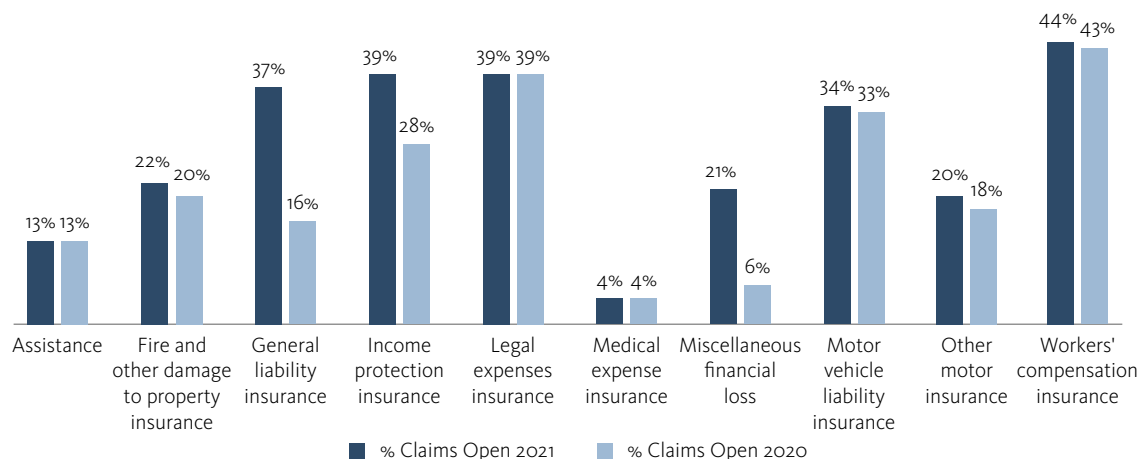
Poor servicing practices resulting in poor claims handling practices for insurance and poor administration issues and issues in benefits payment in pensions continue to be a source of detriment in some Member States. In relation to claims handling it is worth highlighting that:

- In four Member States over 10% of consumers reported having made a claim but for it to have taken

long to be assessed and in five Member States over 10% of consumers reported having made a claim but having received less than expected.

- Claims handling related complaints continue to be the most common cause of consumers' complaints accounting for 52% of total complaints received and managed by insurance undertakings and 52% of total complaints received by ADR bodies or NCAs.
- For the general liability, income protection and miscellaneous financial loss lines of business an increase of over 10% in claims open can be observed indicating increases in delays.

Figure 14 – Percentage of claims open at the end of the year by line of business – 2021, 2020



Source: EIOPA Solvency II Database (S.20.01)

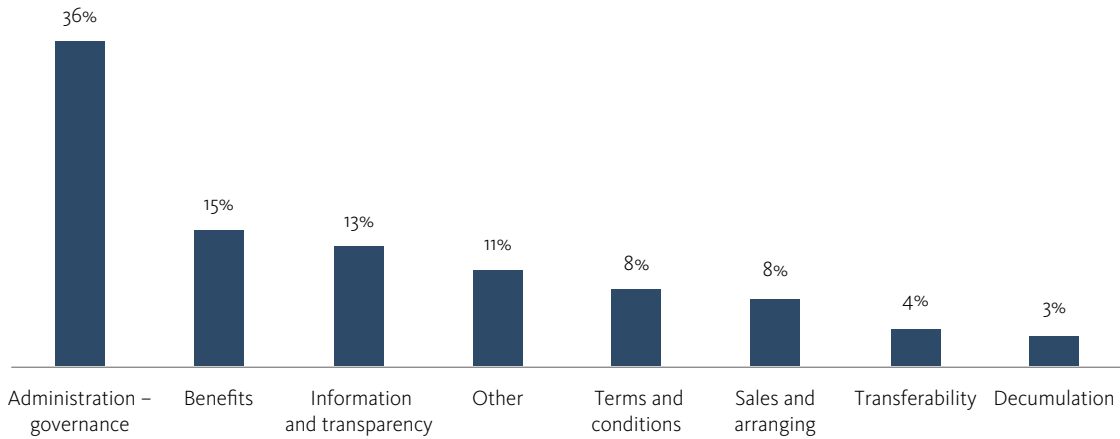
In relation to pensions-related issues, NCAs reported that information and transparency, financial literacy, benefits and administration and governance are the main issues. NCAs further noted:

- That consumers have still limited knowledge about their replacement ratios;
- Continuous issues relating to the pensions benefit statements (PBSs) which often do not provide adequate information. For example, an investigation by the Dutch NCA has shown that participants often

receive wrong information on their PBSs, from minor errors to some instances where these errors can have major and far-reaching consequences.

- 'Administration and governance' and 'benefits' related issues are the most common cause of consumers' complaints accounting respectively for 36% and 15% of total complaints for complaints received and managed by providers (Figure 15).

Figure 15 – Pensions complaints received and managed by providers by cause



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022²⁸

Several NCAs and providers continue to invest in improving consumers' financial literacy with the aim of improving consumer outcomes and increasing financial health.

A number of financial literacy initiatives have been observed:

- In Belgium, the FSMA has developed a financial education programme which is composed of three-pillars. The first pillar is the portal www.wikifin.be. The second pillar is the collaboration with the educational system. The third pillar is the Wikifin Lab, a digital and interactive centre for financial education where students experiment with different everyday financial situations.
- *Estamos seguros*²⁹ in Spain developed by the insurers' association to increase awareness.
- In Bulgaria, an annual educational program for students with the topic "Non-banking financial sector in Bulgaria", was organized. This program consists of lectures about the three-pillar model of pension insurance and development of the insurance market in Bulgaria.
- In Italy, in 2021 a number of initiatives were undertaken to raise awareness of both adults and future savers' generations on insurance and supplementary pension system, including a competition, for university students, aimed at developing innovative content and information.
- In Portugal, new financial education projects have been implemented to enhance how insurance and pension funds related information reaches consumers, such as the "Consumer Academy"³⁰ and the podcast "Let's Talk Insurance"³¹.
- In Romania, the Financial Supervisory Authority (ASF) has been running financial literacy programs since 2015. The programs are tailored to all kinds of consumers (children, students, adults, trainers/teachers and companies), and particularly to vulnerable ones.
- In Croatia, members of insurance companies and pension fund management companies' management boards have a legal obligation to ensure that a share of the income is dedicated to activities aimed at improving financial literacy. This resulted in various innovative educational activities and campaigns. HANFA (financial supervisory authority) has also intensified its educational activities targeting general consumers, as well as specific sub-groups of consumers.

2.2. ENSURING SUSTAINABILITY CLAIMS ARE SUBSTANTIATED TO AVOID LOSS OF TRUST AND A BROADER SOCIETAL IMPACT

Key takeaways from section 2.2:

- › Consumers' appetite for sustainability-related investments has been continuously growing.
- › To meet this increase in demand, insurance and pension providers have adapted their offers and increasingly portray their products and themselves as sustainable by making claims about their environmental or social benefits. Issues arise when these claims are either misleading or unsubstantiated, hence leading to the emergence of greenwashing.
- › Evidence of greenwashing has been identified in some member states.

2.2.1 AN INCREASING RISK OF GREENWASHING IMPACTING CONSUMERS' TRUST

In recent years, the transition towards a more sustainable economy has been at the heart of global attention and of the EU agenda (e.g., Strategy for Financing the Transition to a Sustainable Economy³²). Global public discourse has also been very active on the topic, and has involved various stakeholders, ranging from governments to NGOs, and from financial market participants (e.g., insurance and pension providers) to consumers.

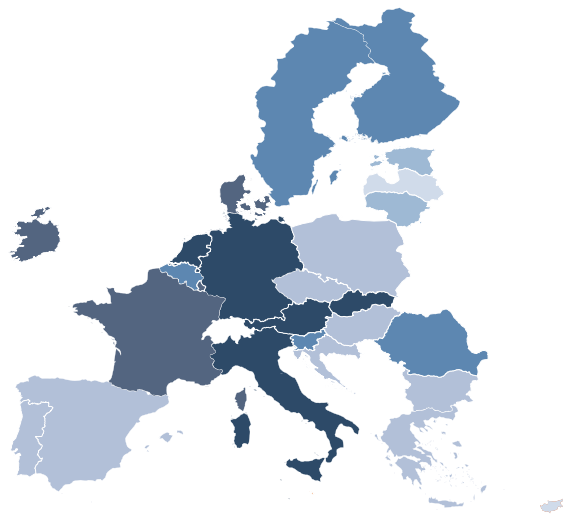
To transition towards a more sustainable economy, investments taking into account sustainable factors, including IBIPs, pension products or pension schemes, are

needed. Consumers' appetite for sustainability-related investments has been continuously growing. In an effort to meet this increase in demand, insurance and pension providers have adapted their offers to increasingly propose products with sustainability-related features, e.g., products that promote environmental or social characteristics, or products that have a sustainable investment objective:

- › 16 out of 24 NCAs (67%) reported that insurers are increasingly offering products with sustainable features, while only 4 out of 24 Members (17%) reported the opposite (Figure 17);
- › The results of the Eurobarometer also show that one quarter of European consumers have heard of sustainable or "green" insurance products (Figure 16).

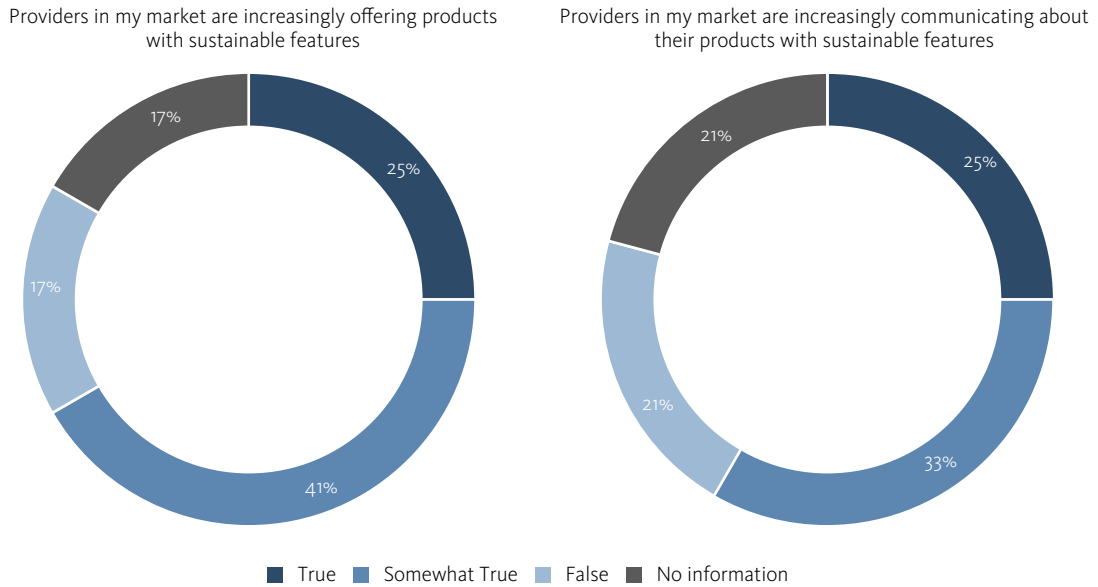
Figure 16 – Percentage of consumers that have heard about sustainable or "green" insurance products

Country	Score
EU27	25%
NL	31%
IT	30%
AT	30%
DE	29%
SK	29%
DK	27%
LU	27%
IE	27%
FR	26%
FI	24%
SI	23%
RO	23%
BE	23%
SE	23%
ES	21%
CZ	20%
PL	20%
HR	19%
GR	19%
PT	18%
HU	18%
BG	18%
LT	16%
MT	15%
EE	15%
LV	14%
CY	13%



Source: EIOPA Flash Consumers' Eurobarometer 2022

Figure 17 – Insurance products with sustainable features trends as reported by NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022³³

Sustainable offerings and communication and marketing around them are increasing. 12 NCAs out of 24 reported that providers are increasingly communicating about products with sustainable features, only 5 NCAs (21%) did not notice this increase, others do not have information (Figure 17).

Given this surge in communication around sustainable offerings, providers increasingly portray their products and themselves as sustainable by making claims about their environmental or social benefits. **Issues arise when these claims are either misleading or unsubstantiated, hence leading to the emergence of greenwashing.**

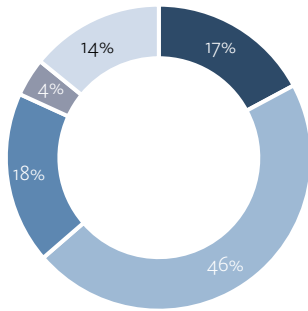
Evidence of greenwashing has already been identified in some markets with 4 NCAs reporting issues relating to IBIPs. They further noted that the manufacturing stage and delivery stage were the stages which saw most occurrences. While NCAs reported greenwashing occurrences, based on what has been reported to EIOPA, no NCA or other alternative dispute resolution (ADR) body received greenwashing-related complaints.

Greenwashing can occur because of the complexity of the information, the product offering and information overload (Figure 18), adding onto a general perception by consumers that insurance disclosure documents are too complex to understand.

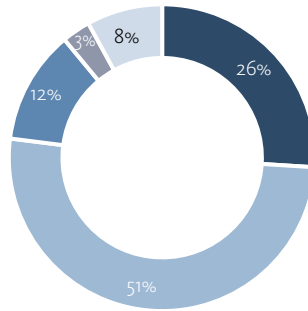
Figure 18 – Consumers’ view on their insurance purchasing experience

To what extent do you agree or disagree with the following statements:

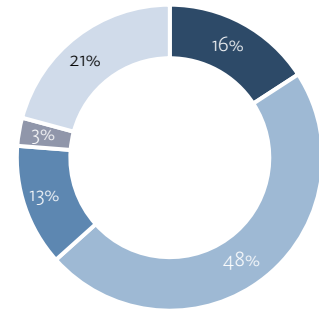
A: I do not trust the sustainability-related (or “green”) claims made by providers/distributors



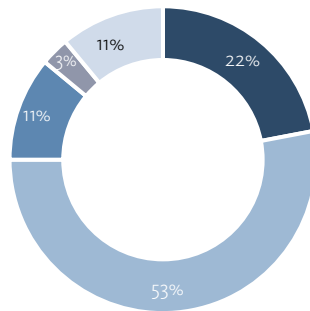
B: I would not know how to verify if an insurance product is indeed sustainable



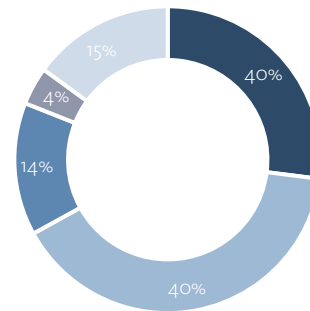
C: Sustainability-related (or “green”) claims about insurance products are often misleading



D: It is difficult to really know if a product is sustainable as the documentation provided is too complex to understand



E: I would file a complaint if I discovered that I was sold a product marketed as sustainable, but that does not meet the requirements to be marketed as such



Strongly agree Tend to agree Tend to disagree Strongly disagree Don't know

Source: EIOPA Flash Consumers’ Eurobarometer 2022

BOX 3



WHAT IS THE IMPACT OF GREENWASHING?

The occurrence of greenwashing can have an important impact on multiple stakeholders:

- It can deceive consumers into buying products that are not aligned with their preferences;
- Instead of being channelled towards sustainable factors, consumers’ investments are re-routed towards less- or not sustainable factors, hence obstructing the financing of the transition to a sustainable economy;
- It hampers stakeholders’ ability to hold providers accountable for their social and environmental impact;
- It creates a reputational or legal risk for providers, whereby consumers wanting to invest in a sustainable manner might trust less that their investments would be sustainably invested. This mistrust of consumers is verifiable in the Eurobarometer survey referenced above.

2.2.2. ACTIONS AIMED AT TACKLING GREENWASHING

The increase in the risk of greenwashing, the important impact of greenwashing occurrences and the inability of consumers to ascertain whether a product is indeed sustainable, **shows the need for strong and consistent supervision of EU sustainability-related requirements aimed at tackling greenwashing**, which have been coming into force gradually:

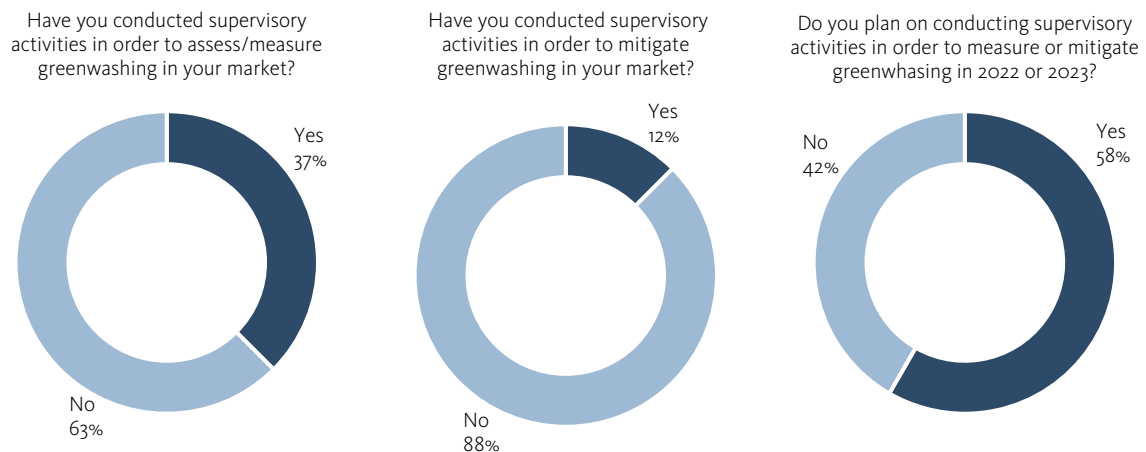
- New sustainability-related requirements under the Insurance Distribution Directive (IDD³⁴) are applicable since August 2022. These new requirements require financial advisors, when they are carrying out the suitability assessment, to also do an assessment of the sustainability preferences of the consumer. They also require target market’s sustainability-relat-

ed objectives to be considered in the POG process, particularly by the manufacturers of the products.

- Some provisions of the Sustainable Finance Disclosure Regulation (SFDR) started to apply as of March 2021, January 2022, and January 2023, while other provisions are yet to come into force (June 2023, and January 2024).
- Some provisions of the Taxonomy Regulation started to apply as of January 2022, and January 2023, while other provisions are yet to come into force (January 2024).

9 NCAs have already taken steps to assess and measure greenwashing in their market (Figure 19). They have undertaken various supervisory activities such as market monitoring activities, industry questionnaires or checks of product disclosures/marketing documentation.

Figure 19 - Supervisory activities conducted/to be conducted by NCAs in relation to greenwashing



Source: EIOPA’s Committee on Consumer Protection and Financial Innovation in 2022³⁵

Looking to the future, supervisory activities in relation to greenwashing are planned.

- 14 NCAs are planning to carry out supervisory activities to tackle greenwashing such as market monitoring, guidance to the industry, on-site activities, surveys, undertaking-specific investigations, and information collections on products (Figure 19).
- Additionally, as requested by European Commission in May 2022, EIOPA, in close cooperation with EBA

and ESMA, is working towards the delivery of an advice to the Commission on (i) the cases and risks of greenwashing in the insurance and pension sectors and (ii) on whether supervisory legal mandates, powers, capabilities and obligations allow the adequate tackling of greenwashing. This work aims to strengthen the overall supervisory framework tackling greenwashing.

3. INSURANCE TRENDS

3.1. IMPROVED PRODUCT DESIGN AND DISTRIBUTION LEADING TO BETTER FINANCIAL HEALTH DESPITE ONGOING VALUE FOR MONEY CONCERNS IN THE UNIT-LINKED MARKET

Key takeaways from section 3.1:

- NCAs witnessed positive developments in product design, product distribution and product monitoring and review process; however, concerns around value for money and poor product design for some unit-linked products remain.
- Issues relating to poor or inadequate advice and conflicts of interest continue being a concern, with 12 NCAs having reported that mis-selling of unit-linked products as an important risk.

Consumer-centric design and distribution processes significantly contribute to financial health. If products are designed to offer value and are sold in line with consumers' demands and needs, they can provide important benefits and contribute to consumers' financial health.

In 2018, new Product Oversight and Governance (POG) requirements were put in place to ensure more consumer-centric product design and distribution processes³⁶. This contributed to positive developments: 16 NCAs reported improvements in the POG process and 11 NCAs reported improvements in the target marketing.

Even though NCAs observed improvements, concerns around value for money and poor product design remain as NCAs dedicated a substantial number of resources to address them:

- Activities focused on POG are the second most common supervisory activity – after activities focused on product information and disclosures – performed by NCAs in 2021 with over 43% of reporting NCAs³⁷ having performed an activity on POG this year.

- As part of the monitoring activities, NCAs looked into the provision of advice which is the third most common activity with 26% of reporting NCAs³⁸ having carried out an activity this year.

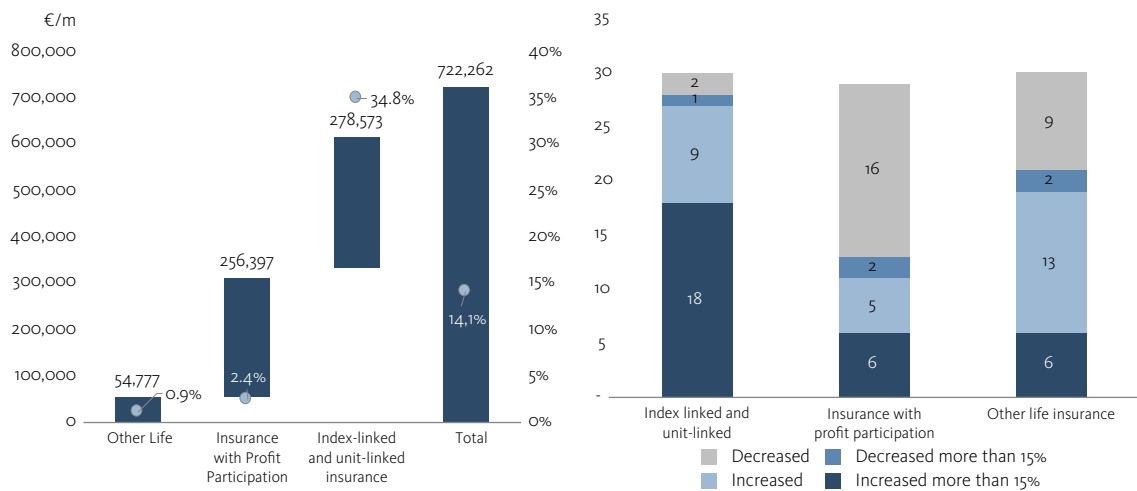
3.1.1. VALUE FOR MONEY CONCERNS FOR SOME UNIT-LINKED AND HYBRID PRODUCTS

In 2021, total life insurance GWP increased 14.1% across the EEA. This increase was mostly driven by an important increase in the index-linked and unit-linked insurance line of business which reported a 34.8% increase. While this increase is partially driven by post-pandemic aspects, this also relates to the continuous shift from traditional products with guarantees towards unit-linked (where the financial risks is typically borne by the policyholders) and hybrid insurance products (combination of traditional and unit-linked products) with the total number of new contracts for the index-linked and unit-linked line of business having increased in 23 Member States.

While this increase is a positive development as more consumers are savings through IBIPs, instances of poor value for money continue to persist. Out 52 total consumer protection issues reported by NCAs 20 relate to unit-linked products and 10 exclusively relate to unit-linked products.

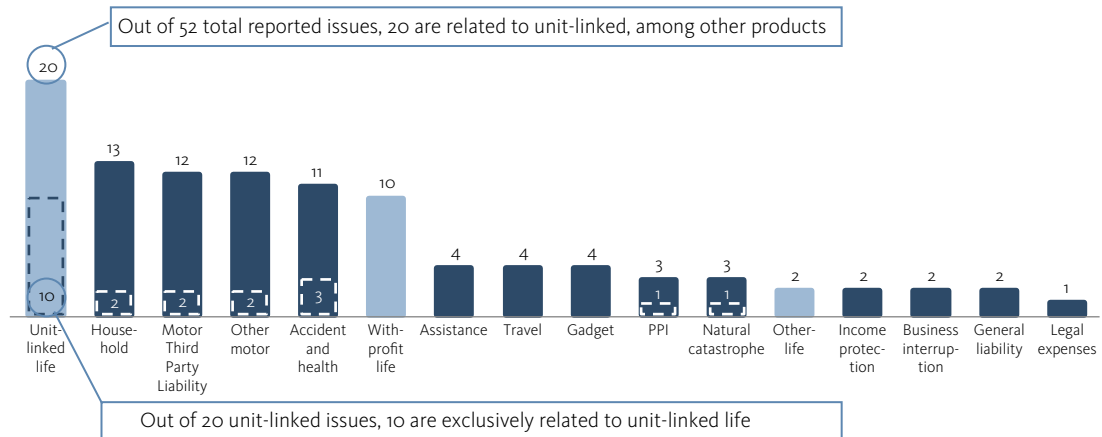
When asked to score various issues in the insurance sector, NCAs scored value for money issues in the unit-linked market as the most concerning ones.

Figure 20 – Life insurance GWP growth for total EEA (left) and by number of Member States (right) – 2021, 2020



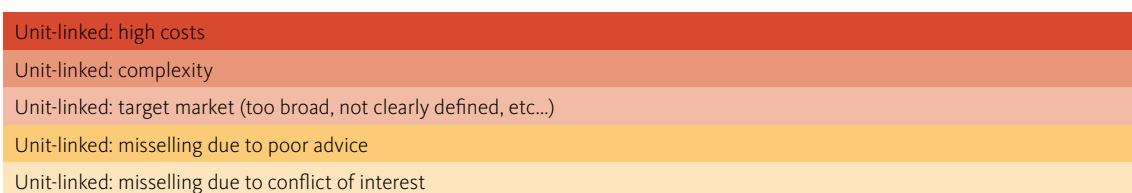
Source: EIOPA Solvency II Database (S.05.01)

Figure 21 – Number of Top 3 Consumer Protection Issues reported by NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022³⁹

Figure 22 – Heatmap based on NCA's scoring of unit-linked value for money related issues



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁴⁰

Further, the fact that hybrid products are heterogeneous heightens concerns. Key issues relating to complexity and poor value for money include:

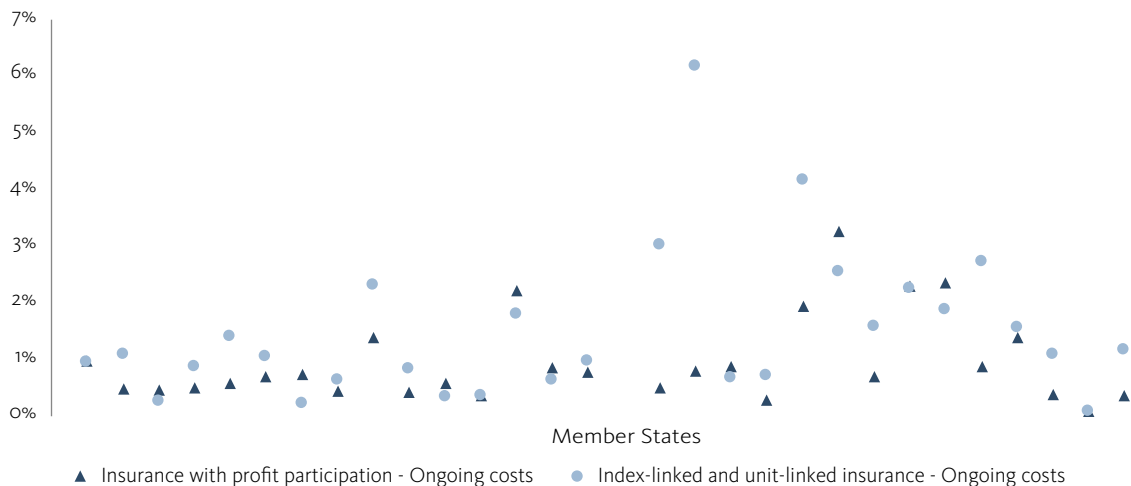
- The way performance (including returns and costs) of complex products is calculated is difficult to understand; for example, in many instances performance depends on two or more funds with different characteristics, making it difficult for a consumer to understand the different risks.
- For some products there is limited clarity on the investment objectives and risks, and there are explicit and implicit charges at the fund level making it difficult to understand overall costs. For example, some policies are sold without taking into account distribution fees which mis-leads consumers in relation to the total costs of a product and can lead to consumers having to pay for distribution fees even in case of early surrender.
- Some products include a very high number of additional insurance protection options and/or many underlying investment options increasing the degree of complexity and while these options can provide additional benefits to consumers often they are unclear and/or do not correspond to the specific target market's needs objective and characteristics.

- The higher complexity is often accompanied by higher costs and while high costs can bring added value when associated with some specific features, there are also higher conduct risks – i.e., the costs can impact returns leading to a mis-match between actual and expected returns.
- Early and low surrenders values can also be the result of poor product testing practices.

Looking at EIOPA's Solvency II database it can be observed that in 2021 costs for the unit-linked line of business were higher than for the with profit participation line of business in 16 Member States, which to some extent might be justified by the different asset allocation of the two lines of business. It can also be observed that ongoing costs for both lines of business have remained stable in 2020 and 2021. Contrastingly, in 2021 the return ratio for assets backing index-linked and unit-linked contracts increased in all Member State, except one, but it is expected that returns be significantly impacted in 2022.

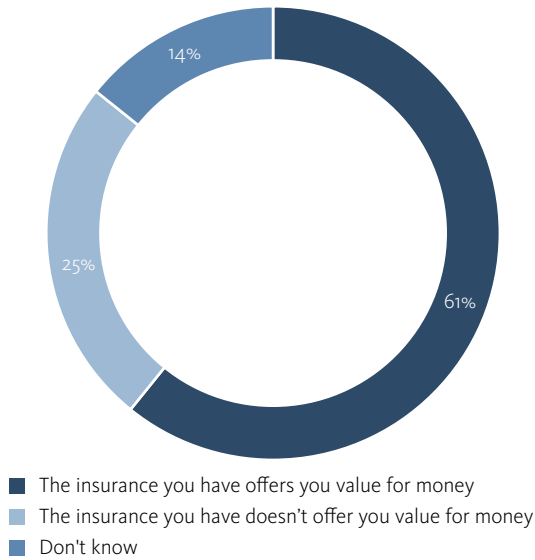
While it is not solely related to unit-linked products and most European consumers believes their product offer value for money, 25% of European consumers are of the view that their insurance product does not offers them value for money and another 14% does not know if it does. While confirming that the issue is not widespread, it highlights the need for more work.

Figure 23 – Ongoing cost for with profit participation and for index-linked and unit-linked by Member State - 2021



Source: EIOPA Solvency II Database (S13.01, S12.01)

Figure 24 – Consumers view on whether they believe their insurance products offer them value for money



Source: EIOPA Flash Consumers' Eurobarometer 2022

Examples of activities carried out by NCAs to address value for money concerns includes the ongoing work by the German NCA around the information provided by insurance undertakings on the reduction in yield of IBIPs. Preliminary results indicate that some life insurers have deficiencies in their POG-processes and in dealing with potential conflicts of interest.

Another example is the action taken in July 2021 by the Polish NCA which issued a decision imposing a set of criteria on the marketing, distribution, and sale of investment products unit-linked life insurance contracts. The measure aims at raising the level of protection for customers by increasing the benefits gained by customers through increased return on the investment component.

BOX 4



INVESTMENTS IN CRYPTO ASSETS VIA UNIT-LINKED LIFE INSURANCE PRODUCTS RAISE VALUE FOR MONEY CONCERNS

While investments in crypto-assets compared to the total investments assets under management held by insurance undertakings is relatively very small, EIOPA has observed increasing interest in this new asset class in recent years, in parallel to the increase in the valuation of crypto-assets such as Bitcoin in 2020 and 2021.

Investments in crypto-assets in insurance take place mostly via unit-linked life insurance products. Whilst the prices of some of the most common crypto-assets increased until November 2021, the market experienced a significant devaluation of crypto-assets in the course of 2022.

Despite the growing consumer activity and interest in crypto-asset investments and because of the aggressive promotion of those assets and related products to the public, including through social media and influencers, there are concerns these types of assets are not suited as an investment for most retail consumers, as highlighted by the European Supervisory Authorities (EBA, EIOPA and ESMA) in their joint warning in March 2022⁴¹. The key reason for this is the high-risk to which consumers are exposed, which may lead them to lose all invested money.

In addition the high volatility of these investments, crypto-assets and related products and services typically fall outside existing protection under current EU financial services rules. To address this shortcoming, EU policymakers have developed the Markets in Crypto-Assets Regulation⁴². Even though the Markets in Crypto-Assets Regulation has been adopted, it not yet applicable.

3.1.2 INSTANCES OF INADEQUATE ADVICE AND CONFLICTS OF INTEREST IMPACTING THE VALUE OF PRODUCTS OFFERED TO CONSUMERS

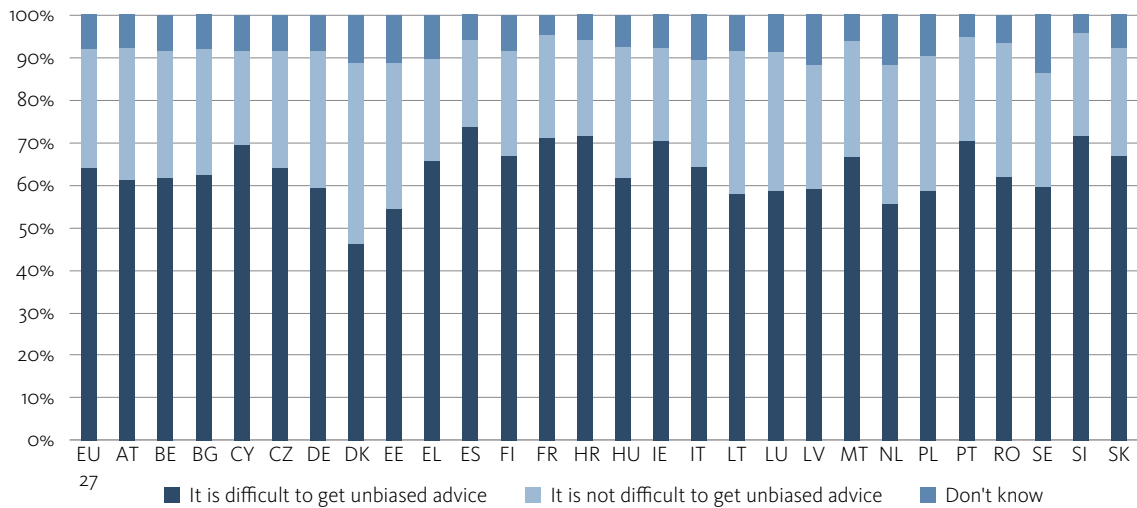
Poor or inadequate advice and conflicts of interest continue being an area of focus for NCAs, with 12 of them reporting mis-selling of unit-linked products as an important risk (Figure 22).

Insurance distributors play a fundamental role in assessing consumers' demands and needs and ensuring products offer value to them, however, past mis-selling cases and instances of poor advice can have a significant impact on

consumers' perception of the advice process. In June 2022, almost 65% of European consumers believed it is difficult to get un-biased advice, with some differences across Member States. In countries where commissions-based sales have been banned for certain products, such as Denmark or the Netherlands, the share of consumers believing it difficult to get unbiased advice is lower despite still being high.

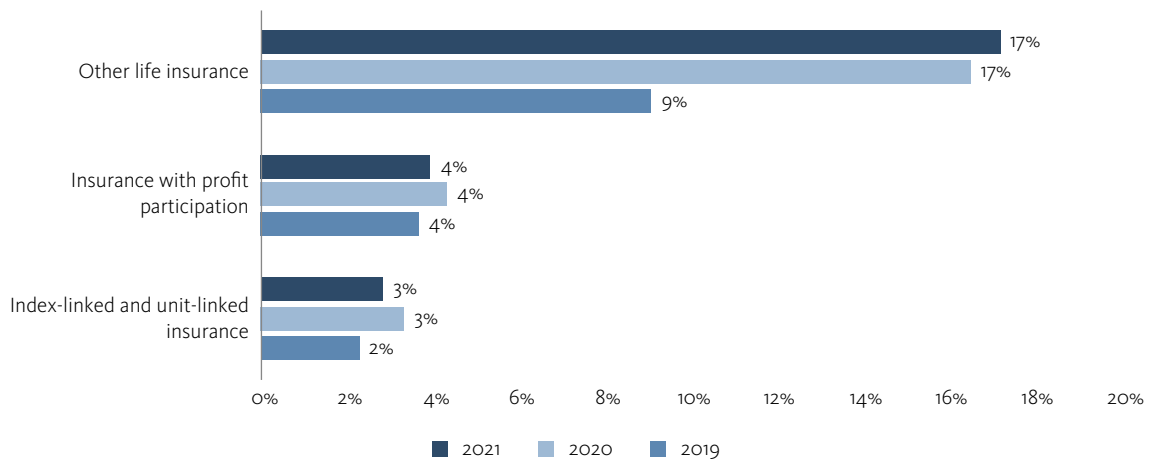
Poor advice and conflicts of interests are influenced by commissions. Looking at EIOPA's Solvency II database commissions remained broadly stable for both the insurance with profit participation and index-linked and unit-linked insurance lines of business.

Figure 25 - Consumers view on whether it is difficult to get unbiased advice on the perfect coverage for their needs by Member States



Source: EIOPA Flash Consumers' Eurobarometer 2022

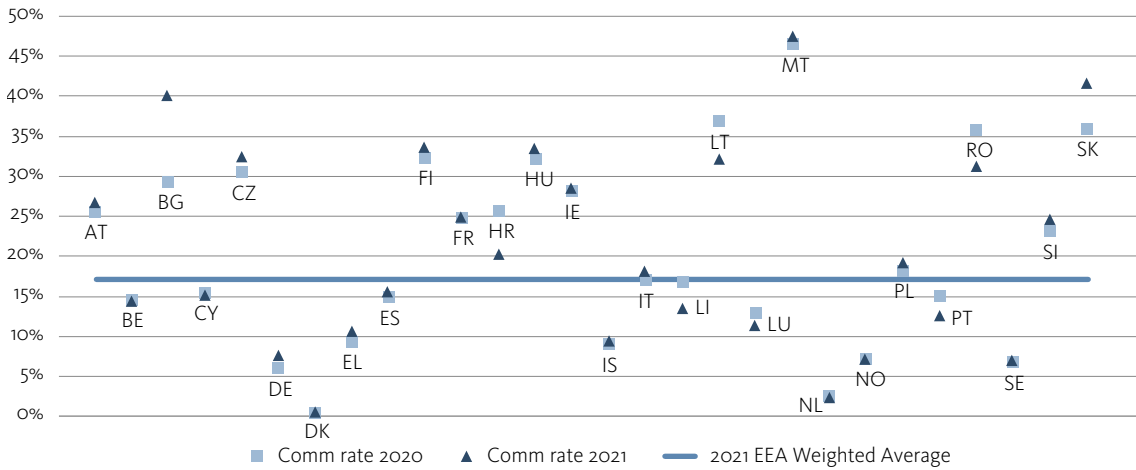
Figure 26 – Life insurance commission rates – 2021, 2020, 2019



Source: EIOPA Solvency II Database (S.05.01)

Commission rates for other life insurance increased at the EEA level and in 21 Member States. Out of those 21 Member States 13 also showed an increase in GWP, indicating possible mis-selling (Figure 27).

Figure 27 – Other life insurance line of business commission rates by Member States – 2021, 2020



Examples of activities carried out by NCAs to address advice and conflicts of interests relate issues include the work carried out by the Swedish NCA on commissions, retrocession fees and other types of remuneration between insurance manufacturers and distributors for the

sale of unit-linked products. This found that while manufacturers and distributors have revised their fee-systems (e.g., including by stopping upfront commissions) and decreased overall commissions levels some deficiencies persist.

3.2. THE INSURANCE PROTECTION GAP AFFECTING CONSUMERS' FINANCIAL HEALTH – AN EXISTING TREND ACCENTUATED BY RECENT EVENTS

Key takeaways from section 3.2:

- The appropriate insurance coverage can be an invaluable tool as it allows consumers and SMEs to be compensated in case systemic events (e.g., pandemic) materialize and cause them harm.
- Evidence of protection gaps in the insurance coverage of EU consumers and SMEs has been reported by NCAs and was highlighted by the Eurobarometer.
- Widening the protection gap, lack of clarity in terms and conditions, particularly in relation to exclusions, continue being an issue, causing further consumer and SME detriment when systemic events materialize.

Natural catastrophes, cyber-attacks, pandemics, economic crisis, or other events with substantial economic and social consequences have been increasingly occurring in past years. Due to their detrimental nature such events cause significant harm to consumers, SMEs, and society as a whole.

To weather such events, the appropriate insurance coverage can be invaluable as it allows consumers and SMEs to be compensated, and it alleviates the burden on Member States' finances. However, consumers and SMEs are often not covered, for example in 2019 only 35% of the total losses caused by extreme weather and climate-related events across Europe were insured⁴³.

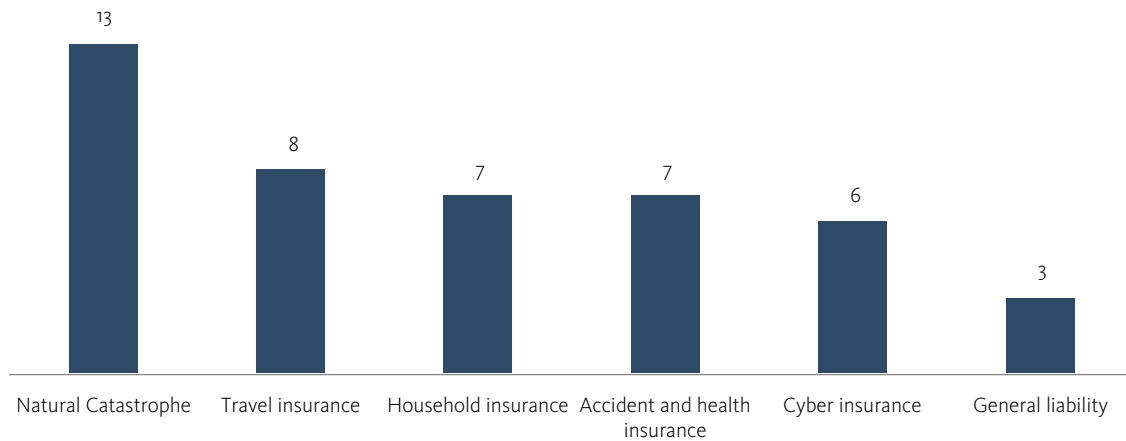
BOX 5



WHAT IS THE INSURANCE PROTECTION GAP?

The **insurance protection gap** can generally be described as the total uninsured losses caused by an event and it is usually expressed as the total uninsured loss as a share of total loss. According to the Geneva Association, it can also be more broadly understood as the difference between the amount of insurance that is economically beneficial, and the amount of coverage purchased⁴⁴. Protection gaps are varied and can be witnessed across various lines of business.

Figure 28 - Lines of business where NCAs found evidence of protection gaps in number of NCAs – 2021



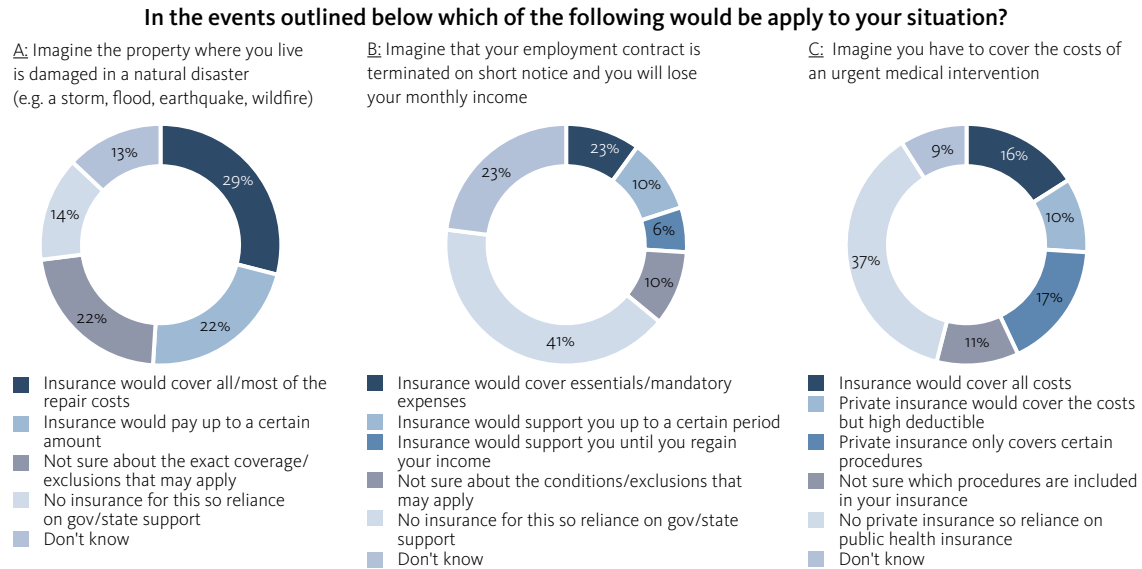
Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁴⁵

3.2.1. EVIDENCE OF PROTECTION GAPS

Recent evidence of protection gaps has been highlighted by various stakeholders. 17 out of the 24 NCAs that responded to the survey (70%) found evidence of protection gaps, relating mostly to NATCAT insurance, travel in-

surance, household insurance, accident and health insurance and cyber insurance (Figure 28). The Eurobarometer survey also identified instances of protection gaps and/or instances where consumers and SMEs are not sure about the coverage they have.

Figure 29 - Eurobarometer results showing protection level for three different types of events at consumer level



Source: EIOPA Flash Consumers' Eurobarometer 2022

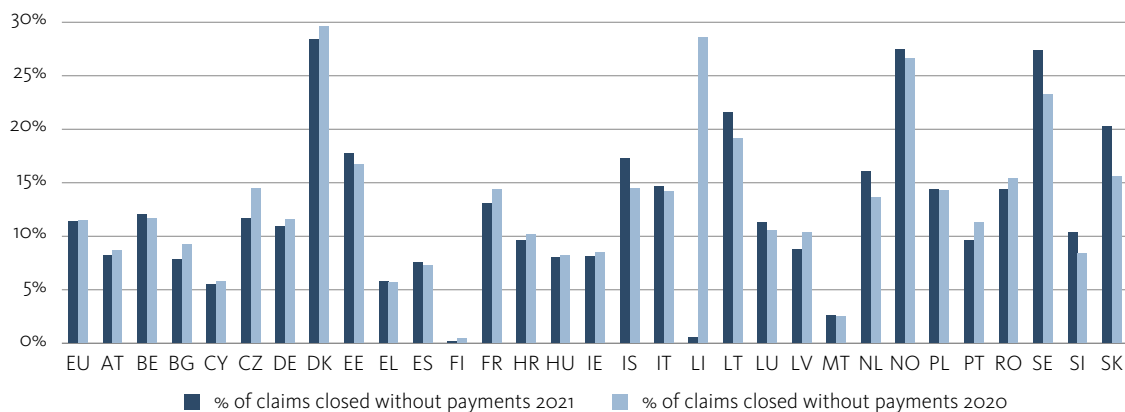
Figure 29-A shows that in the event of a natural catastrophe, around half of consumers would either be fully or partially covered. However, this trend is heterogeneous at Member State level, for example only 3% of Belgian consumers and 6% of Dutch consumers reported not having insurance for NATCAT events, while this figure is 36% for Greek consumers and 31% for Italian consumers. The disparity across Member states can in part be explained by the mandatory NATCAT insurance or the bundling of NATCAT insurance with other products in some Member states.

In the event of NATCAT, many consumers (22%) reported being unsure about the coverage in their policies. This figure is twice as high as the one for the other two

events – i.e., loss of employment and urgent medical expense (Figure 29 - B and C) indicating issues in terms of coverage for systemic events. Moreover, given that the Eurobarometer survey is about consumers perspective, in some cases consumers may believe they have coverage when they do not have it.

While a full comparison cannot be made, given lack of data on NATCAT products being reported as part of the Solvency II Reporting Framework and also given the different levels in terms of access to these products, it can be observed that the increase of NATCAT events coupled with continued lack of clarity in terms of coverage may have led to an increase in claims rejected for the fire and other damage to property line of business in 15 Member States.

Figure 30 – Percentage of claims closed without payments for the fire and other damage to property line of business by Member States – 2021, 2020

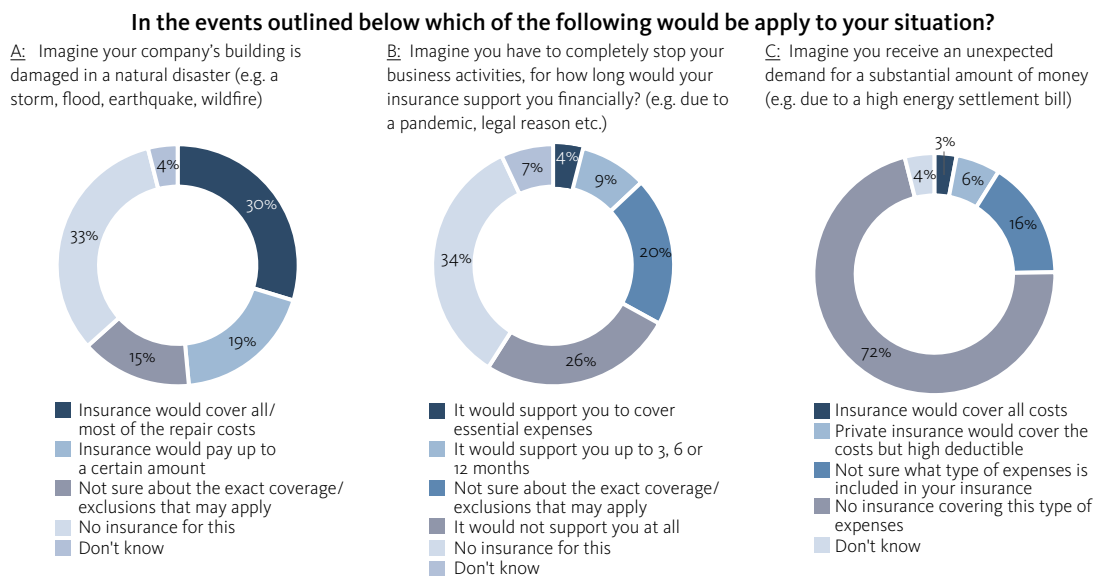


Source: EIOPA Solvency II Database (S.20.01)

In the event of a loss of income (Figure 29-B) or urgent medical expense (Figure 29-C), there is a high reliance on the state, with 41% and 37% of consumers noting they have no private insurance for such events. The pandemic highlighted this reliance, as EU governments had to take unprecedented measures to cover the loss of income for workers due to businesses having to temporarily close, and to cover expenses for Covid-19 related hospitalisations.

The pandemic and the limited clarity in relation to some accident and health insurance products highlighted issues for such products. In 2021, accident and health insurance was the non-life insurance product for which NCAs reported the highest number of issues and for which most complaints were reported if looking at complaints received and managed by insurance undertakings – split by products.

Figure 31 - Eurobarometer results showing protection for three different types of events for SMEs



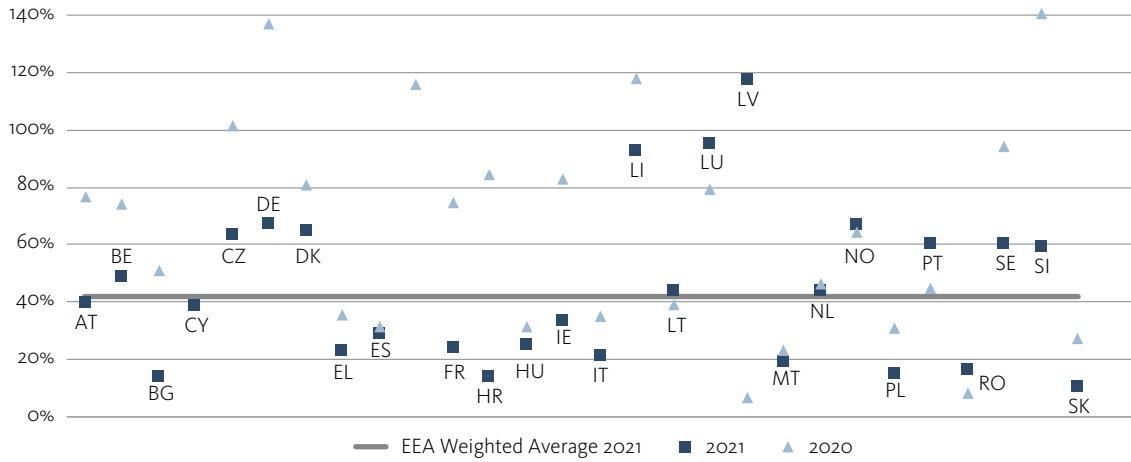
Source: EIOPA Flash SMEs' Eurobarometer 2022

For SMEs, the picture is similar picture to consumers in relation to natural catastrophes (Figure 31-A) with 49% of SMEs being fully or partially covered in the event of NAT-CAT, while 33% of SMEs noted not being covered. Again, the picture at Member State level is heterogeneous, for example only 8% of French SMEs reported not being covered, but as many as 62% of Romanian and 64% of Latvian SMEs reported not being covered.

Coverage for other events is lower. If SMEs had to completely stop their activities, 60% of them would not be

supported financially by private insurance (Figure 31-B). Hence, in June 2022, after the height of the pandemic, SMEs still lacked significant coverage for business interruption. This can also be observed by looking at the claims ratio for the miscellaneous financial loss line of business – under which business interruption generally falls. In fact, after the initial uncertainty as to whether existing policies covered the risks which emerged from the pandemic, and for which insurers provisioned and which led to a spike in claims ratios, these dropped in 21 Member States.

Figure 32 – Claims ratio for the miscellaneous financial loss line of business by Member States – 2021, 2020



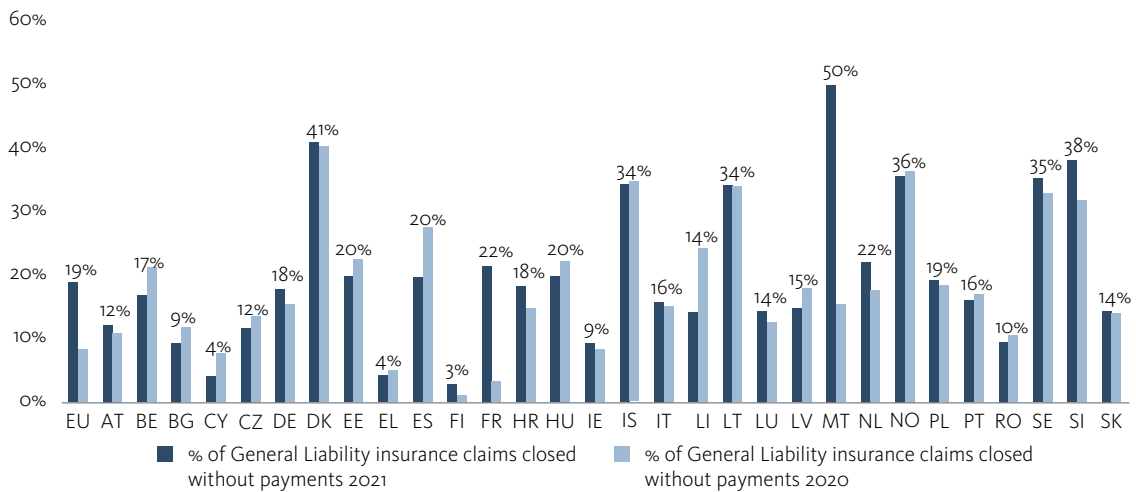
Source: EIOPA Solvency II Database (S.05.01)

More recently, the macroeconomic environment led to strong increases in energy prices and raw materials prices, constituting unexpected expenses which could potentially lead to SMEs' expenses abruptly rising to unsustainable levels. However, 72% of SMEs reported having no insurance for such expenses (Figure 31-C). It is also worth highlighting that a few NCAs reported concerns relating to low value insurance products being sold together with 'energy services'.

Cyber risk is becoming increasingly prevalent, with increasing risks of cyber-attacks on consumers, SMEs, and insurers. The Eurobarometer shows a low cyber risks coverage of SMEs, with 69% of SMEs not having any coverage, and 15% not knowing if they are covered.

Beyond the NCAs' survey and the consumers' and SMEs' surveys, a proxy of the protection gap can also be measured by looking at the claims rejected by insurance undertakings (claims closed without any payment) as a share of the total claims (see Figure 33).

Figure 33 – Percentage of claims closed without payment for the general liability line of business by Member States – 2021, 2020



Source: EIOPA Solvency II database (S.20.01)

In most lines of business, the claims rejected ratio remained steady or decreased from 2020 to 2021 (Figure 33). However, in the general liability line of business (which might include cyber risk) an opposite trend is observable with total claims closed without payment as percentage

of total claims going from 8% in 2020 to 19% in 2021. The combined ratio for this line of business also decreased from 96% in 2020 to 90% in 2021 (see the Annex document) indicating higher profitability for providers, potentially due to current risks not being covered.

BOX 6



WHAT CONTRIBUTES TO THE PROTECTION GAP?

The reasons that can lead to the formation and the widening of the protection gap are various, stemming from both demand and supply side issues:

- On the demand side (i.e. consumers or SMEs side) NCAs reported various reasons leading to a protection gap in their market: affordability due to increases in prices (11 out of 16 NCAs that responded), low financial literacy and low consumer awareness (10 out of 16 NCAs), product transparency due to consumers not understanding unclear terms and conditions or complex documentation (8 out of 16 NCAs) and behavioural biases such as consumer loss aversion (6 out of 16 NCAs). Related to affordability, one NCA further specified that for cyber insurance premiums are rising while coverage limits are decreasing, thereby increasing the protection gap.
- On the supply side (i.e., providers) NCAs reported uninsurability of risks as the main reason for the protection gap (12 out of 16 NCAs that responded), indicating that insurers consider some risks uninsurable from a commercial point of view and therefore do not offer any cover for such types of risk.

In two recent EIOPA-led behavioural studies on NATCAT insurance in a Member State, similar reasons both on demand and supply side were observed.

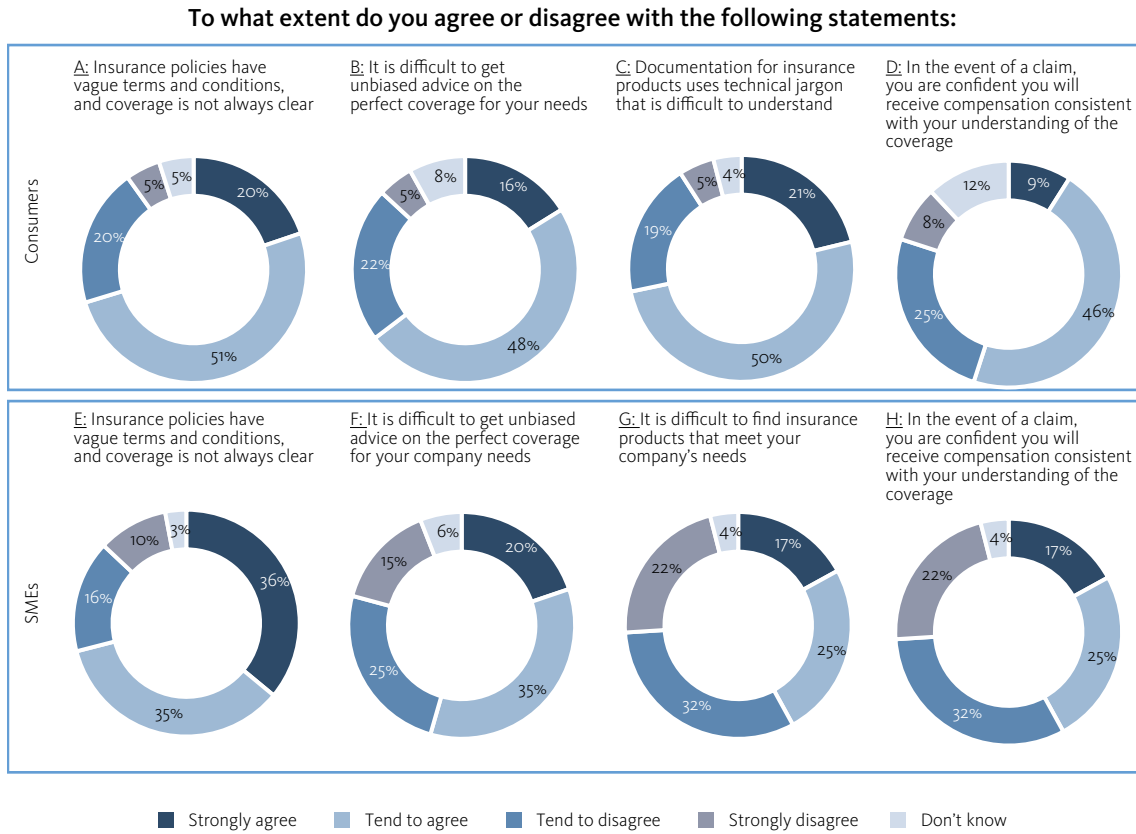
3.2.2. WHILE MOST CONSUMERS ARE CONFIDENT THEIR CLAIMS WILL BE PAID, INSTANCES OF LACK OF CLARITY IN EXCLUSIONS INCREASE CONSUMER DETRIMENT

Lack of clarity in terms and conditions, particularly in relation to exclusions, continue being an issue and cause further consumer detriment when systemic events materialize:

- 71% of consumers and 71% of SMEs find that insurance policies have vague terms and conditions and unclear coverage (Figure 32-A).
- 71% of consumers find the documentation difficult to understand due to jargon (Figure 32-C).

16 out of 24 NCAs (66%) that responded have received complaints relating to protection gaps in their respective markets. These relate in large part to unclear or complex documentation, particularly about terms and conditions making the coverage and exclusions unclear for consumers. Relatedly, they noted little financial literacy which hinders consumers' understanding of their policies or of the existence of such policies. These issues were heightened at the peak of the COVID-19 crisis, during which NCAs reported various complaints and issues relating to travel and health insurance. Similarly, when a NATCAT event or a cyber-attack occurs, such increase in detriment can also arise. For example, in the context of the Russian invasion of Ukraine, a few NCAs pointed out the introduction by insurers of new exclusions (e.g., war related exclusions, territorial exclusions) in insurance policies to limit their liability to losses in Ukraine, Belarus and Russia.

Figure 34 - Eurobarometer results showing consumers (above) and SMEs (below) views on various situations



Source: EIOPA Flash SMEs' and Consumers' Eurobarometer 2022

Positive trends in relation to the protection gap have also been witnessed. Looking at the Eurobarometer results, most consumers (55%) and SMEs (64%) are confident that in the event of a claim, they would receive compensation in line with their understanding. An analysis of retail risk indicators shows that the GWP of the line of business “Fire and other damage to property insurance” saw an increase of 5.1% at EEA level, with 28 Member States experiencing an increase in GWP of this line of business. This overall increase could indicate an increase in coverage (the limitation being that this increase might be due to an increase in premium rather than in the number of contracts), it could also indicate greater awareness of EEA consumers of the occurrences of NATCAT – especially with growing concerns around climate change provoked events. Relatedly, some NCAs also noted additional consumer and insurer interest for NATCAT coverage (e.g., stronger consumer interest in getting protected, insurers enhancing their NATCAT coverage). Additionally, during the occurrence of systemic events such as natural catastrophe or the recent invasion of Ukraine by Russia, in

some Member States, stakeholders such as intermediaries have been acting as points of reference for consumers, helping them through the claims process.

To continue monitoring the issue and ensure more positive developments, 15 out of 24 NCAs have already carried out or have planned to carry out supervisory activities in relation to protection gaps and exclusions⁴⁶. In their activities, NCAs are particularly focusing on financial literacy initiatives for consumers, on the assessment of coverage for certain events, on the tackling of unclear coverage and unfair exclusions, and on the monitoring of price increases.

Moreover, EIOPA has recently published a supervisory statement⁴⁷ to promote supervisory convergence in the approach taken by NCAs on the treatment of exclusions of risks arising from systemic events in insurance contracts from a consumer protection and conduct perspective.

4. PENSION TRENDS

4.1 DIGITALISATION AND TECHNOLOGY IN THE PENSION SECTOR IMPROVING FINANCIAL HEALTH

Key takeaways from section 4.1:

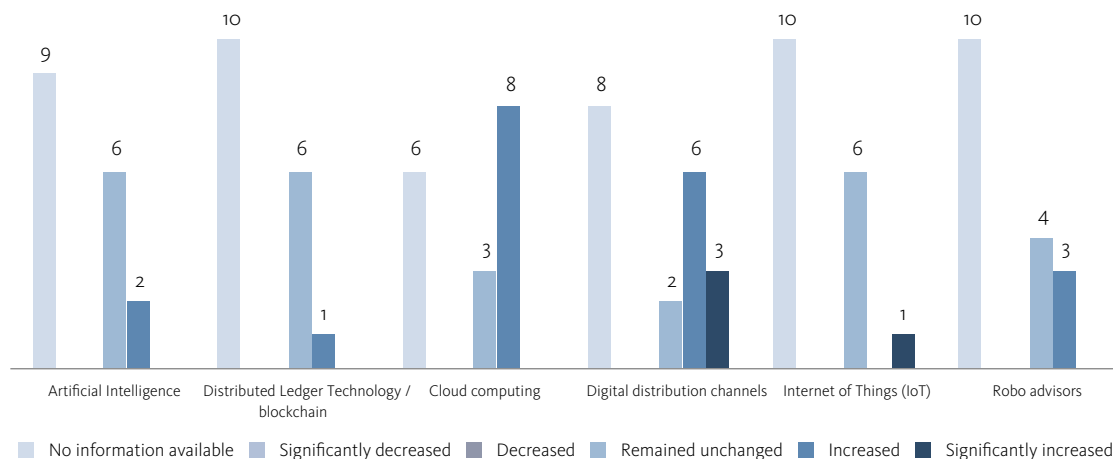
- NCAs reported multiple digital initiatives in the EU pension market with the pandemic acting as a catalyst for further digitalisation of various pension-related processes.
- Digitalisation of the pensions sector could attract younger generations' interest in their pension.
- Some risks do arise such as less tech savvy members being excluded from increasingly digitalized processes, and concerns in relation to data protection and privacy issues.

While arguably at a slower pace than in other sectors of the economy, technology is also having an important impact on the pension sector and more particularly on pension schemes providers and pension schemes members. Low pension coverage and insufficient pension savings, especially in voluntary private pension systems, are among key concerns in many jurisdictions and digitalisation could help achieve greater pension adoption by improving interactions between providers and members and increase members engagement with their pensions. However, both opportunities and challenges arise from this increase in digitalisation.

4.1.1. INCREASE IN DIGITALISATION IN THE PENSION SECTOR

Multiple digital initiatives have been reported across EU pension markets with the pandemic acting as a catalyst for further digitalisation of various pension-related processes. As it can be noted in Figure 35, NCAs with information reported an increase in the use of technology in the pension sector, particularly in the case of cloud computing and digital distribution channels.

Figure 35 – Evolution of usage level of the following technologies and business models in the pension sector in number of NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁴⁸

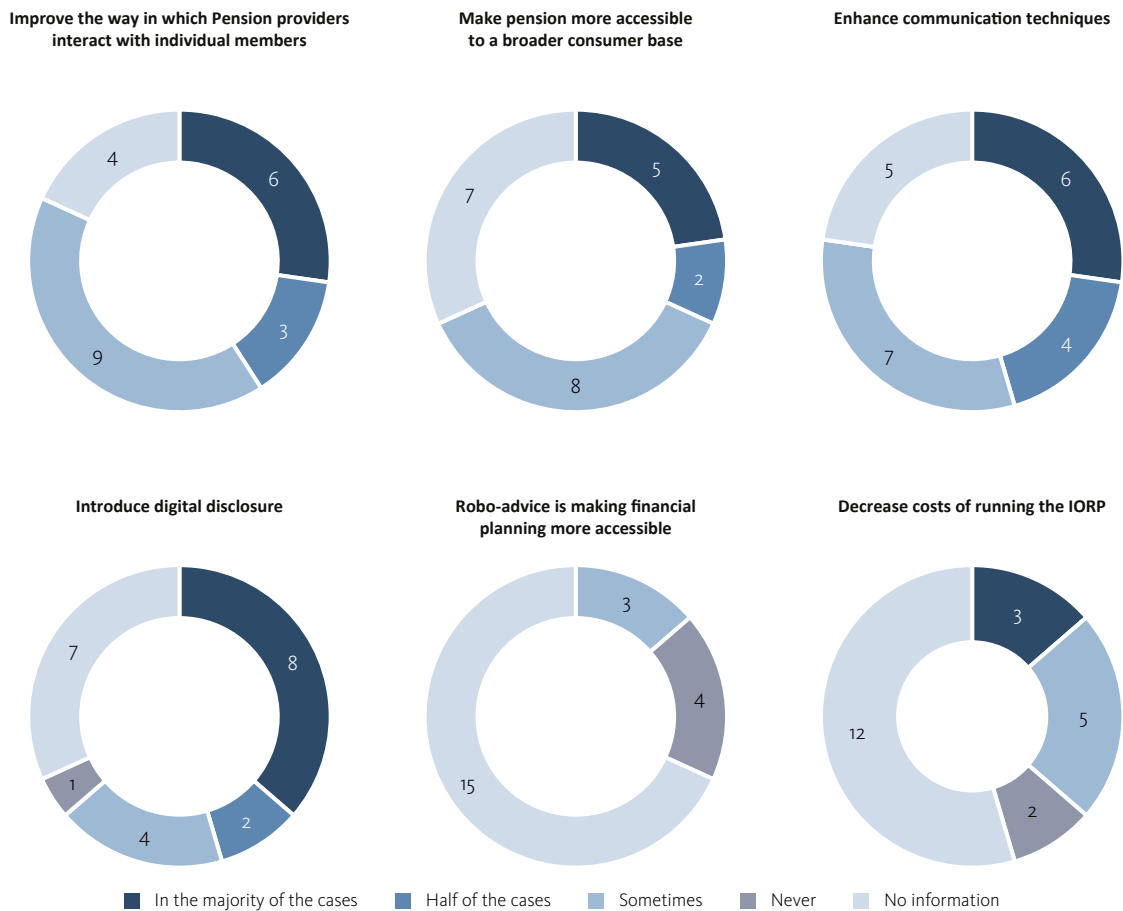
Considering members increasingly want to interact on-line, initiatives aimed at digitalising interactions between members and providers were reported by NCAs such as the development of new portals for consumers to communicate securely with providers, and to provide members with more up to date information via digital disclosures (see Figure 36). This is particularly relevant given the current high inflation context leading to a fast-changing economic environment and its potential impact on members and beneficiaries. The provision of timely and up-to-date information is important to ensure members are adequately informed. Further, the increasing adoption by providers of digital channels to communicate with members prompted an increase in interactions between providers and members, a welcomed development as this increased members' awareness of their pension rights/future benefits. All NCAs with information noted that digitalisation improves the way in which pension providers and members interact, with different degrees. A similar

picture is verifiable in relation to PensionTech enhancing communication techniques, 6 NCAs believing it does so in most cases, 4 in half the cases and 7 in some cases.

Other initiatives have been highlighted such as pension tracking services/systems. These services are currently operational in 11 Member States⁴⁹, in others plans to develop them are underway.

These tracking systems help consumers/members/prospective members by giving them an overview of accrued entitlements and/or projected retirement income provided by some or all pension sources in a simple, understandable, and meaningful manner⁵⁰. This empowers consumers/scheme members to better visualize their future benefits as well as further appreciate the advantages of contributing to a pension. This is particularly true for younger generations which might not feel as concerned as other consumers/members with their pension.

Figure 36 – Advantages of PensionTech in their respective markets in number of NCAs



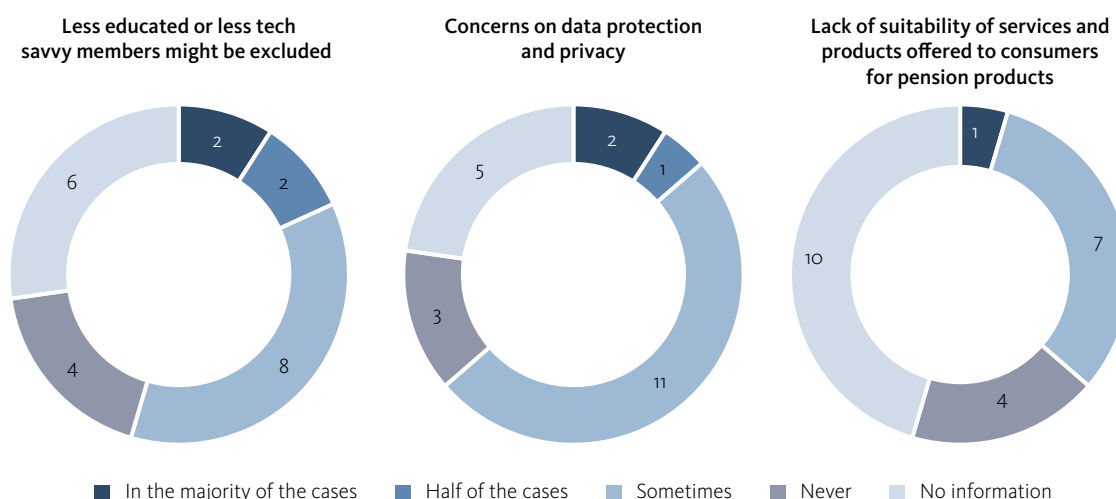
Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁵¹

A greater digitalisation of the pensions sector also helps attract a new type of demographic: Millennials and younger generations, which are starting to represent an important part of the workforce, and increasingly will. These consumers not only are more used to and familiar with technology, but they also are more likely to recurrently change jobs, and therefore employer during their careers, making the prospect of a pension more complex. A more digitalized pension process might encourage younger consumers to take an interest in their pension, as it will ease accessibility, ease information flow, ease interaction between them and providers, and generally provide them with a more familiar consumer experience. Relatedly, initiatives particularly aimed at enticing younger consumers were also noted in a few Member States such as social media campaigns, but also the increasing use of mobile phone apps. Ultimately this will allow younger gen-

erations to take a more active stance in the planning of their financial future, but also on a societal scale it will ensure that newer generations are saving for their retirements.

Despite the overall positive trends offered by digitalisation, some issues persist (Figure 37). Most NCAs highlight that digitalisation might lead to less tech savvy members being excluded from increasingly digitalized processes. Further, NCAs also raise concerns in relation to data protection and privacy issues. However, helping to mitigate these data protection concerns, several NCAs reported initiatives in the market aiming at strengthening electronic/digital identification with stronger authentication and safer consumer portals. Some members also noted a risk of un-suitable pension products being chosen by consumers (e.g., in relation to investment options), particularly due to fully digital selection processes.

Figure 37 - Risks of PensionTech seen by NCAs in their respective markets in number of NCAs



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁵²

4.1.2. THE ROLE OF SUPERVISORY AUTHORITIES IN THE DIGITALISATION OF THE PENSION SECTOR

Supervisors and regulators have an important role to play in the digitalisation of the pension sector. On the one hand, they aim at tackling and mitigating the risks stemming from greater digitalisation by supervising entities providing pension services and by ensuring a strong regulatory framework protecting scheme members/consumers/beneficiaries. On the other hand, they aim at fostering further benefits from digitalisation, at times also by directly supporting innovation. Some NCAs have reported facilitating the generation of new digitalisation ideas, via the organisation of regulatory sandboxes or the setting up of innovation hubs, albeit none exclusively on pension.

Still, more than half of NCAs reported supporting innovation in the pension sector by facilitating the identification of applicable regulation and more generally helping during the compliance stage. Further, a few NCAs noted that they occasionally supported innovation by aiding the funding stage of new ideas, by fostering a controlled environment for the testing of new ideas and the dissemination of such ideas in the market.

EIOPA has been active on the topic, as it recently advised the European Commission on:

- the development of pension dashboards⁵³ which would help national and EU policymakers make more informed decisions about their pension systems;
- the development of pension tracking systems⁵⁴ which give consumers an overview of their expected retirement income so that they can adjust their saving habits if necessary.

4.2. PENSION MARKET OVERVIEW

Key takeaways from section 4.2:

- Strong heterogeneities persist across Member States, particularly in terms of type of providers, affiliation, coverage, and taxation.
- Possible pension gaps due to the low penetration of IORPs and Personal Pension products (PPPs) which may increase due to the current macro-economic environment.
- An increasing number of Member States are implementing a shift from DB to DC.

Occupational and personal pension funds shape the European economy, providing an opportunity for households to save for retirement and, at the same time, help the efficient allocation of long-term capital, further promoting the development of the Capital Markets Union. The role, size and nature of occupational and personal pension sectors are highly diverse across Member States, which poses challenges to regulators and supervisors.

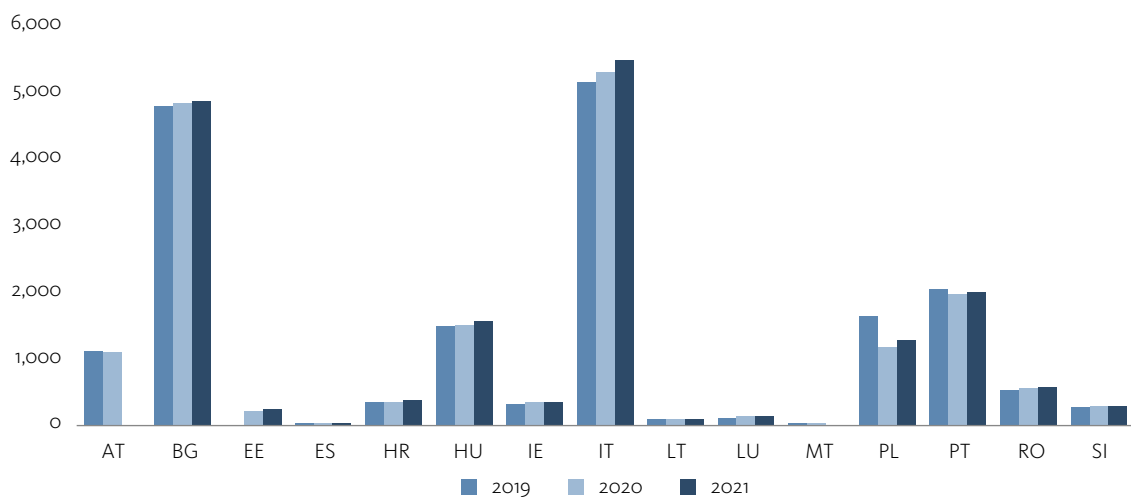
4.2.1. PERSONAL PENSIONS MARKETS CONTINUE TO BE HIGHLY HETEROGENOUS BUT SOME CONVERGENCE CAN BE OBSERVED

PPPs markets are remarkably heterogeneous across the Member States, both in terms of relevance compared to

the overall retirement savings products and in terms of the product features. The Annex document provides a detailed overview of the design and main characteristics of PPPs by Member State, reflecting the lack of harmonisation and the different levels of development in the pension sector across jurisdictions.

Figure 38 provides an overview in terms of the size of personal pensions markets (by number of contracts), between 2019 and 2021. Reasons for this heterogeneity might be national regulation or taxation as well as the presence and prevalence of other pillars.

Figure 38 - Number of PPPs (Pillar III) contracts by Member State, in thousands - 2021, 2020, 2019



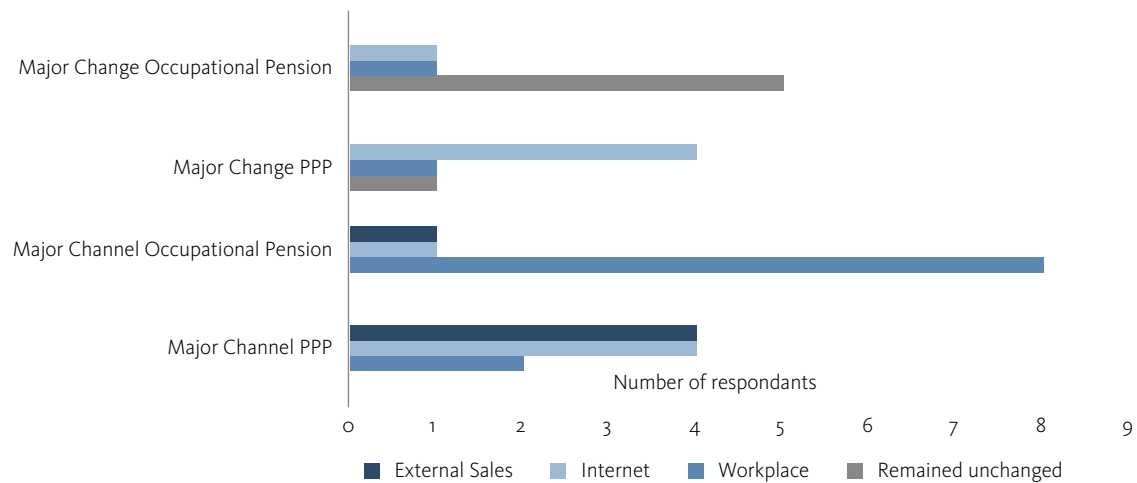
Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁵⁵

Despite the pandemic and the current macroeconomic environment, the number of contracts has been stable since 2019. The ongoing efforts to increase communication between providers and potential retail consumers has helped in raising EU consumers' awareness of PPPs. Most NCAs recognize the high potential of their PPPs' market for future expansion and development, particularly due to the recent reforms (social and law related aspects).

Despite the discrepancies across members, trends related to distribution channels are more homogenous as shown in Figure 39. External sales (4) and internet (4) are the fa-

voured distribution channels for PPPs, whereas the workplace was mentioned as the main channel of distribution only by 2 NCAs. Additionally, the growing relevance of digital channels was highlighted by NCAs with 4 out of 6 noting 'Internet' as the distribution channel which increased the most for the different types of pension schemes, products, or providers. These are seen as positive developments by various stakeholders as pension funds have been reacting by adapting their operational procedures and communication channels to respond to the needs of savers.

Figure 39 - Distribution Channels Overview for PPPs and Occupational Pensions in NCAs number



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁵⁶

4.2.2 IORPS COVERAGE DIFFERS SIGNIFICANTLY AMONGST MEMBER STATES BUT THE SHIFT FROM DB TO DC SCHEMES IS HOMOGENOUS – IMPACTING FINANCIAL HEALTH

Despite being defined in the scope of the European Directive IORPs II⁵⁷, IORPs are still highly diverse in terms of structure and relevance across Member States. First, in some Member States IORPs are mainly supplementary pension schemes set up under collective labour agreements (e.g., Bulgaria, Cyprus, Germany, and Italy). In other Member States IORPs have a semi-public character and the affiliation of the employers and employees may be rendered obligatory by law. In others the collective schemes are set up on a private basis and are not necessarily mandatory. These different approaches and structures lead to differences in penetrations.

Tax treatment of IORPs also differ significantly with some Member States only exempting capital gains, others also exempting contributions and others only exempting contributions. Third, the low appetite towards IORPs in some countries might be the result of large Pillar I systems as it happens in the southern Member States.

The Annex document (Annex VII) provides a detailed overview of the IORPs differences between Member States through a qualitative in-depth analysis on their structure and design. The Annex document (Annexes VIII and IX) estimates the significance of IORPs (compared to other providers of Pillar II pensions), both in terms of Members and Assets under Management. Due to lack of data, in this section, only occupational pensions managed by an IORP are taken into account, providing only a partial view of the whole occupational pension sector. This variability changes across countries. For instance, IORPs cover only 20-25% of the occupational pension market in Belgium.

This overall diversity in IORPs market structure leads to different coverages across Member States. Figure 40 below shows how heterogeneous the growth in active members across Member States is, varying from a decrease close to 15% in Denmark to a very high increase in France (+46%), or over 65% increase for Sweden due to transition caused by IORPII (please refer to the annex document for further information). Overall, the number of active members recorded a growth rate of 10.2%.

The Netherlands, Germany, and Italy reported the highest figures in terms of total active members, which accounted for nearly 70% of all active members at EEA level.

Nevertheless, considering solely the variation in the active members might be misleading, especially in light of the different frameworks in place in each Member State (e.g., an increase in the labour force would imply an automatic increase in active members if there is mandatory enrolment). Thus, to have a clear picture on the real growth in terms of affiliations, the growth in the active population should also be taken into account. This will allow the verification of whether an increase in active

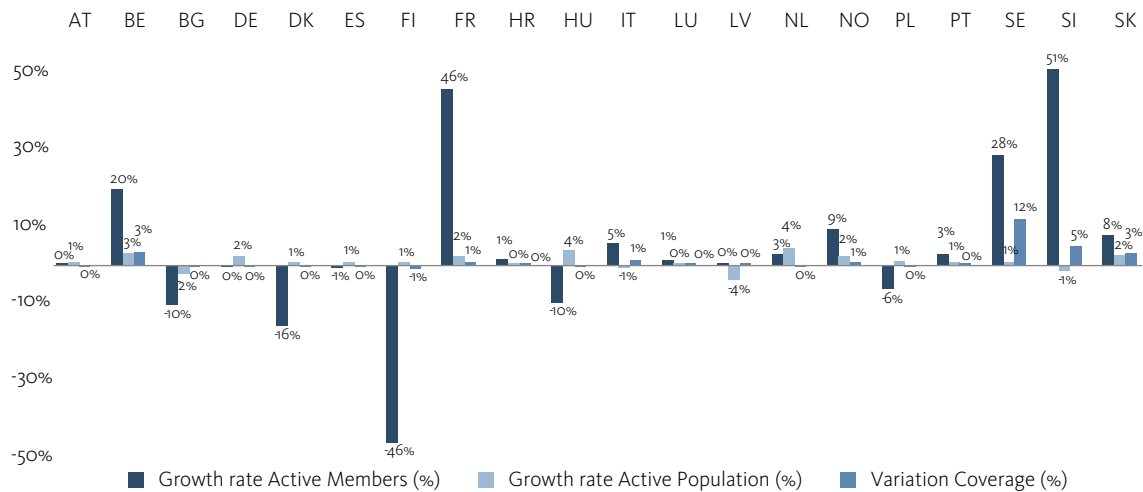
members is attributable to an increase in the active population (second bars in Figure 40). In 2021, the correlation between the active population and active members was close to 72%, which means that both variables are connected, likely due to the cases where there is automatic enrolment.

Further to understand which percentage of the economically active people are affiliated to an occupational scheme and thus working on their retirement income, it is important to look at the IORPs coverage. According to Figure 41 the overall estimated coverage through recognised IORPs was 13.9% in 2021, an increase of 1.1% from the previous year.

The coverage shown is low, carrying a risk of pension gap when reaching retirement, if not complemented by any other source of pension – such as statutory pension (Pillar I), other form occupational pension schemes not under IORPs regulation and/or PPPs. On the other hand, it points at the possibility of future growth in the sector.

To minimise this gap, various NCAs have been conducting several initiatives to raise awareness.

Figure 40 - Growth in Active Members, Active Population and Coverage by Member States – 2021, 2020



Source: EIOPA IORPs pension database for the number of active members; Eurostat for the active population

Figure 41 - Coverage occupational pension plans, defined as the ratio of active members over the active population⁵⁸ - 2021

Member State	2020	2021	Variation
AT	17.4%	17.3%	-0.1%
BE	21.5%	24.9%	3.5%
BG	0.2%	0.2%	0.0%
DE	14.1%	13.8%	-0.4%
DK	0.0%	0.0%	0.0%
ES	9.6%	9.4%	-0.1%
FI	0.3%	0.2%	0.0%
FR	1.7%	2.4%	0.7%
HR	2.5%	2.5%	0.0%
HU	0.0%	0.0%	0.0%
IT	22.5%	23.9%	1.4%
LU	6.5%	6.6%	0.1%
LV	5.4%	5.6%	0.2%
MT	0.0%	0.2%	0.2%
NL	71.6%	72.8%	1.2%
NO	7.9%	8.5%	0.6%
PL	0.1%	0.1%	0.0%
PT	3.6%	3.7%	0.1%
SE	10.7%	17.7%	7.1%
SI	9.5%	14.6%	5.0%
SK	27.1%	27.9%	0.8%
EEA	12.8%	13.9%	1.1%

Source: EIOPA's IORPs pension database for the number of active members⁵⁹; Eurostat for the active population

To ensure minimum coverage levels and safeguard individuals' well-being during the retirement, some countries have already implemented mandatory enrolment policies, which have led and/or are expected to lead to higher pension coverage. Examples of initiatives include:

- In Belgium, since January 2019, the minimum age for affiliation of employees was banned because of the transposition of the Portability Directive. Employees who meet the conditions for affiliation to an occupational pension plan must immediately join their employer's plan when they take up employment. Given the importance of this new provision, the Belgian NCA launched a thematic review. As a result, pension providers who had not yet formally adapted all pension regulations to the new legal provisions, were enforced to do so. Apart from the aforementioned
- supervisory action, the Belgian NCA observed an overall increase of 7% in the total number of members, particularly when looking at female affiliates (+9%) since the enforcement of this measure (2019) in comparison with 2021.
- In Ireland, the Department of Social Protection has announced the implementation of an auto-enrolment system, with contributions to be accepted from 2024. Under Auto Enrolment employees will have access to a workplace pension savings scheme which is co-funded by their employer and the State. A key feature of the system is that although participation is voluntary, it operates on an 'opt-out' rather than an 'opt-in' basis.

- Italy has also reported an increase in the participation rate of IORPs due to the automatic adhesion mechanism in place for some industry-level collective bargaining agreements.

Occupational pension funds can be defined benefit (DB) – where the risk is borne by the sponsor – or defined contribution (DC) – where the risk is borne by the member, or a hybrid of DB and DC. The growth of new members is more prevalent for DC schemes (Figure 43) with only Sweden (due to transition caused by IORPII) and Liechtenstein emerging as outliers, reporting larger increases in new DB members rather than new DC members.

Further Figure 42 and Figure 43 highlight the significant exposure of some Member States towards DC schemes. Based on Figure 42, Austria, France, Italy, and Spain have ratios of active members affiliated to DC schemes of over

90%. 7 other Member States have a 100% ratio of active members affiliated to DC schemes.

The regulatory treatment also changes across countries and impacts the way members and contributions are allocated. For instance, the low percentages concerning Belgian DC schemes can be explained by the fact that most of the Belgian DC schemes are counted as DB schemes in these figures due to the presence of a legal guarantee of return.

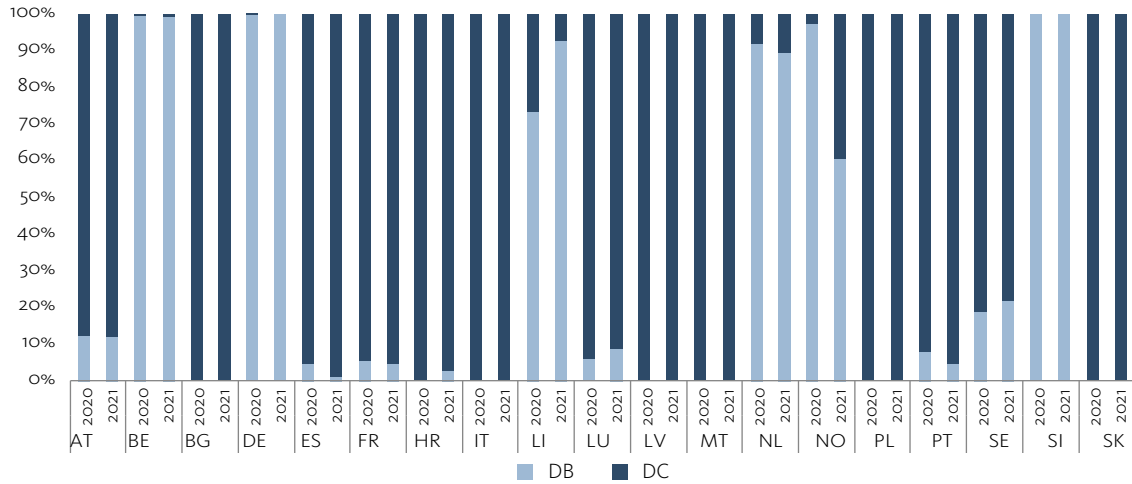
The prevalence of DC pension schemes leaves households more exposed, particularly under the current worsening macroeconomic conditions, to market shocks which may impair replacement ratios. The higher exposure to the market volatility and potential misalignment of pension fund management companies and the interests of the pension fund members threatens adequate retirement income as reported by NCAs.

Figure 42 - Ratio of active members affiliated to DC schemes (over the total number of active members) by Member State – 2021, 2020

Member State	2020	2021	Variation
AT	88.5%	88.9%	0.4%
BE	0.5%	0.9%	0.3%
BG	100.0%	100.0%	0.0%
DE	0.0%	0.0%	0.0%
DK	0.0%	0.0%	0.0%
ES	94.5%	94.8%	0.3%
FI	1.2%	1.4%	0.2%
FR	82.1%	91.6%	9.5%
HR	100.0%	100.0%	0.0%
HU	100.0%	100.0%	0.0%
IT	99.4%	99.5%	0.1%
LI	30.5%	23.3%	-7.3%
LU	60.6%	62.1%	1.5%
LV	100.0%	100.0%	0.0%
MT	100.0%	100.0%	0.0%
NL	8.3%	9.4%	1.1%
NO	11.1%	16.0%	5.0%
PL	100.0%	100.0%	0.0%
PT	64.2%	70.0%	5.8%
SE	82.1%	54.8%	-27.4%
SI	0.0%	0.0%	0.0%
SK	100.0%	100.0%	0.0%
EEA	46.8%	45.8%	-1.0%

Source: EIOPA IORPs pension database⁶⁰

Figure 43 - New Members, by type of scheme and Member State – 2021, 2020

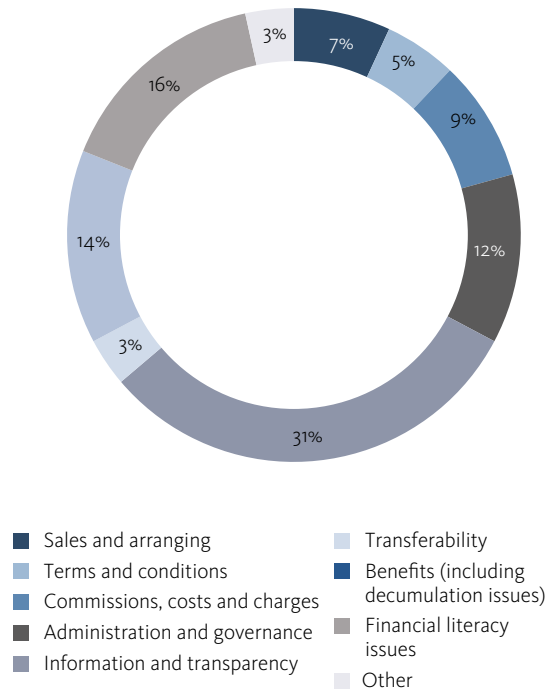


Source: EIOPA IORPs pension database

These issues were also highlighted by the different NCAs in their answer to the top 3 pensions related issue survey, who pointed to risks relating to the shift from DB towards DC schemes, namely the lack of consumer understanding of investment options and lower returns.

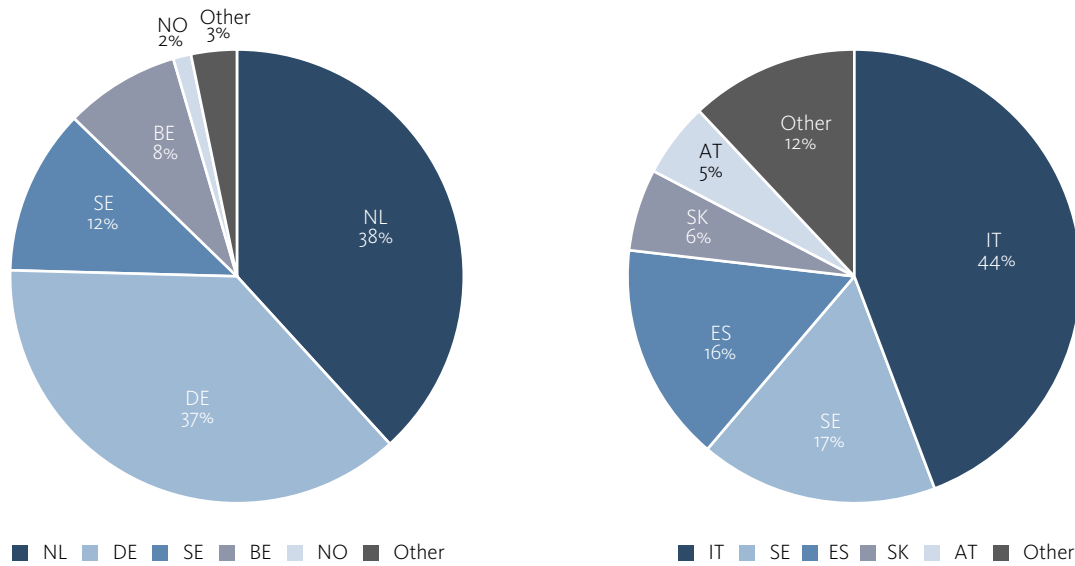
Similarly, to previous years, from a geographical point of view, Dutch and German IORPs are the main contributors to the number of DB active members, whereas Italian IORPs are the main contributors to the number of DC active members, as shown in Figure 43.

Figure 44 - Key issues shared by NCAs, by type



Source: EIOPA's Committee on Consumer Protection and Financial Innovation in 2022⁶¹

Figure 45 - Geographical distribution, DB schemes (left) and DC schemes (right), top 5 countries - 2021



Source: EIOPA IORPs pension database

Finally, another relevant trend is related to the cross-border business given the increasing number of pension plan beneficiaries that are covered by IORPs that are operating on a cross-border basis. Based on the 2022 EIOPA report on cross-border IORPs, even though still only 0.2% of the total number of IORPs members and beneficiaries are in

a cross-border IORP, the number of beneficiaries/members has increased by 33% to approx. 93,000. The large relative increase suggests that it is an important trend from a consumer perspective and could further grow in importance.

ENDNOTES

- ¹ In this report, “consumers” is understood as a term englobing consumers, savers, pension scheme members and beneficiaries. This term is therefore used to refer broadly to people using or benefitting from pensions and insurance services.
- ² Small and medium-sized enterprises
- ³ Supervisory statement on exclusions in insurance products related to risks arising from systemic events | Eiopa (europa.eu)
- ⁴ Article 9(1)(a), Regulation 1094/2010 establishing EIOPA, Link
- ⁵ The consumer survey targeted EU consumers 18 years and above for a total of 25,880 online interviews.
- ⁶ The SMEs survey targeted EU SMEs with less than 250 employees for a total of 9,067 phone interviews.
- ⁷ Principles for Responsible Banking – United Nations Environment – Finance Initiative (unepfi.org)
- ⁸ Credit protection insurance has been included amongst saving products as consumers often see real estate as a saving vehicle and these products allows them to keep on paying their mortgages in case of unexpected life events.
- ⁹ Supervisory statement on assessment of value for money of unit-linked insurance products under product oversight and governance | Eiopa (europa.eu)
- ¹⁰ Link to the public version of the methodology: Methodology to assess value for money in the unit-linked market | Eiopa (europa.eu)
- ¹¹ Thematic Review on Credit Protection Insurance (CPI) sold via banks | Eiopa (europa.eu)
- ¹² Warning to insurers and banks on Credit Protection Insurance (CPI) products | Eiopa (europa.eu)
- ¹³ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ¹⁴ <https://www.oecd.org/financial/education/oecd-infe-2020-international-survey-of-adult-financial-literacy.pdf>
- ¹⁵ <https://www.oecd.org/finance/financial-education/navigating-the-storm-msmes-financial-anddigital-competencies-in-covid-19-times.htm>
- ¹⁶ <https://www.oecd.org/pisa/publications/pisa-2018-results-volume-iv-48ebd1ba-en.htm>
- ¹⁷ <https://www.oecd.org/finance/financial-education/financial-competence-framework-for-adults-in-the-european-union.htm>
- ¹⁸ <https://www.oecd.org/finance/G20-OECD-Policy-Guidance-Financial-Consumer-Protection-Digital-Age-2018.pdf>
<https://www.oecd.org/daf/fin/financial-education/Financial-Consumer-Protection-Policy-Approaches-in-the-Digital-Age.pdf>
- ¹⁹ <https://www.oecd-ilibrary.org/docserver/f7b48808-en.pdf?expires=1669733360&id=id&accname=ocid84004878&checksum=4D3A603B-F14232976E496DCA3BCB0531>
- ²⁰ <https://www.oecd-ilibrary.org/docserver/20c7f443-en.pdf?expires=1670009165&id=id&accname=ocid84004878&checksum=9DCC46597C40F8A64586782AC422EC49>
- ²¹ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ²² In some Member States it is possible for consumers to transfer their policy to a new provider, rendering the surrender ratios between Member States with transfer possibility and those without such possibility, less comparable.
- ²³ 25 NCAs respondents: IT, PL, EL, CZ, IE, SK, RO, EE, PT, HU, SI, IT, BG, MT, FI, DE, ES, NL, LU, BE, AT, LI, LV, LT, HR
- ²⁴ 25 NCAs respondents: IT, PL, EL, CZ, IE, SK, RO, EE, PT, HU, SI, IT, BG, MT, FI, DE, ES, NL, LU, BE, AT, LI, LV, LT, HR
- ²⁵ Premium adjustments using different techniques which are unrelated to the risk profile of the consumer and the cost of service. For example, consumers may be charged a different premium based on personal behavioural characteristics such as their price elasticity, or propensity to shop around at the renewal stage.
- ²⁶ 25 NCAs respondents: IT, PL, EL, CZ, IE, SK, RO, EE, PT, HU, SI, IT, BG, MT, FI, DE, ES, NL, LU, BE, AT, LI, LV, LT, HR
- ²⁷ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ²⁸ 23 NCAs respondents: LV, EE, PL, IE, HU, RO, NL, IT, PT, SI, LU, AT, CZ, DE, BE, BG, MT, SK, LI, LT, HR
- ²⁹ Estamos seguros (estamos-seguros.es)
- ³⁰ Programa de Formação Financeira da ASF (academiaasf.pt)
- ³¹ ASF - Apoio ao Consumidor
- ³² EUR-Lex - 52021DC0390 - EN - EUR-Lex (europa.eu)
- ³³ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ³⁴ Directive (EU) 2016/97- Eur-lex (europa.eu)
- ³⁵ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ³⁶ EIOPA's approach to the supervision of product oversight and governance | Eiopa (europa.eu)
- ³⁷ 26 NCAs respondents: SI, RO, IE, FI, DE, EE, PL, PT, HU, CZ, AT, NL, EL, BG, SK, ES, SE, LI, LT, LV, MT, BE, LU, HR, IT, FR
- ³⁸ 26 NCAs respondents: SI, RO, IE, FI, DE, EE, PL, PT, HU, CZ, AT, NL, EL, BG, SK, ES, SE, LI, LT, LV, MT, BE, LU, HR, IT, FR
- ³⁹ 26 NCAs respondents: SI, RO, IE, FI, DE, EE, PL, PT, HU, CZ, AT, NL, EL, BG, SK, ES, SE, LI, LT, LV, MT, BE, LU, HR, IT, FR
- ⁴⁰ 26 NCAs respondents: SI, RO, IE, FI, DE, EE, PL, PT, HU, CZ, AT, NL, EL, BG, SK, ES, SE, LI, LT, LV, MT, BE, LU, HR, IT, FR
- ⁴¹ Warning to consumers on the risks of crypto-assets | Eiopa (europa.eu)
- ⁴² Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets (europa.eu)
- ⁴³ feedback-statement-dashboard-on-insurance-protection-gap.pdf (europa.eu)

- ⁴⁴ Understanding and Addressing Global Insurance Protection Gaps (genevaassociation.org)
- ⁴⁵ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ⁴⁶ 24 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, FR, DE, EL, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI
- ⁴⁷ Supervisory statement on exclusions in insurance products related to risks arising from systemic events | Eiopa (europa.eu)
- ⁴⁸ 25 NCAs respondents: IT, PL, EL, CZ, IE, SK, RO, EE, PT, HU, SI, IT, BG, MT, FI, DE, ES, NL, LU, BE, AT, LI, LV, LT, HR
- ⁴⁹ Technical advice on the development of pension tracking systems | Eiopa (europa.eu)
- ⁵⁰ Technical advice on the development of pension tracking systems | Eiopa (europa.eu)
- ⁵¹ 22 NCAs respondents: LV, IT, PL, CZ, ES, NL, EE, HU, SI, IE, PT, DE, LU, BE, BG, AT, SK, LI, MT, RO, LT, HR
- ⁵² 22 NCAs respondents: LV, IT, PL, CZ, ES, NL, EE, HU, SI, IE, PT, DE, LU, BE, BG, AT, SK, LI, MT, RO, LT, HR
- ⁵³ Technical advice on pensions dashboard | Eiopa (europa.eu)
- ⁵⁴ Technical advice on the development of pension tracking systems | Eiopa (europa.eu)
- ⁵⁵ 21 NCAs respondents: AT, BE, BG, HR, EE, DE, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI, ES
- ⁵⁶ 21 NCAs respondents: AT, BE, BG, HR, EE, DE, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, RO, SK, SI, ES
- ⁵⁷ IORPS II Directive
- ⁵⁸ Estimated coverage ratio = Active Members / Active Population
- ⁵⁹ This data only covers occupational pension undertakings, and not Solvency II undertakings offering occupational pensions.
- ⁶⁰ This data only covers occupational pension undertakings, and not Solvency II undertakings offering occupational pensions.
- ⁶¹ 23 NCAs respondents: AT, BE, BG, HR, CZ, EE, FI, DE, HU, IE, IT, LV, LI, LT, LU, MT, NL, PL, PT, SK, SI, ES, SE

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