

## Aviva response to Joint Committee consultation on guidelines for cross selling practices

### 1. Do you agree with the general description of what constitutes the practice of cross-selling?

1. The guidelines define a number of terms but do not actually define a 'product'. Our view is that an insurance product is a contract which provides the buyer with cover against a specified set of risks and the customer pays a premium. The ability of the customer to amend the number or type of risks in the policy does not alter the fact that it is a single policy with a related premium. The inclusion of ancillary benefits like support telephone lines<sup>1</sup> or other non-financial services does not alter the fact that it is a single contract. If there is one contract, with one premium, then it should be considered a single product. We believe that this would be supervisors' view as well and so are not advocating that the guidance define an insurance product.
2. We urge EIOPA to insert language proposed by the European Council regarding IMD2 in the 'scope of the guidelines' (page 19). This could read *"Nothing in the guidelines is intended to prevent the offering of insurance products which provide coverage for various types of risks (multi-risk insurance policies)."* This wording is needed to supplement the guideline *"Nothing in the guidelines is intended to prevent the offering of products which constitute an inherent or indivisible package which cannot by its nature be offered or sold separately because the components are a fully integrated part of the package"*. This is because the risks covered in multi-risk policies can be offered separately. For example, a consumer buying Aviva's motor insurance has the option to add motor legal expenses insurance, which provides additional cover for legal costs connected to the vehicle insured. It is possible for firms to offer this specific cover separately but this does not alter the fact that the consumer choosing this option as part of their motor insurance is buying a single product.
3. We believe that where a product is clearly totally optional, with no element of 'packaging', then its sale alongside another product should not be seen as a bundle or package. For instance, when a customer buys a mortgage from a bank and the bank offers the customer an additional product like life insurance, but with no obligation to buy it, and there is no other sort of 'packaging', then this should not be considered a bundle.
4. We therefore recommend that the definition of bundling is tightened to read *"a bundled offering is an offering where products are packaged or linked together into a single offering and where each of the products / services offered is available separately..."* The definition of bundling used must be compatible with IMD2.
5. These guidelines should not be used to prevent firms from innovating or to give supervisors a reason to prevent propositions simply because they are new. We recommend that the 'purpose of the guidelines' (on page 21) includes text saying: *"these guidelines are not intended to prevent firms providing new and innovative offerings which benefit consumers."* The need to enable innovation is particularly important given the increasing use of digital platforms.

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<sup>1</sup> Aviva offers customers and their relatives free access to care advisory service RED ARC, children's bereavement charity, Grief Encounter, and Co-operative Legal Services at the point of a protection claim.

6. We note that some Member States already have rules on tying and bundling. For example, in France, tying products is prohibited unless the consumer can acquire each product or the benefit of each component separately.<sup>2</sup> This means EIOPA has to ensure that its guidelines are high-level enough to allow national supervisors to continue to take the bespoke action necessary in their markets.

**2. Do you agree with the identified potential benefits of cross-selling practices?**

7. Yes. We agree with the benefits described. There are financial benefits (reduced overall costs, better financial condition), convenience benefits (“one-stop shop”) and access to a wider range of products.

8. An additional benefit of cross-selling is that it gives customers the opportunity to consider purchasing insurance cover or services that will provide very useful protection, and which they might not have thought of previously. For example legal expenses cover or breakdown cover. As legal expenses is available as part of motor insurance Aviva can alert customers of their ability to use legal expenses cover when appropriate during the claims process. If the legal expenses insurance were separate, the customer would have to make a separate claim.

**3. Do you agree with the identified potential detriment associated with cross-selling practices?**

9. Paragraph 3 (d) describes a customer’s lack of desire to shop around for a product that is more suitable for them as “detriment”. Regulators should recognise the fact that packages are often popular precisely because they offer convenience. It is often the case that customers do not want to spend time shopping around for the optimum deal and so will compromise on a proposition that is ‘good enough’ (this is a ‘satisficing’ rather than a ‘utility maximising’ approach to decision making). This is a rational approach because the time and effort consumers save by not continually searching can be more valuable to them than the money saved in finding the optimum deal.

10. In Paragraph 4 many of the poor practices identified could occur with any product and are not specific to cross-selling. Requirements for information to be presented in way that is clear, fair and not misleading, and for firms to treat their customers fairly, apply to packages as well as separate. There already exists the power of redress, for the competent authorities to impose, which would cover situations outlined in Paragraph 4, if there was a mis-selling situation.

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<sup>2</sup> Article L.122-1 of the Consumer Code

11. Extra costs. Paragraph 8 highlights that customers may pay more for a packaged product than if they shopped around for the individual elements separately. This potential detriment risk needs to be considered in the context that whilst it is in theory ‘possible’ it is not in fact ‘probable’ that the cumulative cost would be higher than the individual costs. It would be the exception rather than the norm. In our experience, packaging products enables firms to provide cheaper propositions to consumers due to economies of scale and scope (e.g. in distribution and administration costs). Even if it occurred, the Joint Committee has to recognise that there is a value to convenience. In practice, consumers make a judgement about whether it is worthwhile for them to shop around for the individual elements of a package.

12. Limitation of mobility. We assume that the Joint Committee is warning against contractual barriers over and above the standard contract for a product e.g. a motor insurance policy would typically last a year. It is important that the length of any contract is explained clearly to the customer. Again, this is caught by existing disclosure requirements.

**4. Please comment on each of the five examples above.**

13. We consider that each of the five Examples highlights practices that in the insurance sector would be inappropriate and lead to poor customer outcomes. In practice in the UK each of the examples would in our view be inconsistent with the FCA’s principle of Treating Customers Fairly.

14. Example 1 – Insurance products have their premium set by technical approaches and are closely monitored. Overcharging the client for purchasing two products together instead of both separately is unlikely and expected to be unsustainable commercially given the competitive nature of insurance markets in Europe.

15. Example 2 – The premium for general insurance policies remains the same throughout the policy’s term (usually a year). At the end of the term the policyholder has the choice to renew or cancel the policy. Thus a situation with increasing costs during the policy term unknown to the policyholder is not likely. In the case of life assurance products there may be situations where the mortality charge increases over the lifetime of a product, in line with the assessment of the reduced life expectancy due to the policyholders increased age. However, in such circumstances this feature of the product would be made clear and it would not be used to recover the costs of any discounted premium offered at the start of the policy.

16. Example 3 – Our view is that the issue of disproportionate early termination charges is the same whether the product is bundled or not.

17. Example 4 - We would suggest that no special treatment or extra termination charges should be applied to bundled policies. As indicated in respect of Example 3 disproportionate charges should be viewed as inappropriate whether the product is bundled or not.

18. Example 5 – Selling products that offer unnecessary duplication is a consequence of lack of understanding by the agent/seller or a consequence of poor behaviour. In the UK the FCA requires banks to check and inform consumers about their eligibility for insurance products in packaged bank accounts. Again, national supervisors are capable of taking targeted action to protect consumers.<sup>3</sup>
19. In the UK most insurance policies have a clause which states that, if cover is provided by another insurance product and a claim is made, each respective insurer would only pay their share of the claim. This is to ensure that a customer is not able to recover twice, as this would encourage fraud and means the customer would gain more than the insurable interest they chose to protect. So, an insurer may ask whether there are any other policies that could cover an incident and, if there is, the insurer could ask the other company to make a contribution. This may require the customer would make two claims, which is inconvenient. This means it is important that sellers of insurance abide by requirements to give a personal recommendation, or check the appropriateness of the product, as necessary.
20. In reality, the main detriment that individuals and families face is that they have *no* cover when they most need it, not the fact that they have *too much* cover. The context here is that consumers can suffer from poor financial capability and so may not protect themselves from risks when it is in their interests to do so. Swiss Re has [estimated](#) that Europe's consumers are under-insured by €10,000 billion. The ability to sell on a combined basis helps to mitigate this protection gap

**5. Please comment on the proposed guidelines 1 and 5 as well as the corresponding examples.**

21. Guideline 1. Firms should disclose the costs of products that are available separately. However, we do not agree that it is proportionate for firms to have to disclose the price of 'component products' when they are tied. Where a distributor sells a package of products but does not sell them separately then it may not have useful price information to provide (and it may not be competent to advise on products on the open market). For example, a bank could disclose the wholesale price it paid for an insurance product in a packaged bank account. However, if the consumer cannot buy the insurance separately from the bank (and, in any case, would not pay a wholesale price) this information is not useful.
22. Guideline 5. We agree that firms should disclose relevant information on non-price features. We note that the guideline's language about how 'risks are modified' as a result of buying a package might make sense in terms of investments and deposits but do not make sense in terms of insurance. Insurance covers risks; it does not cause them. The more insurance a person has the more they are covered against risks.

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<sup>3</sup> Specifically, the [FCA requires](#) banks to take reasonable steps to establish whether the customer is eligible to claim under each element of an Added Value Account and inform them whether or not they would be eligible to claim; provide the customer with an annual statement that sets out any qualifying requirements to claim under each policy and remind them to review whether they meet these requirements; and take steps to ensure the suitability of its advice on a policy included in the package. The FCA also recently **fined distributors £7.4m** for poor selling behaviour.

**6. Please comment on the proposed guidelines 2, 3, 4 and 6 and the corresponding examples.**

23. Guideline 2. It is not proportionate for firms to have to disclose the price of component products when they are tied, as we explain in response to question 5.

24. Guideline 3 (para 16) is reasonable. Guideline 3 (para 17) seems too prescriptive in requiring 'equal prominence' for cost information for all elements of a tied package (and as noted in the response to the above question it may not always be possible to provide the price of a component). It should be sufficient that price and non-price information is communicated clearly and in good time.

25. Guideline 4 seems reasonable. However, it is unclear what is meant by not displaying the price in a way which "prevents meaningful comparison with alternative products." Insurance products are usually quoted as a given amount of euros per policy. Any difficulty in comparison is more likely to be due to differences in cover than the way the price is disclosed.

**7. Please comment on the proposed guideline 7 as well as the corresponding examples.**

26. Guideline 7 (para 23). We agree that internet defaults should require a customer to choose a product or element of cover.<sup>4</sup>

**8. Please comment on the proposed guideline 8 as well as the corresponding examples.**

27. Guideline 8 seems reasonable, particularly for advised sales. Many Member States have strong legal requirements for intermediaries with respect to the assessment of demand and needs or suitability/appropriateness. If products are well explained separately, this risk of not meeting the demands of the clients or providing an unsuitable product is mitigated.

28. In the UK, firms following the FCA's 'Treating Customers Fairly' rules should already comply with this guideline. Under these rules firms have to design products to meet the needs of identified consumer groups, consumers are provided with clear information, and products perform as expected.

**9. Please comment on the proposed guidelines 9 and 10 as well as the corresponding examples.**

29. Guideline 9 seems reasonable but applies to all financial services products sales and is not specific to cross-selling. IMD 2 is likely to lead to stronger, but proportionate, training requirements in insurance.

**10. Please comment on the proposed guideline 11 as well as the corresponding examples.**

30. Guideline 11 (para 28). We agree that post-sale cancellation rights should be the same for products sold in a bundled package and separately.

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<sup>4</sup> The FCA is proposing a ban on opt-out selling as part of the General Insurance Add-ons Market Study.

31. A proposition using tied products will usually be designed and built to be offered as an inherent whole. To subsequently be able to 'split' these products would necessitate a different build and pricing model. The post-sale cancellation rights should be the same but the ability to split the tied offering into separate products does not stem from those rights.

**11. Please provide any specific evidence or data that would further inform the analysis of the likely cost and benefit impacts of the guidelines.**

32. In general we agree with the cost-benefit analysis. One potential "cost" missing from the list is the cost to consumers of too much information during a sale.

33. The Joint Committee should take care to ensure that, going forward, the guidelines are aligned with the Data Protection Regulation (currently being legislated), which could effect how data can be used as part cross selling practices.