



IN BRIEF

CONSUMER PROTECTION ISSUES IN TRAVEL INSURANCE

While travel insurance is mostly a ‘small-ticket’ business, it can be critical for consumers, since the impact of insufficient cover or denied claims – in particular for medical expenses while travelling – can be extensive at the individual level.

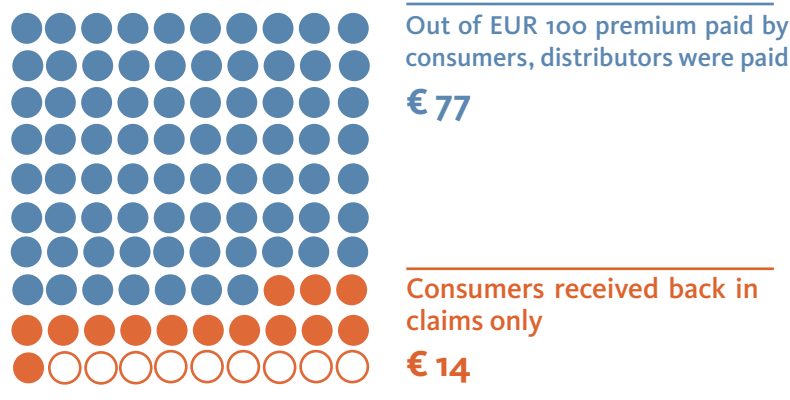
The demand for travel insurance is expected to follow the growth in the tourism industry fuelled by a recovering economy and higher demand from a growing number of wealthier senior citizens and to benefit from greater awareness of this type of product by consumers

Travel insurance has been in the spotlight of supervisors in some European countries given the specific conduct risks it entails.

These relate to conflicts of interest arising from mis-aligned incentives in distribution channels, consumer behaviour issues arising in so-called ‘add-on’ markets, and consequential risks of poor value at the level of the product offer.

Issues around coverage, denied claims, unclear and conflicting terms and conditions have also come to light through in EIOPA’s engagement with stakeholders and input gathered in view of reporting on consumer trends.

Figure 1 – Example of high commissions and low claims ratio



Source: EIOPA Travel Insurance thematic review

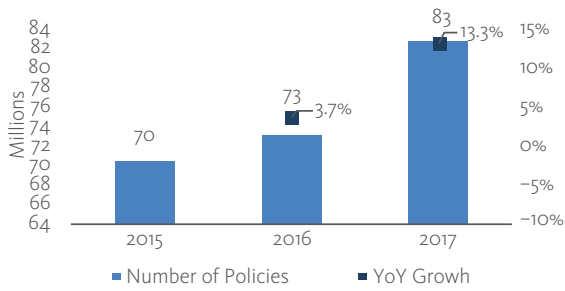
For example in one case (Figure 1), the insurer paid 5.5 times more in commissions to distributors than consumers received back in claims, with commission level of 77% of the premium paid by consumers.

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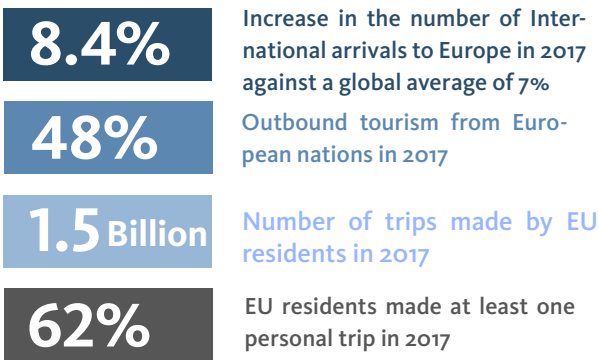
<https://europa.eu/!Bmg8NB>

Figure 2 - Number of new policies



Source: EIOPA Travel Insurance thematic review

ON THE RISE: INTERNATIONAL TOURISM



THEMATIC REVIEW: WHO TOOK PART?

To collect evidence for this thematic review, an industry questionnaire was sent to 201 insurance undertakings operating in 29 European countries.

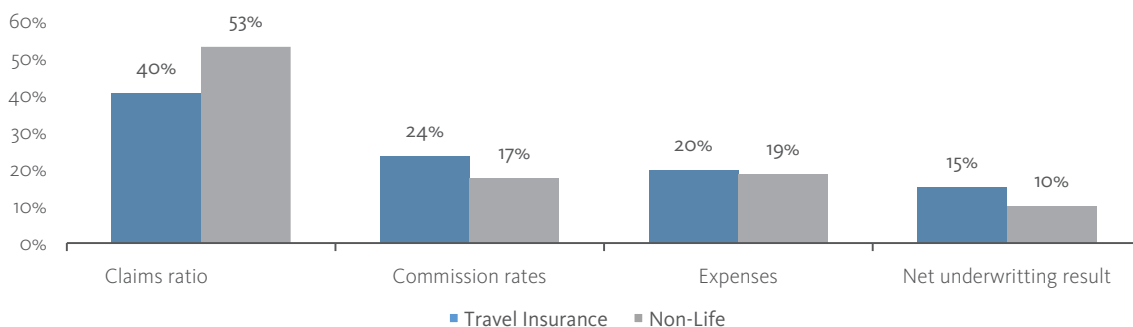
The questionnaire was distributed by national competent authorities to undertakings representing approximately 60% of the total gross written premiums of the travel insurance line of business in the national market.

In addition, EIOPA collected evidence from industry and consumer associations, as well as its Insurance and Reinsurance Stakeholder Group.

KEY FINDINGS

- Systematic failings in the travel insurance market as a whole were not identified, and travel insurance products remain valuable for consumers. However some business models carry heightened conduct risks, including remuneration structures based on very high commissions. This leads to consumer detriment.
- Although the average commissions in travel insurance are around 24% of the gross written premium (GWP), there are insurers that pay extremely high commissions to distributors, in some cases significantly more than 50% of the premium.
- The average claims ratio is 40% of the GWP and there is limited difference regardless of the distribution channel. However, there are very wide variations in these ratios; some insurers have claims ratios below 20% of the GWP. These are a strong indicator of potential low value for consumers.
- New market players are entering the market, typically selling travel insurance products online as an ancillary activity (airline and ferry companies, price comparison websites, aggregators, banks and supermarkets).
- Partnerships with new distributors are often established via international tenders, which in some cases are solely based on commissions to be paid to distributors rather than on the quality of the products or service to be provided.
- Around 70% of insurers exclude pre-existing medical conditions from the coverage of travel insurance products and most insurers do not use pre-contractual medical screening.
- Overlaps in cover are not assessed in the sale process in most cases. The assessment is done at the claim stage in order to identify which policy will cover the incident and the expenses will be split between insurers. This can be anticipated to increase costs for consumers.

Figure 3 - Average financial ratios in travel insurance vs non-life insurance as a whole



Source: EIOPA Travel Insurance thematic review

COMMISSIONS AND CLAIMS

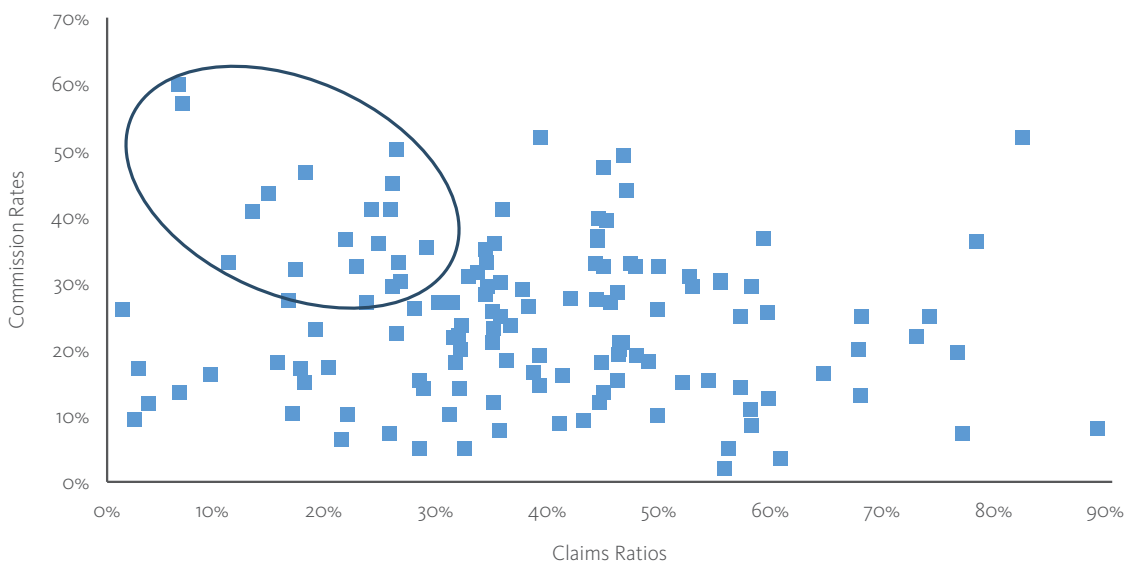
AVERAGE COMMISSIONS AND CLAIMS RATIOS MAY BE MISLEADING AS A PICTURE OF THE WHOLE MARKET

38 insurance undertakings paid commissions above the average of 2.4% of the GWP and have claims ratios below the average of 40% of the GWP. The bubble in Figure 4 shows that 18 insurance undertakings have average commission levels above 30% of the GWP and claims ratios inferior to 30% of the GWP.

MAXIMUM COMMISSION LEVELS AND CLAIMS RATIOS

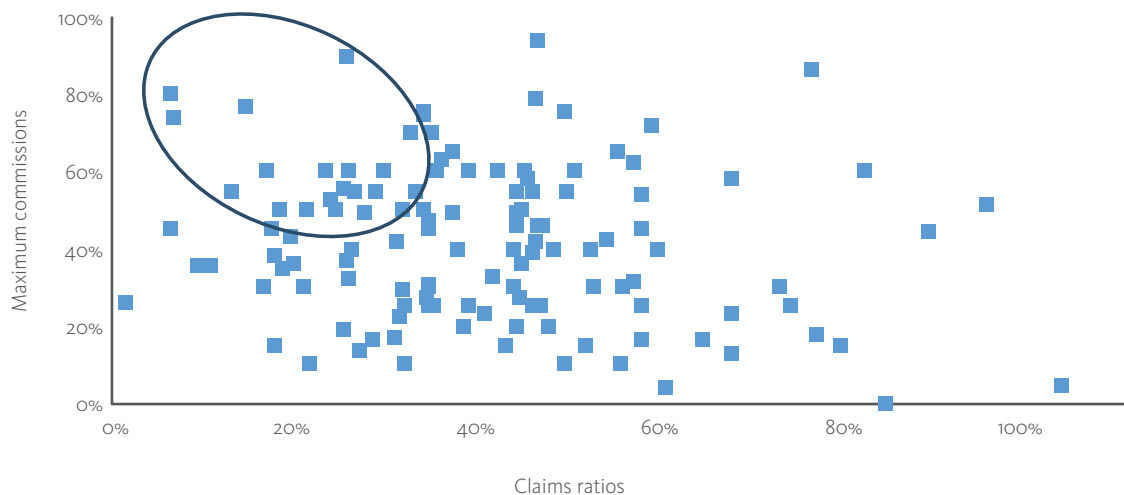
Looking at the maximum commissions paid to distributors together with the claims ratios for each insurance undertaking, the connection between high commissions and low claims ratios is accentuated. Figure 5 shows that 24 insurance undertakings pay commissions above 50% of the GWP and have claims ratios below 35% of the GWP. The number increases if the threshold for the claims ratio is increased to 50% of the GWP.

Figure 4 - Average commissions and claims ratios



Source: EIOPA Travel Insurance thematic review

Figure 5 - Maximum commission levels and claims ratios



Source: EIOPA Travel Insurance thematic review

NEW MARKET PLAYERS AND NEW BUSINESS MODELS

The travel insurance sector is also facing important changes that may bring opportunities whilst also heightening existing problems and bringing new risks. Insurance undertakings have been integrating new technologies into their business models leading to changes across the entire value chain, while new kinds of distributors have entered the market.

NEW MARKET PLAYERS

Companies with large customer bases and direct customer interfaces are entering the market, typically selling travel insurance products online as an ancillary activity (airline and ferry companies, price comparison websites, aggregators, banks and super-markets).

Partnerships with new distributors are established via international tenders, which in some cases are solely based on commissions to be paid to distributors rather than on the quality of the products to be distributed. This can result in very high commission rates reaching in some cases well above 50% of the premium, yet these higher commissions are not correlating with improved services for the customer from the distributor.

PRE-EXISTING MEDICAL CONDITIONS

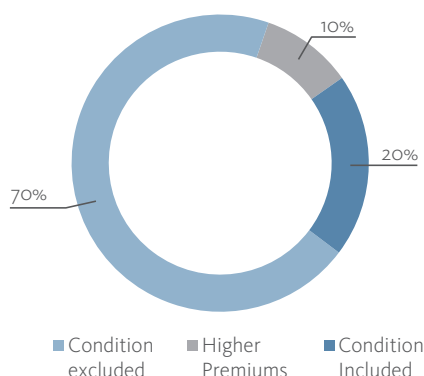
Exclusions have a direct impact on the quality (type and coverage level) and the value of the product. Therefore, for consumers travelling with pre-existing medical conditions, it is very important to be aware of the coverage and the limits of their travel insurance policy.

Around 70% of insurers exclude pre-existing medical conditions from the coverage of travel insurance products and most of them do not use pre-contractual medical screening. Such screening is more common at the claim stage in order to identify if the incident is caused by a pre-existing medical condition, as a basis for dismissing the claim.

If the consumer buys a travel insurance product thinking that it has the right coverage, when a medical incident happens, the insurer undertakes a medical screening in order to see if the incident is caused by a pre-existing medical condition and, this comes as a surprise to the consumer. Because in this situation, the medical costs would not be covered by its policy, therefore, the value for the consumer of the purchased insurance product is very poor.

Insurers should inform customers about the exclusion of the pre-existing medical conditions from the travel insurance policy and ideally, they would advise the consumer on the options available to buy adequate and appropriate travel insurance based on their situation.

Figure 6 - Pre-existing medical exclusions



Source: EIOPA Travel Insurance thematic review

NEXT STEPS

Given these findings, EIOPA is now identifying measures for improving the quality of outcomes for consumers. This includes continued dialogue with the industry and stakeholders on the drivers of change and challenges with getting good outcomes for consumers in markets such as for travel insurance.

In addition, EIOPA has issued a warning to the travel insurance industry on the issues found, and will support this with coordinated supervisory actions working with NCAs across EU.