CREDIT PROTECTION INSURANCE (CPI) SOLD VIA BANKS

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European Insurance and
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EXECUTIVE SUMMARY

The European Insurance and Occupational Pensions Authority (EIOPA) with the support of National Competent Authorities (NCAs) have conducted a thematic review, looking at the functioning of the EU market for credit protection insurance (CPI) products sold via banks[1] (acting as insurance intermediaries) and how well it succeeds in delivering good consumer outcomes. The thematic review focused on identifying potential sources of conduct risk and consumer detriment in order to allow EIOPA and NCAs to take relevant policy and supervisory measures if needed. More generally it sought to assess whether consumers are being treated fairly and being placed at the heart of 'bancassurance' business models[2].

CPI type of products have been in the spotlight of NCAs in some markets for a decade and supervisory actions have been taken in the past and/or national specific national legislations have been adopted (see Annex II and Annex III). While these may have addressed some poor practices, issues still persist although their nature and magnitude varies from one country to another.

It is key to highlight that there is a heterogeneity at the EU level in terms of products, business models and national legal framework. Some of the issues identified by the review may be more relevant for some countries compared to others given these were not universal across the sample of banks and insurers that participated in the review. While there may be no one-size fits all type of measures to address the identified issues, EIOPA and NCAs will work together to ensure convergence in consumer outcomes at the EU level and rely on similar level of efforts in addressing them.

When properly designed and sold to consumers, CPI products are valuable and protect consumers against unfortunate events of life. While acknowledging the various benefits of CPI products, the thematic review unveiled significant risks for consumer detriment arising from poor underwriting and sales practices as well as insufficient management of conflicts of interest arising in the context of bancassurance sales. The key findings of the thematic review are:

1. THERE IS LIMITED CONSUMER CHOICE AND BARRIERS TO SHOPPING AROUND

- Even if consumers are allowed in theory to select another insurance provider (with the regulatory aim of promoting competition and reducing prices) this possibility is constrained due to cross-selling practices, given that 83% of banks in the sample sell

[1] The thematic review covers and makes reference to 'banks' as insurance intermediaries under the Article 2 (1)(2) of the Insurance Distribution Directive Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution

[2] Although there is no official definition of the term "***bancassurance***", a literature review indicates that it is defined as the distribution of insurance products through banks. *Borderie, A. and M. Lafitte. 2004 "The bancassurance: strategies and perspectives in France and Europe"*.

them tied to the 'core' product, meaning that they will not sell the CPI without the credit product.

- In addition, 66% of insurers in the sample underwrite and sell their CPI products as Group Policies where the bank is the policyholder of the policy and it will sell the CPI product only to customers that will buy bank's credit products.

2. THERE IS HIGH PRODUCT DIVERSITY AND PRICE DISPERSION AT THE NATIONAL AND EU LEVEL

- There is a large variety of CPI products at the EU level and at the national level. Given the multiple type of risks covered (life and non-life), CPI policies tend to include a large number of terms and conditions compared to other insurance products. There are also a wide variation in exclusions, product design and potential benefits to be paid depending on the risk covered.
- The situation at the EU level, but also at the national level, looks very diverse when it comes to the price the same consumer would have to pay in each country depending if they buy the CPI product from bank A or B.
- This makes it difficult for consumers to understand and compare the CPI products available on the market and make informed purchasing decisions.

3. THERE ARE ISSUES WITH CANCELLING A CPI PRODUCT AND SWITCHING PROVIDERS

- In some cases consumers may have difficulties with cancelling their CPI product or switching providers as 43% of insurers indicated that before cancelling their CPI policy, consumers have to get agreement from the bank and fulfil certain conditions. In most cases this is because the CPI policy is a group policy and the policyholder is the bank and in most cases the beneficiary. Therefore, the consumer has to inform and request approval from the bank to cancel its policy/affiliation.

4. THERE ARE HIGH RISKS OF CONFLICTS OF INTEREST DUE TO UNUSUAL HIGH PROFITABILITY

- CPI products are a profitable business for both insurers and banks, given the average claims ratio for the three years period 2018-2020 for mortgage CPI has been around 26% of GWP, for consumer credit CPI around 18% of GWP and for credit cards CPI around 8% of GWP. The remaining 74% to 92% of the GWP are used to cover the costs and profits of insurers and banks.
- The conflict of interests due to remuneration arrangements between insurers and banks if not properly mitigated can lead to consumer detriment. Any misalignment between the interests of the banks and insurers on one side and those of consumers on the other side can result into poor underwriting and sales practices.

5. THE STRONG TIES BETWEEN INSURERS AND BANKS CAN REINFORCE THE RISKS OF CONFLICTS OF INTEREST

- 63% of insurers have close ties (part of the same financial group, strategic alliance or Joint-Venture) with their banking partner meaning that there is a substantial interest of the parties to achieve common goals.
- The thematic review unveiled a pattern where, in the case of closer ties between the bank and insurer, the level of commissions paid to banks as well as the profits retained by insurers are higher. In addition, risks of potential cross-subsidizing and reliance on non-interest income stemming from the sale of CPI may persist for some banks in the sample – as some might be offsetting low margins on their credit offerings with profits generated from the sale of CPI.

Given these findings, EIOPA and NCAs will consider a number of measures to improve the quality of outcomes for consumers in this market. EIOPA considers that while the regulatory framework in place is robust in preventing bad practices in the design and distribution CPI products, issues may persist with implementation of the rules by some market participants and enforcement may be required. EIOPA believes that improvements by the sector are necessary to deliver good consumer outcomes in a consistent manner at the national and EU level.

It is important to note that in some markets, NCAs have already carried out supervisory activities and taken relevant measures to prevent consumer detriment and address identified issues. Therefore, in order to have consistent consumer outcomes across the EU, it is key to ensure coordination and exchange of information amongst NCAs on the actions taken at the national level and to monitor the impacts of the selected tools.

Given the heterogeneity in issues identified as well as their presence in different markets, EIOPA will examine available tools to improve consumer outcomes with CPI products, including:

- A dialogue with the industry via a public event organised by EIOPA to discuss findings and expectations from the sector to improve consumer outcomes with CPI products.
- A warning under Article 9(3) of the EIOPA Regulation to insurers and banks (acting as insurance intermediaries) to address concerns relating to conflict of interest emerging from high remuneration levels and sales practices that are detrimental to consumers (tying, pressure-sales, mis-leading information).
- EIOPA will share the findings of the thematic review with the relevant Directorates of the European Commission and highlight potential issues with limited competition in the CPI market, consumer detriment arising from tied sales and issues with Group Policies and relevant implications in light of the IDD review.
- EIOPA will work with NCAs to provide support in identifying cases of outliers in their markets that may carry a heightened risk of consumer detriment (e.g. players making excessive profits above other ones in the national market or charging high commissions).
- EIOPA will engage with EU banking supervisory authorities (EBA and ECB) to exchange on risks management frameworks and mitigation of conflicts of interest arising in the context of bancassurance business models, arising from close ties

between insurers and banks (acting as insurance intermediaries) for the design and distribution of CPI products.

- EIOPA will further assess the need to take additional actions, based on its mandate and legal powers, to improve consumer outcomes in the CPI market and promote coordination and exchange of information on NCAs actions to ensure a common approach and promote supervisory convergence at the EU level.

In addition to the measures taken by EIOPA, when relevant, the NCAs will take relevant actions within their powers in order to address specific issues identified in their market.

1. SCOPE AND APPROACH

SCOPE OF THE THEMATIC REVIEW

PRODUCTS IN SCOPE

The thematic review covers the following three Credit Protection Insurance (CPI) products sold to retail customers:

1. Mortgage protection insurance
2. Consumer credit protection insurance
3. Credit cards protection insurance

The CPI is an insurance contract that covers the debtor from the risk of not being able to repay a credit, be it in the form of a mortgage, consumer credit or credit card. This insurance protects the debtor's ability to continue repaying the debt in the event of death or financial difficulty, caused by events such as accidents, illness or job loss.

DISTRIBUTION CHANNEL

The thematic review covers the bancassurance distribution channel, where banks (acting as insurance intermediaries) distribute the CPI products to retail customers. The thematic review does not cover other types of credit providers that are not banks and does not include insurance undertakings that do not sell their CPI products via banks (i.e. only via other distribution channels).

- The CPIs are more frequently sold ancillary to the main credit product as an "**add-on**" but they can also be sold separately from the main credit product, on a "**standalone**" basis.
- CPI products can be sold both as "**group policies"**, on a collective basis where the bank (distributor) is the policyholder and the customers are affiliated as the insured person, as well as "**individual policies"**, underwritten directly by the customers applying for the loan.
- Some providers offer both, **life and non-life coverage** as part of their CPI product and others may offer life or non-life coverage only.
- CPIs can be designed and sold with a **Single Premium** or a **Regular Premium**. The Single Premium product is designed with a single payment made upfront that covers the entire cost of the insurance policy for the entire policy term. This includes cases where the policyholder/insured person is financing the single premium using credit; the insurer receives upfront the premium from the bank, but the policyholder/insured person pays monthly instalments on a regular basis. The Regular Premium product is designed with regular instalments at particular time intervals, such as monthly or annually.

APPROACH TO THEMATIC REVIEW

The thematic review followed the methodology[3] approved by the EIOPA Board of Supervisors (BoS) for conducting thematic reviews. For the purpose of the thematic review, individual market samples have been selected by the National Competent Authorities (NCAs) in consultation with EIOPA to ensure representativeness of the business at the national level set for a minimum of 75% of gross written premium (GWP) of the total business.

In addition, input has been collected from stakeholders at the Roundtable organized by EIOPA in March 2020 and bilaterally from EIOPA's Insurance and Reinsurance Stakeholder Group (IRSG), Insurance Europe and BEUC (European Consumer Organisation). The independent position of each of the stakeholders is presented in this report in full in Annex I – Stakeholders input.

EVIDENCE GATHERED

Data was collected from the industry via two Industry Questionnaires from both manufacturers (insurance undertakings) and insurance intermediaries (banks). A total of 174 insurers and 145 banks have participated in the thematic review, and data was collected for the period 2018-2020. The Industry Questionnaires have been circulated to the participants in the thematic review in July 2021 and the data collection exercise ran from 1 July 2021 to 15 October 2021.

To test the Industry Questionnaires, EIOPA and NCAs have carried out a Pilot with 6 major insurers and 6 banks from 6 EU Member States (MS) in March/April 2021. Written input on the Questionnaires has been collected from the participants on the data requested and the questions asked.

EIOPA contracted an external party (Prospex) to carry out 10 consumer interviews in 10 EU MS (100 in total) to learn from consumers about their experience with buying a MPI together with a mortgage loan from a bank in their country. The aim of these interviews was to get insights about the consumer behavior and sentiment, but also around sales practices of banks.

[3] Revised Methodology for Thematic Reviews of Market Conduct from 26 September 2017

EIOPA also commissioned Oxera to advise on the approach towards business model analysis (BMA) for the purposes of the thematic review and provide support with applying the BMA in practice.

ISSUES WE LOOKED AT

Based on inputs collected from NCAs as well as from external stakeholders during the roundtable organised by EIOPA in March 2020, a series of consumer protection issues have emerged and were covered by the thematic review to assess whether potential risks for consumer detriment exist and identify the drivers behind.

We have looked at the different bancassurance business models in place for the underwriting and distribution of CPI products and the potential **conflicts of interest** that could lead to consumer detriment. In particular we assessed the existence of conduct risk resulting from the business relationships among the various entities and players in the value-chain that may indicate potential conflicts of interest.

We have looked at whether the **level of remuneration** paid to banks for the distribution of CPI products can act as an incentive and result into mis-aligned interests between the three stakeholders involved (insurers, banks and consumers). High levels of remuneration can represent a strong incentive to increase the sales in order to maximize profits that could lead to the emergence of miss-selling risks and aggressive sales techniques. Such practices conflict with the duty to act in accordance with the best interests of the consumer.

A particular attention was paid to assess whether **consumer choice** is ensured and consumers are free to shop around, compare products and make informed purchasing decisions for the CPI products. Given CPI products are cross-sold with the 'core' credit products, the bundling/tying practices can negatively affect the consumer choice.

We looked at **product manufacturing** and the impact different product features may have on consumer needs and choice, given most CPI products are sold as **Group Policies** that may have an effect on market power, as in certain cases the insurance element becomes a part of the credit contract, leaving consumers with no choice in choosing their insurance policy. There are also issues related to manufacturing that could lead to consumer detriment, stemming from the product approval process, including incorrect identification of the target market as well as weak assessment of consumer's objectives, interests and characteristics.

Consumer understanding and effective decision-making between CPI products may be hindered by the number of product dimensions to consider, such as level of cover, number of exclusions, level of premium, quality of customer support. This makes it more difficult for consumers to compare products and make informed decisions. This applies to all subsequent uses of the word complexity (i.e. refer to number of product dimensions to be compared).

Single Premium CPI products can be detrimental to consumers given they would have to pay the total GWP in a lump sum at the beginning of the contract. Given these products are long term specifically in the case of mortgage and consumer credit CPI products, this can cause further issues with early termination of the underlying credit products, as a refund for the insurance policy may be difficult to obtain. The same would apply in cases where the consumer would like to switch provider or cancel the CPI policy after a certain period of time. In addition, there are no clear advantages of the Single Premium products to consumers compared to the Regular Premium products.

Issues with **poor value for money** have been reported by NCAs as generally the claims ratio for these products are low. Together with a high numbers of denied claims, this could indicate mis-selling cases where consumers are unable to claim. Low claims ratio could also indicate a high number of exclusions and inadequate coverage offered by the insurance product, which relates to manufacturing issues.

A high number of **complaints** regarding unsuccessful claims, may indicate failures with the CPI products, the distribution and sales process or that insufficient information has been provided to consumers regarding the coverage and other product features.

Issues with **termination of the insurance contract or switching providers** given product features (Group Policies, Single Premium products) in the case of early repayment of the loan (i.e. prior to the original maturity date) or remortgaging. Similarly, difficulties may arise in cases where the consumer would like to change the insurance provider, specifically in cases of group policies or where the premium has been paid as a single lump sum.

2. MARKET OVERVIEW AND BUSINESS MODELS

The CPI provides the security to the borrower that, if a sudden negative event happens, the insurance will cover the outstanding loan amount/credit card balance/ overdraft balance or help with a series of regular payment of the monthly loan repayment. The CPI protects the borrower and/or their family against hardship's consequences on their daily life eliminating the need for immediate and difficult changes.

It is noted that there is significant variance in terms of the products provided, the type of benefits included and the sales practices in each jurisdiction. As such, the nature and severity of issues identified in this report varies widely across jurisdictions. Furthermore, 12 NCAs have previously carried out thematic work on CPIs and 14 NCAs have taken action in relation to the sale of CPIs some of which were:

a. meeting with banks

b. carrying out inspections

c. imposing fines

d. requesting to improve selling practices, and

e. other.

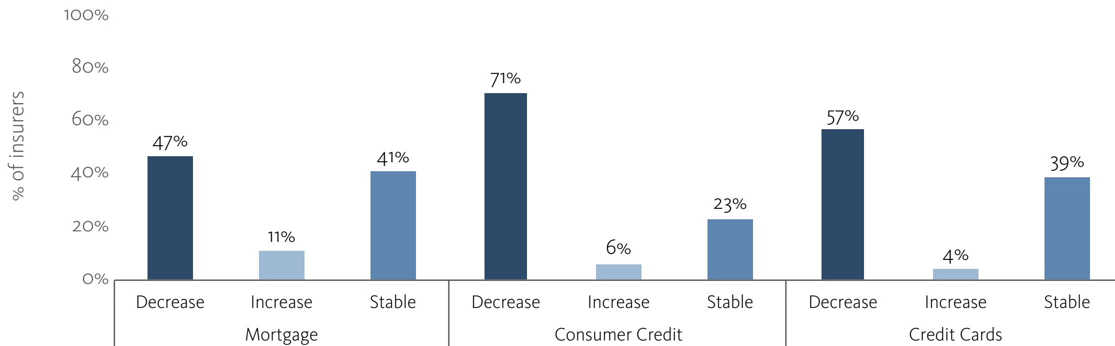
These actions may have addressed some poor consumer practices – however issues still persist, and their nature and scale varies from one jurisdiction to another. An overview of the actions taken by NCAs can be found in Annex II of this Report.

IMPACT OF COVID-19

The COVID-19 crisis has not severely impacted the CPI products during the year of 2020. Based on the replies of insurers and banks that participated in the thematic review the main impact was observed on the sales volume of CPI products that decreased in 2020 comparing to 2019 and 2018. This is directly linked to the fact that fewer loans were granted during the year of 2020 given lockdowns and business interruption issues, however both banks and insurers expect the situation to be recovering in the upcoming years to pre-pandemic levels.

According to the insurers in the sample, COVID-19 had a negative impact on the sales volume for all three type of CPI products. The Consumer Credit CPI has been impacted in particular, as 71% of insurers indicated a decrease in sales volume, compared to 47% for Mortgage CPI and 57% for Credit Cards CPI.

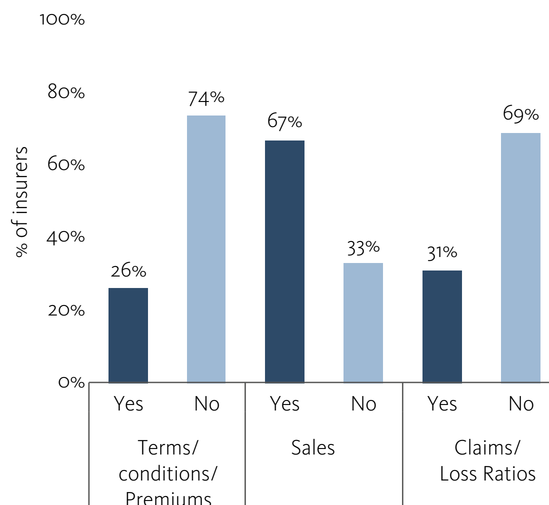
Figure 1 - Impact of COVID-19 on the sales volume of CPI products in 2020



Overall insurers indicated no major impact on claims ratio/loss ratio due to COVID-19 and no impact on the mortality rate was observed. This can be mainly explained by the fact that the insured persons that purchased a CPI policy are not in the riskier age category. Insurers however indicated that given the impact of COVID-19 crisis on household finances, consumers' engagement with their CPI policy is expected to increase and a general demand for CPI products is expected to grow in the coming years, with consumers seeking to buy more protection for various events of life.

Most insurers (74%) also indicated no major impact of COVID-19 on the terms and conditions of CPI policies nor on the premium levels. The other 26% of insurers indicated some changes in existing coverage of CPI products, some insurers have extended the coverage to include risks related to the pandemic and others have made relevant changes to temporarily postpone the payment of the insurance premium for the CPI policy as a result of moratorium for instalments of the loans.

Figure 2 - Impact of COVID-19 on the CPI products, % of all insurers in the sample

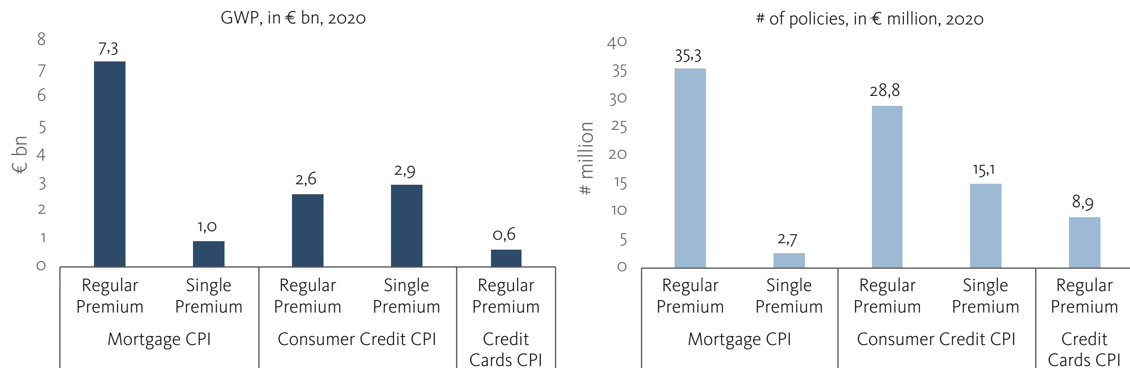


CPI MARKET OVERVIEW

The data analysis covered 174 insurance undertakings and 145 banks. In 2020 the participating insurance undertakings collected a total amount of € 8.3 billion in GWP for the sale of 38 million mortgage CPI policies, € 5.5 billion in GWP for the sale of 44 million consumer credit CPI policies and € 615 million in GWP for the sale of 8.9 million credit cards CPI policies.

The breakdown between Regular Premium products and Single Premium products by type of CPI product is presented in Figure 3 below.

Figure 3 - Overview of the CPI business by type of product: GWP (left) and number of policies (right)



Out of 174 insurers that participated in the thematic review, there are insurers that underwrite both life and non-life risks and insurers that underwrite only life or non-life risks. In addition, some insurers sell a combination of CPI products while others only 1 type of CPI:

- 151 (87%) sell mortgage CPI: 39 insurers underwrite both life and non-life risks, 80 underwrite only life risks and 32 underwrite only non-life risks.
- 146 (83%) sell consumer credit CPI, 48 insurers underwrite both life and non-life risks, 65 underwrite only life risks and 33 underwrite only non-life risks
- 70 (40%) sell credit card CPI, 33 underwrite both life and non-life risks, 20 underwrite only life risks and 17 underwrite only non-life risks.
- 58 insurers sell all 3 types of CPI products, 67 insurers sell both mortgage CPI and consumer credit CPI, 10 insurers sell both consumer credit CPI and credit card CPI, 26 insurers sell only mortgage CPI and 11 insurers sell only consumer credit CPI and 2 sell only credit cards CPI.

COVERAGE OF CPI PRODUCTS

The CPI can provide protection against a combination of risks in one insurance policy instead of multiple policies for each type of risk. The coverage provided can vary from one insurer to another, some covering only life or non-life risks, and others covering a combination of the two.

Most insurers (75%) cover death/mortality risk as a part of the standard coverage for all 3 types of CPI products. Around 30% of insurers include in their standard coverage additional risks such as accident, sickness, loss of autonomy and disability.

Unemployment coverage is provided as part of the standard coverage by 20% of insurers for mortgage CPI, 30% of insurers for consumer credit CPI and 45% of insurers for credit cards CPI. Only 3% of insurers also offer coverage for fire.

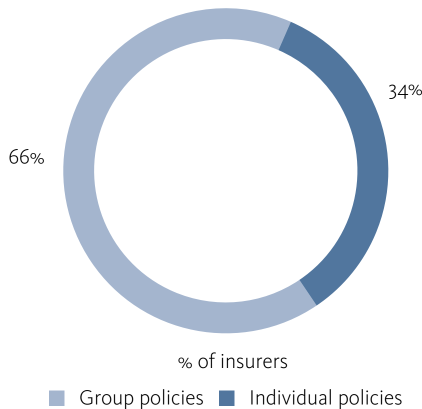
CPI PRODUCT DESIGN

Type of policies

66% of insurers (115 out of 174) underwrite their CPI products as **Group Policies** where the policyholder is the bank and the consumers are affiliated to the policy as the insured person.

The overview by type of CPI products that are underwritten and sold as Group Policies shows that:

- Out of 151 insurers that underwrite and sell mortgage CPI, 82 insurers underwrite them as Group Policies.
- Out of 146 insurers that underwrite and sell consumer credit CPI, 100 underwrite them as Group Policies, and
- Out of 70 insurers that underwrite and sell credit cards CPI, 56 underwrite them as Group Policies.



This shows that a vast majority of CPI products on the market are sold as Group Policies. 90% of insurers (104 out of 115) that sell their CPIs as Group Policies indicated that the bank is the policyholder and a few insurers indicated that the policyholder could be an association or the insured person itself.

75% of insurers (86) also indicated that the **ultimate beneficiary of the Group Policies is the bank**[4] however, 67% of insurers (77) indicated that the insured person is also the beneficiary depending on the type of CPI product and the amount of the claim. In cases where the value of the claim exceeds the amount of the outstanding loan/credit to be covered, the difference is paid to the insured person. In addition, depending on the incident (e.g. disability), the beneficiary can be the insured person.

According to a majority of insurers there are no major advantages for the consumer that Group Policies offer compared to individual policies. However, some insurers indicated that Group Policies may present some advantages:

- No medical screening and a high level of automatization;
- Limited administration and other internal costs;
- High mutualisation of the risks involves reduced pricing spreads and ensures maximum insurability, therefore the Group Policy can be more inclusive from a consumer point of view.

Some of the disadvantages of the Group Policies indicated by some insurers are:

- Adverse selection – given Group Policies allow for riskier type of consumers to be insured at a lower price there might be a risk that mostly riskier type of consumers will buy the CPI (e.g. older consumers or with health issues);
- The limited coverage and maximal insured sum;
- Higher prices for younger and healthier consumers as there is no individual pricing resulting into more expensive prices for some categories of consumers;
- No tailoring of the product according to the specific situation of each insured person;
- No possibility for transfer to another institution in case of remortgaging;
- Due to the sales process, the consumer/insured person may not be aware of purchasing the insurance policy resulting in low claims ratio;
- The insured person/consumer cannot change or adapt the coverage during the contract duration.

24 insurers indicated having switched from underwriting Group Policies to individual policies in the past 5 years for the following reasons:

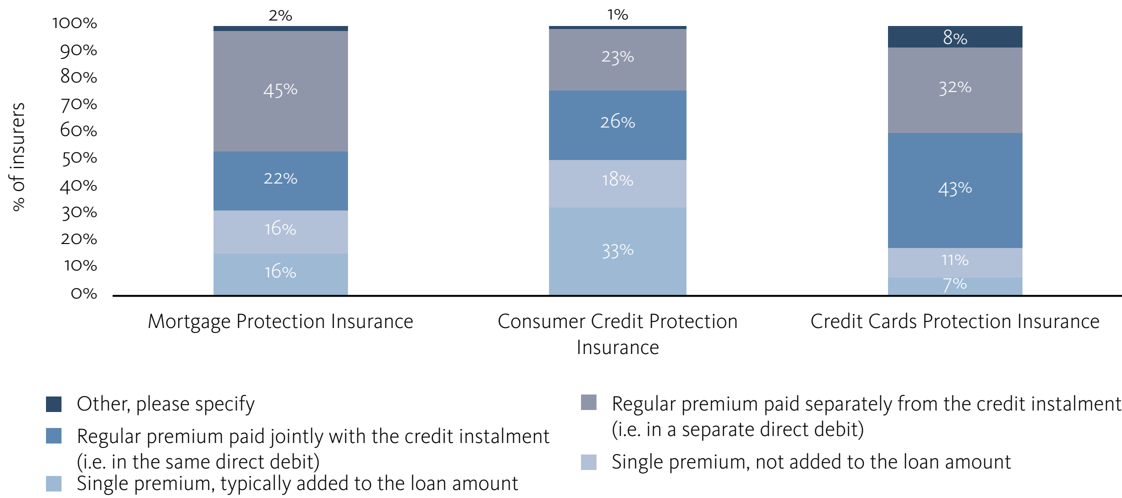
- Following the implementation of the Insurance Distribution Directive (IDD) and Product Oversight and Governance (POG) rules;
- For the purpose of strengthening the rights of consumers in relation to all parties involved in the contract (bank and insurer);
- Early granting of equal rights and obligations to the insured person as in the case of the policyholder (bank);
- Following country-specific regulatory changes that required to switch from Group Policies to individual policies.

[4] In some jurisdictions, specific national legislation prohibits such practices for example in Italy the regulation states the prohibition for distributors to directly or indirectly (even through group relations, own business relations or relations of the companies of the group) become at the same time beneficiary or lien-holder of insurance benefits and distributor of the relevant individual or group contract.

Premium payment

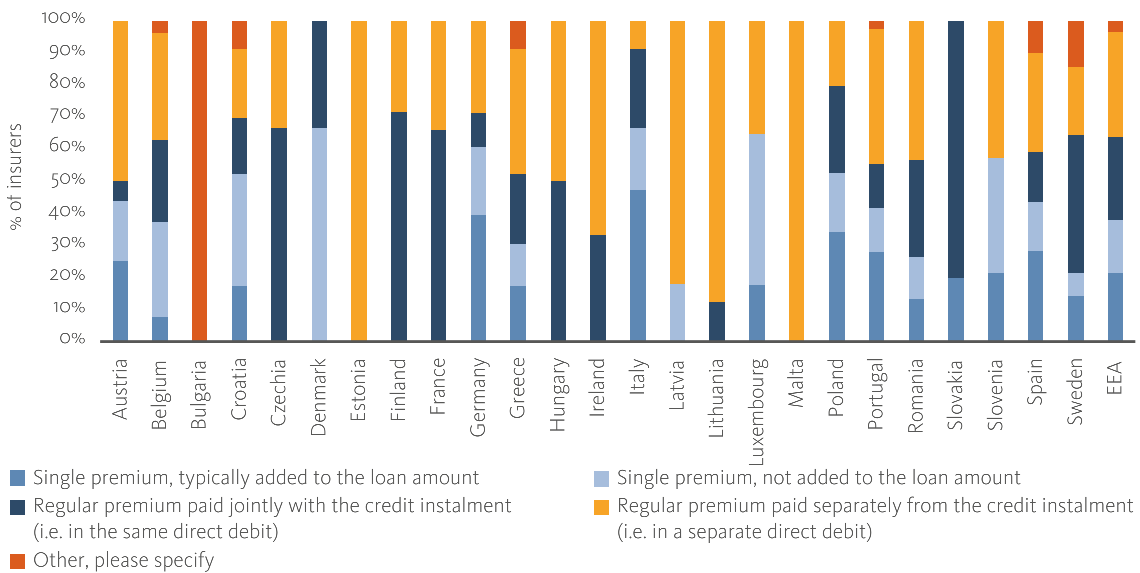
The most frequent type of premium payment for CPI products is the **regular premium** paid either separately or together with the credit instalment. The **single premium** products account for around 32% of mortgage CPI, 51% of consumer credit CPI and 18% of credit cards CPI. The single premium is to be paid upfront in one lump sum and in some cases the single premium is added to the loan amount and additional interest costs are paid by the consumer to finance the insurance premium.

Figure 4 - Overview of Premium type by CPI product



It is noticeable that the type of CPI products vary from one country to another. For example we can observe that in DE, ES, HR, IT, LU, PL, PT and SI the **single premium** products are preponderant. Whereas in countries like BE, CZ, EL, HU, LV, PT, RO, SE and SK the **regular premium** products are preponderant and in EE, FI, FR, IE, LT and MT there are only **regular premium** type of CPI products.

Figure 5 - Overview of Premium type by country



In the case of the **regular premium** CPI products, 50% of insurers allow consumers to choose the frequency of the premium payment between monthly, quarterly or annual.

In the case of **single premium** CPI products, 50% of insurers selling mortgage CPI and 38% of insurers selling consumer credit CPI allow consumers to choose the frequency of the premium payment. However half of those insurers indicated that additional fees and other costs will be incurred by the consumer in case if the premium payment is monthly, which increases the final amount of the GWP.

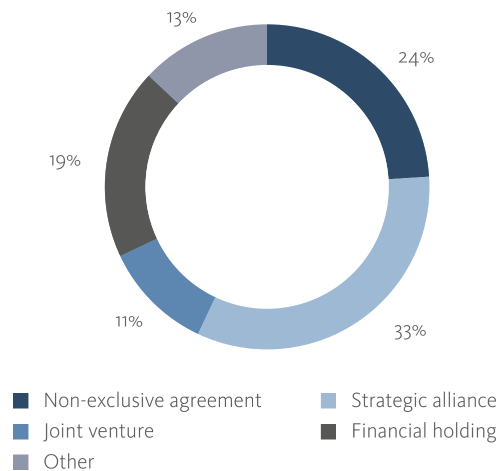
BANCASSURANCE BUSINESS MODELS

There are several bancassurance business models, which are based on the level of consolidation of the relationship between the insurer and the bank. Four main types of business models have been identified:

- **Distribution agreement (non-exclusive)** – based on a non-exclusive agreement between the insurer and the bank, when the latter distributes the insurer's insurance products along with insurance products from other insurers. Similarly, it applies to cases where the insurer distributes its CPI products via several banks.
- **Strategic alliance (exclusive agreement)** – based on an exclusive agreement between the insurer and the bank, when the latter distributes only the insurer's insurance products.
- **Joint venture** – based on a business entity created by the insurer and the bank for underwriting and/or distribution of insurance products.
- **Financial holding company** - A holding company that can engage in banking and non-banking financial services (such as insurance underwriting), and owns both banks and insurance undertakings.

Based on the evidence collected, the most frequent type of business model used for the sale of CPI products is the strategic alliance, where 33% of insurers and banks that participated in the study have exclusive distribution agreements in place.

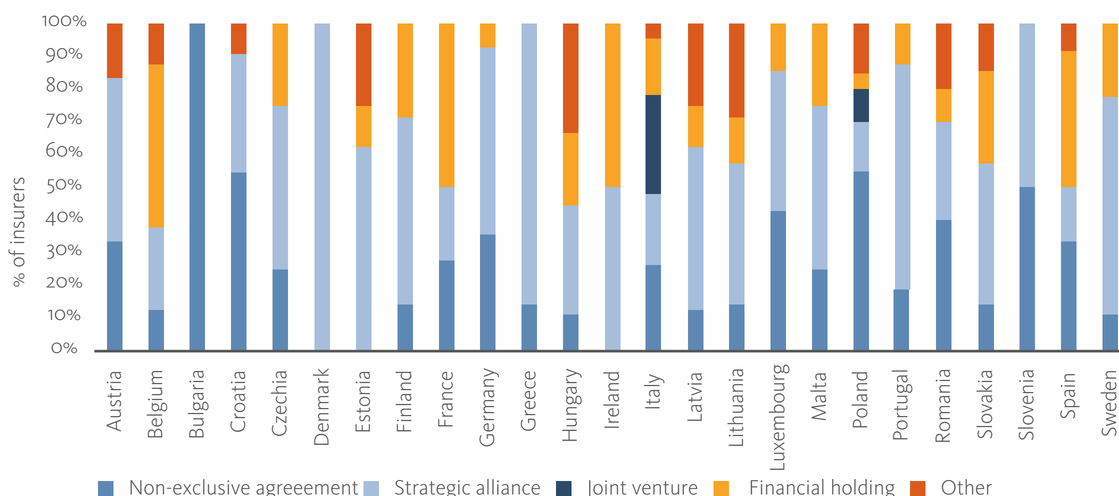
Figure 6 - Overview of main types of bancassurance business models and their preponderance



63% of insurers that sell their CPI products via the bancassurance distribution channel **have close ties with their banking partner**, meaning that there is a substantial interest of the parties to achieve common goals but this might also lead to emergence of potential conflicts of interests, which if not properly mitigated can result into poor conduct and risks of consumer detriment.

Financial holdings are most encountered in BE, ES, FR, IE and IT, markets where the interconnectedness between the banking sector and insurance sector is higher.

Figure 7 - Overview of bancassurance business models by country



Benefits of bancassurance business models

Bancassurance business models can have a number of benefits for banks, insurers and consumers. Some of the benefits are:

- Economies of scope (i.e. cost efficiencies generated by offering multiple similar products), by providing a wider range of products to supplement income from the core credit products.
- Distribution costs may be reduced, as the bank leverages existing customer relationships (rather than the insurer investing in generating new customer relationships, through marketing, etc.).
- Information and transaction costs are reduced, improving consumer welfare.
- Consumers are able to benefit from financial and insurance products being offered by the same set of providers, with a reduction in search costs and an increase in convenience. Reduced costs for consumers could also address under-provision (i.e. more consumers choose to purchase the credit protection insurance products).
- In turn, due to greater access to the data of potential customers of their banking partners, insurance undertakings may provide credit protection products to the consumers who need them most.

Risks of bancassurance business models

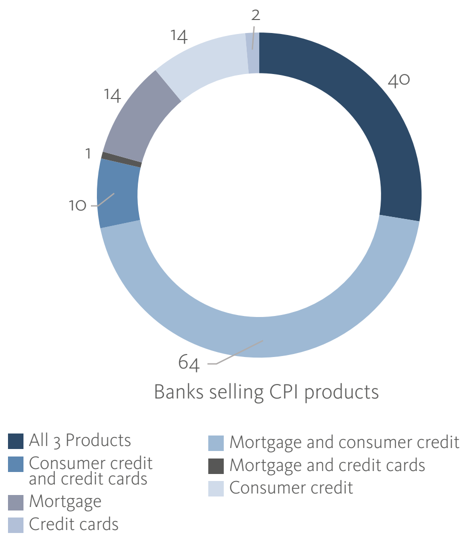
Bancassurance business models can also present a number of risks to consumers and market functioning, the extent of which varies by business model. These risks include:

- Poor consumer outcomes due to behavioural biases. Products and sales processes may harness consumer biases—e.g. encouraging choice of add-ons through the use of default options at point of sale of the primary product.
- Pressure-selling of add-ons - the risk of consumers being put under pressure to buy poor-value add-ons. For example, a bank could imply that the add-on is required in order to access the core product, or even offer a lower price for the core product if the customer purchases the add-on.
- Limited choice of products – given most banks work with 1 insurer (except non-exclusive distribution agreements).
- The division of responsibilities may not be clear between the distributor and manufacturer, which could lead to insufficient product oversight and governance controls.
- Given that banks have a large client database and a position of market power in the distribution of the credit protection insurance products, banks may negotiate higher rates of commission.
- Conflicts of interest – especially in case of group policies where the bank is the policyholder (and often beneficiary) and perceives remuneration for distribution.

SALE OF CPI PRODUCTS

Out of 145 banks that participated in the thematic review, 117 banks sell mortgage CPI, 127 banks sell consumer credit CPI and 53 banks sell credit cards CPI:

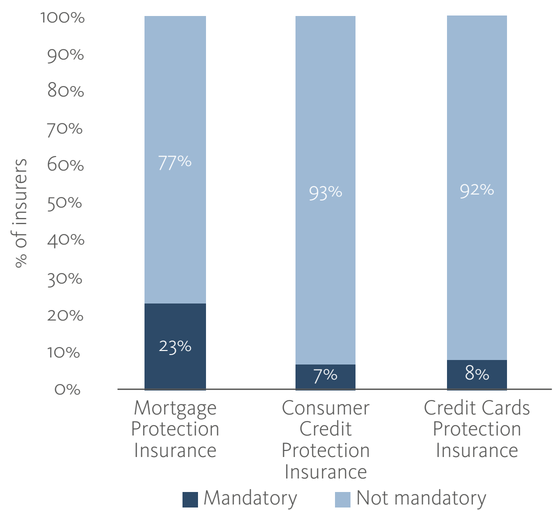
- 40 banks sell all 3 types of CPIs
- 64 sell both mortgage CPI and consumer credit CPI
- 10 sell both consumer credit CPI and credit cards CPI
- 1 sells both mortgage CPI and credit cards CPI
- 14 sell only mortgage CPI
- 14 sell only consumer credit CPI
- 2 sell only credit cards CPI



55 banks have indicated launching new CPI products in the past 3 years. The new products have the following characteristics compared to older products sold by the banks:

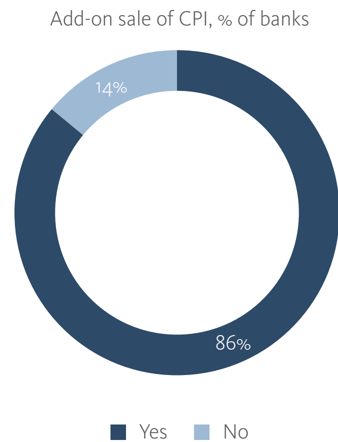
- Change from group policies to individual policies and introduction of medical surveys that allowed for reduction in commission for distribution and decrease in the total GWP;
- Extension of coverage to include disability and other health conditions;
- Introduction of unemployment coverage;
- Increase of the age limit for coverage to be provided;
- Inclusion of risks related to COVID-19.

A vast majority of banks indicated that it is not mandatory[5] for borrowers to purchase a CPI product in order to get a credit product from the bank.



Only 23% of banks indicated that in order to get a mortgage loan from their bank, the borrower is obliged to purchase a CPI product, and only 8% for credit cards and 7% for consumer credit.

Add-on sale of CPI, % of banks

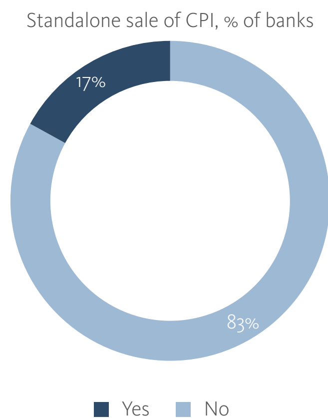


[5] Mandatory is referred to as a contractual requirement for obtaining a credit from the bank and not "mandatory by law"

The difference in percentage from one product to another could be explained by the fact that the EU regulatory framework in place on mortgage loans allows "for creditors to be able to require the consumer to have a relevant insurance policy in order to guarantee repayment of the credit or insure the value of the security".[6] Therefore, some of the banks have implemented policies that require consumers to purchase a CPI type of product for mortgage loans.

Although not mandatory in most cases, **86% of banks sell their CPI products together** with the main credit product on an add-on basis (together with mortgage, consumer credit and credit cards).

And most of the banks (83%) sell the CPI products tied to the 'core' product meaning that they would not sell their CPI products without the credit product, for example in cases where the consumers would like to get the mortgage from another bank.



In practice this means that the consumer choice to select a different provider for the CPI product, other than the bank offering the mortgage would be limited, given that most of the banks only sell their CPI products to customers that take a credit product from their bank.

Only 3% of those banks that sell their CPI product on an add-on basis with their main credit products, accept to sell the CPI to consumers that may be taking a credit product from another bank.

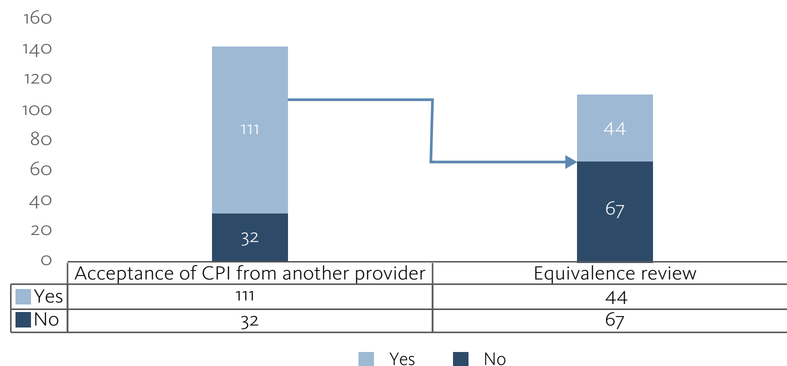
Out of 143 banks that provided a reply, 111 banks (78%) accept a CPI product from another provider and 32 banks do not.

Out of 111 banks that accept a CPI product only 44 banks perform an equivalence review of the CPI proposed by the consumer from another provider.

The 67 banks indicating not performing an equivalence assessment reported that this is because the CPI is not mandatory for the consumer to purchase, therefore the bank does not assess the insurance product from another provider.

45% of the banks indicated informing consumers that they can buy the CPI product from another provider than the bank, while 55% of the banks do not.

Figure 8 - Acceptance of CPI from another provider and equivalence review



	Acceptance of CPI from another provider	Equivalence review
Yes	111	44
No	32	67

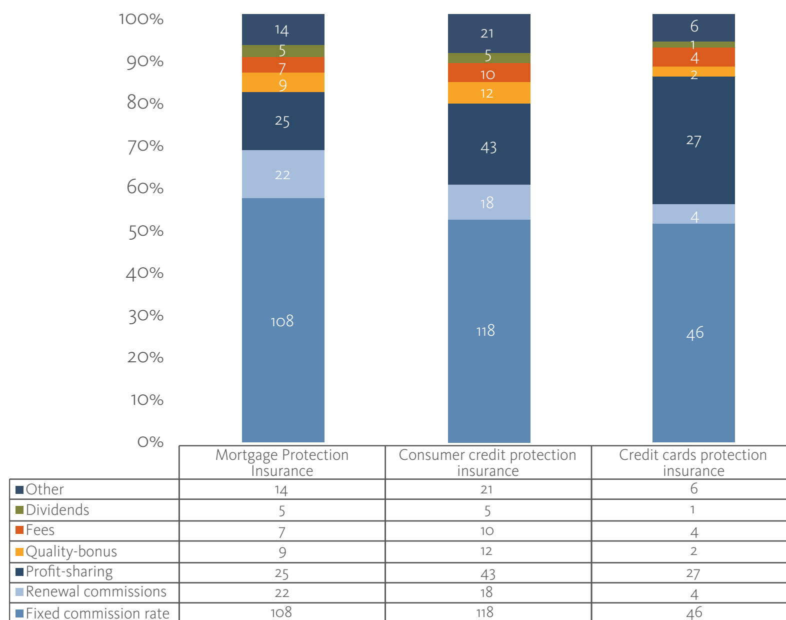
[6] DIRECTIVE 2014/17/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 4 February 2014 Article 12(4)

REMUNERATION ARRANGEMENTS

Depending on the type of business model, there are several types of remuneration arrangements in place between the insurer and the bank for the distribution of CPI products. The most frequent type of remuneration arrangement is the fixed commission rate as a percentage of the GWP. However it is noticeable that some banks receive other type of remuneration such profit-sharing where based on several indications (claims ratio etc.) the bank receives an additional remuneration on top of the fixed commissions from the insurer.

Under the "other" type of remuneration some banks indicated receiving bonuses depending on the sales volume, additional commissions for meeting the target volume sales established with the insurer and variable commissions.

Figure 9 - Overview of type of remuneration paid to banks by type of CPI product



	Mortgage Protection Insurance	Consumer credit protection insurance	Credit cards protection insurance
Other	14	21	6
Dividends	5	5	1
Fees	7	10	4
Quality-bonus	9	12	2
Profit-sharing	25	43	27
Renewal commissions	22	18	4
Fixed commission rate	108	118	46

A detailed overview on the level of remuneration paid by insurers for distribution of CPI products by banks, including a benchmarking with other distribution channels and other lines of business is presented in the section on high profitability for insurers and banks (p.45) and the section on benchmarking (p.53).

3. HOW CONSUMERS BUY CPI

CROSS-SELLING: CONSUMER BEHAVIOUR AND BIASES

CONSUMER BIASES WHEN BUYING CPI PRODUCTS TOGETHER WITH THE CREDIT PRODUCTS

Generally, the CPI products are cross-sold with the 'core' or 'primary' product (mortgage, consumer credit, credit card) and are considered as 'secondary' or 'add-on' to the main product.

Based on the information provided by the participants in the thematic review it appears that the CPI products are cross-sold as:

- **A bundled offering**, where each of the products (credit and CPI) offered is available separately and where the client retains the choice to purchase each component of the package separately; or
- **A tied or conditional offering**, where at least one of the products offered in the package (usually the CPI) is not available separately to the customer from the bank.

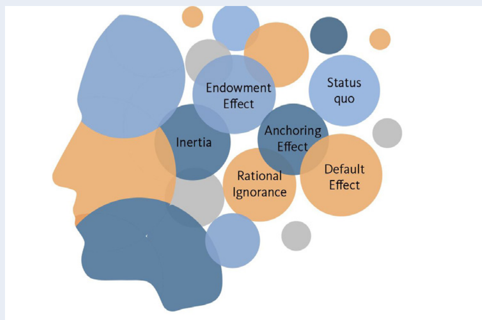
Generally, when buying the CPI policy with the core credit product at point-of-sale, consumers are often not able to make the best decisions due to the following factors:

- their main focus is on the credit product and they may not be paying adequate attention to the characteristics and the impact of the additional product (CPI);

- they are unable to effectively process the information on the CPI given by banks together with the already complex information on the core product. In addition, without proper explanations, consumers might find it difficult to understand the features and cover provided by the CPI product at the point-of-sale;
- the information provided by the bank advisers does not always support consumers, sometimes even mislead them, in differentiating or determining whether the purchase of the CPI together with the core product is an 'optional' or 'compulsory' purchase; or
- once at the point of sale, they consider any additional time costs required to shop-around for alternative or better suited CPI product or tied/bundled packages (core product with CPI) as cumulatively too high and thus they are reluctant to invest extra time.

The above mentioned behaviours could be explained by various cognitive biases[7] or limitations that affect consumers' decisions and that are, sometimes, exploited by providers.

Consumer biases



Behavioural biases can influence the type of information consumers pay attention to and they can cause consumers to neglect important information necessary for taking decisions that benefit their personal situation.

CPI products are complex and consumers with insufficient knowledge about insurance products and the calculation of the respective premium cannot adequately assess the value of the product. Comparing a CPI product proposed by the bank at the point-of-sale with alternative products requires time to determine and search for a similar/equivalent cover offered by another product. In the case of CPI products, these relevant parameters include the risks covered (life/non-life) and the respective exclusions that apply for each risk, the premium, the benefits, the no-claim periods etc. The additional time investment that is required in this case can thus give rise to *inertia*, where consumers stick with the default offer received from the bank. This tendency is understandable taking into account that most of the respondents declared they were actively searching for the best interest rate for their mortgage in the first place – as the primary product - by using comparison websites, advice from consumer organizations, loan consultants, brokers etc. As they already invested time and efforts in the process, taking the insurance from the bank will mean a shorter period and more convenience. This tendency to choose the default is driven by the *status quo* bias, which leads individuals to prefer choices that allow them to avoid change and/or cognitive efforts (Samuelson & Zeckhauser, 1988).

By providing a 'default option' and requiring additional effort to overcome this standard most people will simply go along with the default. Furthermore, bundling/tying policies may activate both the *Default Effect,* namely the tendency of consumers to choose whatever is the 'standard option', and the *Endowment Effect*, respectively to value the add-on more highly as it is already owned. When insurance is sold as an add-on, the additional search costs that would enable the same consumers to make informed purchasing decisions could be perceived as cumulatively too high.

In addition, the price/value of the core credit product can create an *Anchoring Effect* for the CPI products, and act as a reference point influencing subsequent judgment about value, meaning that a consumer with limited information will allocate less importance to the insurance premium, because in comparison with the total amount of the credit product, the insurance price seems very small.

[7] Cognitive bias manifests when individuals diverge from rational choice and are influenced by non-economic factors, such as emotion or rely on shortcuts to make decisions.

At the same time this effect can be combined with *Rational Ignorance* (Downs, 1957), which occurs when information is long or presented in a cumbersome fashion leading consumers to consider the time costs of reading it greater than the benefits of being better informed. The plethora of contractual documentation leads consumers to drift into rational ignorance. Behavioural scholars have amply documented that contractual documentation such as **'notice and consent'** is a fiction since individuals face insuperable challenges to truly make informed choices (Acquisti et al., 2015).

Therefore cross-selling practices may result in potential consumer detriment, for example in situations where:

- The CPI product purchased is unsuitable and does not meet the needs of the consumer;
- There is decreased access to a whole range of CPI products and providers on the market. The choice is (unduly) limited to CPI products provided by the bank only, thus consumers forgo the opportunity to buy more suitable products elsewhere;
- In some cases, the consumer pays more for the package from a specific bank than he/she would have paid if he/she purchased the CPI product separately or as a bundle from another bank, resulting in financial detriment;
- A negative effect on consumer willingness and confidence to shop around and make informed purchasing decisions;
- The consumer enters into a contractual agreement for a longer time-horizon than needed for his/her personal needs and encounters difficulties cancelling the CPI product before the repayment of the credit amount.

CONSUMER INTERVIEWS

EIOPA has commissioned an external contractor (PROSPEX) to conduct interviews with consumers that purchased a mortgage CPI together with their mortgage from a bank in 2019 in view of getting a better understanding of consumer experience and challenges. In addition, the interviews allowed for obtaining more information on the sale process and on the CPI product provided by the bank officers.

These structured interviews, while conducted on a relatively small sample of customers, are useful for getting insights on the decision-making process of consumers. While we do not rely on the sample to provide statistically significant results, the results are informative and are not used to form strong conclusions.

Methodology

The contractor conducted 100 in-depth individual interviews (10 consumers per country) in 10 EU Members States (Belgium, Bulgaria, Czech Republic, Estonia, France, Germany, Italy, Portugal, Sweden and the Netherlands). For every country, a list of banks has been identified to ensure diversity and representativeness of the market.

The sampling of consumers included demographic criteria such as age, gender, relationship status and number of dependent children. In addition, the sampling criteria contained also product related criteria, for example the condition that the insurance product was bought between January 2018 and January 2020 in order to understand whether banks (acting as insurance intermediaries) comply with the IDD[8].

The questionnaire covered information on: consumer awareness, motivations, decision making process and selling practices.

Selection of the bank

The first important step in getting a mortgage is choosing the bank, and consumers were asked about their motivation and criteria used in their decision-making. In addition to a low interest rate that was the most important aspect unanimously expressed, the following criteria emerged:

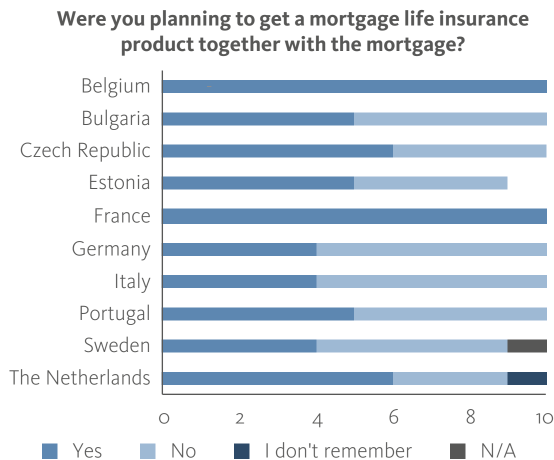
- Customer loyalty and previous experience: some respondents were already clients of the bank from which they took the mortgage (they got preferential

8 Directive (EU) 2016/97 on insurance distribution EUR-Lex - 32016L0097 - EN - EUR-Lex (europa.eu)

conditions, bonuses). Changing the bank would have made the whole process more difficult.

- The bank that had their main bank account, as there is an obligation in order to obtain the mortgage to have the salary at the same bank.
- Have everything 'under the same roof' and the fact that the bank already had all consumer data "so I just stuck to them".
- Bank proximity and relationship of trust with the bank (guarantee for consumer protection, good customer service).
- Well established and well known banks that offers a solid guarantee (trust that will not go bankrupt).

In DE, IT and SE consumers who were not planning to get a mortgage CPI together with their mortgage from the bank and they ended up buying one, outnumbered those who had this intention from the start.

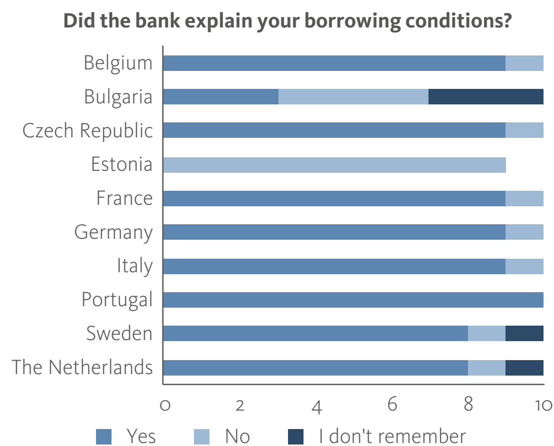


In BG and PT, half of the respondents were planning to get the mortgage CPI together with the mortgage while the other half did not. One consumer was reluctant to buy the insurance due to his lack of trust in the provider "they always find a reason not to pay the promised amount".

BE and FR stand out as all the respondents were planning to buy the mortgage CPI insurance from the beginning.

- Consumers who were not planning to buy an insurance from the beginning either did not consider it necessary, had budgetary constraints, or perceived an overlap of coverage with the life insurance already owned. The survey also revealed a lack of awareness on the product as such.
- There are also consumers who are risk adverse and would consider taking insurance as default safeguard for unforeseen risks.

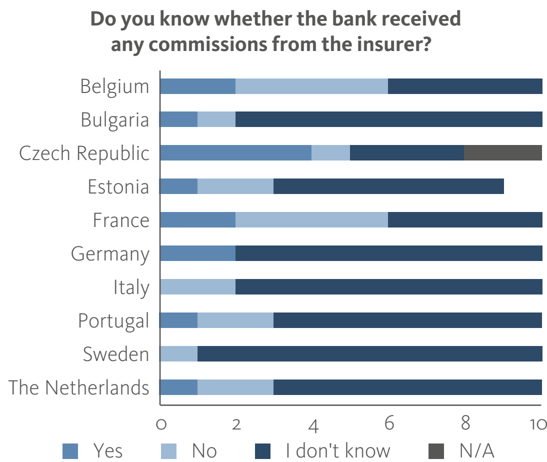
Information disclosure



As regards receiving detailed information on the borrowing conditions, all the respondents from EE replied that they have not received such explanations. Also issues linked to disclosure of information seem to be more prominent in BG, as one third of BG respondents could not remember receiving this information, while another third were certain they have not received it.

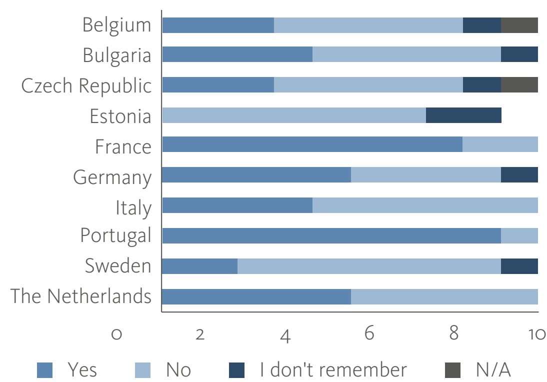
- Based on consumer replies, it seems that existing rules for disclosures to be clear and salient were not met in the above-mentioned cases, and consumers were not supported to make informed decisions.

The majority of respondents from almost all the countries included in the survey replied that they do not know whether the bank received any commission from the insurer.



In SE, a majority of respondents replied that they understood that the mortgage CPI is mandatory.

In the NL many respondents thought it was mandatory, or heavily influencing their interest rates ("in the Netherlands, there is something called 'the national mortgage warrant', it was mandatory until 2018 but we were still recommended to do that").

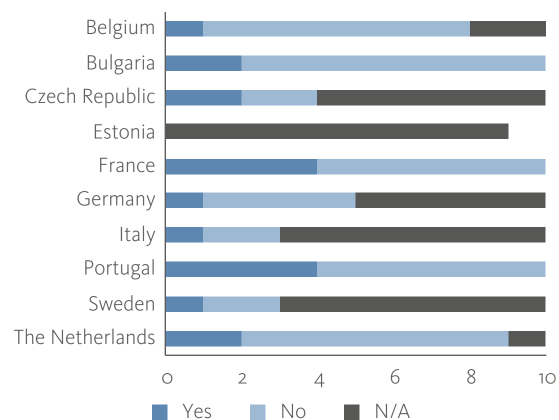


In BG almost half of the respondents understood that buying the insurance together with the mortgage was mandatory ("It was obligatory. At least they told us"; "Generally, it was one of the obligatory conditions for taking a loan"). In EE and CZ, a majority of respondents had the same feeling and in DE and BE, more than half of respondents shared the same impression. BE respondents seemed somewhat aware of the fact that they could take their insurance with another provider, however in some cases this would have an adverse effect on the rate they would get on their loan.

The percentage of those who received just one offer for a specific type of insurance and did not have any other options was higher "the quote already included the policy, they gave me no chance" "it was already included in the quote" (Italy), "the mortgage CPI came in a bundle and we didn't have any choice." (Portugal), "the bank made one standardized offer for the mortgage CPI" "the bank made an offer for only one specific mortgage CPI" "there were no other options – take it or leave it principle" (Estonia).

Most participants received just one offer for a specific type of insurance and were not offered other options.

Some good examples emerged from the survey when the buyer was presented with several insurance policies: "they have shown us all types of insurance "(Italy,) "I chose one that was average in terms of price and things included in it", "first, the insurance clerk asked me about the criteria, then she presented me with the first proposal, which I rejected, so she prepared the second one."

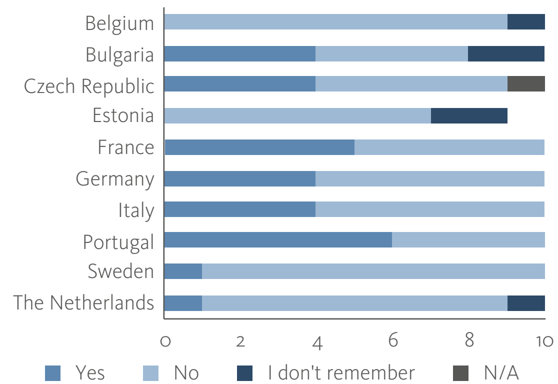


For BE, BG and NL participants to the survey, negotiating or looking around for other offers did not seem to be a priority as the product was seen as a small expense compared to the loan. Due also to the fact that it was more seen as part of the package rather than an individual product on which a negotiation could be possible.

In PT, more than half of the respondents understood from the bank representative that it would be easier to obtain the mortgage if they also buy the insurance product from the bank, otherwise their interest rate would significantly increase. Respondents had the impression they have no option, "we must get life insurance when you get a house mortgage. What we started to realize is that it is not mandatory to do it through the bank. However, we understood that if we didn't do it with the bank, the value of the monthly premium would be different" (Portugal).

In FR and BG, the percentage was equally distributed between those who understood that it would be easier and those who did not have this understanding. For French respondents it seems that in half of the cases the advisors they interacted with implied it is mandatory.

Did the bank tell you that it would be easier for you to get the loan if you would also buy the insurance from the bank?



Overall, the percentage of those who understood they are free to choose the insurance product elsewhere is smaller than of those who had the impression that it is in their interest to buy it from the bank, either as a mandatory requirement or to get a better deal.

- These practices of giving the false impression that taking out the insurance product will increase the chance of obtaining the loan or implying that buying insurance is compulsory by law qualifies under the existing laws as *misleading information*[9]. Providing misleading information can be very detrimental to consumers. Such information may distort consumer choice and could result in consumers purchasing the insurance products that fail to provide the cover they need or even that are not necessary (overlap of coverage with their life insurance).
- The above findings highlight the fact that consumers might feel *under pressure* to buy mortgage insurance product from the same provider, the bank in this case, in order to get the loan and this practice gives the bank a major advantage, *increasing the information asymmetry.* Furthermore, this marketing practice does not enable consumers to compare products and make informed decisions.
- This status quo may also raise *competition issues,* as the bank has a position of market power in the distribution of the credit protection insurance products (and thus may negotiate high rates of commission). These findings point to the fact that the aspect of conveying accurate information is highly dependent on the bank adviser, and his/her selling skills, who has the power to influence the borrower decision.

[9] Article 6, 1 (e) of the Directive 2005/29/EC concerning unfair commercial practices that qualifies commercial actions as misleading if the information provided is false and causes or is likely to cause the consumer to take a transactional decisions that he would not have taken otherwise if this transactional decision is based on different elements suach as *"the need for a service, part, replacement or repair"*

Terms and conditions

When asked what information the bank gave them about the mortgage CPI product, many consumers replied that they have received general terms and conditions or other various explanatory materials such as brochures, either on paper or digitally. However, when asked in how much detail did they read the contractual documentation regarding the mortgage CPI insurance product the majority of respondents answered they went quickly through the main points or read it diagonally. In particular, they read the main lines, most important parts (focus on costs, duration, interests, coverage, exclusions, contacts, etc.). Some of them went through the highlighted part of the text or they did not go more in details as they completely trusted their financial advisor.

Respondents from BE and CZ seemed to have limited understanding of the terms and conditions of their insurance, and the majority are not much aware of their coverage. FR respondents had difficulty in answering clearly the questions about their precise coverage, while in some cases, respondents gave very detailed yet unclear or very light answers. A large part of DE respondents did not know the name of the insurance provider or were not able to give information on the terms and conditions.

About half of the PT respondents were not sure about the terms and conditions of the mortgage CPI policy and coverage. Some even said that the terminology used in the policy was not clear and that they were not sure that they would be covered in case of a disability that would keep them from working.

Apart from a few exceptions, the SE respondents seemed to know very little about the specific details of their mortgage CPI. In general, very few consumers even knew the name or the exact coverage of their insurance. In general, the NL respondents were not aware of the exact details of their mortgage CPI.

Roughly 25% percentage of respondents read the documentation quite in detail and invested time (30 min)

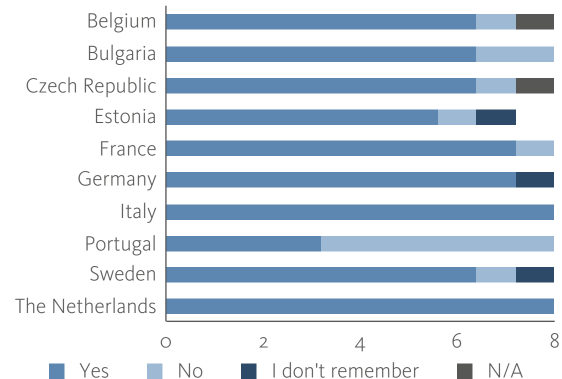
At the bottom end were those consumers who did not read it at all or very little, due to lack of time or because anyhow "those are the standard documents and there is not much you can do about it".

Some respondents had the opportunity to receive relevant info directly from the bank officer (BE). One respondent was happy with the assistance received, as the bank advisor clearly explained everything in well-structured manner and in understandable language.

- Most of the respondents were aware that they bought a mortgage CPI product together with their mortgage, with one exception in CZ, EE and NL.
- Consumers who do not read more in details terms and conditions, declared that they are deter by too many pages, long general terms, or too technical and legalistic terms.
- Even though most of the respondents replied that they understand well or pretty well, what a CPI is and how it works, a majority had little understanding or knowledge on the coverage of the CPI.

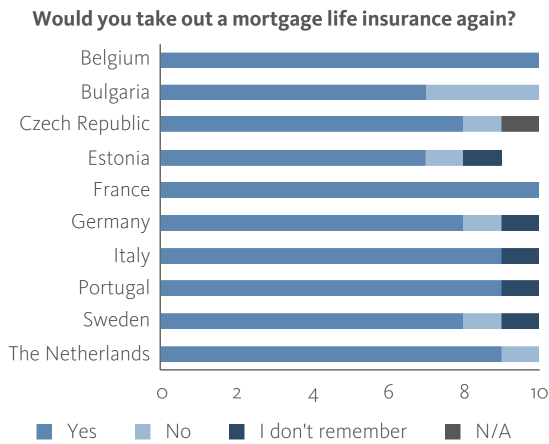
Consumers' take away from their experience with the bank

A large majority of consumers indicated that if they had to take out a mortgage loan again they would follow the same approach.



However, in PT, more than half of the respondents replied that if they will go again through the whole process of taking mortgage they would not do it in the same way. Due to their gained experience they might do things differently, as they realised that the offers were not all linear and prefer to have alternatives as regards coverage.

Would you take out a mortgage life insurance again?



A large majority of consumers also indicated that they would buy again a mortgage CPI product, which shows the value consumers find in these products. However, one third of BG respondents replied that they would not take mortgage CPI again. It turned out that the BG respondents who most trusted the bank and its employees were generally the ones who were misinformed.

Consumers realize only later on, in the post-purchase stage, that they should have paid much more attention to CPI product. Navigating through the whole process, seems easier for the most experienced consumers.

4. FINDINGS – KEY ISSUES

CONSUMER OUTCOMES

In this section of the report we outline the main findings from the data analysis carried out for the purposes of the thematic review using the data collected from insurers and banks via the Industry Questionnaires.

Expectations

Given CPI products play an important role in offering consumers peace of mind to them and their families, aiming to ensure that their financial or personal situation will not be severely impacted by hazardous events of life, it is crucial that the sector puts consumer interests at the heart of the design and distribution of these products.

Consumers are generally in a less advantageous position when buying CPI products given their primary focus on the main credit product as well as their biases and behavior. Therefore, it is assumed that not all consumers will behave rationally, shop around and compare products in order to get the most suitable CPI policy available on the market. Considering these factors, it is important to ensure that the CPI products are designed and sold in a consumer centric way and that they meet consumer needs and expectations during the whole product lifecycle.

Consumer outcomes should be consistently good at the national and EU level for each manufacturer and distributor. Each provider should facilitate informed purchase decisions and good understanding by its customers, and then ensure that all customers enjoy good outcomes from the products and pricing.

Findings

The evidence collected from both insurers and banks brought into spotlight the following poor consumer outcomes:

- Consumers might have a poor understanding of the cover of the CPI products, due to their complexity and diversity, making it very difficult for them to compare and make informed decisions.
- Prices for CPI products are diverse and tend to be high and this may be driven by high remuneration levels of banks and high Net Underwriting Result (NUR) of insurers.
- There are high risks of conflicts of interest due to unusual high profitability, given high commissions paid to banks for the distribution of CPI products.
- CPI products might raise questions with regards to bringing little value for consumers. The quality of CPI products might be inadequate and not meet consumer needs given most CPI products are sold as Group Policies where the cover provided is standardised and determined by the bank (the policyholder). In most cases there is little to no tailoring possible to the needs of the consumer (issues with under-provision or over-provision).
- Shopping around is extremely limited due to product design features (Group Policies), and sales practices (tying) given most banks will not sell the CPI policy without the credit product which could lead to increased prices for consumers.
- Potential mis-selling cases given, in most cases, holding a CPI product is not mandatory and not all consumers might want, need one or be eligible for cover. However, the high penetration rates indicate that a high percentage of consumers that want to get a credit product, leave the bank with a CPI policy generally provided by the Bank itself.

PRODUCT MANUFACTURING

Overall, it seems that the product manufacturing mainly lies with the insurer, as only 18 banks out of 145 indicated having a co-manufacturing role for the CPI products. However, it is unclear whether these banks are manufacturers as per Article 2 of the Delegated Regulation (EU) 2017/2358 (on POG) and have a written agreement with the insurer that specifies their collaboration to comply with the requirements for manufacturers referred to in Article 25(1) of Directive (EU) 2016/97, the procedures through which they shall agree on the identification of the target market and their respective roles in the product approval process.

Target market and product testing

53% of insurers indicated that the responsibility for defining the target market of their CPI products lies with the insurance undertaking only. However 42% of insurers indicated that the target market is defined by both the bank and the insurance undertakings. It is however unclear, whether the involvement of the bank in the definition of the target market for the CPI products is within the meaning of the Article 5 of the Delegated Regulation on (EU) 2017/2358, or if the banks share information with the insurer on potential customers to be sold the CPI product, given the bank's position as distributor of the CPI products and the manufacturer of the credit products that are to be insured by the CPI.

Based on the information shared by the insurance undertakings, the banks in their role of policyholders of the Group Policies are in a position to specify the characteristics and the needs of the target market. This is because as manufacturers of the main credit product, the banks have relevant experience and information on the specific risks to be insured. Based on a defined request emerging from the bank the insurance undertaking would develop the

CPI products to accommodate the specified conditions to the extent possible. Given in most cases the CPI products are tied with the main credit product, there is a strong connection between the two, therefore both the insurer and the bank exchange and cooperate on the definition of the target market.

29% of insurers also indicated that have not identified the negative target market[10] for their CPI products. The negative target market means specific groups of customers for which the insurance product is generally not suitable/appropriate and by identifying the negative target market it allows for a clear picture on the group of customers whose needs, characteristics and objectives are not compatible with the product. In addition, 14% of insurers indicated allowing for their CPI products to be sold outside of the target market. No conclusion can be drawn on compliance with the POG rules as it's unclear whether these products have been manufactured before the entry into force of the POG requirements or after.

75% of insurers indicated having tested their CPI products before bringing them on the market and 64% of insurers reported having tested them in accordance with the Article 6 of the Commission Delegated Regulation (EU) 2017/2358 with regard to product oversight and governance (POG) requirements. The other 36% of insurers indicated that their CPI products have been manufactured before the entry into force of the POG requirements.

The main type of product testing used by insurers is qualitative and quantitative product testing without any behavioral research (60% of insurers). Some insurers use a combination of qualitative or quantitative product testing with behavioral research (28%). Few insurers indicated using only qualitative (3%) or quantitative (5%) type of testing. 4% of insurers indicated using more innovative product testing in addition to the standard ones such as focus groups, in-depth interviews and reports on the sales process.

Some of the qualitative and quantitative methods used by insurers for product testing are based on reviewing the:

- Policy wording and risk exposure of the target market
- Claims handling process
- Complaints data and customer satisfaction surveys
- Net promoter score (NPS)[11]
- Claims ratio, loss ratio, expense ratio, cancellation rates
- Distribution costs and other financial indicators

The interval for regular product review by insurers varies between 6 months and 3 years, with the most frequent answer being the annual product review. Insurers monitor a number of indicator that could potentially trigger a product review such as: lapse ratios, changes in the target market, number of complaints, claims and loss ratio, sales volume and penetration ratio, number of rejected claims etc.

Premium setting

The premium setting is done by the insurance undertakings taking into account several factors such as underwriting costs, cost of distribution, competitive landscape, product quality, penetration rates and other elements. Most insurers set the premium amount during the product design and product testing phase, taking into consideration the characteristics of the target market.

Only 34% of insurers indicated offering discounts to consumers for subscription of a CPI product and these discounts would depend on type of customer segments defined by the bank as well as on the amount of the sum insured. Some insurers would offer discounts to bank employees or in case the usury rate is exceeded. In addition a discount would be given to some customers as a commercial gesture in cases where they can prove that they could get a better price from other insurance providers.

21% of insurers use data from their banking partner for price optimization when setting the premium for their CPI products.

10 In Italy the national legislation implementing IDD, states the duty for manufacturers to identify also the negative target market within the product approval process.

11 Net promoter score (NPS) - Is a widely used market research metric that typically takes the form of a single survey question asking respondents to rate the likelihood that they would recommend a company, product, or a service to a friend or colleague.

Value for money

Only 55% of insurers indicated assessing the value for money of their CPI products and most of them do it as part of the POG process however there are few insurers that assess it on an ongoing basis (yearly).

Some of the methods used by insurers to assess the value for money to consumers of their CPI products are by analyzing the claims ratio and lapse ratio, complaints data and number of denied claims, claims vs complaints ratio (complaints received/total claims received).

However some insurers indicated in addition to a quantitative assessment they also assess the customer experience, clarity of information delivered to consumers, carrying out customer surveys to measure overall satisfaction.

Medical screening and pre-existing medical conditions

Most insurers (62%) do not take into account medical conditions in the process of definition of the target market. 19% of insurers take into account medical conditions when defining the target market of their CPI products, 9% take them into account also in the product testing phase and 9% of insurers consider medical conditions only when defining the negative target market of their CPI products.

55% of insurers carry out some form of medical screening for underwriting purposes where customers are required to fill in a short medical questionnaire on their health situation. Additional medical examinations may be carried out depending on the health situation of the customer, their age or the loan amount to be insured. 19% of insurers carry out a medical screening only for customers with pre-existing medical conditions and 26% of insurers do not carry out any kind of medical screening.

The medical screening is mainly done by the insurer, however there are few cases in which the banks are responsible for it (20 banks out of 145).

A large majority of insurers (74%) indicated excluding pre-existing medical conditions from their CPI products. All insurers indicated that for each type of coverage offered by their CPI products, exclusions are clearly stated.

PRODUCT COMPLEXITY AND DIVERSITY

CPI products tend to be complex and very diverse making it very difficult for consumers to compare products and shop around. There is a large variety of CPI products at the EU level and at the national level. Given the multiple risks covered in nature, CPI policies tend to include a large number of terms and conditions compared with other insurance products. There are also a wide variation in exclusions, product design and potential ways for the claims to be paid depending on the risk covered.

CPI policies provide cover for a set of risks that may vary from one bank to another with some policies providing cover for only one type of risks or multiple ones:

- Death/mortality
- Accident and sickness
- Total and irreversible loss of autonomy
- Total or partial temporary disability
- Permanent partial disability
- Unemployment
- Fire
- Other.

Different CPI policies have different age limits (between 59 and 99 years old) and different no-claims or waiting period (between 0 days and up to 1 year) for each risks covered before claims can be submitted by the consumers.

In addition there is no common term for the CPI products and in different markets they have different names from one bank to another. For example in the countries where EIOPA carried out consumer interviews (see the section on Consumer interviews) focused on mortgage CPI there are different product names used by different banks:

- In Belgium these are called "assurance solde d'emprunt" or "assurance solde restant dû"
- In Bulgaria "Защита на кредитополучателите" or "Защита на плащанията"
- In Estonia „aenukaitse kindlustus", "laenukaitse kindlustuse" or "elukindlustuskaitse"
- In Germany "Restschuldversicherung" or "Risikolebensversicherung"
- In Italy "assicurazione sul mutuo" or "assicurazione vita sul mutuo"
- In the Netherlands „Overlijdensrisicoverzekering hypotheek" or "Levensverzekering hypotheek"
- In Portugal "Seguros de Vida Proteção ao Crédito Habitação", "Seguro de Proteção de Pagamentos" or "Plano Proteção Pagamentos" (Seguro Proteção Vida)
- In Sweden "Bolåneskydd" or „livförsäkring lån".

In addition many banks and insurers use commercial brands for the CPI products such as Life+ or Serenity, Family protection etc.

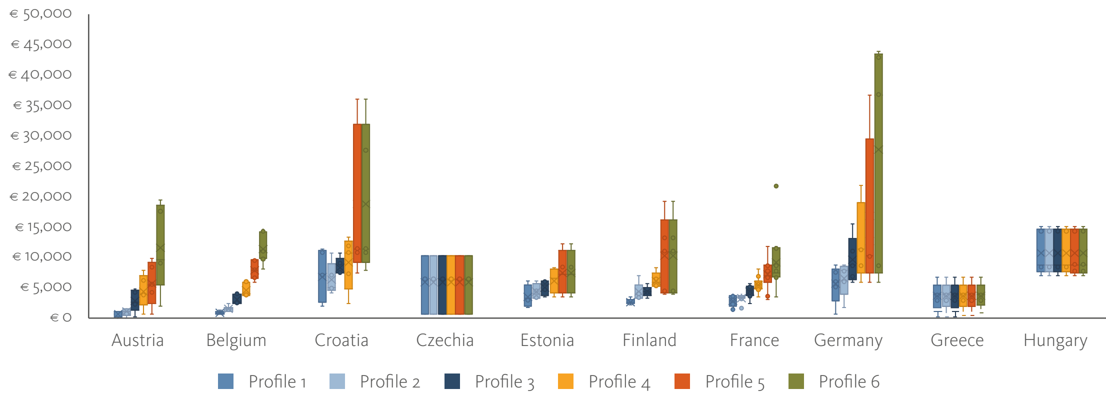
Both insurers and banks participating in the thematic review have been asked to provide a quote for a mortgage CPI product for six different consumer profiles for the same mortgage loan conditions. The six different consumers profiles identified were to take a mortgage loan from the banks for a total amount of €100,000 for a total duration of 15 years. The participants were asked to indicate the amount of the GWP for the mortgage CPI, the type of policy (group or individual), the cover provided (type of risks covered), type of premium (Single or Regular), the frequency of premium payment and the amount of discount to the GWP, if any.

The situation at the national level, but also at the EU level, looks very diverse when it comes to the price the same consumer would have to pay for a mortgage CPI product. Moreover, there is a high variation in some countries where the same consumer would have to pay a significant difference in price if selecting one bank over another.

1	2	3
25 years old Female Full-time Employee Non-smoker	**35 years old Male Construction worker Non-smoker**	**40 years old Female Teacher Smoker**
4	**5**	**6**
45 years old Male Full-time Employee Smoker	**55 years old Female Executive assistant Non-smoker**	**55 years old Male Construction worker Smoker**

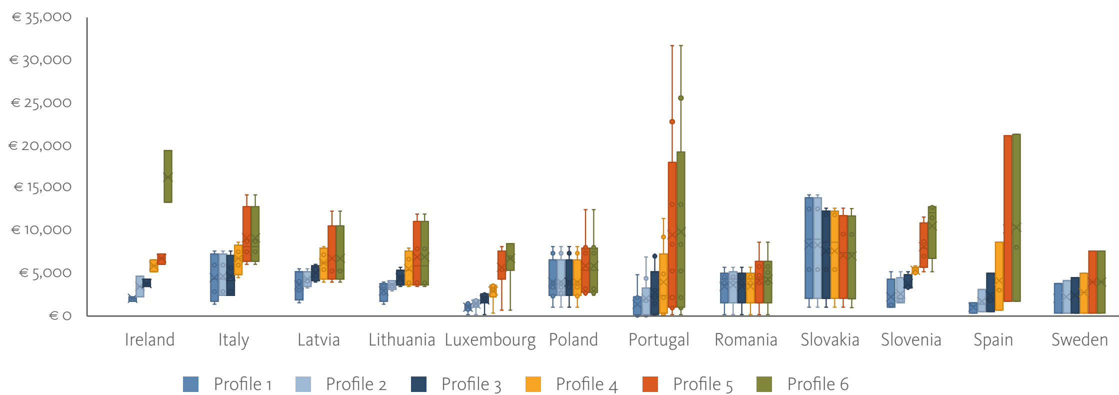
A first observation is that in some markets, the price for a mortgage CPI offered by different banks is flat for all consumer profiles. This is the case for those banks selling Group Policies where the GWP doesn't vary by customer age, health conditions or employment situation, meaning that the same price will be paid by a younger customer who is in a good health condition as an elder person that may be closer to the retiring age and have some health problems.

Figure 10 - Price variation for a Regular Premium Mortgage CPI by type of consumer profile (I)



This situation is encountered in CZ, EL and HU. However, it is also noticeable that in other markets where Group Policies are sold, the pricing of the mortgage CPI policies varies depending on the risk category of the customer – which is not in line with traditional Group Policies underwriting methods. This means that the price paid by a consumer will be adjusted depending on its age, health condition and employment status. This can be observed in ES, HR, FR, IT, LT and SK.

Figure 11 - Price variation for a Regular Premium Mortgage CPI by type of consumer profile (II)



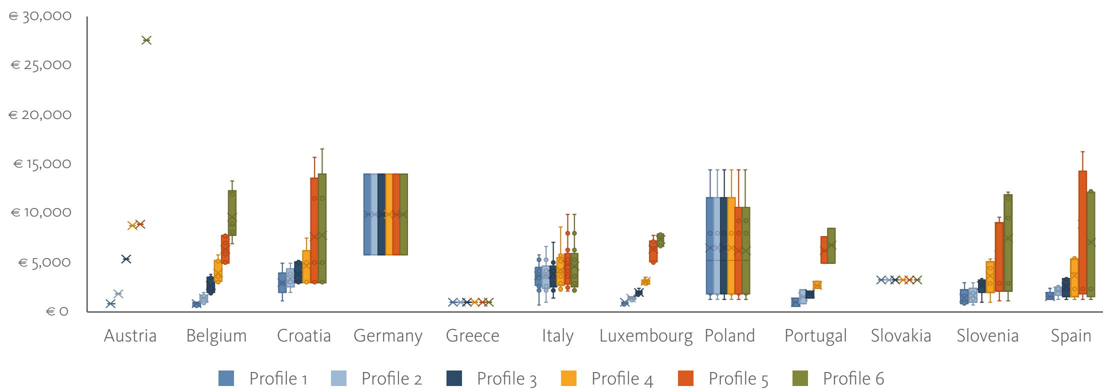
As expected the price variation by consumer profiles is most observed in the markets where Individual Policies are predominant. In these markets the price setting of the premium is done individually for each type of risk profile of the consumer and we can observe that riskier consumers will pay more for their mortgage CPI product.

The price variation at the national level is lower in some markets for several possible reasons that are not to be considered as exhaustive, for example due to higher competition in the market or due to regulatory/supervisory measures that have been implemented. These markets are BE, EE, FR, EL, IE and LU. It seems that in these markets the offer for mortgage CPI products is more standardised in terms of cover provided and price, which might make it easier for consumers to compare products.

In the case of Single Premium mortgage CPI products, these are sold only in some markets and tend to be more predominant compared to the Regular Premium Products.

For example in IT, around 80% of insurers sell the mortgage CPI products with a Single Premium and only 20% of insurers sell them with a Regular Premium. A similar situation can be observed in BE, ES, LU and SI, where more than 50% of participants sell Single Premium mortgage CPI products.

Figure 12 - Price variation for a Single Premium Mortgage CPI by type of consumer profile



Customer data reported by the banks

Banks have been asked to provide data for a random customer sample of 1,000 observations on consumers that purchased a Mortgage CPI product together with a mortgage loan in 2019. Banks were required to provide data on:

- Date of purchase
- Age and existence of pre-existing medical conditions of the insured person/policyholder
- Type of Mortgage CPI policy (Group/Individual) and type of risk covered (life/non-life)
- Loan amount and loan duration, Premium type and Premium payment duration
- GWP and commission rate as a % of GWP perceived by the bank for each policy sold

The key risk factors relevant for the premium setting are the age and the pre-existing medical conditions (when covered) of the insured person, the type of policy (Group/Individual), type of risks covered, loan amount and loan duration, premium type and premium payment duration.

Taking into account the specificities of each market and wide variety in terms of cover provided and type of products included in the customer sample, a country by country analysis was performed, identifying similar consumer profiles and type of coverage provided.

Given heterogeneity across countries, conclusions at EEA level are not drawn based on the submitted country samples. Instead, a look-through approach is envisaged to better understand dynamics at country level and get an enhanced picture on the national landscape.

Therefore, taking also into account the huge variation in terms of observations reported and looking to the distributions for each parameter, the sample was further streamlined to the most common coverage based on the distribution for each feature. Hence, for each country and EEA level, for consumers without pre-medical conditions, the three following scenarios were established:

- Credit amount between € 40,000 and € 50,000 with a 20y duration
- Credit amount between € 80,000 and € 90,000 with a 20y duration
- Credit amount between € 110,000 and € 120,000 with a 20y duration

In a second assessment, some of the cohorts needed to be adjusted to better reflect country specificities and better capture the nature of each market. Nevertheless,

underlying assumptions and profiles are kept such that the effects can still be measured.

Subsequently, the impact of the consumer age is estimated by plotting the expected GWP for such standardised insurance coverage against the observed age. It is then possible to understand how the two variables are correlated and how the age can affect the premium charged, ceteris paribus. The table below provides the correlation between the expected GWP and the explanatory variables (i.e. age and credit coverage), for three defined ranges and fixed parameters (i.e. same status regarding the health condition).

Figure 13 - Correlation Matrix, between explanatory variables and the expected GWP, for a standardized coverage and key features

Country	Credit coverage [40 000, 50 000]		Credit coverage [80 000, 90 000]		Credit coverage [110 000, 120 000]	
	ρ (age, expected GWP)	ρ (credit coverage, expected GWP)	ρ (age, expected GWP)	ρ (credit coverage, expected GWP)	ρ (age, expected GWP)	ρ (credit coverage, expected GWP)
Austria	0,62	-0,11	0,70	0,42	-0,09	0,05
Belgium	0,44	-0,25	0,64	0,14	0,63	0,46
Bulgaria	-0,18	0,19	0,11	0,27	-0,58	-0,11
Croatia	-0,16	0,22	0,26	0,07	-0,35	-0,07
Czechia	-0,17	0,02	-0,42	0,09	-0,04	-0,31
Estonia	0,81	0,41	0,94	0,09	0,94	-0,52
Finland	0,46	0,17	0,49	0,36	-0,02	-0,55
France	0,78	0,24	0,34	-0,08	0,61	0,04
Germany	0,47	0,43	0,64	0,01	0,84	0,01
Greece	-0,15	0,51	-0,27	0,97	-0,83	1,00
Hungary	0,04	0,03	-0,14	-0,10	0,70	-0,20
Ireland	0,78	-0,58	0,54	0,32	0,78	0,01
Italy	-0,04	0,11	0,04	0,09	0,04	0,01
Latvia	0,93	-0,04	0,98	1,00	-	-
Lithuania	-	-	-	-	-	-
Luxembourg	-	-	-	-	0,88	-0,02
Poland	-0,01	0,11	0,03	-0,07	0,27	0,29
Portugal	0,77	-0,27	0,39	0,01	0,82	-0,23
Romania	-0,45	-0,24	0,72	-0,24	-	-
Slovakia	0,09	0,14	-0,08	0,12	0,20	0,01
Slovenia	0,70	-0,15	0,25	0,20	0,18	0,23
Spain	0,21	0,19	0,53	-0,25	0,62	-0,38
Sweden	-0,57	0,69	-0,73	0,05	-0,85	-0,14

The aim of such table is to understand the role and magnitude of age and credit amount when setting up the GWP given a similar underlying loan amount and key determinants concerning the consumer profile, insurance coverage and duration of the loan. An accuracy of 100% is impossible given all the changes and potential deviations in terms of coverage, terms and conditions but considering the sample size and diversity of observations, the sub-samples are considered representative.

For each interval of reported underlying loan amount ([40,000 - 50,000], [80,000 – 90,000] and [110,000 - 120,000], loan duration of 20y, the correlation between the expected GWP and age, and between the expected GWP and credit amount is computed, which will provide a hint on the impact of each factor on the expected GWP.

For instance, for Austria, for reported observations whose underlying credit amount is between € 40,000 and € 50,000, the correlation between age and expected premium is positive and medium-high (0.62), so age is expected to be significant to setting the premium to be charged. However, for the same group, the correlation between credit amount and GWP is low (0.03), which confirms the fact that the variation in the loan amount for observations in each interval, is not a strong determinant.

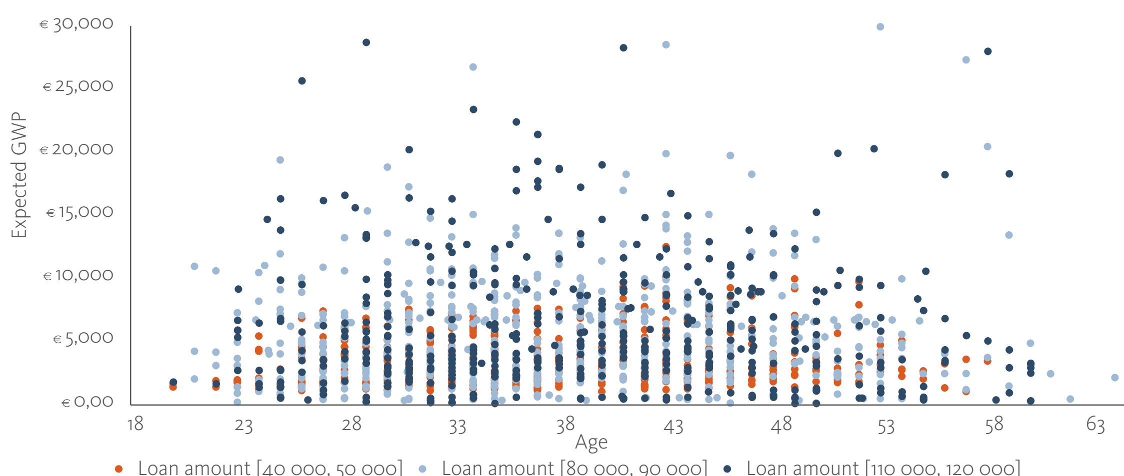
Overall, the age is strongly correlated with the expected premium, as displayed below in **Figure 14**. However, there are also extreme outliers, for which the expected GWP can be from € 2,000 to € 10,000.

This means that, for the same loan amount, duration and comparable consumer profile, the premium paid by different consumers in different countries of the EEA varies between € 2,000 and € 10,000.

Even though, the recognition of omitted variables is undeniable, this works as an first potential test for potential issues stemming from the sale of mortgage CPI products as similar consumer groups are paying different prices from one bank to another in the same market, and from one country to another.

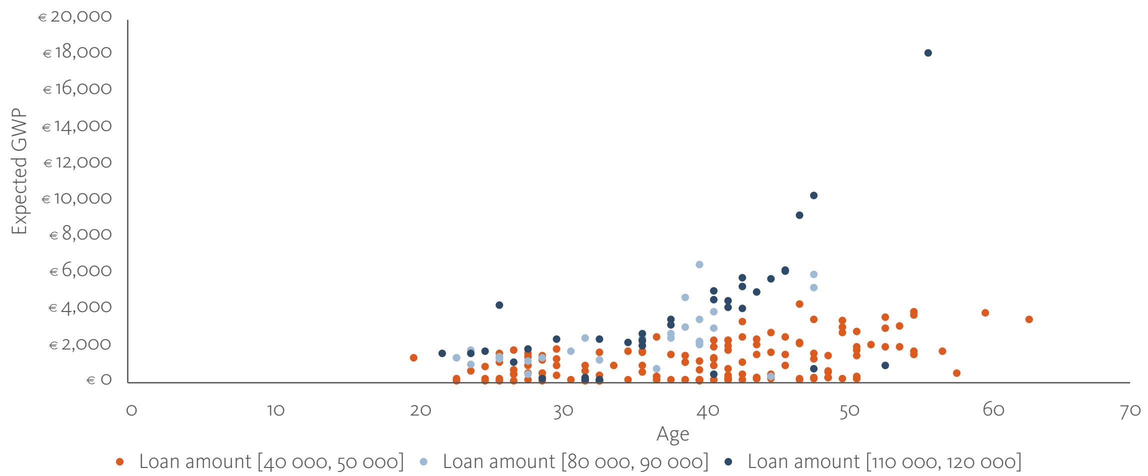
This confirms the diversity in product offering shown in **Figure 10** to **Figure 12**, where can observe that there is a high variation in the expected GWP paid by consumers in the EEA. For the same amount of a mortgage loan, in different countries, consumers of the same age and without any pre-existing medical conditions may purchase a mortgage CPI product for as little as €200 and for as much as €10,000 – €15,000 – €28,000 indicating a high diversity of CPI products on the market both in terms of coverage and price, making it difficult for consumers to compare and make informed purchasing decisions.

Figure 14 – Variation in price paid for a Mortgage CPI based on consumer age and credit coverage on the expected GWP, ceteris paribus, EEA



Looking at specific countries where we have seen a high variation vs a lower variation in mortgage CPI quotes from different banks in the same market, the real customer sample data collected from the banks confirms the findings.

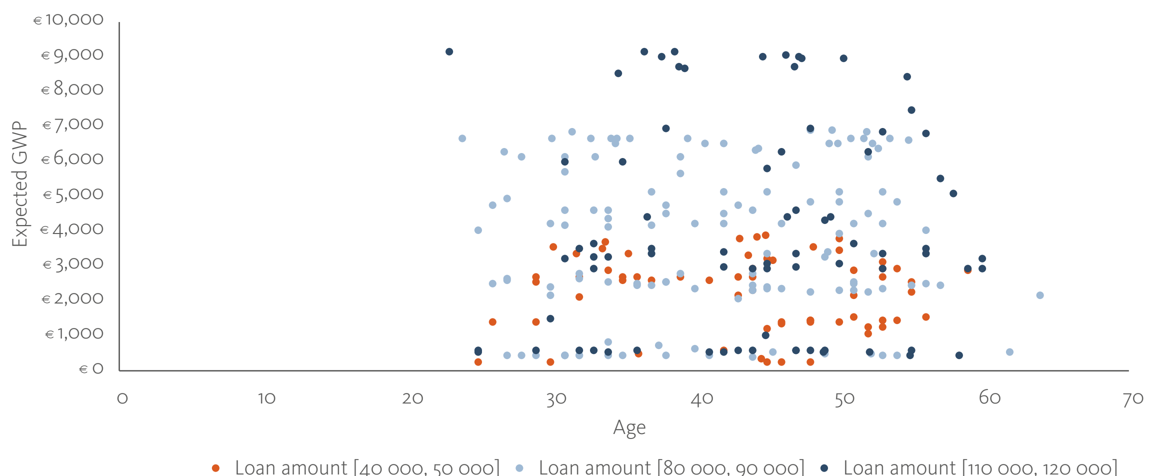
Figure 15 – Overview of customer data from banks for Mortgage CPI policies purchased by consumers in 2019, ceteris paribus, Belgium



In Belgium, age and loan amounts seem to be strong explanatory variables for the expected GWP as the dispersion between GWP for a given age is quite low and the GWP are centered on similar values. The concentration of observations move proportionally with the size of the loan covered, showing the GWP responds to increases in the credit amount to be covered. There is also a low variation in price for a mortgage CPI sold by different banks in Belgium to similar consumer profiles for the same mortgage loan amount and duration.

In Italy, on the contrary we can see a high variation in the price of the mortgage CPI paid by similar consumer profiles for similar amount of mortgage loan and loan duration from different banks.

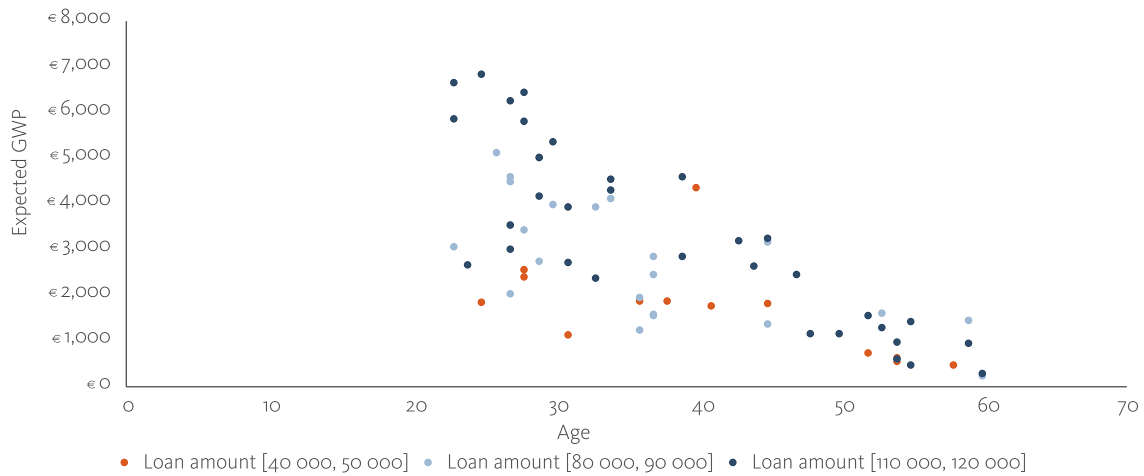
Figure 16 - Overview of customer data from banks for Mortgage CPI policies purchased by consumers in 2019, ceteris paribus, Italy



We can see that a consumer of 30y taking out a loan between €80,000 and €90,000 for a duration of 20 years paid around €2,000 for a mortgage CPI from bank A, while another consumer with a similar profile paid around €7,000 for a mortgage CPI from bank B. This shows that there is a high variation in prices consumers paid for a Mortgage CPI from different banks. While the difference in prices might be explained by the different level of protection provided by the two products, this means that there is no standardization in product offer that may enable consumers to better understand and compare products from different providers.

A different scenario can be observed in Sweden where it seems that younger consumers paid more than older ones for a mortgage CPI covering the same amount of a mortgage loan for 20y. For instance, it seems that in the case of two consumers of 28y, that took out a mortgage loan between €110,000 and €120,000 for 20y from different banks, one paid €3,000 and the other paid €7,000 for a Mortgage CPI.

Figure 17 - Overview of customer data from banks for Mortgage CPI policies purchased by consumers in 2019, ceteris paribus, Sweden



BARRIERS TO SHOP AROUND

In theory consumers should be able to shop around for CPI products as the legal framework set-up by the IDD and MCD (in case of the mortgage CPI) allows for them to compare products and make informed-decisions when purchasing a CPI to cover their exposure to various risks of life. In addition the large majority of banks participating in the thematic review indicated that consumers are not obliged to buy a CPI in order to get a credit product.

However the evidence collected from both insurers and banks indicate that there are some significant barriers to shop around for consumers mainly due to the way these products are designed and sold.

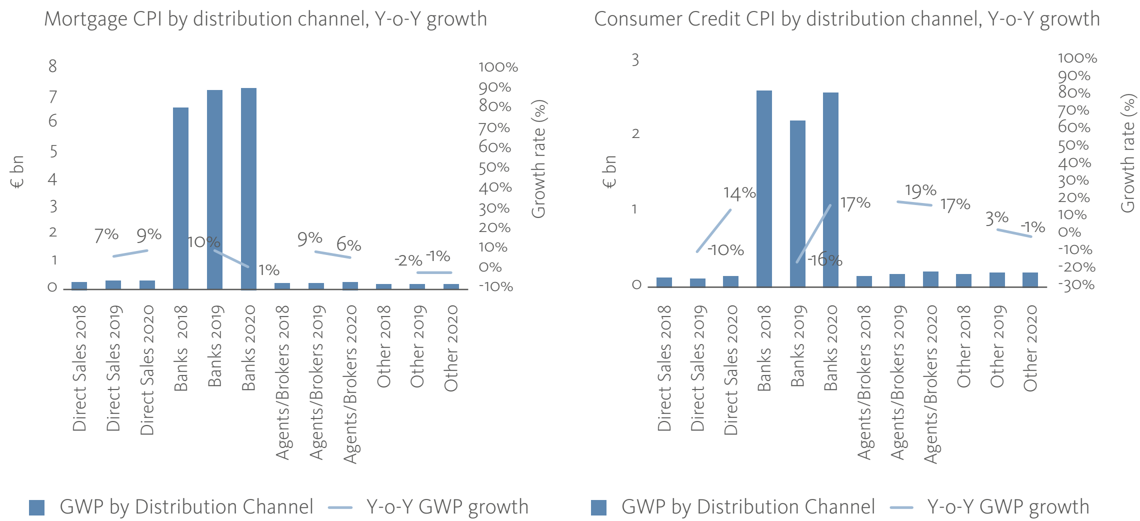
- Most CPI products on the market are sold tied with the main credit product by the banks (83% of banks), meaning that these cannot be purchased separately from the bank and be used to cover a credit product from another bank.
- Most CPI products on the market are underwritten and sold as Group Policies (66% of insurers), meaning that these product are designed specifically for each bank individually by the insurers based on the demand of the bank for the different type of risks to be covered. In the case of Group Policy, the bank acts as the policyholder and it will sell a CPI product only to its customers that will buy the bank's credit products.
- The offer of CPI products is extremely diverse at the national level and at the EU level. Each insurer can underwrite different life or non-life risks as part of the CPI policy. There is no standard (basic) cover that CPI products should provide, making it very difficult for consumers to compare product offers both in terms of cover and price. This diversity is presented in the **Figure 10** to **Figure 12** for each country.
- In addition, those banks that indicated that it is mandatory for consumers to buy a CPI in order to get a mortgage loan or a consumer credit also indicated that they perform an equivalence assessment to assess the level of protection offered by the CPI product from another provider. Considering the factors above, it might be more difficult for alternative CPI products to pass the equivalence test.

POINT OF SALE ADVANTAGE

The point of sale advantage is very specific to the CPI business. The banks, as distributors of the core credit products (mortgages, consumer credit and credit cards), have a point-of-sale advantage in the sale of the CPI products to their customers. While the one-stop shop might be convenient for customers, the findings of the thematic review indicate potential risks of consumer detriment leading to poor consumer outcomes such as higher prices, lower product quality and reduced choice.

Only 27% of insurers sell their CPI products via other distribution channels, 73% of insurers sell their CPI products exclusively via the bancassurance distribution channel. However the largest share of the CPI business is carried out through the bancassurance distribution channel as 95% of the total GWP for mortgage CPI products and 85% of the total GWP for consumer credit CPI products have been collected by the banks, meaning that the CPI business sold via other distribution channels is insignificant.

Figure 18 - Distribution of Mortgage and Consumer Credit CPI products by distribution channel, by GWP for 2018-2020



In some countries where insurers sell their CPI products as Individual Policies, the share of the other distribution channels is higher compared to those markets where CPI products are mainly sold as Group Policies.

For mortgage CPI products this is the case for IE and LU and to a lesser extent for AT, BE, HR, FR, DE, and MT.

For consumer credit CPI products, insurers sell them via other channels in ES FR, LV, LT, LU, PL, RO and SE.

Figure 19 - Sale of Mortgage CPI by distribution channel, 2019

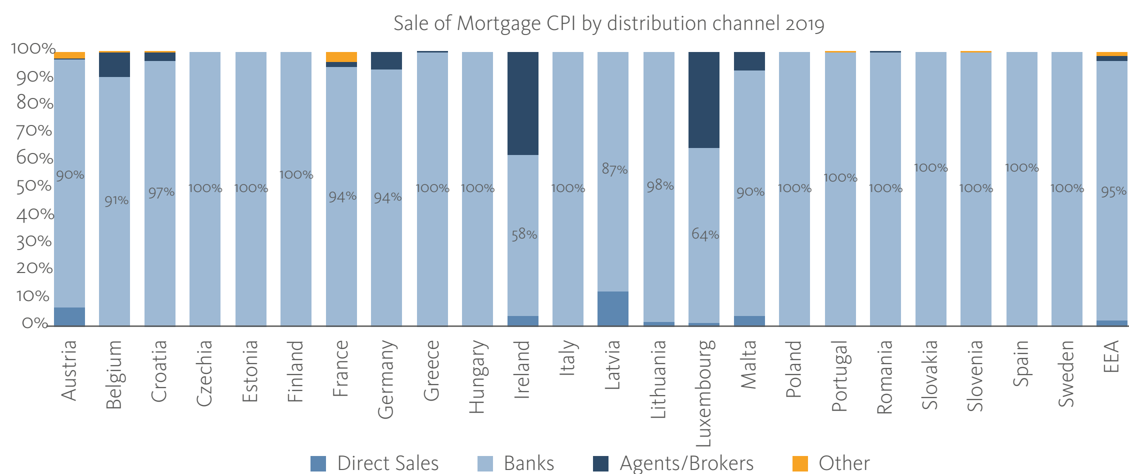
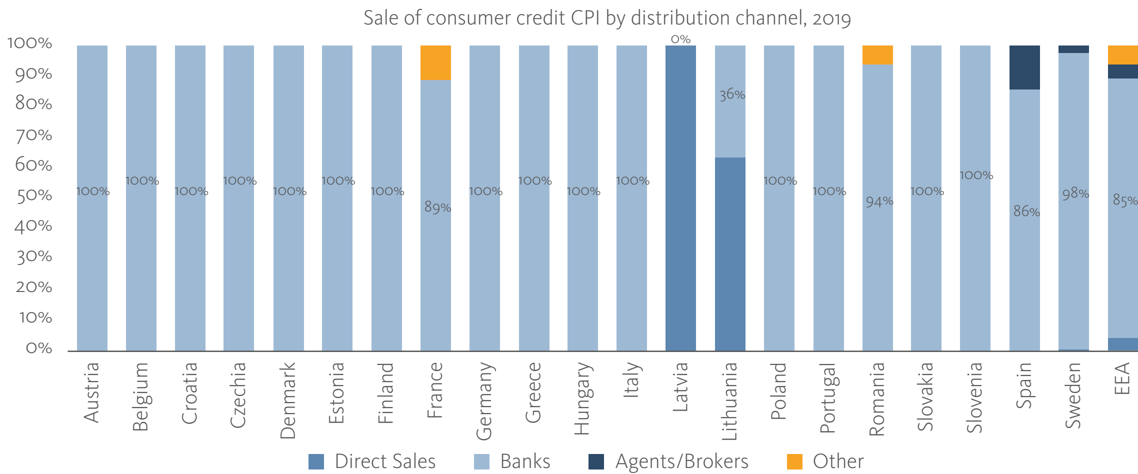


Figure 20 - Sale of Consumer Credit CPI by distribution channel, 2019



High penetration rates

We observe that the point of sale advantage is also explained by high penetration rates of the CPI products. More than half of the banks reported a penetration rate above 50%, which means that 1 in 2 consumers buys a CPI policy from the bank together with the 'core' product (mortgage, consumer credit or credit card).

Generally, this can be positive for consumers as it means that many consumers buy protection to cover themselves for unexpected life events that may affect their financial situation and of their families.

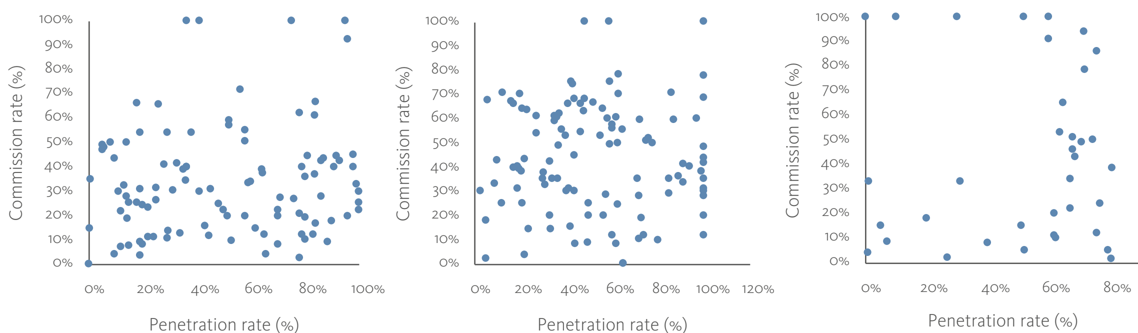
Low penetration could be indicative of under-insurance, however, high penetration rates could indicate that banks may have the incentive and ability to push CPI products on their customers raising some concerns with pressure sales.

High commissions can be a strong incentive to increase sales volume to maximize profits and while the thematic review unveiled high commissions being paid for the distribution of CPI products by banks, **not all high penetration rates reported by the banks can be explained by high commissions.**

For those banks that provided data both on penetration rates and commissions rates for each type of product, there is a considerable number of banks that have penetration rates above 50% and get in commissions more than 30% of GWP for the sale of CPI products:

- 27 banks (26% of banks) that sell mortgage CPI
- 36 banks (32% of banks) that sell consumer credit CPI, and
- 15 banks (41% of banks) that sell credit cards CPI.

Figure 21 - Commission rates vs Penetration rates by type of CPI: mortgage (left), consumer credit (middle) and credit cards (right).



83% of the banks indicated that the sale of the CPI products is executed by the same bank employees that are in charge of the sale of the 'primary' credit products. Only 17% of banks indicated that the sale of some CPI products is executed by other bank employees that have the necessary certification to sell the insurance product, however this is done as part of the same process for the credit product. Only in few cases other external parties may sell the CPI product on behalf of the bank – e.g. car dealerships in the case of consumer credit for car purchases or outsourced to a tied agent that will sell the CPI product.

34% of the banks have implemented **incentive schemes** for their employees in relation to the sale of CPI products. Some examples of these incentives are:

- Sales target to obtain bonuses;
- Share of the commission paid to the bank by the insurer on top of the incentive scheme for banking products;
- Periodical temporary incentive campaigns (e.g. 3 months) with vouchers for holidays for the top winners;
- Bonuses for employees whose customers have multiple insurance and banking products;
- Permanent variable remuneration for the sale of insurance products plus vouchers for certain competition campaigns;
- Commission increase for the sale of a credit with a CPI product

CONFLICTS OF INTEREST

The close connections between insurers and banks as part of the bancassurance business models for the manufacturing and distribution of CPI products can raise advantages for all stakeholders involved banks, insurers and consumers. It can generate additional non-interest income to banks, increase market penetration for insurers and provide a one-stop shop for consumers, ensuring a better consumer experience.

Close ties between insurers and banks

However, the close connection between banks and insurers can also lead to the emergence of conflicts of interest, that if not properly mitigated can lead to consumer detriment. Any misalignment between the interests of the banks and insurers on one side and those of consumers on the other side can result into poor underwriting and sales practices, unsuitable sales and establishment of a corporate culture to maximise profits.

As shown in **Figure 6**, 63% of insurers that sell their CPI products via the bancassurance distribution channel have close ties with their banking partner meaning that there is a substantial interest of the parties to achieve common goals but this might also lead to emergence of potential conflicts of interests, which, if not properly mitigated, can result in poor conduct and risks of consumer detriment.

33% of insurers have a strategic alliance (exclusive agreement) with their banking partners, 19% are part of the same Financial Group with the bank and 11% have created a Joint Venture with their banking partner. The data analysis on commissions and NuR shows a pattern where, in the case of closer ties between the bank and insurer, the level of commissions paid to banks as well as the Net Underwriting Results (NUR) of insurers are higher (see **Figure 22** below).

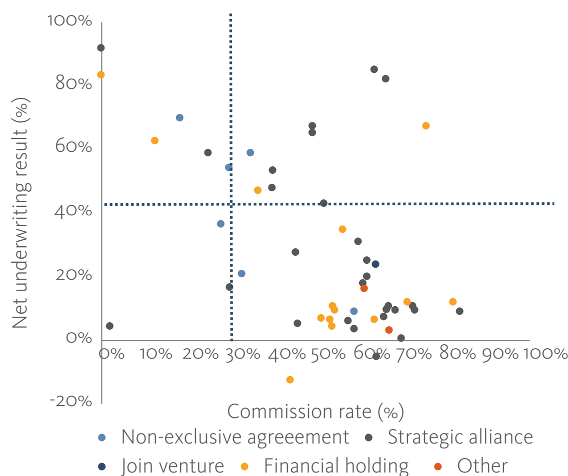
We can observe in **Figure 22** that for non-exclusive distribution agreements, the commissions paid to banks for the distribution of the Mortgage and Consumer Credit CPI are generally lower compared with the other type of business models and the NuR are higher. In addition while for the Mortgage CPI there seems to be a more equilibrated share of the part of the GWP that covers the NuR of insurers and commission rates of banks, in the case of Consumer Credit CPI products, it is noticeable that banks get higher commissions putting more pressure on the NuR of insurers.

Those banks that are in a strategic alliance or part of the same financial holding with the insurer get higher commissions which may be explained by their high negotiation power or intra-group relationship.

Similarly, in the case of Credit cards CPI products, banks that are in a close partnership with insurers get higher commissions compared to those that are in a non-exclusive distribution agreement. As shown in **Figure 23**, there is a concentration in the lower-right quadrant corresponding to high commissions paid to banks and lower NuR of insurers.

Figure 22 - NUR and commission rates by type of business model for Mortgage CPI (left) and Consumer Credit CPI (right)

Figure 23 - NUR and commission rates by type of business model for Credit cards CPI



Group policies

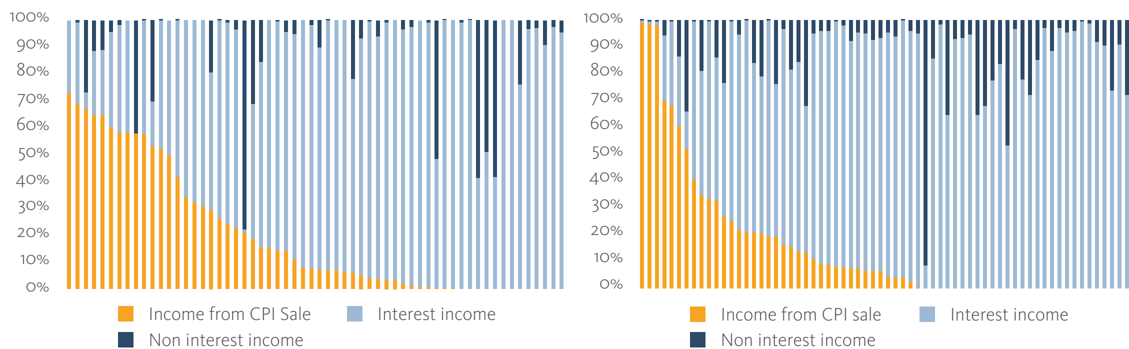
66% of insurers underwrite Group Policies where the bank is the policyholder and the bank will sell the CPI tied with a credit product to its customers. In *group policies*, the bank is in a conflicting situation where it appears as the policyholder (and often the beneficiary) as well as the distributor of the CPI product for which it collects commissions and might receive other type of remuneration. Group insurance contracts may have an effect on market power, as in certain cases the insurance element becomes a part of the credit contract, leaving consumers no choice in choosing their insurance policy. Therefore, the consumer has limited freedom in choosing the insurance provider. In addition, in such contracts the insured has limited rights e.g. inability to change, individualise or terminate the contract without fulfilling certain conditions.

Potential cross-subsidisation

The 2019 data collected on banks' income from the distribution of CPI products compared to the income received from lending activities shows that there might be some cases of cross-subsidizing and reliance on non-interest income stemming from the sale of CPI. We observe that some banks might be offsetting low margins on their credit offerings with profits generated from the sale of CPI.

For 18% of banks (see **Figure 24** to **Figure 25**), the income from the sale of CPI products is higher than the income from the lending activities and in such cases this could mean that the sale of the CPI products could be very important for the banks and their business model. Although there is no evidence confirming this, it is possible that in more extreme cases, loans could be unprofitable for some banks without the sale of the CPI products. The risk of cross-subsidy is high particularly where the penetration rate is high, the data shows that more than 50% of banks have reported penetration rates for their CPIs superior to 50%, meaning that 1 in 2 customers buys a CPI from the bank. For a large number of banks the penetration rate is above 70% (see **Figure 21**).

Figure 24 – Overview of bank's revenues from the sale of CPI products with Mortgage loans (left) and Consumer Credit (right), 2019



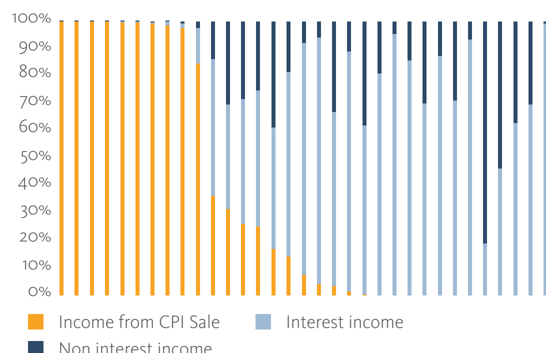
For the sale of Mortgage CPI products, out of 61 banks that provided data on all three income categories, for 22 banks the share of the income from the distribution of CPI products represents more than 20% and up to 70% of total income. In the case of consumer credit CPI products, out of 67 banks that reported the data, for 17 the income from the distribution of CPI products represents more than 20% of total income, however for 3 banks this represents close to 100% of total income.

In the case of credit cards CPI, for 10 banks out of 33 banks that provided data on all three indicators, the revenues from the sale of credit cards CPI is close to 100%, meaning that without the sale of CPI policies, the credit cards might only cover the costs or even unprofitable.

Despite the limited evidence collected and the small sample of banks, we can conclude that there might be cases of cross-subsidization between the CPI product and the 'core' credit product of banks, which in some cases can be positive as it ensures that banks continue to maintain their lending activities despite low margins.

However, the high commissions and other type of remuneration (bonuses, profit sharing, dividends etc.) can promote a culture within banks to maximise profits over ensuring good consumer outcomes. 34% of the banks indicated having implemented incentive schemes for their employees in relation to the sale of CPI products in the form of sales targets for bonuses, variable remuneration, commissions and other type of benefits such as vouchers for holidays.

Figure 25 - Overview of bank's revenues from the sale of CPI products with Credit cards, 2019



HIGH PROFITABILITY FOR INSURERS AND BANKS

Profitability analysis for banks

The CPI products seem to be a highly profitable business for both insurers and banks, given the average claims ratio for the three years period 2018-2020 for mortgage CPI has been around 26% of GWP, for consumer credit CPI around 18% of GWP and for credit cards CPI around 8% of GWP only. The remaining 74% to 92% of the GWP are used to cover the costs and profits of insurers and banks. The profitability analysis of the CPI products for banks may not be easily done, given most banks have no cost allocation model in place for the distribution of the CPI products or insurance products more generally.

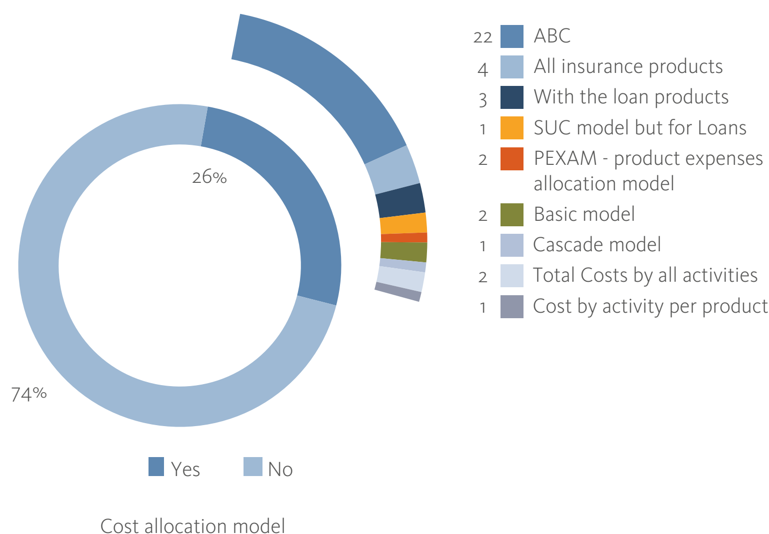
Out of 145 banks, **107 (74%) indicated not having a cost allocation model in place** and were not able to indicate the total costs for the distribution of the CPI products.

In the absence data on costs for distribution of CPI products from a large number of banks, no estimate of how much of the remuneration received from insurers goes to cover costs, is possible.

However, 38 banks indicated as calculating costs for the distribution of the CPI products either directly allocating costs for each product independently or allocating costs to their insurance distribution activity for the whole portfolio of insurance products sold or jointly with the main credit products.

The most predominant type of cost allocation model used is the ABC (activity based costing). The ABC is a costing method that assigns overhead and indirect costs to related insurance products and is allows for recording of micro-activities, time spent and professional figures employed. As explained by several participants the ABC model allows them to calculate the costs for insurance distribution activities by multiplying the execution time by a cost per unit of time for the volume of activity (e.g. number of policies issued in a year per unit cost). The cost per unit of time includes both the cost of personnel carrying out the activity, the costs of workstations, utilities and real estate spaces. The latter are therefore allocated to the product only for the amount of time absorbed (FTE), for this reason they are considered as direct costs. Production costs (e.g. cost of IT procedures) are attributed to the product on the basis of a group industrial accounting system, used to re-allocate the costs of the service units to the divisions (segment reporting). This system provides for a breakdown of costs by product (e.g. current accounts application, mortgage application, etc.)

Figure 26 - Cost allocation model of banks for the distribution of CPI products



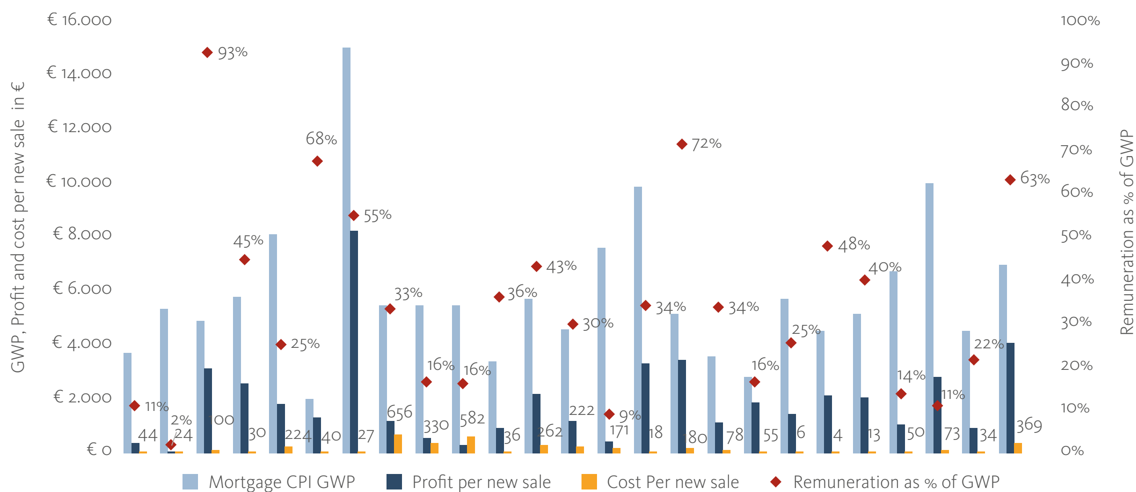
Out of 38 banks that allocate costs to the sale of CPI products, 27 banks were able to provide the total costs (direct, indirect and other costs) per new sale of a CPI product. Based on the cost information provided, a profitability analysis, presented in **Figure 27**, was carried out based on the quote for a Mortgage CPI provided by the banks and as well as the information on the remuneration level as a percentage of total GWP.

The level of total costs per new sale for a Mortgage CPI varies significantly from one bank to another in different markets. Some banks indicated as little as 4€ of total costs per new sale up to 656€ per new sale by other banks. Such difference might be explained by several factors such as country, cost allocation model used, type of sale (standalone or add-on), sales processes and bank employees that execute the sale (mortgage officers or separately allocated staff for insurance products), amount of GWP and other factors.

It appears that the **distribution of the CPI is profitable for all 27 banks** and the amount of remuneration (profit) retained after deduction of costs varies significantly from one bank to another based on the % of GWP perceived as remuneration and the total GWP for a mortgage CPI.

We have not scrutinised these cost models for robustness, and present the findings for the purpose of illustration only. However, even if we take the banks' cost models at face value, **the profitability for the sale of CPI products is high.**

Figure 27 - Overview of reported total costs per new sale vs profit per new sale of a Mortgage CPI



Overall, it seems that banks do not know what the costs for distributing CPI products are, therefore the high levels of remuneration perceived for distribution cannot be explained by the level of costs, given no precise information is available. And even when the banks know the amount of costs, the sale of CPI products seems to be in most cases, highly profitable.

Profitability analysis for insurers

The profitability analysis for insurers from the underwriting and the sale of CPI products can be explained in this case by looking at the net underwriting result (NUR) and the combined ratio. The NUR is calculated as the total GWP less claims payments, commissions and expenses as a percentage of GWP charged during a specified period, it excludes investment income earned on held premiums. The combined ratio is a measure used by insurance companies to help determine their profitability. The ratio is calculated by taking the total of both losses and expenses and then dividing them by the premium, a ratio below 100% indicates the company is making an underwriting profit while a ratio above 100% means the company is paying out more in claims than the premiums collected.

The numbers on combined ratios reported by insurers for all three products show that a large majority of insurers have combined ratios below 100%. **Worth stating that this means that CPI underwriting is a profitable business.**

For the three CPI products (mortgage, consumer credit and credit cards) designed with a regular premium it is noticeable that the distribution of the combined ratio is multimodal and is skewed to the right with a peak at 30% and 70% for mortgage CPI; 95%, 70% and 5% for consumer credit CPI and 90% and 10% for credit cards CPI.

[Quick reading guide on distributions analysis for Figure 28, Figure 29, Figure 30, Figure 32, Figure 34, Figure 36 and Figure 38: each histogram represents the distribution of each variable, showing how often each different value in the dataset occurs. E.g. for the distribution of the combined ratio in Figure 28 here below for Regular Premium Mortgage CPI products, the first bar, set around 10%, represents the proportion of insurers which reported a combined ratio (as % of GWP) between 0% and 10%. The second bar would mean that around 7% of the insurers reported a combined ratio between 10% and 20%. The following rectangular bars should be interpreted in a similar way]

A similar situation can be observed for mortgage and consumer credit CPI products designed with a single premium. The distribution of the combined ratios is multimodal and skewed to the right with peaks around 50% and lower.

Figure 28 - Distribution of the combined ratio for 2020, for Regular Premium CPI products

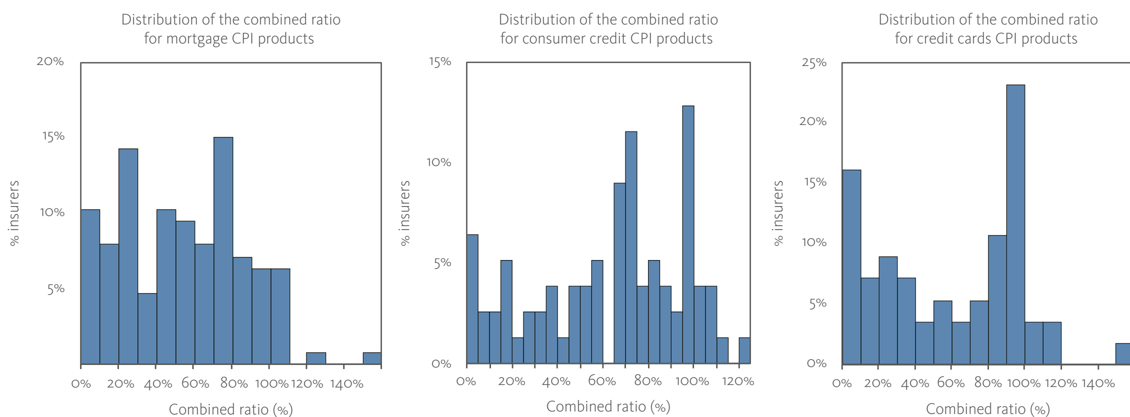
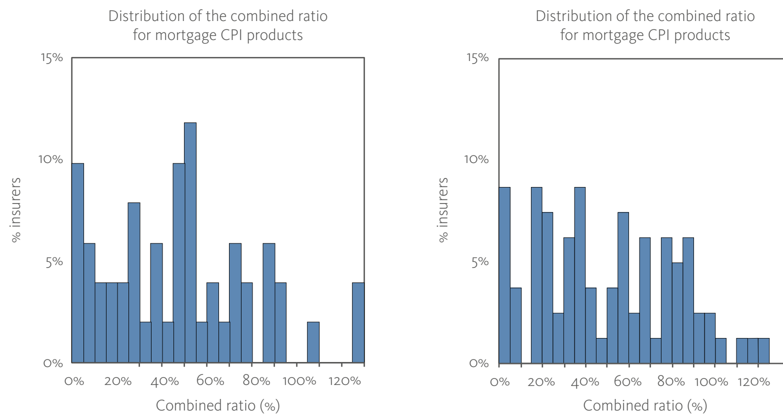


Figure 29 - Distribution of the combined ratio for 2020, for Single Premium CPI products



Mortgage CPI: Regular and Single Premium

Looking at the difference between the percentage of GWP that covers the remuneration of banks and the NUR of insurers and what is paid back in claims to consumers, we can conclude that the CPI products are highly profitable for most banks and insurers. However, concerns regarding the value for money of these products for consumers arise.

[Quick reading guide on the distributions tables in Figure 31, Figure 33, Figure 35, Figure 37 and Figure 39. The distribution tables complement the histograms and breakdown the information embedded in the histograms. For each variable, the number of insurers and their proportion in the total sample are displayed for each interval. E.g. looking at the table below, for claims ratio we can see that 33 insurers reported a claims ratio between 0% and 10% of GWP, which represents 26% of the total sample of insurers. Following to the next row, 27 insurers reported a claims ratio between 20% and 30% of GWP, which represent 21.3% of the total sample. Row by row, a similar interpretation can be drawn. For the remaining indicators, a similar analysis can be undertaken following the same rationale.]

As shown in the table below, in 2020, 71% of insurers had claims ratio below 30% of GWP, while 47% of them had a NUR between 30% and 60% of GWP, and 38% of insurers paid commissions for the distribution of Mortgage CPI above 30% of GWP. The expense ratio reported by 91% of insurers is below 30% of GWP.

Figure 30 - Distribution of commissions, NUR, claims ratio and expense ratio 2020 for Regular Premium Mortgage CPI

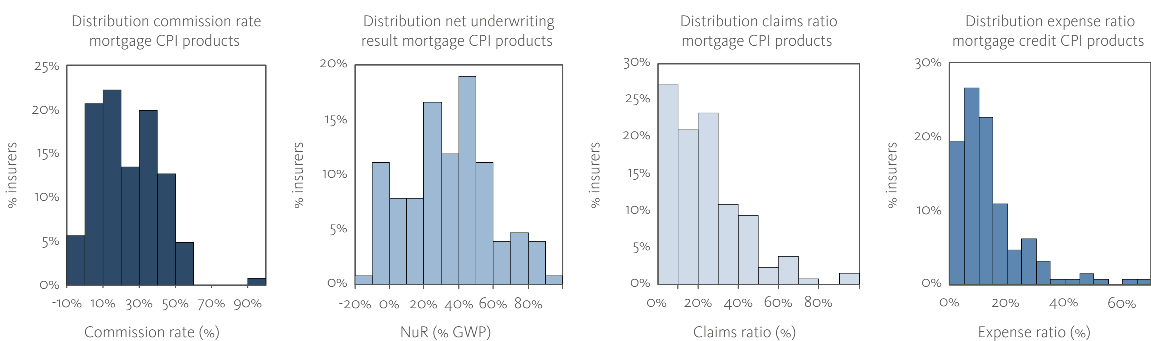
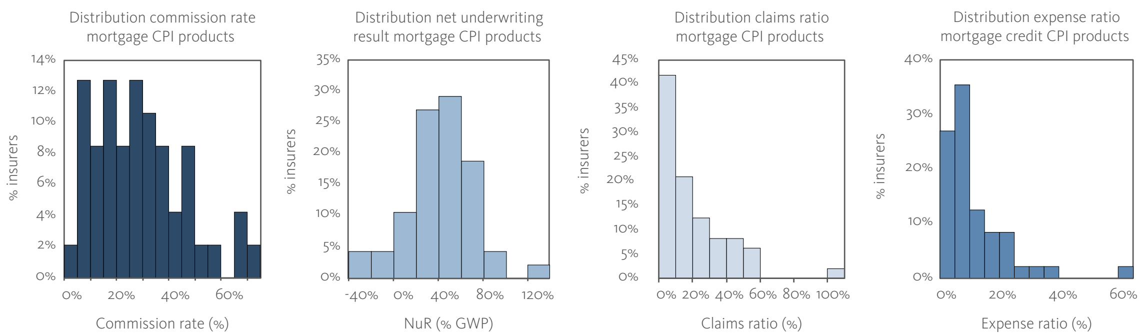


Figure 31 - Regular Premium Mortgage CPI: commissions, NUR, claims ratio and expense ratio 2020

	Claims ratio		Net underwriting result		Commission rate		Expense ratio	
	Number	%	Number	%	Number	%	Number	%
0-10%	33	26.0%	11	9.8%	32	25.6%	52	43.3%
> 10% - <=20%	27	21.3%	10	8.9%	28	22.4%	43	35.8%
> 20% - <=30%	30	23.6%	21	18.8%	17	13.6%	14	11.7%
> 30% - <=40%	14	11.0%	15	13.4%	25	20.0%	5	4.2%
> 40% - <=50%	12	9.4%	24	21.4%	16	12.8%	3	2.5%
> 50% - <=60%	3	2.4%	14	12.5%	6	4.8%	1	0.8%
> 60% - <=70%	5	3.9%	5	4.5%	0	0.0%	2	1.7%
> 70% - <=80%	1	0.8%	6	5.4%	0	0.0%	0	0.0%
> 80% - <=90%	0	0.0%	5	4.5%	0	0.0%	0	0.0%
> 90% - <=100%	2	1.6%	1	0.9%	1	0.8%	0	0.0%
Grand Total	127	100.0%	112	100.0%	125	100%	120	100%

Figure 32 - Distribution of commissions, NUR, claims ratio and expense ratio 2020 for Single Premium Mortgage CPI



Although the number of insurers underwriting Single Premium Mortgage CPI is considerably smaller, a decrease in the level of claims ratio is observed, where 65% of insurers had a claims ratio below 20% in 2020. 48% of insurers had a NUR between 40% and 70% of GWP and 46% of insurers paid commission rates above 30% of GWP, indicating overall a higher profitability for those insurers and banks that underwrite and sell Single Premium mortgage CPI. In addition the expense ratio is below 10% of GWP for 62% of insurers that underwrite Single Premium products.

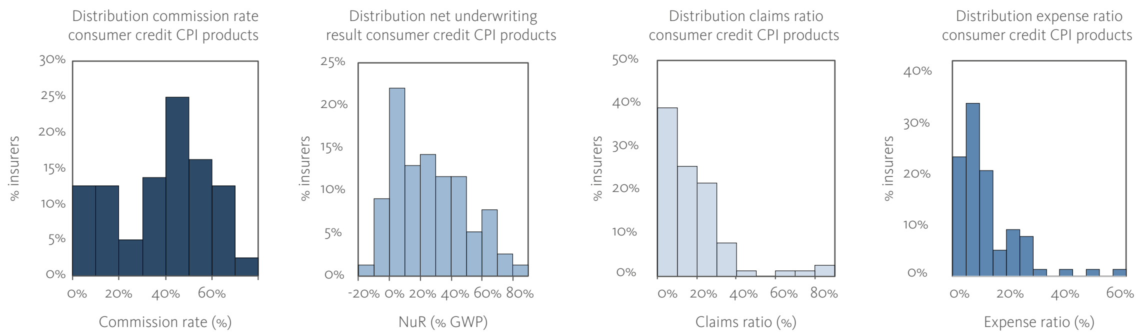
Figure 33 - Single Premium Mortgage CPI: commissions, NUR, claims ratio and expense ratio 2020

	Claims ratio		Net underwriting result		Commission rate		Expense ratio	
	Number	%	Number	%	Number	%	Number	%
0-10%	21	43.8%	4	9.1%	6	13.0%	30	61.2%
> 10% - <=20%	10	20.8%	2	4.5%	10	21.7%	10	20.4%
> 20% - <=30%	6	12.5%	9	20.5%	9	19.6%	5	10.2%
> 30% - <=40%	4	8.3%	4	9.1%	9	19.6%	3	6.1%
> 40% - <=50%	4	8.3%	8	18.2%	7	15.2%	0	0.0%
> 50% - <=60%	3	6.3%	6	13.6%	2	4.3%	0	0.0%
> 60% - <=70%	0	0.0%	7	15.9%	2	4.3%	1	2.0%
> 70% - <=80%	0	0.0%	2	4.5%	1	2.2%	0	0.0%
> 80% - <=90%	0	0.0%	2	4.5%	0	0.0%	0	0.0%
> 90% - <=100%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Grand Total	48	100.0%	44	100.0%	46	100%	49	100%

Consumer Credit CPI: Regular and Single Premium

Compared to the mortgage CPI an increase in the level of commissions is observed and a decrease in the NUR and claims ratio.

Figure 34 - Distribution of commissions, NUR, claims ratio and expense ratio 2020 for Regular Premium Consumer Credit CPI



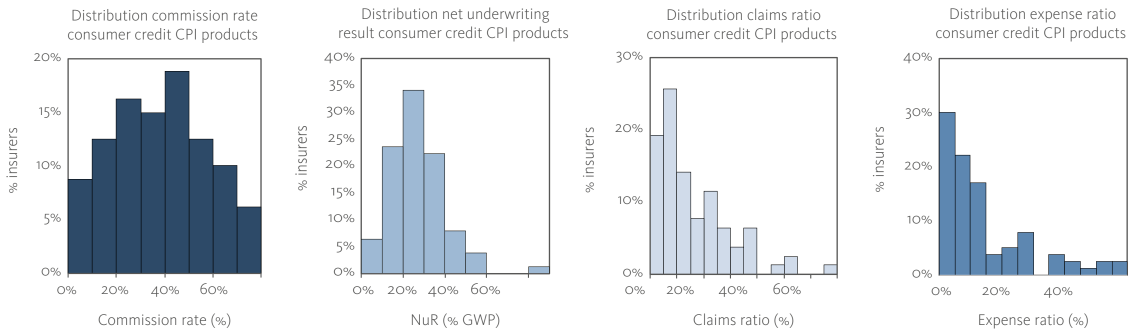
Looking at the detailed information on the distribution of the indicators by percentiles it appears **that 65% of insurers have claims ratio below 20% of GWP and 42% of insurers have a NUR between 20% and 50% of GWP, while 56% of insurers pay commissions between 40% and 70% of GWP.** The expense ratio reported by 78% of insurers is below 20% of GWP.

Figure 35 - Regular Premium Consumer Credit CPI: commissions, NUR, claims ratio and expense ratio 2020

	Claims ratio		Net underwriting result		Commission rate		Expense ratio	
	Number	%	Number	%	Number	%	Number	%
0-10%	31	39.2%	17	24.6%	10	13.0%	337	48.7%
>10%-<=20%	20	25.3%	10	14.5%	8	10.4%	222	28.9%
>20%-<=30%	17	21.5%	11	15.9%	5	6.5%	113	17.1%
>30%-<=40%	6	7.6%	9	13.0%	9	11.7%	1	1.3%
>40%-<=50%	1	1.3%	9	13.0%	19	24.7%	1	1.3%
>50%-<=60%	0	0.0%	4	5.8%	14	18.2%	1	1.3%
>60%-<=70%	1	1.3%	6	8.7%	10	13.0%	1	1.3%
>70%-<=80%	1	1.3%	2	2.9%	2	2.6%	0	0.0%
>80%-<=90%	2	2.5%	1	1.4%	0	0.0%	0	0.0%
>90%-<=100%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
GrandTotal	79	100.0%	69	100.0%	77	100%	776	100%

Compared to the Regular Premium consumer credit CPI products, the distribution of the commission rates and NUR is slightly shifted to the right while the distribution of the expense ratio to the left, similarly as for the Single Premium mortgage CPI products.

Figure 36 - Distribution of commissions, NUR, claims ratio and expense ratio 2020 for Single Premium Consumer Credit CPI



67% of insurers that underwrite Single Premium consumer credit CPI products had claims ratio below 20% of GWP in 2020. **An increase in the NUR of insurers is observed where 53% of them had a NUR between 20% and 50% of GWP and 42% of insurers paid commissions between 40% and 70% of GWP.**

Figure 37 - Single Premium Consumer Credit CPI: commissions, NUR, claims ratio and expense ratio 2020

	Claims ratio		Net underwriting result		Commission rate		Expense ratio	
	Number	%	Number	%	Number	%	Number	%
0-10%	35	44.9%	7	10.0%	7	9.5%	40	52.6%
> 10%-<=20%	17	21.8%	11	15.7%	9	12.2%	16	21.1%
> 20%-<=30%	14	17.9%	18	25.7%	11	14.9%	10	13.2%
> 30%-<=40%	8	10.3%	8	11.4%	11	14.9%	3	3.9%
> 40%-<=50%	1	1.3%	11	15.7%	14	18.9%	3	3.9%
> 50%-<=60%	2	2.6%	6	8.6%	9	12.2%	4	5.3%
> 60%-<=70%	1	1.3%	6	8.6%	8	10.8%	0	0.0%
> 70%-<=80%	0	0.0%	0	0.0%	5	6.8%	0	0.0%
> 80%-<=90%	0	0.0%	2	2.9%	0	0.0%	0	0.0%
> 90%-<=100%	0	0.0%	1	1.4%	0	0.0%	0	0.0%
GrandTotal	78	100.0%	70	100.0%	74	100%	76	100%

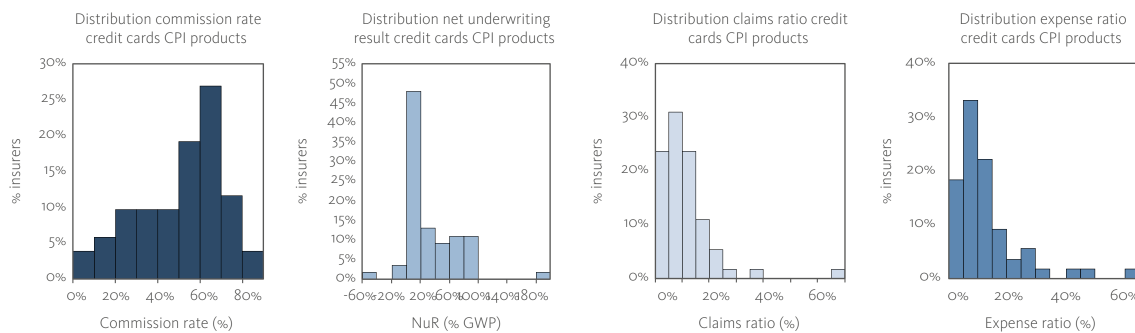
Credit Cards CPI products

The credit cards CPI business is considerably smaller compared to the mortgage and consumer credit CPI both in terms of GWP and number of insurers that underwrite credit cards CPI products, as only a third of the insurers that participated in the thematic review sell them. These are also low premium products and their amount varies a lot depending on the amount of the credit that is to be covered from one month to another.

However, out of the three products covered by the thematic review the credit cards CPI products seem to raise heightened concerns about their utility and value to consumers.

The distribution of the commission rates for the credit cards CPI is skewed to the right with a peak at 60% of GWP while the NUR, claims ratio and the expense ratio is skewed to the left.

Figure 38 - Distribution of commissions, NUR, claims ratio and expense ratio 2020 for Credit cards CPI



The table below shows the detailed information by percentiles on the four indicators. 55% of insurers have claims ratio below 10% of GWP and other 35% of insurers – between 10% and 20% of GWP. More than half of insurers **(52%) are paying commissions rates between 50% and 80% of GWP and have a NUR below 20% of GWP**. Due to the low value of the premiums for credit cards CPI, the level of commissions paid appears to be extremely high however in absolute value these numbers might be low, yet still this raises concerns with the value of the products offered to consumers due to very low claims ratio.

Figure 39 - Regular Premium Credit cards CPI: commissions, NUR, claims ratio and expense ratio 2020

	Claims ratio		Net underwriting result		Commission rate		Expense ratio	
	Number	%	Number	%	Number	%	Number	%
0-10%	30	54.5%	17	34.0%	7	12.7%	28	51.9%
>10%-<=20%	19	34.5%	9	18.0%	3	5.5%	17	31.5%
>20%-<=30%	4	7.3%	4	8.0%	4	7.3%	5	9.3%
>30%-<=40%	1	1.8%	3	6.0%	5	9.1%	1	1.9%
>40%-<=50%	0	0.0%	2	4.0%	5	9.1%	2	3.7%
>50%-<=60%	0	0.0%	3	6.0%	9	16.4%	0	0.0%
>60%-<=70%	1	1.8%	4	8.0%	14	25.5%	1	1.9%
>70%-<=80%	0	0.0%	2	4.0%	6	10.9%	0	0.0%
>80%-<=90%	0	0.0%	4	8.0%	2	3.6%	0	0.0%
>90%-<=100%	0	0.0%	2	4.0%	0	0.0%	0	0.0%
GrandTotal	55	100.0%	50	100.0%	55	100%	54	100%

BENCHMARKING

ACROSS MARKETS AND DISTRIBUTION CHANNELS

Only 27% of insurers sell their CPI products via other distribution channels, 73% of insurers sell their CPI products exclusively via the bancassurance distribution channel. Looking at the data on commissions paid for the distribution of mortgage CPI products via others channels we can observe that overall the commission rates of **'agents/brokers'** and **'other'** distributors are lower compared to the commissions paid to banks, however the business done via the other distribution channels in terms of GWP is insignificant as 95% of the total GWP for mortgage CPI products and 85% of the total GWP for consumer credit CPI products have been collected by the banks.

The benchmarking with the other distribution channels is helpful considering that agents/brokers may operate in more competitive conditions, and so the benchmarking may give us an indication of the commission levels charged by the banks if they faced greater competition for CPI customers.

Figure 40 to **Figure 44** exhibit the potential effects stemming from ineffective market competition across MS and by type of product. The hypothesis that higher market competition might limit the high variation in remuneration across different distribution channels and ensure better outcomes for consumers is confirmed. A high variation in remuneration rates at the national level might indicate issues around the market power of some participants and ineffective competition in the market for the distribution of the CPI products.

Lack of competition in the market can lead to some participants making high profits due to their high market power and could lead to the emergence of bad practices in order to maximize profits and can result into consumer detriment such as high prices, mis-selling and unfair treatment as well as low value.

However, the evidence is not sufficient to make strong conclusions when benchmarking the level of commissions paid to banks with those paid to other distribution channels, given that a large majority of insurers sell exclusively via banks.

For Regular Premium mortgage CPI product, the markets where agents/brokers and other distribution channels are represented, tend to exhibit a smaller variation and less extreme bounds for commission rates. That is the case in BE, FR, LU and MT. Nevertheless, commission rates paid out to banks are higher in comparison with other distribution channels, which might raise some concerns regarding high market power of some banks and high profits.

Figure 40 - Commission rate variation for Regular Premium Mortgage CPI by distribution channel

Figure 41 - Commission rate variation for Single Premium Mortgage CPI by distribution channel

BE emerges as an exception, where in the case of Single Premium mortgage CPI products the commission rates paid to agents/brokers by one participant is significantly higher in comparison with the commissions paid to banks. Similarly in PL, two participants pay higher commissions to agents/brokers compared to the commissions paid to banks.

For regular consumer credit CPI, except from ES, FR, SK and SE, where other and agents/brokers have some relevance, banks are the main distributors of these products in the other MS. Therefore, strong conclusions cannot be drawn.

For Single Premium consumer credit CPI, different scenarios can be observed. In DE, where other distributors (other type of credit institutions) have a material importance, the level of commission rates paid out to banks is more concentrated and other distributors tend to get higher commission rates. In LU, the hypothesis that market competition narrows the dispersion in commission rates seems to be confirmed as the interquartile differences are some of the lowest across EU. In PL, even though the dispersion is quite low, the minimum and maximum are the highest at EU level.

Figure 42 - Commission rate variation for Regular Premium Consumer Credit CPI by distribution channel

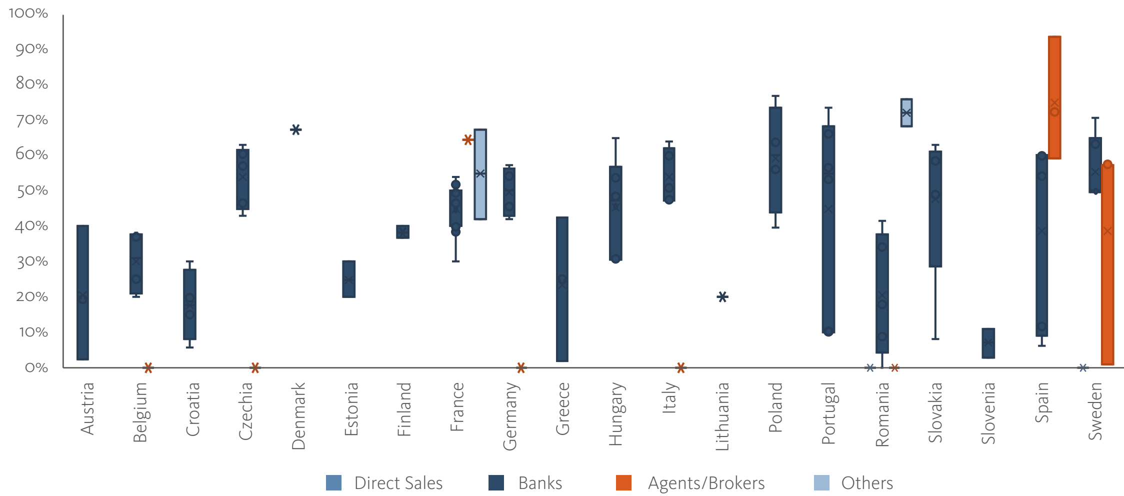


Figure 43 - Commission rate variation for Single Premium Consumer Credit CPI by distribution channel

However, given limited evidence no strong conclusions can be made on the benchmarking of the commission levels for different distribution channels.

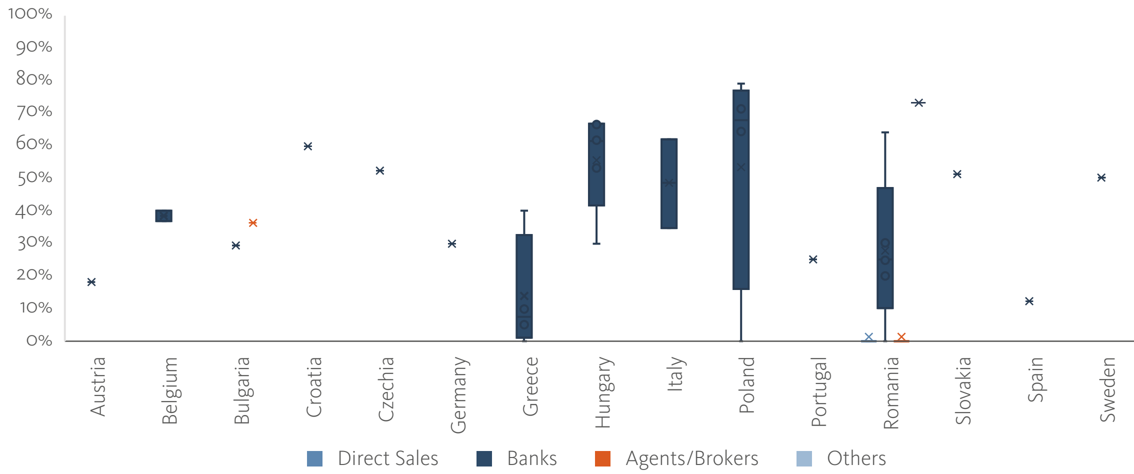
For credit cards CPI, banks seems to dominate the market as major distributors, which also poses some challenges to understand the potential effect from market competition in this market. Nonetheless, one inference that is possible to draw is that the average commission rate and bounds are considerably higher than for mortgage and consumer credit CPI sold with a regular premium.

Therefore, it could be retained that across markets, more competitive ones may act as a natural cap to high levels of commission rates paid to distributors.

Nonetheless, it is relevant to highlight that there might be other factors, such as regulatory/supervisory measures or cultural reasons, which might explain differences in the dispersion of the remuneration paid out to banks.

Generally, in markets where bancassurance is traditionally an important distribution channel for insurance products can take advantage from limited competition by other distribution channels and high market power to get higher commission levels.

Figure 44 - Commission rate variation for a Regular Premium Credit Cards CPI by distribution channel



ACROSS LINES OF BUSINESS

Another way of benchmarking the profitability of CPI products is to compare the commission rates and claims ratio for other insurance products. This is because other lines of business may give another indication of the commission charged for the distribution of other insurance products in more competitive markets.

As no data by product is available, the Solvency II (SII) data can be used to benchmark by Lines of Business (LoB). For that purpose, based on SII data, commission rates for other life, fire and other damage to property, income protection, medical expense and motor vehicle were taken into account.

Commission rates are consistently higher across the three years in scope for CPI products. Even considering the COVID-19 crisis in 2020 and other potential events that may have affected the whole market, there is evidence that commission rates are higher for CPI products, especially compared to medical expenses and other life LoB at the EEA level. As shown in **Figure 45** and **Figure 46**, despite the differences in levels across markets, commissions paid to banks for the sale of Regular Premium CPI products are higher than commissions paid by insurers for other products for all distribution channels.

Figure 45 - Commission rates for Regular Premium CPI vs other LoB (part I)

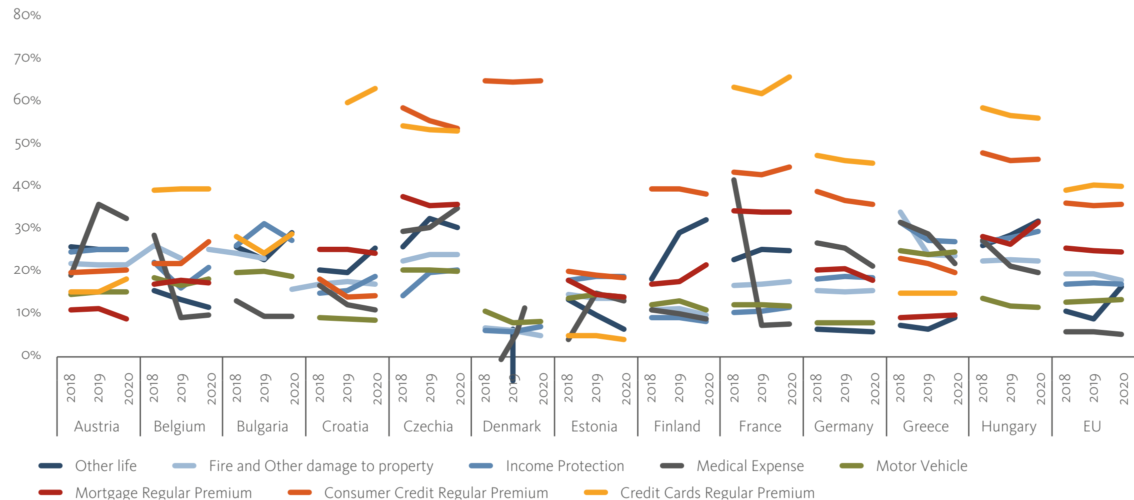


Figure 46 - Commission rates for Regular Premium CPI vs other LoB (part II)

Except few outliers (MT for other life and income protection and RO for income protection), the average commission rates for the other LoB do not exceed 40% of GWP in most MS, whereas the **commissions paid for the three CPI products in scope are in most cases above 40% of GWP.**

Similarly, for Single Premium CPI products, the commission rates seem to be higher than the ones paid for the other LoB. In most MS, the gap between the commission rates for Single Premium CPI products and the selected comparable LoB is wider than for Regular Premium CPI products. The gap between commission levels gets particular significant in some MS such as DK, SK and SE, overcoming the EEA levels. AT emerges as an outlier, where the average commissions are actually lower for Single Premium CPI products, particularly mortgage CPI (average commission rate below 10% of GWP). In some other MS, particularly LU and RO, commissions rates for income protection insurance seem to be higher than for CPI products, however CPI products are expected to fall under income protection LoB and the figures present the average for the market.

Figure 47 - Commission rates for Single Premium CPI vs other LoB (part I)

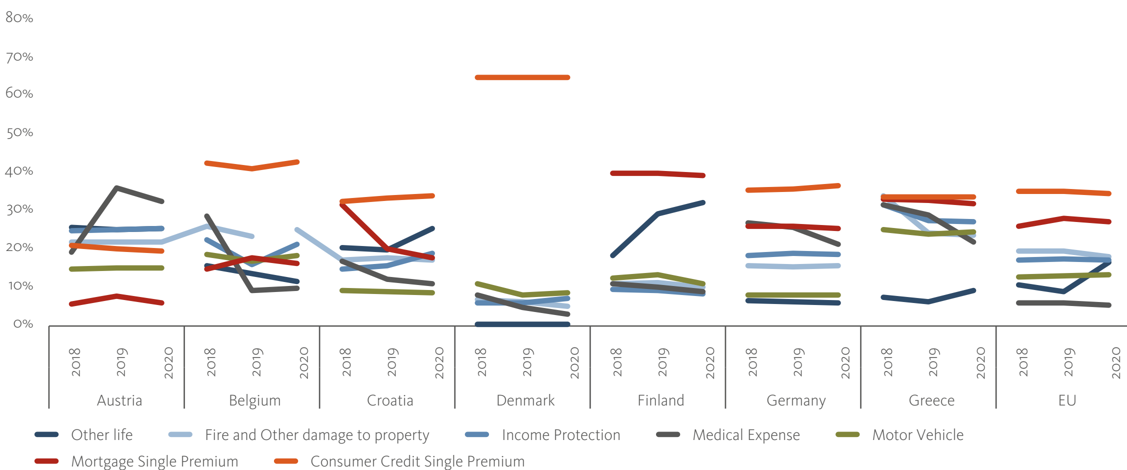
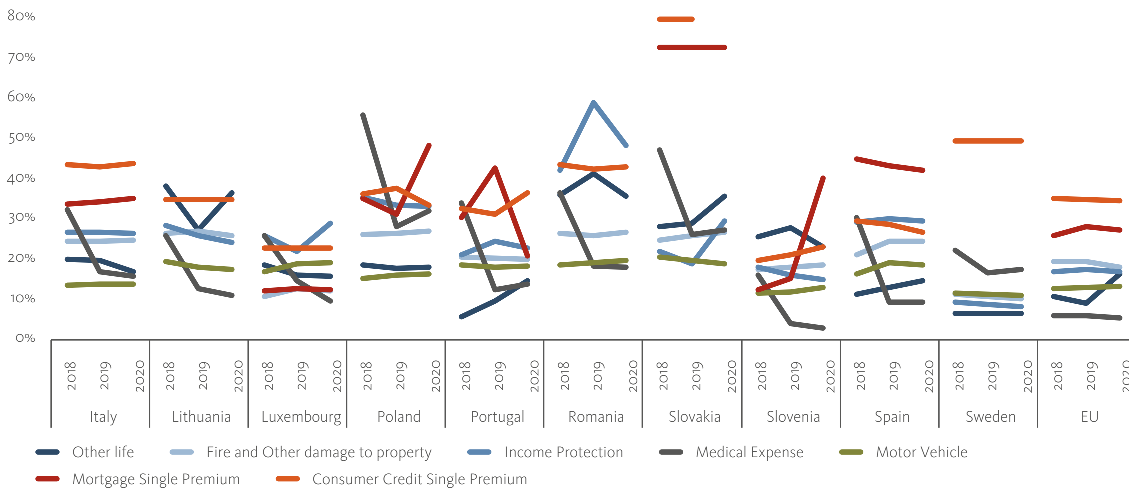


Figure 48 - Commission rates for Single Premium CPI vs other LoB (part II)



POOR VALUE: SCALE AND MAGNITUDE

The evidence collected from both insurers and banks shows that many consumers buy a CPI policy from their bank together with a mortgage, consumer loan and to a less extent credit card. The prices paid for CPI policies can be high, especially in the case of mortgage CPI policies where the total GWP can go up to €15,000 - €20,000 for a total credit amount of € 100,000.

However, consumers get very little in return for the premium paid for a CPI policy. A large part of the GWP paid by consumers covers mainly the remuneration paid by insurers to banks and the NUR of insurers themselves.

Figure 49 to **Figure 58** show the part of GWP used to cover commissions to banks, NUR of insurers and the claims paid to consumers for each insurers that participated in the thematic review.

Mortgage CPI

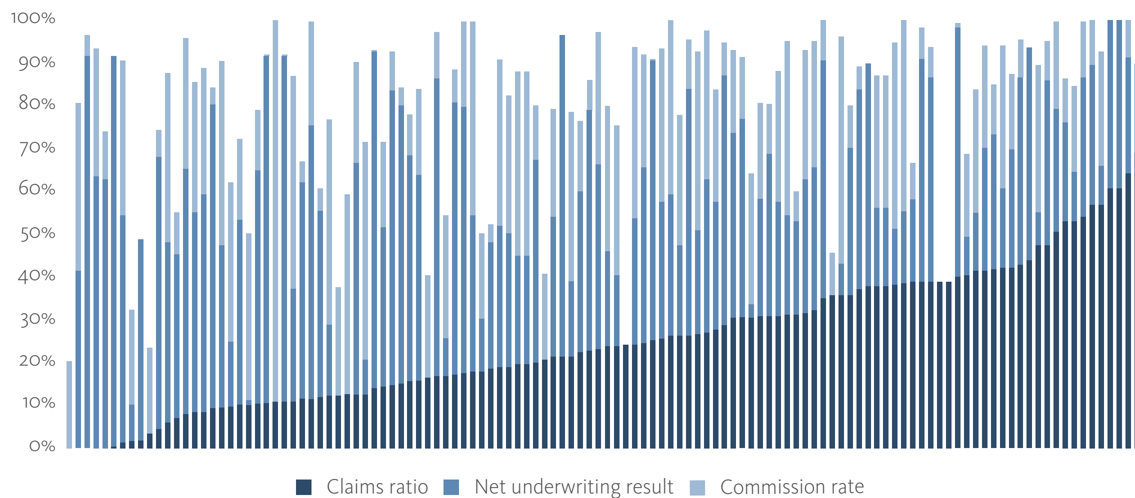
The vast majority of insurers (82%) reported claims ratio between 0% and 40% of GWP. This means that in most cases, for every €1 paid by consumers in premiums they get as little as 0 cents to 40 cents back in claims. The figure below is providing an overview for the year of 2019 however there is minor variation in the data reported for all three years 2018 to 2020, therefore the figure is representative overall. Some insurers failed to provide the full information on commissions and NUR however given the expense ratio for Regular Premium Mortgage CPI is in most cases below 20% (shown in **Figure 31**) it is easy to picture the approximate situation that applies.

For Mortgage CPI sold with a Regular Premium, 70% of insurers reported claims ratio below 30% of GWP, this covers a total business € 2.2bn of collected GWP (30% of total GWP) and 11m policies (30% of total policies).[12]

For a total of 18m policies (51% of total policies), insurers reported a claims ratio between 30%-40% and this covers a total business €3.3bn (46% of total GWP) – while the commissions paid by insurers to banks for the sale of these policies were around 40%-50% of GWP – a total of around €1.5bn. The **Figure 50** complements the **Figure 31** and shows detailed data on the number of policies and corresponding GWP for which insurers have reported low claims ratio and paid high commissions rates to banks[13].

[Quick reading guide on the scale and magnitude tables from Figure 50, Figure 52, Figure 54, Figure 56 and Figure 58: the data in the columns represents the potential impact on consumers, both in terms of # policies and GWP (in absolute and relative amounts), for each range reported per indicator. E.g. cases linked to claims ratios between 0% and 10% of GWP are expected to affect 547 938 policies, which represent 2% of the total policies of the total number of policies sold by all insurers in the sample. Columns on GWP provide the expected impact in terms of GWP, which in this case, is expected to account for 85 634 EUR of written premiums, representing around 1% of the total GWP collected by the insurers in the sample. Such impacts are then estimated for each interval (row by row reading), and for the three key risk retail indicators (claims ratio, net underwriting result and commission rate headers)]

Figure 49 - Regular Premium Mortgage CPI: Share of claims ratio, NUR and commission rates in total GWP, 2019



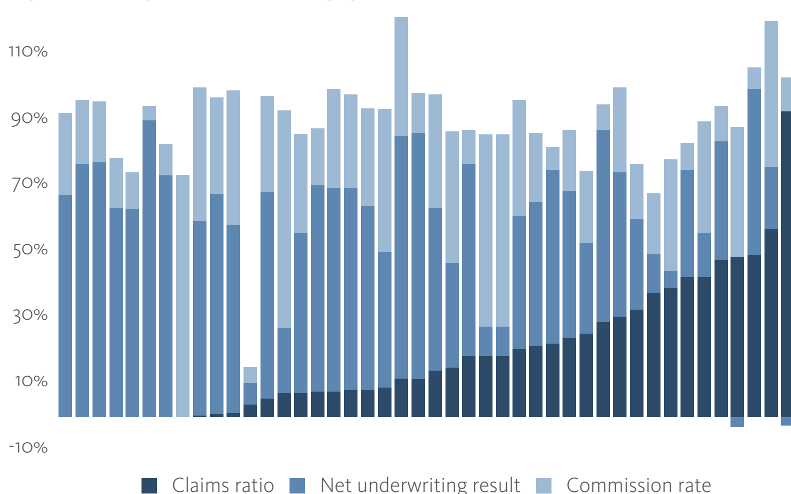
[12] The table should be read using the following guidance: the first column on the left indicates the thresholds for each of the three indicators: claims ratio, NUR and commission rates. The #of policies with the GWP column indicate how many policies sold (scale) and GWP (magnitude) are covered by each threshold for each indicator separately. E.g **claims ratio between 0% and 10% of GWP have been reported by insurers that sold a total of 547,938 policies for a total GWP of 85m EUR.**

[13] The grand totals for the # of policies and GWP for each indicator (claims ratio, NUR and commissions) do not add up to the same amount as only few insurers failed to provide data on one or more indicators, therefore have been excluded. This difference is however not considerable and does not affect the analysis.

Figure 50 - Scale and magnitude: low claims ratios and high commission rates for Regular Premium Mortgage CPI, 2020

	Claims ratio				Net underwriting result				Commission rate			
	#Policies		GWP ('000EUR)		#Policies		GWP ('000EUR)		#Policies		GWP('000EUR)	
	#	%	EUR	%	#	%	EUR	%	#	%	EUR	%
0-10%	547,938	2%	85,634	1%	6,551,976	19%	1,057,964	15%	1,537,307	4%	468,530	6%
>10%-<=20%	7,132,250	20%	1,065,262	15%	11,489,914	33%	2,422,984	33%	3,879,472	11%	1,133,068	15%
>20%-<=30%	3,825,576	11%	1,099,758	15%	6,476,977	18%	1,667,314	23%	4,951,122	14%	1,164,583	16%
>30%-<=40%	17,944,537	51%	3,379,633	46%	5,768,894	16%	923,320	13%	7,066,113	20%	1,213,327	17%
>40%-<=50%	5,138,299	15%	1,537,997	21%	1,822,365	5%	593,184	8%	11,987,969	34%	2,348,217	32%
>50%-<=60%	286,706	1%	106,219	1%	1,285,691	4%	314,076	4%	5,833,291	17%	995,847	14%
>60%-<=70%	354,132	1%	36,918	1%	257,147	1%	78,564	1%	-	0%	-	0%
>70%-<=80%	715	0%	75	0%	1,395,931	4%	204,048	3%	-	0%	-	0%
>80%-<=90%	-	0%	-	0%	20,907	0%	5,989	0%	-	0%	-	0%
>90%-<=100%	88,124	0%	10,536	0%	116	0%	16	0%	14,093	0%	2,586	0%
GrandTotal	35,318,277	100%	7,322,031	100%	35,069,918	100%	7,267,458	100%	35,269,368	100%	7,326,159	100%

Figure 51 - Single Premium Mortgage CPI: Share of claims ratio, NUR and commission rates in total GWP, 2019



In the case of Single Premium Mortgage CPI, the situation looks worse for consumers as only 5 insurers reported claims ratio between 40% and 50% of GWP. It is also noticeable that the claims ratio of Single Premium products are generally lower compared to the Regular Premium products.

For Mortgage CPI sold with a Single Premium, **65% of insurers reported a claims ratio below 20% of GWP, this covers a total business € 777m of collected GWP (85% of total GWP) and 1.8m policies (75% of total policies).**

For the sale of 1.4m policies for a total GWP of € 566m – insurers paid to banks in commissions between 30% and 70% of GWP – a total of around € 252m. The **Figure 52** complements the **Figure 33** and shows detailed data on the number of policies and corresponding GWP for which insurers have reported low claims ratio and paid high commissions rates to banks.

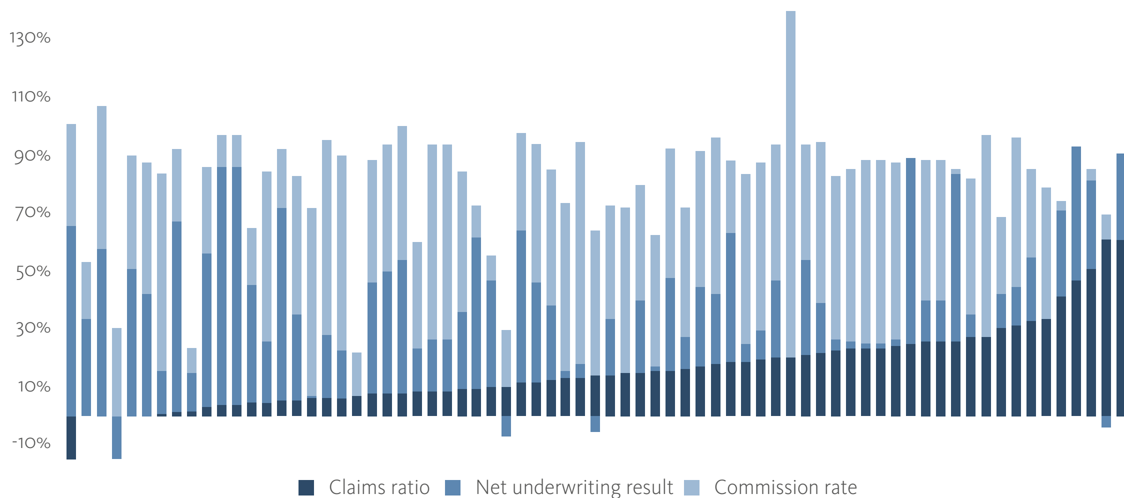
Figure 52 - Scale and magnitude: low claims ratios and high commission rates for Single Premium Mortgage CPI, 2020

Impact Matrix: scale and magnitude in perspective												
	Claims ratio				Net underwriting result				Commission rate			
	# Policies		GWP ('ooo EUR)		# Policies		GWP ('ooo EUR)		# Policies		GWP ('ooo EUR)	
	#	%	EUR	%	#	%	EUR	%	#	%	EUR	%
0-10%	810,186	33.8%	430,258	46.7%	141,533	6.6%	9,906	1.2%	178,538	7.6%	23,408	2.5%
>10%-<=20%	991,760	41.4%	347,436	37.7%	105,130	4.9%	22,922	2.7%	509,021	21.6%	182,035	19.8%
>20%-<=30%	82,781	3.5%	18,752	2.0%	176,142	8.2%	53,506	6.4%	238,134	10.1%	135,669	14.8%
>30%-<=40%	210,215	8.8%	28,640	3.1%	437,629	20.3%	222,020	26.5%	746,472	31.6%	299,720	32.6%
>40%-<=50%	258,787	10.8%	90,334	9.8%	145,949	6.8%	25,188	3.0%	204,668	8.7%	41,579	4.5%
>50%-<=60%	44,140	1.8%	5,046	0.5%	701,418	32.5%	304,838	36.3%	372,480	15.8%	174,622	19.0%
>60%-<=70%	-	0.0%	-	0.0%	166,773	7.7%	109,392	13.0%	105,313	4.5%	50,372	5.5%
>70%-<=80%	-	0.0%	-	0.0%	272,439	12.6%	82,949	9.9%	4,785	0.2%	12,128	1.3%
>80%-<=90%	-	0.0%	-	0.0%	10,326	0.5%	8,407	1.0%	-	0.0%	-	0.0%
>90%-<=100%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
GrandTotal	2,397,868	100%	920,465	100.0%	2,157,338	100%	839,127	100.0%	2,359,410	100%	919,533	100%

Consumer credit CPI

Consumer credit CPI products seem to bring lower value to consumers, however compared to Mortgage CPI products, the share of commission rates paid to banks seems to be higher putting more pressure on the NUR of insurers.

Figure 53 - Regular Premium Consumer credit CPI: Share of claims ratio, NUR and commission rates in total GWP, 2019



The average claims ratio for Regular Premium consumer credit CPI is around 16% of GWP however there is a large number of insurers that pay out in claims much less.

For consumer credit CPI sold with a Regular Premium, 86% of insurers reported claims ratio below 30% and this covers a total business of € 1.9bn (74% of total GWP) and 23m policies (80% of total policies). **For the sale of 24m policies for a total of GWP of € 2bn – insurers paid in commissions between 40%-60% of GWP – a total of around €1 bn**. The **Figure 54** complements the **Figure 35** and shows detailed data on the number of policies and corresponding GWP for which insurers have reported low claims ratio and paid high commissions rates to banks.

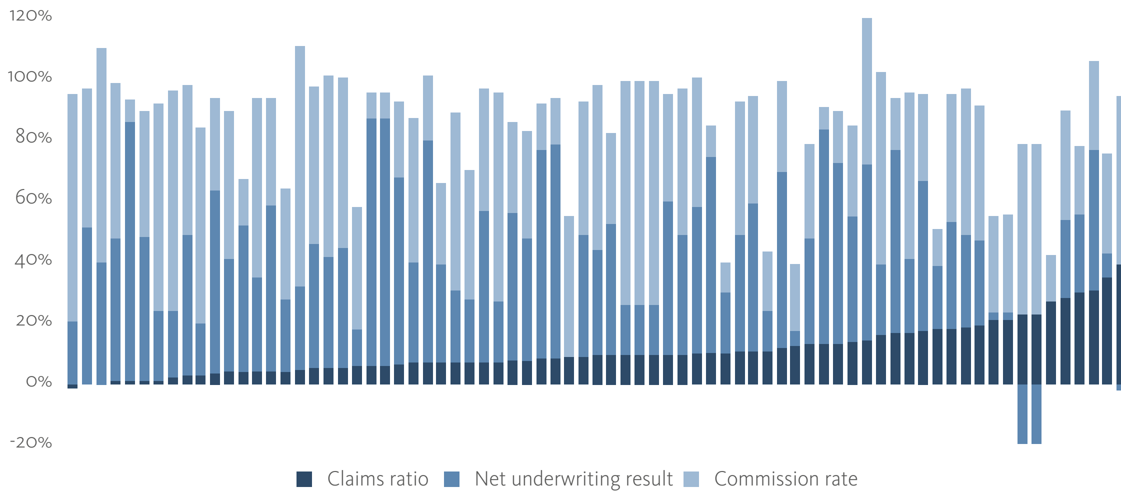
Figure 54 - Scale and magnitude: low claims ratios and high commission rates for Regular Premium Consumer Credit CPI, 2020

	Claims ratio				Net underwriting result				Commission rate			
	# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)	
	#	%	EUR	%	#	%	EUR	%	#	%	EUR	%
0-10%	2,724,400	9.4%	127,712	5.0%	9,006,356	32.7%	1,077,169	44.7%	403,602	1.4%	229,087	8.9%
>10%-<=20%	10,492,001	36.4%	925,146	35.9%	1,575,029	5.7%	100,456	4.2%	270,812	0.9%	21,510	0.8%
>20%-<=30%	9,677,327	33.6%	858,087	33.3%	11,462,762	41.6%	776,015	32.2%	151,584	0.5%	43,206	1.7%
>30%-<=40%	5,811,349	20.2%	658,273	25.5%	3,238,940	11.8%	353,136	14.7%	2,419,227	8.4%	98,020	3.8%
>40%-<=50%	11,953	0.0%	496	0.0%	165,112	0.6%	13,102	0.5%	17,906,040	62.3%	1,438,277	55.9%
>50%-<=60%	-	0.0%	-	0.0%	1,757,058	6.4%	59,313	2.5%	6,493,549	22.6%	601,448	23.4%
>60%-<=70%	17,125	0.1%	896	0.0%	41,234	0.1%	3,703	0.2%	992,899	3.5%	128,228	5.0%
>70%-<=80%	80,529	0.3%	7,382	0.3%	308,788	1.1%	25,280	1.0%	105,285	0.4%	12,213	0.5%
>80%-<=90%	16,363	0.1%	612	0.0%	3,216	0.0%	2,283	0.1%	-	0.0%	-	0.0%
>90%-<=100%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
GrandTotal	28,831,047	100.0%	2,578,604	100.0%	27,558,495	100.0%	2,410,456	100.0%	28,742,999	100.0%	2,571,988	100%

Compared to Regular Premium consumer credit CPI, consumers that purchased a Single Premium consumer credit CPI are worse off, as the average claims ratio is 11% of GWP and the maximum claims ratio reported by only one insurer is 39% of GWP.

FOR EVERY €1 PAID BY CONSUMERS IN GWP FOR A SINGLE PREMIUM CONSUMER CREDIT CPI, THEY GET BACK IN CLAIMS AN AVERAGE AMOUNT OF 11 CENTS WHILE THE BANKS GET 40 CENTS AND THE INSURERS 35 CENTS.

Figure 55 - Single Premium Consumer credit CPI: Share of claims ratio, NUR and commission rates in total GWP, 2019



For Consumer Credit CPI sold with a Single Premium – 85% of insurers reported claims ratio below 30% and this covers a total business of € 2.5bn (85% of total GWP) and 14.2m policies (95% of total policies). For the sale of 2.2m policies banks received up to 10% of GWP in commissions, for 2.7m policies – 30%-40% of GWP, and for 5.2m policies (42% of total policies) – banks got in commissions between 40% and 70% of GWP.

Figure 56 - Scale and magnitude: low claims ratios and high commission rates for Single Premium Consumer Credit CPI, 2020

	Claims ratio				Net underwriting result				Commission rate			
	# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)	
	#	%	EUR	%	#	%	EUR	%	#	%	EUR	%
0-10%	5,835,739	38.8%	1,128,753	39.0%	4,016,798	29.0%	236,091	9.0%	2,203,045	17.9%	95,003	3.4%
> 10% - <=20%	2,570,972	17.1%	443,660	15.3%	1,531,388	11.1%	1,111,430	42.2%	498,332	4.1%	73,698	2.6%
> 20% - <=30%	5,889,690	39.2%	909,748	31.4%	3,462,596	25.0%	455,421	17.3%	655,133	5.3%	447,596	16.1%
> 30% - <=40%	573,907	3.8%	387,695	13.4%	1,145,992	8.3%	235,043	8.9%	2,726,476	22.2%	344,357	12.4%
> 40% - <=50%	104,323	0.7%	2,999	0.1%	840,931	6.1%	436,849	16.6%	1,840,419	15.0%	852,520	30.6%
> 50% - <=60%	33,566	0.2%	7,129	0.2%	448,958	3.2%	98,424	3.7%	1,460,172	11.9%	217,516	7.8%
> 60% - <=70%	31,022	0.2%	14,419	0.5%	2,236,162	16.2%	33,233	1.3%	1,909,607	15.6%	218,600	7.9%
> 70% - <=80%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	986,083	8.0%	534,257	19.2%
> 80% - <=90%	-	0.0%	-	0.0%	32,472	0.2%	21,179	0.8%	-	0.0%	-	0.0%
> 90% - <=100%	-	0.0%	-	0.0%	114,616	0.8%	6,945	0.3%	-	0.0%	-	0.0%
Grand Total	15,039,219	100%	2,894,403	100.0%	13,829,914	100%	2,634,615	100.0%	12,279,267	100%	2,783,547	100%

Credit cards CPI

The average claims ratio for credit cards CPI in 2019 was 8% of GWP. As shown in **Figure 39,** 89% of insurers reported claims ratio below 20% of GWP. This covers a total business of € 577m (95% of total GWP) and 7.7m policies (87% of total policies).

Figure 57 - Regular Premium Credit cards CPI: Share of claims ratio, NUR and commission rates in total GWP, 2019

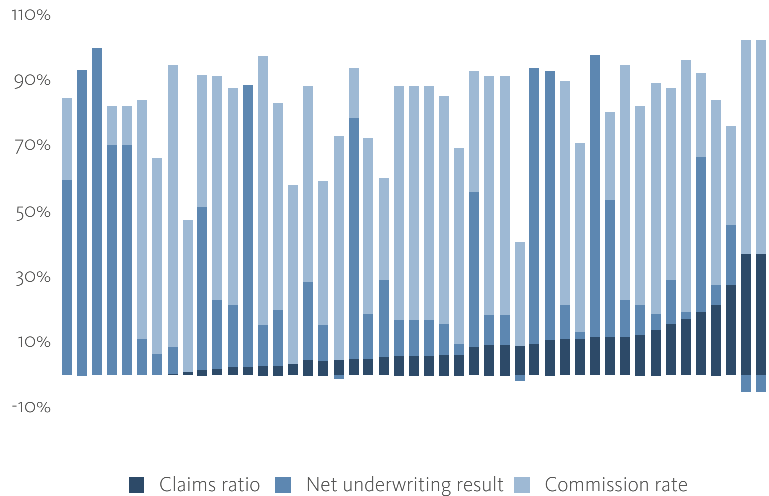


Figure 58 - Scale and magnitude: low claims ratios and high commission rates for Regular Premium Credit cards CPI, 2020

	Claims ratio				Net underwriting result				Commission rate			
	# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)		# Policies		GWP ('000 EUR)	
	#	%	EUR	%	#	%	EUR	%	#	%	EUR	%
0-10%	3,011,988	33.8%	238,892	39.1%	5,966,727	68.3%	1,077,169	44.7%	906,296	10.3%	7,924	1.3%
> 10% - <=20%	4,731,165	53.1%	338,125	55.4%	1,522,560	17.4%	100,456	4.2%	309,889	3.5%	4,081	0.7%
> 20% - <=30%	443,994	5.0%	20,163	3.3%	271,618	3.1%	776,015	32.2%	288,986	3.3%	9,841	1.6%
> 30% - <=40%	143,429	1.6%	12,834	2.1%	150,212	1.7%	353,136	14.7%	44,378	0.5%	9,853	1.6%
> 40% - <=50%	-	0.0%	-	0.0%	6,260	0.1%	13,102	0.5%	1,172,013	13.3%	126,292	20.6%
> 50% - <=60%	-	0.0%	-	0.0%	80	0.0%	59,313	2.5%	1,777,346	20.2%	142,950	23.3%
> 60% - <=70%	582,154	6.5%	767	0.1%	351,390	4.0%	3,703	0.2%	1,856,617	21.1%	140,711	22.9%
> 70% - <=80%	-	0.0%	-	0.0%	76,350	0.9%	25,280	1.0%	2,296,300	26.1%	138,780	22.6%
> 80% - <=90%	-	0.0%	-	0.0%	316,809	3.6%	2,283	0.1%	160,178	1.8%	33,424	5.4%
> 90% - <=100%	-	0.0%	-	0.0%	70,027	0.8%	-	0.0%	-	0.0%	-	0.0%
Grand Total	8,912,730	100.0%	610,780	100.0%	8,732,033	100.0%	2,410,456	100.0%	8,812,003	100.0%	613,855	100%

For the sale of 2.3m policies (26% of total policies) for a total of € 138m of GWP (22% of total GWP) - banks received in commissions € 103m, between 70%-80% of total GWP. **For the other 4.8m policies accounting for a total of € 409m banks received in commissions between 40%-70% of GWP**. The **Figure 58** and **Figure 54** complements the **Figure 39** and shows detailed data on the number of policies and corresponding GWP for which insurers have reported low claims ratio and paid high commissions rates to banks.

Figure 59 and **Figure 60**[14] below, summarize the scale and magnitude in terms of number of policies and GWP that are corresponding to high commissions and low claims ratio by type of product estimated in **Figure 50**, **Figure 52**, **Figure 54**, **Figure 56** and **Figure 58**. **Figure 59**

[14] Reading guide: the diagrams provides the potential impacts, both in terms of scale and magnitude, for a certain interval of the indicator under analysis (e.g. Figure 54, for claims ratio). The furthest point from the origin relates to credit cards CPI sold with a regular premium, that have a claims ratio between 10% and 20% of GWP. This represents 60% of the policies on the sample (x-axis view) and over 90% of the GWP (y-axis view). The diagram might be divided in four quadrants – 1, where both scale and magnitude are high; 2, where scale is low but magnitude is high; 3, where both scale and magnitude are of medium reach; and 4, where scale is high, but magnitude it at medium reach. Points were scale and magnitude were negligible are not included in the graph.

provides an overview on the claims ratio reported by the insurers in the sample by product and type of premium showing the number of policies and percentage of total GWP that are impacted.

We can observe that in the case of Credit Cards CPI (dark blue dot in quadrant 1) sold with a regular premium, around 53% of total number of policies sold in 2020 that cover over 90% of GWP collected by the insurers in the sample, have a corresponding claims ratio between 10% and 20% of GWP. For the Consumer Credit CPI sold with a Single Premium, we can observe that 80% of the total number of policies sold in 2020 that cover over 70% of total GWP collected by insurers in the sample have a claims ratio below 30% of GWP.

Figure 60 provides a similar overview but regarding commission rates paid to banks to the sale of CPI products. For 60% of total number of Consumer Credit CPI (light blue dot in quadrant 1) policies sold with a regular premium, insurers have paid to banks a commission between 40% and 50% of GWP. This corresponds to a total of around 55% of the total GWP collected by insurers in the sample.

Figure 59 - Matrix impact associated to each level of claims ratio, by type of product, 2020

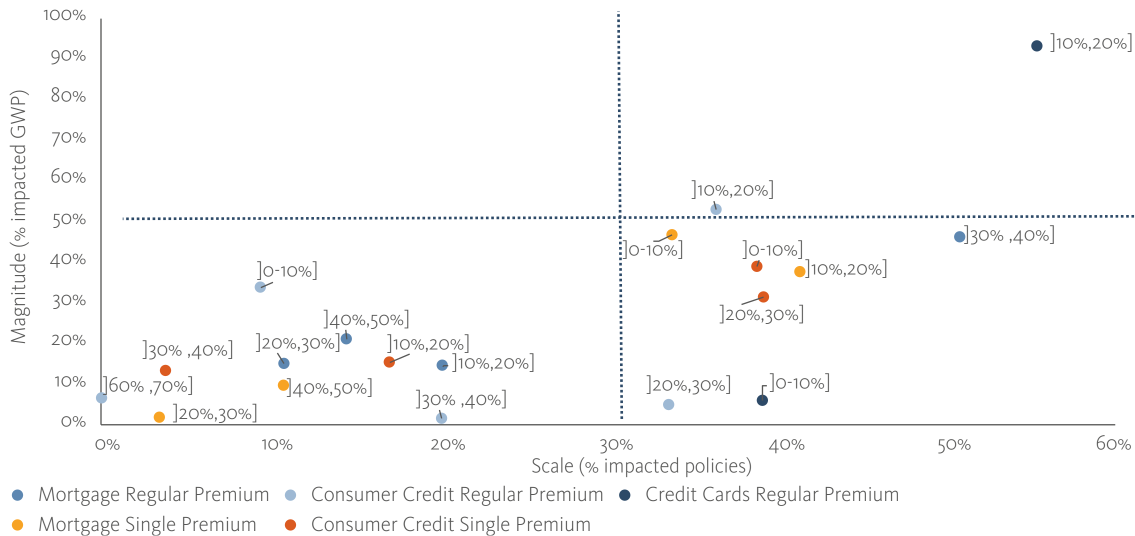
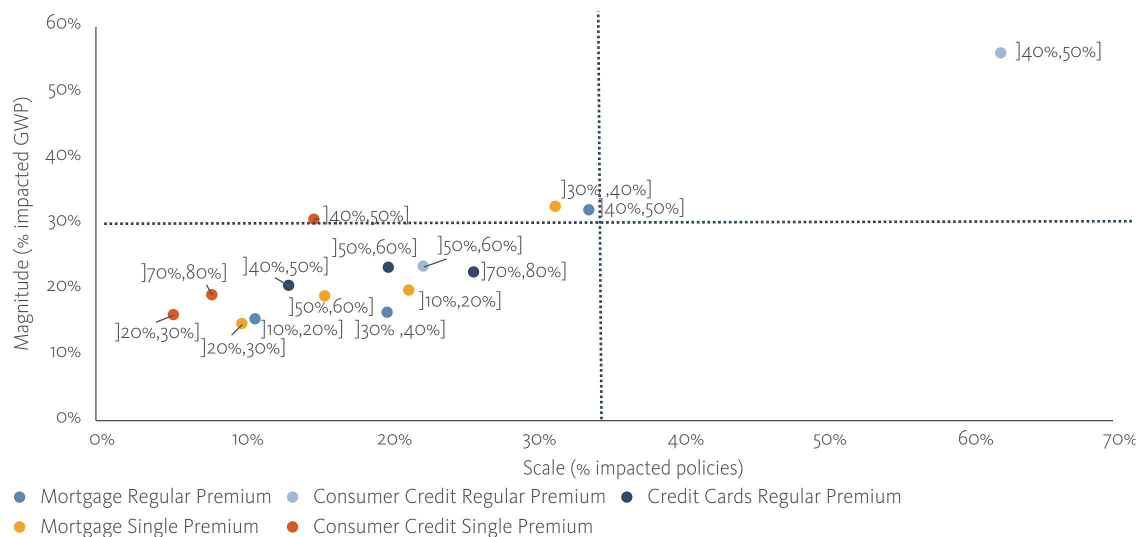


Figure 60 - Matrix impact associated to each level of commission rate, by type of product, 2020



It is noticeable that a very small number of CPI policies have been sold with commissions between 10% and 30% of GWP. This corresponds to around 10% of total number of Mortgage CPI policies with a regular premium underwritten by insurance in the sample, 5% of Consumer Credit CPI policies sold with a Single premium and 10% of Mortgage CPI policies sold with a Single premium.

Benchmarking with other LoB

Similarly to the analysis on SII data on commission rates paid by insurers for other LoB, an analysis of the average claims ratio reported by insurers for - for the period 2018-2020 is presented in the figures below.

As shown in **Figure 61** and **Figure 62**, we can observe that overall, the average claims ratios reported by insurers for the CPI products are significantly lower compared with the data for the four LoBs retained for this analysis. With the exception of few markets where the average claims ratio reported for CPI products is aligned with the lower range of reported claims ratios for the other LoBs, in the majority of MS the claims ratio for CPI products is at the lower extreme.

Figure 61 – Average claims ratio for Regular Premium CPI vs other LoB (part I)

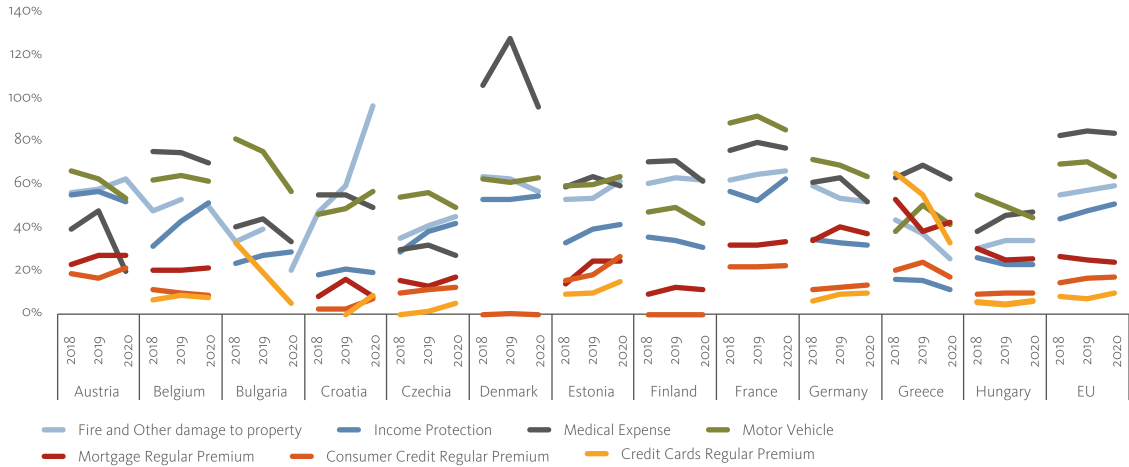
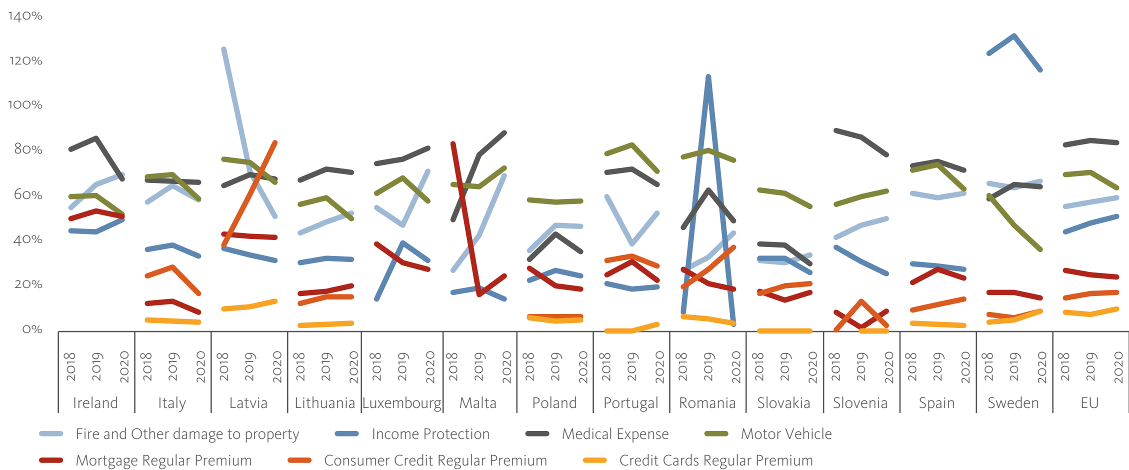


Figure 62 – Average claims ratio for Regular Premium CPI vs other LoB (part II)



Based on **Figure 63** and **Figure 64**, similar observations are made regarding the Single Premium CPI products, where the average claims ratio is significantly lower compared to the average claims ratio for the four LoB based on SII data.

In most MS, the gap between the average claims ratio for Single Premium CPI products and the selected comparable LoB is wider than for Regular Premium CPI products.

The gap between commission gets particular significant in some MS such as BE, DE, DK, SI, SK and SE, overcoming the EEA levels. In most markets the average claims ratio for income protection insurance seem to be closer to those for CPI products, however CPI products are expected to fall under income protection LoB and the figures present the average for the market.

Figure 63 - Average claims ratio for Single Premium CPI vs other LoB (part I)

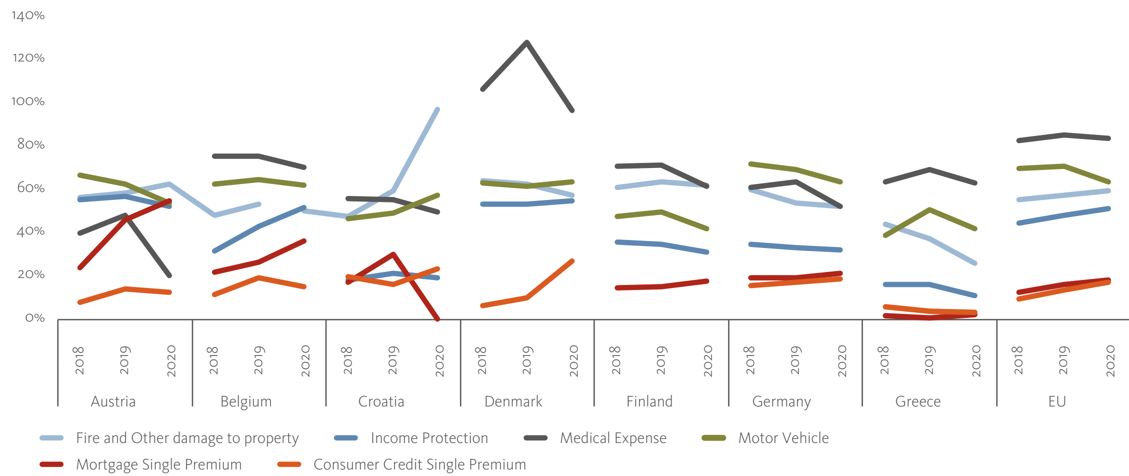
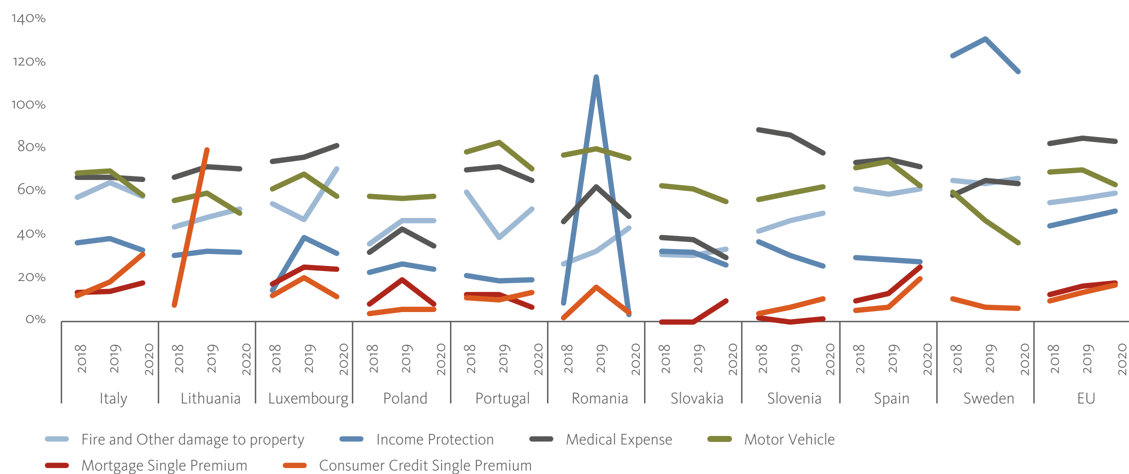


Figure 64 - Average claims ratio for Single Premium CPI vs other LoB (part II)



DENIED CLAIMS AND COMPLAINTS

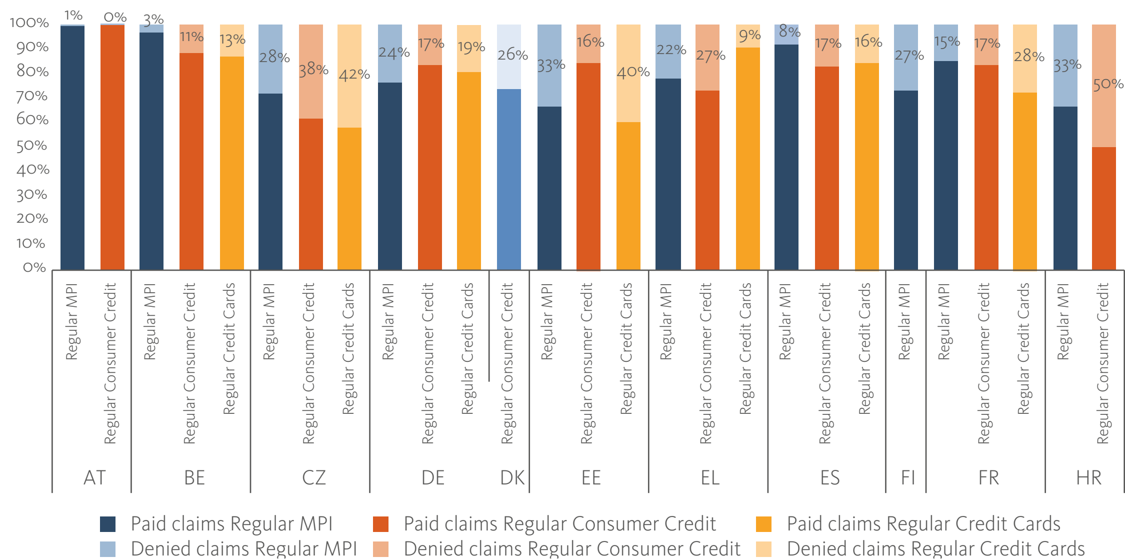
Denied claims ratio

In addition to the analysis on the claims ratio, it is important to look at the denied claims ratio[15]. For the purposes of the thematic review, insurers have reported data on denied claims. We defined the denied claims as claims submitted by policyholders/insured persons and dully processed by the insurer which have ended without payment. For the purpose of the thematic review, only claims completely denied where considered as claims denied. Claims partially denied are not to be considered as claims denied.

High numbers of denied claims can indicate potential issues with unsuitable sales, coverage and exclusions, as well as consumer understanding of the product and their expectations not being met at the claim stage. Generally in relation to the three CPI products we can observe an EEA average denied claims ratio between 20% and 30%, consistent across the three reporting years 2018-2020 as shown in **Figure 72** to **Figure 76** in **Annex IV** – additional figures, to all CPI products, and types of premium. Consistently throughout the years, the average EEA averages are higher for consumer credit CPI products, and particularly single premium.

However, looking at the results on a country by country analysis we can observe a variation in the average denied claims ratio from one MS to another and from one CPI product to another. It can be noticed that the average denied claims ratio is higher for consumer credit CPI products and credit cards CPI products compared to mortgage CPI products. This is also in line with the findings on the claims ratio shown in **Figure 49** to **Figure 57** where claims ratio are lower generally for consumer credit CPI products and credit cards CPI products.

Figure 65 - Paid claims vs denied claims for Regular Premium CPI products and by EU MS, 2020 (part I)



[15] The denied claims ratio was calculated as [denied claims/ (claims paid + denied claims)]*100%

Figure 66 - Paid claims vs denied claims for Regular Premium CPI products and by EU MS, 2020 (part II)

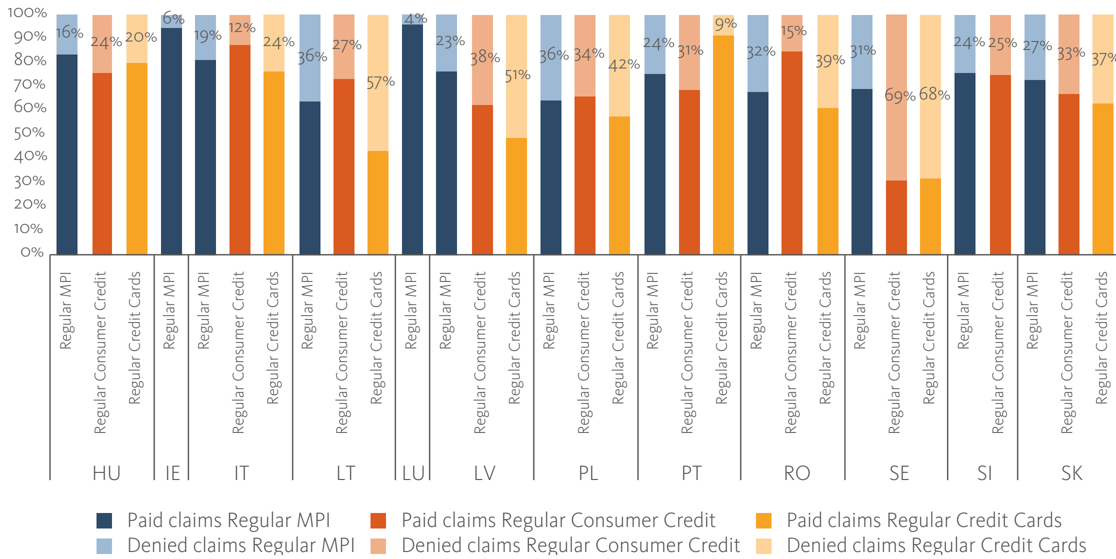
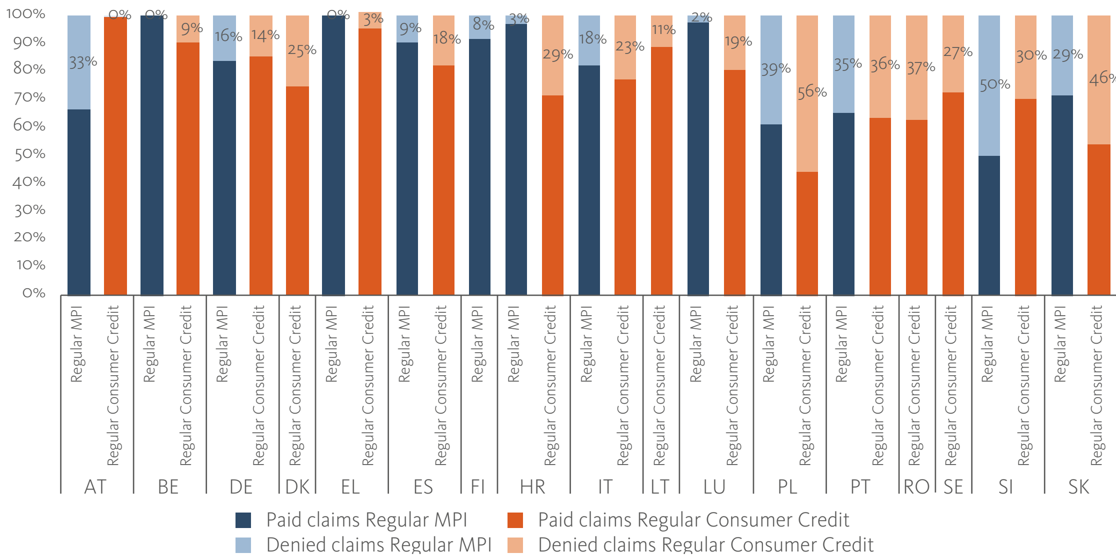


Figure 67 - Paid claims vs denied claims for Single Premium CPI products and by EU MS, 2020



Complaints

High number of complaints, regarding unsuccessful claims, may indicate failures with the CPI products, the distribution and sales process or that insufficient information has been provided to consumers regarding the coverage and other product features. The number of complaints is also commonly used to assess the performance of the products and the general policyholder experience when buying and claiming on the CPI products.

The number on complaints reported by the insurers are generally insignificant compared to the number of policies or number of claims. In connection with low claims ratio this could raise concerns around consumer awareness of owning CPI products.

Additionally, many undertakings have stated that the figures reported to regulators ('Ombudsman') are far more limited. Despite that, complaints figures raise some concerns with potential product manufacturing and distribu-

tion issues, both looking at the breakdown by distribution channel and by main cause.

The picture is quite steady across the 3 years under analysis and overall, claims related complaints have the biggest share out of the total complaints reported by insurers, particularly for Consumer Credit CPI Regular Premium, also reflecting the findings in terms of claims and declined claims presented in the previous sections.

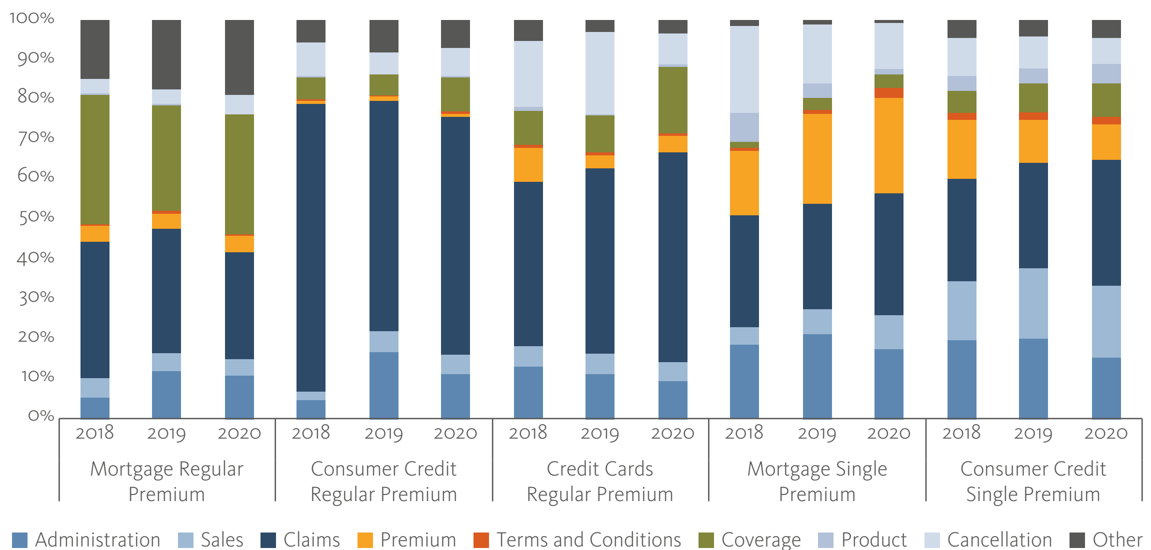
Despite the low number of reported complaints, and the poor data quality on this field, it is possible to notice that generally higher declined claims ratios are linked to higher number of complaints, especially related to claims, which might indeed raise some concerns in terms of claims handling processes and systems.

The main observation is that **consumers mainly submit complaints to insurers in relation to claims,** which might indicate issues with the claims handling process but also issues with the coverage of the CPI products and exclusion clauses, which can lead to a mis-match between consumer expectations and actual product cover. This risk is heightened in the case of the CPI products as most products are sold as Group Policies that have no or limited individual underwriting before the policy issue. This practice, referred to as "underwriting at claim stage" where a group of consumers is insured collectively without individual up front underwriting. However, unless sufficient attention is paid to ensure that customers fully understand the implications and exclusions concerned, this can lead to materially unfair outcomes with customers' benefit expectations not being met at claim stage.

We can also observe that in the case of the **Single Premium CPI products**, **the complaints related to the Premium** of the mortgage CPI and consumer credit CPI are **considerably higher compared to the Regular Premium products**. This can be explained by the fact that consumers are presented with the total amount of the GWP at the point of sale and are required to pay the full amount of the GWP in one lump sum which may increase attention of consumers on the size of the total premium to be paid. In addition, this could also be explained by the fact that in some cases consumers are offered the possibility to finance the GWP, however this raises additional interest costs for consumers, ultimately increasing the total amount to be paid by consumers for the CPI product.

The overview on the main reasons of why consumers complain, in combination with the analysis of the denied claims ratio and claims ratio raise significant concerns with the value of the CPI products as well as the sales practices – given that overall consumers get little value in return and not all of them may be eligible to submit a claim.

Figure 68 - Breakdown of complaints by cause, EU, 2018-2020



TERMINATION/CANCELLATION

NOT ALL CONSUMERS ARE FREE TO CANCEL THEIR CPI POLICY WITHOUT ANY CONDITIONS TO FULFILL. 43% OF INSURERS INDICATED THAT BEFORE CANCELLING THEIR CPI POLICY, CONSUMERS HAVE TO GET AGREEMENT FROM THE BANK AND FULFIL CERTAIN CONDITIONS.

Given in most cases the CPI products are sold as Group Policies where the bank plays a key role as the distributor, policyholder and often the beneficiary of the CPI policy – certain conditions for cancellation are defined by the bank and have to be respected by the consumer:

- Some insurers indicated that as required by the bank, the consumer has to first repay the full amount of the credit before being able to cancel its CPI policy
- Where the bank is the beneficiary of the CPI policy, the consumer has to get a signed approval by the bank
- In cases where the CPI policy is mandatory, the consumer has to bring to the bank the new CPI policy for an equivalence assessment of the cover provided and the bank has to allow the switch of the provider.
- In other cases, the consumer can only cancel the policy after a certain time (e.g. 5 years from the purchase).

In addition in the case of mortgage CPI policies, only 30% of insurers indicated that if consumers would like to remortgage their loan with another bank they would have the possibility to maintain the existing CPI policy. Most of the insurers allowing this possibility to consumers sell individual policies. However in cases where the previous bank was the beneficiary of the policy a signed confirmation is required in order to replace the new bank as the new beneficiary of the mortgage CPI policy. Some insurers selling Group Policies indicated that the consumer is free to decide if to keep the CPI policy in general, however it is not clear whether the policy will be linked to the new provider and the new credit agreement or not.

IN MOST CASES THE 70% OF INSURERS THAT INDICATED THAT MAINTAINING THE MORTGAGE CPI IN CASE OF REMORTGAGING IS NOT POSSIBLE UNDERWRITE GROUP POLICIES, WHERE THE CPI POLICY IS LINKED TO THE BANK PROVIDING THE MORTGAGE LOAN AND CANNOT BE MAINTAINED FOR REMORTGAGING BY OTHER BANKS.

All insurers indicated that in case of early repayment of the credit amount, the consumers are free to terminate their CPI policy at the repayment date.

Only 18% of insurers indicated that if consumers would like to cancel their CPI policy outside its statutory cancellation period they would have to bear some costs. These costs are different from one insurer to another, where some have defined a fixed costs (e.g. €10, €50, €123) or a defined percentage of the surrender value (e.g. 5%, 10%, 15%).

However some insurers that underwrite Single Premium CPI products indicated that the consumer does not get refunded the unearned premium amount and a few insurers underwriting Group Policies indicated that the consumer cannot cancel the CPI policy given the bank is the policyholder and the policy covers the whole portfolio of loans the bank.

In case of cancellation outside of the statutory period, the bank would have to repay to the insurer commission claw-backs and the insurers would bear some administrative costs related to the processing of the cancellation request.

22% OF INSURERS THAT UNDERWRITE CPI POLICIES WITH A SINGLE PREMIUM INDICATED THAT CONSUMERS CANNOT CANCEL THEIR POLICY UNLESS THEY REPAY THE CREDIT FIRST.

In practice we can observe every year, on average at the EEA level only 7% of consumers cancel their mortgage CPI product.

This percentage varies from one market to another but there are some outlier markets where this average is above the 7%, in particular FI (12%), EL (13%), ES (13%), LU (19%) and SK (11%).

Compared to figures above, the average yearly cancellation rate at the EEA level for consumer credit CPI policies is around 13%. In some markets this average is above the EEA level namely in DK (21%), DE (23%), EL (26%), HU (24%), LV (22%), LT (19%), PL (20%) and SE (24%). A clear outlier is SK where the cancellation rate varies significantly across the three years period with a peak of 75% in 2019, however it should be noted that the peak is driven by one isolated case of a participant that registered a drastic change in the number of cancelled policies in 2019 compared to 2018.

Higher cancellation rates in the case of consumer credit CPI might be explained by several factors including that early repayment are more likely to happen for consumer credits compared to mortgages. But higher cancellation rates could also indicate some potential issues with the quality of the product and its value to consumers, where some consumers believe that the product does not bring the same value as expected or they might have encountered some issues when claiming on the cover.

The EEA average cancelation rate for credit cards CPI is around 9% however in many countries is higher in particular in CZ (15%), ES (14), HU (14%), PL (16%), RO (16%) and SE (20%).

Figure 69 - Cancelation rate for Mortgage CPI by country for 2018-2020

Figure 70 - Cancelation rate for Consumer credit CPI by country for 2018-2020

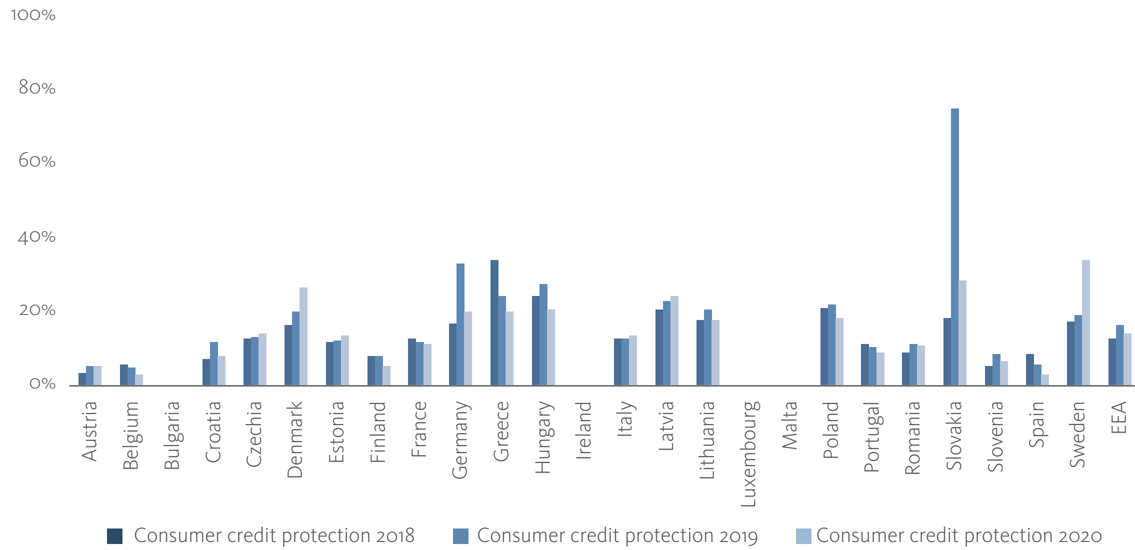
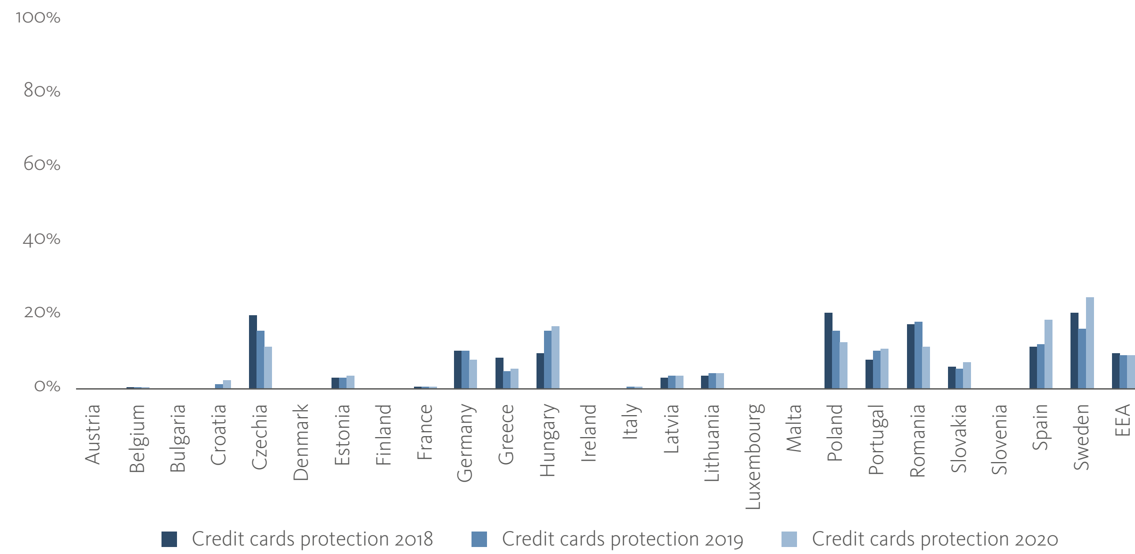


Figure 71 - Cancelation rate for Credit cards CPI by country for 2018-2020



5. CONCLUSIONS

Credit protection insurance (CPI) products, when adequately developed and targeted, can be beneficial for consumers, offering protection against the risk of policyholders or their estate being unable to pay a loan (e.g. in the event of death, accident, sickness or unemployment). In addition, when cross-sold with credit products, they can potentially reduce overall costs for consumers who wish to purchase such insurance by offering products as a package but also contributing to reducing the protection gap. Cross-selling CPI products can also provide consumers with ease of purchase and convenience by facilitating the purchase of insurance cover jointly with the 'core' financial product (mortgage, consumer credit and credit cards).

Despite the above benefits, the thematic review unveiled significant risks for consumer detriment arising from poor underwriting and sales practices as well as insufficient management of conflicts of interest arising in the context of bancassurance sales. The EU regulatory framework in place provided by the Unfair Commercial Practices Directive[16], the Mortgage Credit Directive[17] (MCD) and the Insurance Distribution Directive[18] (IDD) is robust however issues with compliance with the legal requirements seem to exist, and further supervisory actions may be needed as relevant.

Several key issues have been identified across the different stages of the CPI products' lifecycle.

PRODUCT DESIGN

In relation to product manufacturing, most CPI products covered by the thematic review are underwritten and sold as **Group Policies** that have no or limited individual underwriting before the policy issue. There is no major advantage of Group Policies compared to Individual Policies for consumers, however there are issues related to manufacturing that could lead to consumer detriment, stemming from the product approval process, including incorrect identification of the target market as well as weak assessment of consumer's objectives, interests and characteristics. In addition, the bank is in a conflicting position where it acts as the policyholder (and in most cases the beneficiary) of the Group Policy and as the distributor of it, for which it perceives remuneration from the insurer. There also some issues with cancelling or switching providers for some consumers that purchased a Group Policy, as often the approval by the bank is required (as the policyholder), and certain conditions have to be fulfilled. In addition, a consumer that purchased a Group Policy may not be able to maintain it in case of remortgaging and would have to purchase a new one.

The thematic review also unveiled the existence of **single premium** CPI products in some markets, where consumers are required to pay the total amount of the premium in one lump sum at the contract signature. Many banks selling single premium CPI products (for mortgages and consumer credit) offer the possibility to finance the premium together with the main credit product for which consumers would face additional interest costs. Such practice is detrimental to consumers given increased costs and unnecessary financial burden compared to regular premium CPI products. Further complications may arise if consumers would like to reimburse their loan in advance or switch providers either for the CPI policy or for the main credit product, as they would need to request a reimbursement of the unearned premium.

SALE

Cross-selling of the CPI products with the main credit products raise concerns, as it seems that tying practices **limit consumer choice and present a barrier for shopping around**. Most banks in the sample sell the CPI product tied to the credit product, meaning that consumers can only buy the CPI product if they take the main credit product from the same bank. In theory, they could shop around for alternative products however the high penetration rates indicate that consumers very often stick with the same bank for both the CPI and credit product.

[16] Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market EUR-Lex - 02005L0029-20220528 - EN - EUR-Lex (europa.eu)

[17] Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property EUR-Lex - 32014L0017 - EN - EUR-Lex (europa.eu)

[18] Directive (EU) 2016/97 on insurance distribution EUR-Lex - 32016L0097 - EN - EUR-Lex (europa.eu)

There is a **high diversity** of products both at the national and EU level, both in terms of coverage and characteristics as well as prices, which makes it very difficult for consumers to compare products and make informed purchasing decisions. In some markets, the offer for the CPI product (coverage and price) that the same consumer would get from two different banks can be very different, which can indicate issues with **limited competition** in the market and/or product differentiation. Other indicators of limited competition for CPI products in some markets are the extremely high commission rates that some banks charge, either due to their market and/or negotiation powers, and may drive higher prices for consumers.

The **high commission rates charged by the banks** appear to be unreasonable and cannot be explained by potential high costs for distribution as most **banks do not allocate costs** for the distribution of CPI products and do not know what these are. Even in the case of those few banks that were able to share data on distribution costs, the distribution of CPI products seems to be a very profitable business.

The close connection between insurers and banks in the case of bancassurance distribution models can lead to risks of conflicts of interest as there is a substantial interest of the parties to achieve common goals. The data analysis on commissions charged by banks and net underwriting results of insurers showed a pattern where, in the case of closer ties between the bank and insurer, the level of commissions paid to banks as well as the profits retained by insurers are higher. Given most insurers and banks (63%) are part of the same financial group, in a strategic alliance or have a Joint-Venture, strong risk management frameworks to mitigate potential conflicts of interest are needed.

Overall the thematic review unveiled the preponderance of insufficiently good consumer outcomes at the EU level, with different levels of concerns in some markets more than in others. It is important to note that some of the issues presented in this report do not reflect the situation in all countries as there are differences in terms of product offering, national legal framework and past supervisory actions taken by NCAs to address previously identified issues with CPI in their market.

Some CPI products are delivering unsatisfactory outcomes for consumers given:

- Inconsistent prices at the national level as well as high price dispersion in some countries;
- Difficulties for consumers to compare products, shop around and switch providers;
- High profitability of CPI products for many banks and insurers, and
- Issues with poor value and lack of consumer-centricity of CPI products.

6. NEXT STEPS

Considering the findings and conclusions of the thematic review, there is a clear need for the industry to improve consumer outcomes with CPI products. Despite the benefits and the role CPI products play for consumers and their financial resilience, it seems that not all market players put consumers at the center of their business models, including when designing and selling CPI products. The thematic review shows that the interest of consumers may be misaligned with those of some banks and insurers, which may adopt a conflicting strategy to maximize profits from the sale of CPI products above delivering good consumer outcomes.

Despite heterogeneity of situations across markets, there is a need for similar level of efforts from the industry to improve inconsistent consumer outcomes at the EU level. Insurers as manufacturers of CPI products and banks as insurance intermediaries are expected to have implemented in full the requirements set by the IDD and POG, and when they have identified potential issues that could lead to consumer detriment - take remedial actions.

In addition to past and future actions by NCAs, EIOPA will take immediate and medium to long term measures to set clear expectations for the market and monitor the changes in consumer outcomes.

Following publication of the thematic review, **EIOPA will organize a public event** with industry and stakeholders, as a follow-up to the Roundtable in March 2020, to present the findings and the measures to be adopted. The aim will be to raise awareness on the identified issues and discuss EIOPA's expectations on consumer outcomes with CPI products at the EU level. The event will also seek to get feedback from stakeholders on the measures to be adopted and potential industry needs for further EIOPA and NCAs' guidance on various topics.

EIOPA will issue a warning under Article 9(3) of the EIOPA Regulation to insurers and banks (as insurance intermediaries) to address concerns relating to conflict of interest emerging from high remuneration levels and sales practices that are detrimental to consumers (tying, pressure-sales, mis-leading information).

EIOPA will share the findings of the thematic review with the relevant Directorates of the **European Commission** and highlight potential issues with limited competition in the CPI market, consumer detriment arising from tied sales and issues with Group Policies and relevant implications in light of the IDD review.

EIOPA will work with NCAs to provide support in identifying cases of outliers in their markets that may carry a heightened risk of consumer detriment (e.g. players making excessive profits above other ones in the national market or charging high commissions).

EIOPA will engage with EU banking supervisory authorities (EBA and ECB) to exchange on risks management frameworks and mitigation of conflicts of interest arising in the context of bancassurance business models, arising from close ties between insurers and banks for the design and distribution of CPI products.

EIOPA will further assess the need to take additional actions, based on its mandate and legal powers, to improve consumer outcomes in the CPI market and promote coordination and exchange of information on NCAs actions to ensure a common approach and promote supervisory convergence at the EU level.

ANNEX I – STAKEHOLDERS INPUT

IRSG

EIOPA invited the Insurance and Reinsurance Stakeholders Group (IRSG) to provide Members' views on the topic in scope of the EIOPA thematic review. The IRSG advice has been published on EIOPA's website on 20 December 2021 and is also included here below.

While consumers can shop around for mortgage-related products, bancassurance can act as a one-stop-shop. Credit protection insurance (CPI) and payment protection insurance (PPI) provide various benefits, protecting consumers who take out mortgages and credits and their heirs from unexpected events that may lead to loss of income and other unforeseen consequences. CPI/PPI protect consumers against biometric and work-related risks and can partly or wholly pay off loans in case of unfortunate events, such as death, unemployment, or work incapacity. As such, CPI/PPI represents a significant help in protecting consumers' assets and maintaining their living standards in case of loss of income or other unexpected events. On a more general level, CPI/PPI can act as collateral and enable access to credit, leading to financial stability by protecting consumers against financial hardships due to death, unemployment, or inability to work.

Although CPI/PPI can have their advantages when the demands and needs test confirms such appropriateness, the consumers' interest is to have free choice about the insurance coverage and the distributor, including to shop around with other distributors than banks. This freedom of choice does not always seem adequately guaranteed under the rules of the MCD applying to cross-selling practices. The IRSG is aware that the banks' selling of CPI/PPI embeds some usual risks of selling like unmitigated conflicts of interest, aggressive sales techniques, pressure, over-selling, and unreasonable commissions, which continue to raise issues concerning customer protection in some markets in Europe. Therefore, constant monitoring and timely neutralization of these risks are necessary for the interests of consumers and the insurance market, including competent authorities when they assess the benefit to customers of the tying practices.

Nonetheless, the IRSG believes that the current regulatory framework is very robust. In addition to the unfair commercial practices directive and the mortgage credit directive, the insurance distribution directive (IDD) includes the sales of CPI/PPI by banks in its scope. The IDD strict rules ensure a very high level of consumer protection and have many safeguards designed to avoid mis-selling risks, for example:

Before being offered insurance products, consumers are asked to undertake a "demands and needs" test so that the offer is consistent with their real expectations and needs.

- IDD requires insurance distributors to act in the best interests of their customers.
- There are solid rules in place on remuneration and preventing or managing risks of conflicts of interest.
- The minimum harmonisation approach allows national authorities to further put in place additional requirements, as they see fit for the needs of the national markets.

Therefore, the IRSG believes that the focus should be on implementing and enforcing the current rules to guarantee a level playing field and fair competition between all distribution channels, rather than developing and imposing new ones at the EU level. Moreover, the IDD has been applying in most Member States for only three years, one of them being 2020, where trends have been characterized mainly by the pandemic. Thus, it is too early to have a clear picture of the impact of IDD.

BEUC

EIOPA also invited BEUC (the European Consumer Organisation) and its Members to provide input to the thematic reviews, based on observations from different EU markets in relation to CPI products. The full contribution is attached below.

Credit protection insurance policies sold alongside mortgage and consumer loans offer policyholders and their relatives protection in the event that they become unable to re-pay the loan, for instance in the event of a policyholder's death or incapacity to work. When properly designed and sold to consumers, credit protection insurance policies can offer benefits and help consumers in the event that they can no longer pay the monthly instalments on their loans. Nevertheless, many of BEUC's member organisations have identified significant consumer protection issues with the way these products are designed and sold to consumers, including many harmful practices that have led to poor consumer outcomes.

Key issues identified

BEUC has identified the following main concerns based on market studies and feedback from our member organisations:

1. Payment of high commissions for the sale of PPI

The most straightforward distribution channel for selling credit protection insurance policies is through loan providers (such as banks), who have a potentially captive audience of consumers to whom to sell credit protection insurance policies. This 'point of sale' advantage for loan providers means that insurers often pay very high commissions in order to secure distribution for their products. There is evidence that credit providers in Europe can attain very high commissions for selling credit protection insurance policies to consumers. For instance, a recent study[19] by the German financial supervisor Bafin found that commissions are a very lucrative source of income for loan providers, with some banks receiving up to 70% of the premiums paid out in the form of commissions. In 2017, a study[20] by the Belgian financial supervisor FSMA found that over half of the premiums paid by consumers were used to pay charges and sales commissions and that PPI products very often offered poor value for money for consumers. Between 2011 and 2015, companies collected an average of €65m in PPI premiums per year but paid out on a claim in only 0.24% of the contracts in force, which is very poor compared to other insurance products. In France, UFC-Que Choisir estimates that out of 100 euros of premiums paid by insured consumers, only 32 euros are returned to consumers in compensation.[21]

2. Concerns around tying practices and bundling of insurance products with loans

Tying practices, where banks require consumers to opt for a specific credit insurance policy when taking out a loan, raise significant consumer protection concerns. Tying practices lead to situations where consumers have no choice between different insurance providers, can harm competition between insurance providers, and result in consumers taking out insurance products that are not best suited for their needs, that are too expensive or that provide inadequate cover. Tying practices have generally been prohibited under the Mortgage Credit Directive, but broad exceptions to this rule mean that Member States can still permit tying practices where creditors can clearly demonstrate that tied products results in a clear benefit to the consumer.[22] A recent evaluation[23] by the European Commission found that tying practices remain prevalent in the EU, and raises concerns to what extent such practices by banks are compliant with the tying provisions under the Mortgage Credit Directive. In Italy, an investigation[24] by AltroConsumo found that banks often continued engaging in unfair commercial practices such as

[19] Bafin, 'Market investigations: Article from BaFin's 2017 annual report',

[20] 3 FSMA, 'Study of Payment Protection Insurance offered in conjunction with consumer loans'

[21] UFC Que Choisir, 'Assurance emprunteur: Une franche occasion de libérer 550 millions d'euros de pouvoir d'achat!',

[22] Official Journal, Article 12, 'Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property',

[23] Tying practices are generally prohibited under the Mortgage Credit Directive, with some notable broad exceptions where banks can demonstrate that tied products result in a clear benefit to consumers. According to Article 12(3), "Member states may allow tying practices when the creditor can demonstrate to its competent authority that the tied products or categories of products offered, on terms and conditions similar to each other, which are not made available separately, result in a clear benefit to the consumers taking due account of the availability and the prices of the relevant products offered on the market." A recent Evaluation (p. 122) of the Mortgage Credit Directive by the European Commission cites concerns to what extent creditors are complying with the detailed requirements of the tying provisions under the MCD.

[24] AltroConsumo, 'https://www.altroconsumo.it/soldi/mutui/news/assicurazioni-vendute-coi-prestiti,

tying, with banks frequently requiring consumers to buy specific insurance policies to be able to take out the loan.

Bundling practices, where banks cross-sell credit protection insurance policies alongside mortgage and consumer loans, also continue to raise consumer protections concerns. Bundling practice can impede the ability of consumers to shop around or carefully examine the costs and the terms and conditions associated with the insurance policy. When taking out a credit or a mortgage loan, consumers are often mainly focused on the primary loan that is being offered, paying significantly less attention to the terms and conditions associated with add-on insurance products such as credit protection insurance policies. A recent survey by UFC-Que Choisir found that when purchasing their own house, a majority of respondents (46%) taking out a mortgage loan focused principally on the interest rate associated with the mortgage loan, with far fewer respondents focused on the costs of the credit protection policies (only 18% of respondents were concerned about the costs of the insurance policy). UFC-Que Choisir's analysis[25] shows that consumers often have insufficient knowledge about credit protection insurance, and that most consumers are not aware that purchasing a loan insurance policy from an alternative company could offer them significant savings. In France, it is estimated that up to 87.5% of insurance contracts offered alongside mortgage contracts are held by insurers who have a very close link to the bank selling the mortgage credit. Yet evidence from UFC-Que Choisir shows that opting for a different insurer than the one provided through the bank can often result in significantly lower costs for consumers, saving consumers on average €5,000 over the lifetime of their mortgage.[26]

Credit institutions very often also take advantage of the behavioural biases of consumers to encourage consumer to opt for the bundled insurance product, even though this may not be in their best interest. For instance, many credit institutions offer interest rate discounts on the cost of the loan, if the consumer opts for the bundled credit protection insurance policies. This can lead to situations where consumers buy a credit protection policy solely to get the interest rate discount (even if it may not be the most suitable or most cost-effective product), and such nudges often impede consumers from shopping around and comparing offers from different providers (that may be more suitable or cost-effective). According to an investigation by our Belgian member Test Aankoop, very often the interest rate discounts offered by the banks are not sufficient to offset the higher premium costs associated with the bundled insurance product, and consumers are very often better off finding alternative insurance cover from a different insurance provider.[27] According to our French member UFC-Que Choisir, the credit protection insurance policies offered by banks are often also of lower quality than those offered by alternative insurers.[28] Lastly, there is evidence that banks very frequently employ aggressive sales techniques to push credit protection insurance policies to consumers.[29]

3. Excessive premium differentiation between different insurance offers

At the same time, market studies by consumer organisations often also reveal extreme price differences between credit insurance protection policies offered by different insurance providers. For instance, Stiftung Warentest found certain banks could often charge up to four times higher premiums to consumers for policies offering very similar levels of cover.[30] Similarly, a survey by Arbeitkammer in Austria found that the tariffs offered by six banks for securing a mortgage loan of €100,000 could be up to four times higher depending on the chosen insurer.[31] According to the investigations by Arbeitkammer and Stiftung Warentest, banks very frequently also do not include the premium costs of the credit protection policies in the Annual Percentage Rate of Charge (APRC) associated with the loan, especially in cases where the credit protection insurance policy is voluntary. Arbeitkammer has called for banks to be required to always include the cost of the credit insurance in the APRC, regardless of whether the policy is optional or mandatory the consumer to take out the loan.

4. Right to be forgotten and intrusive medical questionnaires

Cancer survivors often face major hurdles getting access to essential financial services, including credit protection insurance policies when taking out credit. In many EU countries, insures very often charge significantly higher premiums when taking out credit protection insurance

[25] UFC Que Choisir, 'Assurance emprenteur: Des economies improtantes mais ignorees',

[26] UFC Que Choisir, 'Assurance emprunteur: Changez enfin d'assurance emprunteur pour économiser des milliers d'euros!,

[27] Test Aankoop, 'Kiezen schuldsaldoverzekering'

[28] UFC-Que Choisir, 'Assurance emprunteur: Une occasion historique pour le Sénat de libérer du pouvoir d'achat',

[29] EIOPA, 'Consumer Trends Report 2019', pages 16 - 18.

[30] Stiftung Warentest, 'Teurer Schutz für Kreditkunden',

[31] Arbeitkammer, 'Schwer krank, arbeitslos? Wenn die Versicherung für den Kredit einspringt'

policies if consumers had a history of cancer. This means that cancers survivors often have to pay unaffordable premiums (or even denied the possibility of cover), despite evidence that cancer survivorship rates have dramatically improved across the EU. In Belgium, following a successful campaign by Test Aankoop, a 'right to be forgotten' was introduced in 2020 for cancer patients when taking out credit protection insurance policies.[32] Test Aankoop has called for this right to be forgotten to be extended to diabetics, due to recent improvements in treatments and in the average life expectancy diabetes patients.[33] Several other EU Member States, including France, Belgium, Luxembourg and the Netherlands have adopted national legislative initiatives recognising a right to be forgotten for cancer survivors, and such a right should be extended EU-wide.[34]

Beyond establishing an EU-wide right to be forgotten, BEUC's member organisations also have concerns that some of the medical questionnaires that consumers are required to complete to evaluate the risk of death and calculate premiums include questions which are not medically relevant.[35] In 2017, Test Aankoop raised concerns that many of the medical questions asked to consumers when taking out credit insurance products were too vague, not relevant, excessive and that these violated a consumer's right to privacy. In 2018, a Belgian court ruled that insurance providers had to amend the types of questions they could ask of consumers.[36]

5. Pre-ticked boxes

Credit protection insurance policies are an add-on insurance product that can be sold to consumers through the use of pre-ticked boxes. Pre-ticked boxes often result in consumers purchasing financial services products that they may not need, or that may not be the most suitable for them. For instance, in 2018, the French consumer protection and competition authority DGCCRF[37] carried out a mystery shopping exercise which found that the option to buy a payment protection insurance policy was pre-ticked by most credit sellers. In 2014, the UK Financial Conduct Authority (FCA) banned pre-ticked boxes for the sale of add-on insurance products because of the negative impact they have on consumer behaviour and outcomes (i.e. consumers were often more likely to buy inappropriate or unsuitable products, did not think whether they needed them, and the products often offered very poor value for money).[38] Consumers should be required to take an active and informed decision whether they need an add-on product that is being offered to, and the use of pre-ticked boxes should be prohibited in financial services under the review of the Distance Marketing of Financial Services Directive.[39]

BEUC policy recommendations

- A requirement to fully disclose the amount of commissions paid to financial intermediaries when recommending credit protection insurance policies, and the introduction of a maximum cap on the payment of commissions to intermediaries. In Germany, the consumer organisation vzbv called for a maximum cap on the payment of commissions that intermediaries can receive for recommending credit protection insurance policies to consumers.[40] In May 2021, the German legislator decided to limit commissions on residual debt insurance. From 1 July 2022, these commissions may not exceed 2.5% of the insured loan amount.[41]
- A strict prohibition on tying practices when selling credit protection insurance products to consumers. In particular, the broad exceptions under Article 12 of the Mortgage Credit Directive should be removed, and banks should be strictly prohibited from engaging in any form of tying practices.
- Stricter rules regarding the cross-selling of credit insurance policies at the point of sale by credit distributors selling mortgage and consumer loans, including for instance by:
- Requiring insurers to present multiple potential alternative credit protection insurance offers at the point of sale when selling mortgage loans to consumers, including at least one offer from insurance firms without close ties to the credit provider.
- Prohibiting the sale of credit protection insurance policies at the point of sale, as already implemented

[32] Test Aankoop, 'Verzekeraars moeten ernstige ziekte "vergeten"'

[33] Test Aankoop, 'Gelijke rechten voor diabetici', Budget en Recht, September/Oktober 2020.

[34] European Cancer Patient Coalition, 'The right to be forgotten',

[35] Test Aankoop, 'Illegale medische vragenlijsten van verzekeraars'

[36] Test Aankoop, 'Eerste vonnis medische vragenlijsten'

[37] DGCCRF, 'Consumer credit: fairness of pre-contractual information'

[38] Financial Conduct Authority, 'FCA proposes an end to opt-out selling of insurance add-ons'

[39] BEUC, Public consultation on the directive on distance marketing of consumer financial services

[40] vzbv, 'Provisionsdeckel nur ein erster Schritt'

[41] Stiftung Warentest, 'Teurer Schutz fur Kreditkunden',

in the United Kingdom.[42] In the UK, credit protection insurance policies cannot be sold until seven days after the loan was sold. Stricter cross-selling rules will allow consumers to take the time to reflect and take an informed decision on whether they need a credit protection insurance policy, or to consider alternative potential offers from different insurance firms.

- Allowing consumers, at any time, before and after taking out the credit agreement, to switch the insurance contract offered by the bank to an equivalent policy from an alternative insurer.
- Promoting the use of independent comparison tools to help consumers to compare between credit protection insurance policies, and signposting these comparison tools to consumers in relevant disclosure documents.
- A ban on the use of pre-ticked boxes when selling add-on insurance products to consumers under the review of the Distance Marketing of Financial Services Directive.
- An EU-wide right to be forgotten for consumers when taking out credit insurance protection insurance policies

[42] Competition Commission, 'Payment protection insurance market investigation',

INSURANCE EUROPE

EIOPA has invited Insurance Europe and its Members to provide an overview on the functioning of the market for CPI products at the EU level and share the industry perspective on the

Insurance Europe supports EIOPA's work on mortgage life and other credit protection insurance (CPI) sold through banks and recognises the value of "thematic reviews" in examining market practices and highlighting potential areas in which improvements are possible. CPI and payment protection insurance (PPI) sold through banks can provide significant value and benefits by supporting consumers' needs and demands.

CPI and PPI are insurance products with significant benefits for consumers

1. Coverage of risks

By **protecting consumers** against biometric and work-related risks and partly or fully paying off loans should unfortunate events occur, CPI protects consumers taking out mortgages and credit, and their loved ones and heirs, from concerns such as loss of income, repossession of their homes and other consequences of unexpected events. It also helps to **protect assets**, to **provide the peace of mind to plan and realise projects** and to **maintain a standard of living**. The main risks typically covered by CPI/PPI are the most common reasons for personal insolvency and include:

- death
- unemployment
- disability or work incapability
- dread diseases

Thus, CPI/PPI help households' resilience and peace of mind in times of distress.

2. Consumer perspective

CPI is known and used by customers, who consider it **essential** and **helpful**. A 2021 study by global market research company Ipsos in **nine European countries** (Belgium, Czech Republic, France, Germany, Italy, Poland, Spain, Sweden, United Kingdom) showed a **high level of awareness** of CPI in Europe (69% of interviewees know about it) and the majority of consumers recognise **its role in protecting their loved ones** (76%), their **properties** (75%) and its ability to **maintain their standard of living** (75%) and provide **peace of mind** (73%).

CPI can also provide protection **against risks that are perceived to be growing**: job loss is the most common reason to expect not to be able to repay a mortgage and 34% of consumers reported they would like to be better protected against it (a 6% increase on 2019). 40% of consumers would like better protection against serious illness (+7% from 2019).

The many other benefits provided include:

- **Community of interest:** The distributor has a strong community of interest with its consumer. It aims to provide the most suitable guarantees for all investor profiles. Indeed, the payment of the insurance benefit in the event of a claim enables the loan to be repaid, which is positive both for the customer and for the bank.
- **Tailored products:** The insured sum, the duration and the terms of the policy are tailored to the loan or credit request and thus to the individual consumer's needs both at inception and when their needs change. For instance, the duration and terms can be adjusted if there is a partial repayment.
- **Loan/insurance consistency:** As both the loan and the insurance are processed in the same information system, the CPI will be automatically adapted if there is any change in the loan, without the need for other administrative actions.
- **One-stop shop:** The bank provides customers with a single point of contact to request a loan and a policy, facilitating communication, allowing simpler processes and saving time. A single point of sale lowers costs for producers, distributors and consumers, and this is particularly relevant in the current ultra-low or even negative interest rate environment.
- **Helpful advice:** Distributors are able to recognise areas in which there is a need for cover and can point out gaps in protection to their clients, allowing them to take the necessary measures to close those gaps.
- **Maintaining a healthy credit score:** The ability to repay loans following unexpected negative events avoids customers receiving negative ratings.

- **No/limited risk assessment:** Coverage can be provided quickly and there can be limited need to provide data (especially data relating to personal health) to the distributors.
- **Better pooling:** Broad distribution allows for better mutualisation of risks, pooling costs and opening access to financial services to the largest possible number of consumers.
- **Freedom of choice:** Consumers can generally choose whether to take out insurance. Where banks require insurance for a mortgage, the customer is free to choose any policy that includes the required guarantees.

EXAMPLES:

- A family member takes out a mortgage and, after their death, they do not leave the family in financial difficulties because they took out credit protection insurance.
- Due to the bankruptcy of their employer, a young parent loses their job and becomes unemployed. The instalments of the loan they previously took out to buy their car are paid by the credit protection insurer until they get a new job six months later.
- A single parent takes out a loan to renovate their house and due to a sudden illness is no longer able to work. Thanks to the credit protection insurance, they do not have difficulty repaying the loan and providing for their family.

A service essential to the economy

- As regards large items of credit, such as a mortgage, in a world without CPI/PPI consumers would face greater difficulty accessing credit markets and they could be deprived of access to many goods, services and loans without insurance that mitigates the risk for the bank. CPI/PPI are thus important collateral for the banking sector and contribute to financial stability.
- CPI/PPI are essential to the financial resilience of European households and national economies.
- During the COVID-19 pandemic, many customers needed to suspend their loan repayments. Banks have facilitated many loan renegotiations, besides their ad hoc exceptional measures. They have also systematically taken care of adjusting the CPI/PPI cover to the extension of the loan's duration. By delivering quickly in this complex situation, they have shown their ability to act in the best interest of their clients.
- The guarantee to receive the sum insured is reinforced by technical provisions and solvency capital that must be sufficient to have such guarantee.
- CPI/PPI supports access to credit and thus promotes investment by private households. During the COVID-19 crisis, for example, households with CPI did not necessarily need to increase their savings to cover the financial burden of loan payments in the event of unemployment, since the CPI already covered this risk. A recent study by RWI (Leibniz Institute for Economic Research in Germany) showed that the positive effects of CPI/PPI in terms of protection against unemployment alone (through the long-term stabilisation of personal spending, among other factors) amount to around €15bn per year in Germany. Thus, CPI contributes to economic growth in general and the post-COVID-19 recovery in particular. CPI/PPI helps prevent over-indebtedness since it protects against financial difficulties stemming from three of its main causes: death, unemployment and incapacity to work. In some countries, credit protection is mandatory, indicating that it is considered an important instrument for consumer protection.

A service keeping pace with new needs

- CPI/PPI insurers are preparing innovations and improvements such as: new coverages; fewer exclu-

sions; wider access to insurance for people with serious medical conditions (e.g. French AERAS system); faster underwriting and claims processes through digitalisation and, where possible, links to public databases; and customer-focused product development (e.g. examination of the risks covered taking account of possible changing customer needs).

A robust regulatory framework for sales practices and distribution

The Insurance Distribution Directive (IDD) significantly enhances consumer protection and addresses many of the issues or potential issues in relation to CPI/PPI previously identified by EIOPA in its Consumer Trends Reports. The sale of insurance products via a bank is entirely within the scope of the IDD and subject to strict requirements that provide consumers with a very high level of protection and that effectively prevent the risk of mis-selling.

These include:

- **Demands and needs**: In order to avoid cases of mis-selling, the sale of insurance products should always be accompanied by a demands-and-needs test on the basis of information obtained from the customer. Any insurance product proposed to the customer should always be consistent with the customer's demands and needs.
- **Best interests:** Article 17(1) of the IDD sets out the principle that when carrying out insurance distribution activities, distributors must always act honestly, fairly and professionally in accordance with the best interests of their customers.
- **Information provision**: Article 20 of the IDD states that the insurance distributor shall provide the customer with relevant information about the insurance product in a comprehensible form to allow the customer to make an informed decision.
- **Cross-selling**: The current regulatory framework ensures adequate consumer protection.
- **Remuneration:** The IDD contains robust rules on remuneration and against conflicts of interest. Insurance distributors have a general duty to identify and mitigate any potential conflicts of interests. In addition, distributors are required to ensure that the remuneration (commissions, fees, non-monetary benefits) does not impact their responsibility to act in the best interests of the client. If properly applied, this prevents the offering of excessive commissions identified by EIOPA.
- **National measures**: Although very strict, the IDD requirements can be supplemented where appropriate by additional requirements at national level. This is because the IDD takes a minimum harmonisation approach, allowing national regulators to introduce additional national measures tailored to the needs of their national market. This is, for example, the case in some member states, which require repetition of the information previously disclosed on cancellations rights, explaining to the customers their rights to withdraw after taking out an insurance policy. The measure is designed to give customers the time to make an informed decision about their insurance products.

In conclusion, the IDD already provides a strong framework for preventing bad practices in the sale of mortgage and credit insurance by banks where it is properly implemented and enforced. National regulators are already provided with the tools they need to supervise this market and should be supported by EIOPA in taking measures to address bad practices.

Finally, it should also be highlighted that the Thematic Review considers consumer outcomes on the basis of only a few years, and it is certainly not representative as insurance builds on the basic principle of risk equalisation over time. Premiums are accumulated over a very long period to compensate for losses at one point in time, including large claims events.

ANNEX II – NCA QUESTIONNAIRE AND ACTIONS TAKEN AT THE NATIONAL LEVEL

NCAs Questionnaire

As part of the information gathering exercise, EIOPA launched a Questionnaire addressed to NCAs to collect input on existing legal frameworks, consumer protection issues, market practices and regulatory/supervisory actions taken in relation to mortgage life and other credit protection insurance products in their markets.

All NCAs, except IE, LI and NL, have indicated that the main distribution channel for mortgage life and other credit protection insurance products is the distribution via banks. All NCAs except IE, have also indicated that mortgage CPI product is not compulsory by law.

18 out of 26 NCAs replied having identified consumer protection issues with the products in scope in their market. 15 out of 26 have reported actions undertaken to identify and address the potential risks and issues with regards to mortgage life and other credit protection insurance.

An overview of the main issues and their severity in various markets is presented in the table below, as reported by the NCAs.

List of issues	Markets where this is an average (3) or major issue (4-5)	Markets where this is a small issue (1-2)
Providing misleading information	ES, HR, GR, HU, IT, PL, PT, SI,	AT, DE, FR, IE, LT
Pressure sales practices	CY, ES, FR, GR, HR, HU, IT, LT, PL, PT, SI,	BG, DE, IE
Selling unsuitable policies	HR, DE, FR, HU, IT, LT, PL, PT, SI, ES	CZ, GR, IE, NL
Profit sharing arrangements	CZ, DE, FR, HU, IT, PL	HR, IE, LT, NL, PT, ES
Group policies where the bank is the beneficiary	BG, CY, CZ, DE, GR, HU, PT	HR, IE, IT, LT, PL, SI, ES
High commissions paid to banks	BG, HR, DE, FR, GR, HU, IE, IT, LT, PL, PT, RO	CZ, LU, SI, ES
General low value for money	HR, DE, FR, HU, IT, PL, PT	BG, GR, IE, LT, LU, SI, ES
Issues with how the premium is paid	DE, HU, IT, PL, ES	FR, HR, GR, IE, LT, PT, SI,
Lack of medical screening	BG, CZ, DE,GR, HU, PL, RO, ES	FR, HR, IE, IT, LT, LU, PT, SI
High number of exclusions	DE, GR, HU, PL, PT, RO, ES	CZ, FR, HR, IE, IT, LT, LU, SI

Actions taken by the NCAs at the national level

12 NCAs have previously carried out thematic work on CPIs. 14 NCAs have taken action in relation to the sale of CPIs some of which were meeting with banks, carrying out inspections, imposing fines, requesting to improve selling practices. These actions may have addressed some poor consumer outcomes – however issues still persist.

Country	Details
Belgium	Thematic review – a press release was published informing the public about the limited value of these products. Besides that all pre-contractual documents, the general conditions as well as the publicity of the 11 products that were part of our thematic review were examined and have been adapted to bring in line with the relevant regulatory provisions.
Bulgaria	Request to insurers/banks to improve demands and needs assessment & sales practices
Czechia	Thematic Review – on market practices, market impact and type of insurance distributed as group insurance following new legislation regarding Group policies.
Finland	Letter to banks to inform consumers that they can decide if they want or not a CPI
France	Thematic Review – implemented additional national legislation for the sale of CPI: **annual termination right** to change their insurance contract to an alternative contract that has an equivalent coverage level. Until 12 months after the loan signing, borrowers have the right to substitute the insurance contract distributed by the lender to an alternative insurance contract under the condition that new contract has an equivalent level of coverage. Recent legislative developments have changed these rules by introducing a right to change at any time mortgage CPI product under the condition of equivalent insurance coverage.
Germany	**Supervisory actions:** In 2016-17 thematic review of the CPI market for consumer credit In 2018 and 2019 round tables with representatives of insurance and banking associations, consumer protection agencies and governmental departments resulting in a voluntary self-commitment by the main banking associations in 2019 and insurance association in 2020 In 2019-20 2nd thematic review of the CPI market for consumer credit to cover new developments and other open issues In 2019-20, representative online survey of 1000 consumer credit takers regarding the credit and respective CPI product to get insight into consumer knowledge and expectations regarding CPI products consumers' take-away from the documentation and the counselling interview consumer experience with the new IDD regulations regarding information and withdrawal consumer experience with claims **Legislative actions:** Introduction of a cap on commissions: From July 1st 2022, commissions for CPI may not exceed 2.5% of the insured loan amount (shares of the premium may not be included in the calculation). This also applies for commissions of group policies.
Greece	Meeting with banks – issued a circular on the sale of CPIs
Hungary	Request to improve data registers on bancassurance sales

Ireland	**Payment Protection Insurance Thematic Review** The Central Bank of Ireland undertook a major investigative project into the sales of Payment Protection Insurance in 2011-2014. This included requirements, for banks, to assess and evidence suitability and eligibility and to check that claims were not declined for reasons which the seller should have identified during the sales process. Sales were also failed and refunds required where there were deficiencies in systems indicating potential Consumer Protection Code failures. The Central Bank required each credit institution to engage an independent third party, acceptable to the Central Bank, to oversee each review. The credit institutions could not demonstrate compliance with the Code in 22% of the sales subject to the Review and therefore these sales failed the Review. This resulted in refunds of approximately €70 million on approximately 77,000 policies. The sale of Payment Protection Insurance by retail banks has fallen considerably in recent years. **Legislation** The Central Bank's Consumer Protection Code prohibits regulated financial service providers making the sale of a product or service (e.g. a consumer credit) contingent on the consumer purchasing another product or service (e.g. credit protection insurance) from the same financial service provider.
Italy	**Supervisory actions:** Improve cooperation with the Bank of Italy to coordinate action on banks; In 2015 a series of meetings among: IVASS, Bank of Italy and Consumer Associations; IVASS and ANIA (National Association of Insurance Undertakings); IVASS, ABI (National Association of Banks), ASSOFIN (National Association of Consumer Credit and Mortgage Lending) and Consumer Associations. **Public hearing IVASS/Bank of Italy in June 2015** with undertakings, intermediaries and Consumer Associations (119 participants); **Joint work IVASS/Bank of Italy: letter to the market on 26 August 2015**: request to the Boards of insurance companies and banks/financial institutions to adopt action plans for realignment of products and sales practices to the guidelines indicated by IVASS and Bank of Italy. In particular we asked to remove: critical issues in product design, underwriting and claims settlement policies; Critical issues in distribution (forced sales, lacking information). The letter to the market is available in English language on the following link: https://www.ivass.it/consumatori/azioni-tutela/lettere-mercato/documenti/PPI_Misure_a_tutela_dei_clienti_ENG.pdf **<u>Follow-up on the compliance to the letter to the market IVASS-Bank of Italy:</u>** Off-site checks on a sample of companies and intermediaries (representing approximately 65% of PPI premiums: 17 undertakings and 11 intermediaries) with: examination of the action plans; examination of the pre-contractual and contractual documentation and claims settlement policies. meetings with 6 companies (most significant); requests to 6 companies to implement further corrective actions; inspections by IVASS of 6 companies and by the Bank of Italy of financial intermediaries. **Outcomes achieved:** review of the new products, more tailored to needs of the specific target client; specific questionnaire to customers for the health status instead of declaration of good health; welcome letter to the clients with the right of the withdrawal within 60 days; on existing policies, adoption of claims settlement policies more favorable to policyholders, as confirmed by the decrease in complaints.

Italy

Thematic review on PPI's costs:

Letter to the market for data acquisition of 24 September 2015

Public report (Fixed commission fees: 1) in 65,2% of products not more than 30% of the premium; 2) in 24,2% of products from 31% to 49% of the premium; 3) in 10,4% of products with a rate of 50% or more of the premium).

Further IVASS interventions to request the implementation of procedures for the reimbursement of unused premiums in the event of early repayment of the loan:

Letter to the market of 3 April 2017 (partial repayment of the loan).

https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2017/lett-03-04/index.html

Letter to the market of 18 December 2018 (calculation formula): following the receipt of some complaints on the methods adopted by insurance undertakings for calculating the part of the premiums not enjoyed to be refunded in case of early repayment of the loan. In particular the complaints report about methods of calculation that are not clear and/or unfavorable for policyholders. Given the above, IVASS draw the attention of insurance undertakings on the need to apply the calculation criteria stated by the relevant national regulation. The letter to the market is available in English language on the following link:

https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2018/lm-18-12-2/index.html

Letter to the market of 17 March 2020: in line with the joint work started in 2015, IVASS and Bank of Italy issued a new joint letter to the market requiring insurance undertakings and banks/financial institutions to adopt and apply specific procedures aimed at granting the on-going evaluation of risks linked the offer of products linked to loans.

In the letter IVASS and Bank of Italy draw the attention of insurance undertakings and banks/financial institutions on the need to comply with the sectorial legislation in force, with particular reference to the main consumer protection principles introduced by the IDD, referring to the following main concerned issues:

a) the qualification of the insurance policy as mandatory (i.e. essential for the granting of the loan or for obtaining it under certain conditions) or optional;

b) the selling of the above mentioned "uncorrelated policies";

c) the control of the distribution channels and the monitoring of mis-selling cases;

d) the conflicts of interest and level of costs;

e) the correct management of the requests for early extinction of the loan.

Finally, the letter requires insurance undertakings and banks/financial institutions to verify the internal policies for the offering of these products and to report, respectively, to IVASS and Bank of Italy, the verification results including the information on remedial actions adopted, where necessary.

https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2020/17-03/index.html?com.dotmarketing.htmlpage.language=3

Cooperation with the Italian Antitrust Authority (AGCM) in 2019:

On the basis of IVASS input, AGCM opened proceedings for:

"aggressive" commercial practices against the banks, as they would have implemented a forced cross selling of fire and bursting policies on the occasion of mortgage portability;

"unfair" commercial practices against the banks for lack of control, as they would have not carried out any monitoring and control activity on the placement of their partners.

At the end of the proceedings, on 16th March 2020, the AGCM published on its website, the official bulletin containing the measure by which it sanctioned four banks for "aggressive" and "unfair" commercial practices. The Authority warned the banks not to continue with the contested conducts, applied substantial fines and ordered the publication of the measure in different national newspapers.

Lithuania

Thematic Review, carried out in 2017.

In 2019, in response to the growing number of group insurance cases in Lithuania and consumer protection issues related with such form of insurance distribution the Bank of Lithuania issued the Public Opinion on Group Insurance providing guidelines for insurance distributors with regard to the distribution of group insurance products. Although this document was not directly inspired by the situation in the PPI market nonetheless it helps to protect interests of the consumers (insured) of PPI group products as well.

Briefly, the Public Opinion of on Group Insurance stipulates that an insured of group insurance contract must be treated by the insurance distributor almost equally as a policyholder, i. e. get all the necessary pre-contractual information, the product shall meet needs and requirements of insured, the insured could file a complaint or apply for the dispute resolution into ADR scheme.

Poland	The analysis to make an initial assessment of the practices in the scope of offering insurance products related to banking products (bancassurance), conducted by the KNF at the turn of 2011 and 2012 revealed irregularities in the bank-customer relationship. In 2014 the KNF issued the Recommendation U addressed to all banks involved in cooperation with insurance companies by offering insurance understood as intermediation in concluding insurance contracts, offering to join an insurance contract for someone else's account or when the customer finances the cost of insurance coverage related to the risk borne by bank. Recommendations constitute a framework for the correct identification, supervision and management of risks related to the provision of insurance by banks and are a set of recommendations in relation to the bank's accounting policy, the internal control system, including the compliance unit operating within this system. Still in 2014 the said Recommendation has been complemented by Distribution Guidelines addressed to insurance undertakings in order to unify standards in the scope of conducting insurance activity, regardless of the insurance distribution channel (method). The Guidelines aims to ensure that the situation of clients of insurance companies will not be significantly differentiated depending on the channel of the insurance distribution The Guidelines aims also to increase the level of customer confidence in insurance companies and the entire financial market. In addition legal requirements related to the group insurance were introduced into the Act on the insurance and reinsurance activity (2015) in order to eliminate situations that the policy holder in insurance concluded for the benefit of the third party, especially in group insurance, or persons acting for or on behalf of the policyholder may receive any remuneration or other benefits associated with offering the insurance coverage or any activities related to performance of insurance contract. Prohibition to receive remuneration or any other benefits in insurance concluded for the benefit of the third party, including group insurance is in force since 1st April 2016. There are few exceptions to this rule – remuneration or other benefits might be received in case of insurance contracts concluded for the benefit of employees or persons working under the civil-law contracts and their family members as well as contracts concluded for the benefit of members of associations, professional self-governments or trade unions
Portugal	Issued a circular clarifying the terms in which the minimum requirements of the mortgage life insurance contracts information should be communicated to clients by insurers (Circular no 2/2010, of 25 February). Issued a circular on good practices regarding the design of CPI products, transparency requirements and underwriting policies (Circular no 2/2012, of 1 March). Issued a circular to collect data in order to assess the level of compliance with the recommendations issued under Circular no 2/2012, of 1 March (Circular no 7/2013, of 24 October). Issued a circular on distribution of payments protection insurance linked with non-insurance services, recommendation also extensible, in some cases, to CPI products (Circular no 8/2021, of 16 November).
Romania	Fine to an insurer / Thematic Review on CPI
Spain	Inspection

ANNEX III – REGULATORY FRAMEWORK

There are several EU legislations that need to be considered for the purposes of the thematic review considering the products in scope and the selected distribution channel. A detailed analysis of the regulatory framework in place is provided here below:

INSURANCE DISTRIBUTION DIRECTIVE

The Insurance Distribution Directive (IDD) has extended the scope of regulation to include not only the distribution of insurance products and provision of information to the client, but also the management of insurance contracts and product oversight and governance rules.

As IDD is a minimum harmonisation directive, it has not harmonised intermediary categories across the European Union. IDD uses activity-based definitions of 'ancillary intermediary' and 'insurance intermediary' but does not provide any specific categories of entities to be harmonised across EU Member States. Therefore, each country could implement the IDD requirements with some flexibility, which fits into one of those two categories of insurance intermediary.

As indicated in EIOPA report 'Insurance Distribution Directive – Evaluation of the Structure of Insurance Intermediaries Markets in Europe', there is no formal legal definition for bancassurance. Moreover, in some EU Member States there is no separate formal category of 'bancassurance' insurance intermediary. Therefore, banks acting as an insurance intermediary might be registered as different categories of intermediaries across EU Member States, depending on national regulations.

Although there is no direct restriction on banks acting as an insurance intermediary, IDD provides for some limitations by means of the definition of "ancillary insurance intermediary". According to the IDD definition, 'ancillary insurance intermediary' means any natural or legal person, other than a credit institution or an investment firm as defined in points (1) and (2) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (...). According to the definition used in Regulation 575/2013, 'credit institution' means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account. As a result, banks could not be registered as any form of 'ancillary insurance intermediaries' type intermediary. Therefore, banks could not benefit from the exemption from continuing professional development obligations of their employees, if possibility described in Article 4(2) point 4 of IDD was exercised at national level.

Certain ancillary insurance intermediaries are excluded from the majority of the scope of the Directive. The exemption under Article 1(3) of IDD applies only if:

the insurance is complementary to the good or service supplied by a provider, where such insurance covers:

- the risk of breakdown, loss of, or damage to, the good or the non-use of the service supplied by that provider; or
  - damage to, or loss of, baggage and other risks linked to travel booked with that provider;
  - the amount of the premium paid for the insurance product must not exceed EUR 600 calculated on a pro rata annual basis;
- by way of derogation from point (b), where the insurance is complementary to a service referred to in point (a) and the duration of that service is equal to, or less than, three months, the amount of the premium paid per person does not exceed EUR 200.

The nature of insurance intermediation activities allowed for that kind of intermediaries is not complementary to 'standard' banks activities. As a result, normally banks could not act as an ancillary intermediary described in Article 1(3) of the Directive, as insurance offered by them would not cover the risk of 'non-use of the service supplied by provider.'

There are no specific provisions of IDD which apply to bancassurance distribution only, either requirements on services and information provided to the client or requirements on Product Oversight and Governance. If a bank is acting as insurance distributor, it shall comply with all the rules as described in Chapter V of the Directive, including

the principle to act in the best interest of the customer. If a bank is also distributing Insurance Based Investment Products, additional requirements as described in Chapter VI of the Directive apply.

According to the EIOPA Report Analysing National General Good Rules, as IDD is a minimum harmonisation directive there are various general good rules applied by EU Member States. Some of the general good rules provide mandatory advice for any insurance product, or for certain types of insurance product. Although there are no extra obligations for banks acting as an insurance distributor in IDD, there might be some stricter requirements provided for by national laws.

The IDD framework does not differentiate between Product Oversight and Governance requirements based on the category of intermediary. The scope of product oversight and governance requirements depends on whether the insurer or intermediary is a manufacturer of the product or only a distributor.

Article 25(1) of IDD states explicitly that insurance intermediaries could be manufacturers of an insurance product. According to Article 3(1) of Delegated Regulation 2017/2358, insurance intermediaries shall be considered manufacturers where an overall analysis of their activity shows that they have a decision-making role in designing and developing an insurance product for the market. There could also be a situation where both an insurance undertaking and an insurance intermediary are manufacturers of the same product (Article 3(4) of Delegated Regulation 2017/2358). If such a situation occurs, they are obliged to sign a written agreement which specifies their collaboration to comply with the requirements for manufacturers referred to in Article 25(1) of IDD.

IDD has not established any specific rules on group insurance policies. Some help in the interpretation of IDD requirements for group insurance policies distribution may be recital (49) of the Directive: In the case of group insurance, 'customer' should mean the representative of a group of members who concludes an insurance contract on behalf of the group of members where the individual member cannot take an individual decision to join, such as a mandatory occupational pension arrangement. The representative of the group should, promptly after enrolment of the member in the group insurance, provide, where relevant, the insurance product information document and the distributor's conduct of business information.

It should be kept in mind that recitals may only be treated as a help in interpretation but they are not part of the core legal text of the directive. IDD does not provide any legal definition of 'customer'. Nor are there any direct provisions on how to apply the IDD requirements, especially the demand and needs test, where customers can take an individual decision to join group policy but they have no legal tie to the insurance distributor, or where all communication is exchanged with the policyholder.

IDD provides for some exemptions in cross-selling requirements for banks' activities.

As a general rule, where an insurance product is ancillary to a good or a service which is not insurance, as part of a package or the same agreement, the insurance distributor must offer the customer the option of buying the good or service separately.

This does not apply where an insurance product is ancillary to a credit agreement as defined in point 3 of Article 4 of Directive 2014/17/EU of the European Parliament and of the Council or a payment account as defined in point 3 of Article 2 of Directive 2014/92/EU of the European Parliament and of the Council (Article 24(3) of IDD).

For this reason, to make an assessment of bancassurance activity, general regulations and requirements shall be taken into account.

One of the most important principles of the IDD regulatory framework is the obligation on an insurance distributor to always act honestly, fairly and professionally in accordance with the best interests of their customers (article 17 para 1 of IDD). This could be treated as an ultimate rule, which is a baseline for assessment to other provisions specified in the IDD framework.

Remuneration schemes could not provide any incentive to the distributor or distributor's employee to act contrary to that principle (article 17 para 3 of IDD). The insurance distributor shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to itself or its employees to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product which would better meet the customer's needs (but gives a lower remuneration). Contrary to MIFID II requirements, incentives under the IDD regulatory framework are not generally forbidden. An analysis of this provision of law may lead to the conclusion that this rule has also some limitations e.g. if the insurance distributor could not offer a different insurance product. Therefore, this principle could have limited effect, if there is an exclu-

sive distribution arrangement between the insurance distributor and the insurance undertaking.

The IDD also provides additional requirements regarding incentives in relation to insurance based investment products. As described in article 29 para2 of IDD and article 8 of delegated regulation 2017/2359, an incentive paid by any party except the customer or person on behalf of customer is permitted, if overall analysis of the incentive shows that it has not detrimental effect on the quality of the relevant services. However, the criteria specified in the delegated regulation are not applicable to mortgage life and other credit protection insurance.

Insurance distributors are obliged to specify the demands and needs of the customer and shall provide the customer with objective information about the insurance product. Any insurance contract shall be consistent with the customer's insurance demands and needs (article 20 para 1 of IDD).

In terms of information requirements, the insurance distributor shall, in good time before the conclusion of an insurance contract, make a disclosure about its identity and services provided (as specified in art. 18 of the IDD). However, this is not specified in detail so practical implementation of this provision is open to interpretation. Information related to insurance distribution, including marketing communications, addressed by the insurance distributor to customers or potential customers shall be fair, clear and not misleading (article 17 para 2 of IDD). For bancassurance products that are not related to life insurance, the relevant information about the product shall be provided in a form of Insurance Product Information Document (Art. 20 para 8 IDD). Although, IDD nor PRIIPs does not specify the format of information about "pure" life insurance products, which could be mortgage life insurance in most cases.

The IDD also provides requirements related to appropriate knowledge of employees of insurance distributors. Such person shall possess appropriate knowledge and must also comply with continuing professional training and development requirements in order to maintain an adequate level of knowledge corresponding to the role they perform and the relevant market.

The IDD framework also includes provisions on conflict of interest management and transparency. As a general rule, for insurance distributors this is applied by providing information about the nature of services provided, nature of remuneration received and direct or indirect affiliation to an insurance undertaking (article 19 of IDD). IDD delegated regulation 2017/2358 obliges the insurance distributor to have in place product distribution arrangements (article 10 of IDD). The scope of product distribution arrangements is to obtain all appropriate information on the insurance products they intend to offer to customers to allow them fully comprehend these insurance products. Product distribution arrangement shall also aim to prevent and mitigate customer detriment, support the proper management of conflict of interest and ensure that objectives, interests and characteristics of customers are duly taken into account. The product approval process shall also support the proper management of conflict of interests.

The IDD provides more detailed obligations on conflict of interest, in relation to distribution of insurance based investment products, as described in article 28 of IDD and IDD delegated regulation 2017/2359 supplementing Directive (EU) 2016/97 with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products. However, bearing in mind the theme and scope of the thematic review, this will not be applicable in this case.

The IDD framework also provides an obligation in relation to product oversight and governance (POG). The POG's requirements aim to further minimise the risks of consumer detriment and mis-selling of insurance products. The manufacturer of an insurance product shall maintain, operate and review a product approval process that ensures the design of a product meets the objectives, interests and characteristics of the customers and other specified criteria. During manufacturing of a product, the manufacturer is obliged to identify the target market and also groups for which the product is not suitable (where applicable), and to test the insurance product before bringing it to the market. The manufacturer is also obliged to carefully select distribution channels and to provide distributors with all appropriate information about the product. The IDD delegated regulation also imposes an obligation to continuously monitor and regularly review insurance products.

In some cases an insurance intermediary, including a Bank, could be treated as an insurance product manufacturer. To assess, if an insurance intermediary shall be considered as a manufacturer of an insurance product, an overall analysis of its activity shall be performed. If the insurance intermediary has a decision-making role in designing and developing an insurance product, it shall be considered to be a manufacturer. If both, the insurance intermediary and insurance undertaking are manufacturers of an insurance product, they shall sign a written

agreement, which specifies their collaboration to comply with the requirements for manufacturers, the procedures on the identification of the target market and their respective roles in the product approval process.

MORTGAGE CREDIT DIRECTIVE (MCD)

In its recital 25, the directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property (amending directives 2008/48/EC and 2013/36/EU and regulation (EU) No 1093/2010) states that "(...) while it is justified for creditors to be able to require the consumer to have a relevant insurance policy in order to guarantee repayment of the credit or insure the value of the security, the consumer should have the *opportunity to choose his own insurance provider,* provided that his insurance policy has an equivalent level of guarantee as the insurance policy proposed or offered by the creditor. (...)".

These principles are explicitly and clearly set out in Article 12 (4) of the directive, on tying and bundling practices: under national law, creditors may be allowed to require the consumer to hold a relevant insurance policy related to the credit agreement. In such cases, the creditor shall accept the insurance policy from a supplier different to his preferred supplier where such policy has a level of guarantee equivalent to the one the creditor has proposed.

These principles have concrete consequences, especially regarding the information provided to consumers.

On advertising, Article 11 (4), of the directive explicitly provides that "where the conclusion of a contract regarding an ancillary service, in particular insurance, is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed, and the cost of that service cannot be determined in advance, the obligation to enter into that contract shall be stated in a clear, concise and prominent way, together with the APRC".

Regarding the general information given by the creditor to the consumer on credit agreements, according to the provisions of Article 13 (1) (m) of the directive, this information shall include the indication of ancillary services the consumer is obliged to acquire in order to obtain the credit or to obtain it on the terms and conditions marketed and, where applicable, a clarification that the ancillary services *may be purchased from a provider that is not the creditor.*

Article 16 of the directive states that the creditor should provide adequate explanations to the consumer on the proposed credit agreements and any ancillary services, in order to place the consumer in a position enabling him to assess whether the proposed credit agreements and ancillary services are adapted to his needs and financial situation. The explanations shall, where applicable, include in particular where ancillary services are bundled with a credit agreement, whether each component of the bundle can be ***terminated separately and the implications for the consumer of doing so.***

DIRECTIVE 2008/48/EC ON CREDIT AGREEMENTS FOR CONSUMERS

The first steps for protecting consumers from bad practices in relation to the distribution of credit insurance policies were undertaken in April 2008 when a new Directive on credit agreements for consumers (Directive 2008/48/EC) was passed aiming at full harmonization in most legal areas of consumer credits. However, the effect of full harmonization is lessened by providing several options for implementing the consumer credit directive. The Directive on credit agreements does not specifically focus on insurance policies distributed ancillary to a consumer credit. However, it makes reference to basic rules for distributing an insurance policy - ancillary to a consumer credit.

The scope of application of Directive 2008/48/EC is limited to certain kinds of consumer credits. The directive does not apply to certain types of credit agreements, such as *deferred debit cards*, under the terms of which it has to be repaid within three months and only insignificant charges are payable. Neither does the directive apply to credit agreements covering the granting of *credit secured by real estate*. The type of such credits is of a very specific nature and is governed by the mortgage credit directive (MCD).

A central issue of the directive on credit agreements for consumers is providing relevant information to the consumer in the context of concluding an agreement for a consumer credit.

Articles 4 and 5 contain rules for the provision of pre-contractual information to the consumer and therein explic-

itly regulate which information about insurance policies, as an ancillary service to a consumer credit, should be provided to the consumer.

According to Article 4 (3) any advertising for a credit agreement where the conclusion of a contract regarding an ancillary service relating to the credit agreement, in particular insurance, is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed, and the cost of that service cannot be determined in advance, the obligation to enter into that contract shall also be stated in a clear, concise and prominent way, together with the annual percentage rate of charge.

Article 5 (1) (k) rules that pre-contractual information shall specify the obligation to enter into an ancillary service contract relating to the credit agreement, in particular an insurance policy, where the conclusion of such a contract is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed.

Further, Article 3 (1) (g) defines that costs of the credit agreement which shall be specified to the consumer as part of any pre-contractual information, also include the costs in respect of ancillary services relating to the credit agreement, in particular insurance premiums - if in addition to the conclusion of a service contract is compulsory in order to get the credit or to obtain it on the terms and conditions marketed.

It should be noted that every obligation to provide information to the consumer about an ancillary credit insurance policy is dependent on the compulsory character of the credit insurance policy. In light of common practice to distribute ancillary credit insurance policies it could be considered whether it is appropriate to the compulsory character of the ancillary insurance policy.

Finally, Article 16 (3) (a) excludes a compensation for the creditor in the event of early repayment if the repayment has been made under an insurance contract intended to provide a credit repayment guarantee. In contrast to the other provisions relating to credit insurance policies, Article 16 does not refer to the compulsory character of the ancillary insurance service.

NATIONAL LEGAL PROVISIONS

In addition to EU rules, in some countries specific legal provisions covering market practices related to the sale of CPI products through banks have been adopted. An overview of these legal provisions reported to EIOPA by NCAs is provided in the table below.

Country	National legal provisions
Austria	- Creditors are allowed to require the consumer to hold a relevant insurance policy related to the credit agreement. The creditor has to accept the insurance policy from a supplier different to his preferred supplier where such policy has a level of guarantee equivalent to the one the creditor has proposed (Section 23 Paragraph 4 of the of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz***; available at: https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367) - The consumer has to be informed about the annual percentage rate of charge (APRC) of the credit. APRC means the total cost of the credit to the consumer, expressed as an annual percentage of the total amount of credit. The total costs of the credit include costs for ancillary service, where the conclusion of a contract is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed. (Section 7 Paragraph 7, Section 2 Paragraph 9 and 11 of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz; available at:*** https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367 - Creditors are allowed to require the consumer to hold a relevant insurance policy related to the credit agreement. The creditor has to accept the insurance policy from a supplier different to his preferred supplier where such policy has a level of guarantee equivalent to the one the creditor has proposed (Section 23 Paragraph 4 of the of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz***; available at: https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367)

Austria	- The consumer has to be informed about the annual percentage rate of charge (APRC) of the credit. APRC means the total cost of the credit to the consumer, expressed as an annual percentage of the total amount of credit. The total costs of the credit include costs for ancillary service, where the conclusion of a contract is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed. (Section 7 Paragraph 7, Section 2 Paragraph 9 and 11 of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz; available at:*** https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367 - Where the conclusion of a contract regarding an ancillary service, in particular insurance, is compulsory in order to obtain the credit or to obtain it on the terms and conditions marketed, and the cost of that service cannot be determined in advance, the obligation to enter into that contract has to be stated in a clear, concise and prominent way, together with the APRC (Section 6 Paragraph 3 of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz; available at:*** https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367) - Section 7 of the Austrian Mortgage and Real Estate Credit Act – ***Hypothekar- und Immobilienkreditgesetz; available at:*** https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20009367 contains general information requirements, which have to be made available by creditors or tied credit intermediaries all times. - According to Section 7 Number 13 the general information has to include an indication of ancillary services the consumer is obliged to acquire in order to obtain the credit or to obtain it on the terms and conditions marketed and, where applicable, a clarification that the ancillary services may be purchased from a provider that is not the creditor. According to Article 1 Paragraph 9 Number 9 to 11 of the Regulation of the Austrian Federal Minister for Digital and Economic Affairs concerning Insurance Mediation ((***Verordnung der Bundesministerin für Digitalisierung und Wirtschaftsstandort*** über ***Standes- und Ausübungsregeln für Gewerbetreibende, die die Tätigkeit der Versicherungsvermittlung ausüben;*** https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20010682 which is also applicable for banks who act as insurance intermediary, an insurance intermediary has to inform his customer about the nature of the remuneration received in relation to the insurance contract and whether in relation to the insurance contract, it works: ▪ on the basis of a fee, that is the remuneration paid directly by the customer; ▪ on the basis of a commission of any kind, that is the remuneration included in the insurance premium; ▪ on the basis of any other type of remuneration, including an economic benefit of any kind offered or given in connection with the insurance contract; or ▪ on the basis of a combination of any type of remuneration set out at points a) to c). - Where the fee is payable directly by the customer, the insurance intermediary has to inform the customer of the amount of the fee or, where that is not possible, of the method for calculating the fee
Belgium	Disclosure requirements (art. 23 Law of 4 April 2014): information about the price (the insurer must divide the premium between the basic premium and any additional premium. An additional premium takes into account an increased risk of death due to your state of health), motivation (the insurer who decides to refuse insurance or to postpone granting it, to exclude certain risks from coverage or to charge an additional premium, must communicate the reasons on which it bases its decisions), transparency and an overview of authorities to be contacted in the event of a refusal or high additional premium. Right to be forgotten (art. 61/1 Law of 4 April 2014): If a potential policyholder has suffered from a serious condition or was affected by a chronic illness, he must report this to the insurer. However, in assessing the risk, the insurer is prohibited from taking that condition into account after a certain period of time. Providing solution for people with an increased health risk through the Monitoring Office or Compensation fund. Conflicts of interest (art. 283 Law of 4 April 2014): IDD rules on conflicts of interest only apply to IBIP's. In Belgian legislation these rules also apply to other insurance products (apart from occupational pension schemes). Inducements: Belgian code of conduct concerning inducements (art. 287 Law of 4 April 2014 and Royal Decree of 17 June 2019), e.g. some trips are prohibited as inducements. **Credit legislation:** - Where the original periodic interest rate is the result of a conditional reduction, the credit provider may, when determine the new interest rate, take as a starting point a higher borrowing rate if the consumer no longer meets the condition(s) that have been set. The increase may not exceed the reduced rate that was granted at the beginning of the credit, expressed in percentage per period (Code of Economic Law VII.143, § 3, 6°.2); - If an insurance product is partly financed, that fact must also be reported on the credit application form (as one of the purposes of the credit) (good practice related to Code of Economic Law, VII.69, §2 and VII.126, §2).

Bulgaria	An insurance contract between an insuring creditor and an insurer concerning material or immaterial benefit of a debtor shall be concluded in favor of the creditor to secure its receivable only with the prior written consent of the debtor
Croatia	Introduction of cooling-off period
Germany	Within the IDD implementation, a legislative reform of the Insurance Contract Law (VVG) has strengthened the legal position of insured persons of a payment protection group insurance: The policyholder of a group insurance payment protection insurance now has the same duty to advise and to inform the insured person as the insurance undertaking. The insured person gets the same rights as the policyholder, especially the right of withdrawal. According to section 7a VVG and section 7d VVG policyholder, respectively insured person must be sent a letter informing him again about his right to withdrawal, a week after signing the contract. From July 1st 2022, according to the newly introduced section 50a VVG, commissions for CPI may not exceed 2.5% of the insured loan amount (shares of the premium may not be included in the calculation). This also applies for commissions of group policies."
France	- Law n° 2010-737 on 1 July 2010 (article 21): Before providing the customer with a formal loan proposal, "The lender cannot refuse as collateral another insurance contract where that contract provides an insurance coverage equivalent to the one of the group insurance contract it offers. Reasons must be given for any refusal decision." Moreover, the lender cannot modify the loan rate conditions provided for in its offer in return for accepting as collateral an insurance contract other than the group insurance contract it offers. This reform entered into force on 1 September 2010. - CCSF position on 20 march 2012: it is important that the borrowers have, as soon as possible, the information related to their right to choose a credit insurance contract different from the group insurance contract proposed by the lender. - CCSF position on 18 December 2012: the insurance distributor has to inform borrowers about the consistency of the insurance offered with their personal situation. Thus, the borrower has to be informed of potential exclusions and conditions of guarantees (especially insurance deductibles, waiting period). - Law n°2013-672 on 26 July 2013(article 60): the time allowed to the borrowers for exerting their right to change their credit insurance contracts is slightly extended. Under the same condition of equivalence, borrowers can submit to the lender an alternative credit insurance contract after the acceptance of the loan offer but still before its signing. Moreover, this law foresees the creation of a specific information document aiming at informing the borrower about his right to choose an insurance contract different from the one proposed by the lender after the first loan simulation process. - Law n° 2014-344 on 17 March 2014(article 54): the time allowed to borrowers is extended to a year. Until twelve months after the loan signing, borrowers have the right to substitute the insurance contract distributed by the lender to an alternative insurance contract under the condition that new contract has an equivalent level of coverage. - CCSF position on 13 January 2015: this position determines how should be assessed the equivalence of coverage between two credit insurance contracts. In order to make this assessment possible, each bank has to select at most eleven items in a common list of criteria. This selection of criteria may be completed by 4 other criteria dedicated to unemployment guarantee. Banks committed to assess the equivalence on the sole basis of the criteria they have selected. For each criterion, banks committed to inform borrowers about the minimum level of guarantee they require in order to allow them to find an equivalent insurance if they wish. This position entered into effect on 1 October 2015. This position is key in the functioning of the whole system. - Regulatory Act on 29 April 2015: this act determines the content and the format of the "standardised information sheet" created by the law n°2013-672. From the outset of the loan marketing (even before the production of the loan offer), the lender has to provide the borrowers with this standardised document when offering them a group insurance contract. It shall specify: ▪ the definition and description of the types of guarantees offered as insurance to the borrower; ▪ the characteristics of the minimum guarantees required by the lender for granting a real estate loan; ▪ a personalised estimate of the cost of the insurance solution envisaged, on the basis of the elements known at the time the form is provided; ▪ the mention of the possibility for the borrowers to take out insurance to guarantee the repayment of a loan with the insurer of their choice. - Law n° 2017-203 on 10 February 2017 (article 10): Since 1 January 2018, for all existing credit insurance at this date, consumers can use their annual termination right to change their insurance contract to an alternative contract that has an equivalent coverage level. The French Constitutional Court has confirmed this new annual termination possibility in its decision on 12 January 2018.

France	- ACPR recommendation on 26 June 2017: this soft law instrument foresees several good practices that lenders are invited to follow. A first lot of recommendation relates to the necessary means and processes for implementing the legal obligation and the methods defined by the CCSF for assessing the equivalence of guarantees between two insurance contracts. Among other things, the staff in charge should be duly trained for this complex task. Lenders were asked to stop some poor practices regarding the admissibility of consumers demands and the way that the equivalence of guarantees is assessed. Lenders are invited to comply with different deadlines: from 2 to 3 working days to inform consumers that administrative documents are missing, 10 working days to inform consumers of the outcome of the equivalence assessment (when their demand is prior to the granting of the loan). Lastly, good practices are defined in terms of consumers' information regarding the provision of the standardised information sheet and, more broadly, the publishing by the lender on its website of all detailed information necessary to consumers in order to demand a change in their insurance collateral. The French banking federation (Fédération bancaire française – FBF) filed a lawsuit against the ACPR for excess of power. The French administrative Supreme Court (Conseil d'Etat) rejected their request on 22 October 2018. - CCSF position on 28 November 2018: This position determines which date has to be taken into account to exert the annual insurance's termination right. The date suggested by this committee is the birthday of the signing of the loan offer. - Law n°2022-270 on 28 February 2022: introduction for policyholders of a right to change at anytime mortgage insurance product for another insurance product that has an equivalent coverage. This new right exists from 1 June 2022 for any new loan offer and from 1 September for all ongoing mortgage insurance contracts.
Greece	Bank of Greece Circular 462/14.5.2013
Ireland	The 2012 Consumer Protection Code contains a number of provisions relating to Bundling and Contingent Selling. A regulated entity must not make the sale of a product or service contingent on the consumer purchasing another product or service. This provision does not prevent a regulated entity from offering additional products or services to consumers who are existing customers which are not available to potential consumers. A regulated entity is prohibited from bundling except where it can be shown that there is a cost saving for the consumer. [Provisions 3.17 and 3.19 of the Code] - General Principle 2.1 of the Code: A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market [The first paragraph of the Executive Summary deals with the expectation that customers will be treated fairly so I think this GP is relevant here] - General Principle 2.3 of the Code: A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it does not recklessly, negligently or deliberately mislead a customer as to the real or perceived advantages or disadvantages of any product or service - General Principle 2.7 of the Code: A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it seeks to avoid conflicts of interest [in response to point 4 of the Executive Summary on the high risks of conflicts of interest] - General Principle 2.5 of the Code: A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it seeks from its customers information relevant to the product or service requested - Provision 3.20 of the Code: Prior to offering, recommending, arranging or providing a bundled product, a regulated entity must provide the consumer with the following information on paper or on another durable medium: a) the overall cost to the consumer of the bundle; b) the cost to the consumer of each product separately; c) how to switch products within the bundle; d) the cost to the consumer of switching products within the bundle; e) how to exit the bundle; and f) the cost to the consumer of exiting the bundle - Provision 3.22 of the Code: 3.22 Where a regulated entity offers an optional extra to a consumer in conjunction with a product or service, the regulated entity: a) must inform the consumer on paper or on another durable medium: i) that the consumer does not have to purchase the optional extra in order to buy the main product or service; ii) of the cost of the basic product or service (excluding the optional extra); and iii) of the cost of the optional extra; b) must not charge the consumer a fee for any optional extra offered in conjunction with a product or service unless the consumer has confirmed that he or she wishes to purchase the optional extra.

Ireland	- Provision 3.24 of the Code: Where a regulated entity offers payment protection insurance in conjunction with a loan, the regulated entity must: a) exclude the payment protection premium from the initial repayment estimate of the loan advised to the consumer and advise the consumer of the amount of the premium separately; b) use separate application forms for the payment protection insurance and for the loan - Provision 3.25A of the Code: A regulated entity must ensure that, in providing a regulated activity to a consumer, if it pays or provides, or is paid or provided with, any fee, commission, other reward or remuneration in connection with the provision of that regulated activity to or by any person other than the consumer or a person acting on behalf of the consumer, the fee, commission, other reward or remuneration: a) does not impair compliance with the regulated entity's duty to act honestly, fairly and professionally in the best interests of the consumer; b) does not impair compliance with the regulated entity's obligation to satisfy the conflicts of interest requirements set out in Chapter 3 of this Code and, as applicable, the European Union (Insurance Distribution) Regulations 2018 (S.I. No. 229 of 2018); c) does not impair compliance with the regulated entity's obligation to satisfy the suitability requirements set out in Chapter 5 of this Code and, as applicable, the European Union (Insurance Distribution) Regulations 2018 (S.I. No. 229 of 2018); and d) in the case of a non-monetary benefit, is designed to enhance the quality of the service to the consumer. - Provision 3.28A of the Code: 3.28A A regulated entity must avoid conflicts of interest relating to the following: a) fees, commission, other rewards or remuneration linked to the achievement of targets that do not consider the consumer's best interests e.g. targets relating to volume (including override commission) and bonus payments linked to business retention; and b) agreements under which the regulated entity receives a fee, commission, other reward or remuneration in the form of goods or services, in return for which it agrees to direct business through or in the way of another person - Provision 4.21 of the Code: Prior to offering, recommending, arranging or providing a product, a regulated entity must provide information, on paper or on another durable medium, to the consumer about the main features and restrictions of the product to assist the consumer in understanding the product. - Provision 4.36 of the Code: Prior to a consumer completing a proposal form for a permanent health insurance policy, a regulated entity must explain to the consumer: a) the meaning of disability as defined in the policy; b) the benefits available under the policy; c) the general exclusions that apply to the policy; and d) the reductions applied to the benefit where there are disability payments from other sources. - Provision 5.1 of the Code: A regulated entity must gather and record sufficient information from the consumer prior to offering, recommending, arranging or providing a product or service appropriate to that consumer. This must include details of the consumer's: a) Needs and objectives including, where relevant: i) the length of time for which the consumer wishes to hold a product, ii) need for access to funds (including emergency funds), iii) need for accumulation of funds. b) Personal circumstances including, where relevant: i) age, ii) health, iii) knowledge and experience of financial products, iv) dependents, v) employment status, v) known future changes to his/her circumstances. c) Financial situation including, where relevant: i) income, ii) savings, iii) financial products and other assets, iv) debts and financial commitments.

Ireland	d) When assessing the suitability of a product or service for a consumer, the regulated entity must, at a minimum, consider and document whether: i) the product or service meets that consumer's needs and objectives; ii) the consumer is likely to be able to meet the financial commitment associated with the product on an ongoing - Provision 5.19 of the Code: Prior to providing or arranging a product or service, a regulated entity must prepare a written statement setting out: a) the reasons why a product or service offered to a consumer is considered to be suitable to that consumer; or b) the reasons why the product options contained in a selection of product options offered to a consumer are considered to be the most suitable to that consumer; or c) the reasons why a recommended product is considered to be the most suitable product for that consumer.
Italy	- According to Artcicle 3, par. 3, of IVASS Regulation no. 40/2018,the conclusion of insurance contracts or agreements relating to group policies on behalf of single insureds falls within the scope of the regulation on insurance distribution when the insureds directly or indirectly bear all or part of the economic costs of the premium payment and the subject underwriting the contract or agreement receives a remuneration. - Art. 55, par. 2, of IVASS Regulation No. 40/2018, already in force since 2011 (Conflicts of interest) –states the prohibition for distributors to directly or indirectly become, even though group relations, own business relations or relations of the companies of the group, at the same time beneficiary or lien-holder of insurance benefits and distributor of the relevant individual or group contract. - According to art 21, par. 3 bis of Consumer Code (Legislative Decree no. 206 of 6 September 2005), introduced in 2011, it is considered to be an unfair commercial practice when a bank, credit institution or financial agency makes the stipulation of a loan contract conditional on the stipulation of an insurance policy supplied by the same bank, institution or intermediary or to open an account with the same bank, institution or intermediary. - Art. 28 of Decree Law no. 1 of 24 January 2012, converted into law no. 27 of 24 March 2012, as subsequently amended and supplemented also by the law no. 124 of 4 August 2017 ("Competition law") introduced the following rules: - Where banks, credit institutions and financial intermediaries make the granting of a real estate loan or of consumer credit conditional on the conclusion of an insurance contract, or where the proposal of an insurance contract is linked or ancillary to the granting of the loan or credit, they shall be required to accept the policy that the customer has chosen from the market without changing the conditions offered for the granting of the real estate loan or consumer credit; if it is necessary to obtain the loan or to obtain it at the conditions offered, the policy submitted by the customer must meet the minimum requirements established by the bank, credit institution and financial intermediary. - The customer has the right to withdrawal from the policy within sixty days; in case of withdrawal, the loan agreement shall remain valid and effective. If the policy is necessary to obtain the loan or to obtain it at the conditions offered, the customer may submit another policy as long as it meets the minimum requirements established by the bank, credit institution and financial intermediary. Banks, credit institutions, financial intermediaries or, as an alternative, insurance companies commit to inform the customer of the above provisions in a communication, separate from contractual documents. - Banks, credit institutions and financial intermediaries are also required to inform customers applying for the loan of the commission received and of the amount of the commission paid by the insurance company to the intermediary, both in absolute terms and as a percentage of the amount of the loan. - Furthermore, the general rules on remuneration practices stated by Article 17, par. 3, of IDD have been implemented by Art. 119-bis, par. 4 and 5 of Code of Private Insurance.

Italy	- Specific rules introduced in 2010 (and now regulated by art. 39 of IVASS Regulation no. 41/2018) govern the early extinction or transfer of the loan. In particular, for policies linked to loans and to other loan contracts for which a single premium has been paid whose cost is borne by the debtor/insured, in case of early extinction or transfer of the loan, even partially, the undertaking shall return to the debtor/insured the part of the premium paid relating to the remaining period of insurance with respect to the original expiry. As an alternative to the possibility to obtain the return of the part of the premium paid relating to the remaining period of insurance with respect to the original expiry, the insurance undertakings shall, upon a request by the debtor/insured, provide the insurance coverage to the new appointed beneficiary until the expiry date of the insurance contract. In the policy/application form of the individual/collective contracts linked to loans and other loan contracts, the undertaking shall show the amount of the costs to be actually borne by the policyholder or by the debtor / insured, with the indication of the amount received by the intermediary.The national implementation of art. 12 of MCD Directive on tying and bundling practices introduced article 120-***octiesdecies*** of Consolidated Banking Law (legislative decree no. 385 of 1 September 1993) stating the prohibition to offer a credit agreement in a package including other different financial products or services where the credit agreement is not separately available for the consumer (tying practices). The above is stated without prejudice to the already mentioned provisions of Art. 28 of Decree Law no. 1 of 24 January 2012.
The Netherlands	Since 2013, Dutch legislation prohibits inducements for all advisers and intermediaries of (complex) financial products like mortgage life insurances for retail clients. Advisers and intermediaries are allowed to receive commission, but only directly from clients and not from third parties. Section 121 of Book 7A of the Dutch Civil Code prohibits tied selling, although bundled selling is allowed. The credit provider may require credit protection insurance with the provision of credit, but must inform the consumer of the possibility to obtain this insurance elsewhere. The credit provider must accept this insurance if the level of protection offered by the insurance is of a similar nature to that offered by the credit provider.
Poland	The Act of 12 May 2011 on Consumer Credit, which regulates i.a. certain transparency issues connected with bancassurance, e.g. according to the article 7 paragraph 3 of this act: "If concluding an additional agreement, in particular, an insurance agreement, is necessary for concluding a credit agreement, and the cost of the former cannot be determined in advance, the creditor or credit intermediary shall provide a consumer with clear, understandable and visible information on this obligation along with the annual percentage rate of charge. Additionally, on the basis of the article 13 paragraph 1 point 10, the information on costs of additional services, in particular insurance, has to be made available to the customer, as well as the information on conditions under which these costs can change. In line with the article 30 paragraph 1 point 10, this information should also be included in the credit agreement. Moreover, pursuant to the article 51, commission for repayment of the credit before its maturity shall not be charged by a creditor when the repayment is done as a result of insurance agreement concluded in order to insure the repayment.
Portugal	Under the regime established by Decree-Law no. 222/2009, of 11 September,credit institutions must provide the clients, among the remaining mandatory information, with the minimum requirements of the mortgage life insurance contracts necessary in order to execute the housing credit intended by the client. The client shall also be informed that he may choose to execute an insurance contract different from the one offered by the credit institution, given that it complies with the mentioned minimum requirements. Subsequently, ASF issued recommendations under Circular no 2/2010, of 25 February, that further clarified certain aspects of the obligations established by Decree-Law no. 222/2009, of 11 September, namely the terms in which the referred information should be communicated to clients by insurers. ASF also issued Circular no 2/2012, of 1 March, which addressed good practices regarding the design of CPI products, transparency requirements and underwriting policies. Morever, ASF requested additional information from insurers (Circular no 7/2013, of 24 October) in order to assess the level of compliance with the recommendations issued under Circular no 2/2012, of 1 March. Lastly, it should be noted that ASF issued Circular no 8/2021, of 16 November, regarding the distribution of payments protection insurance linked with non-insurance services. Even though this Circular is not merely applied to the distribution of CPI products, its recommendations are extensible, in some cases, to this activity.
Spain	In the Spanish Law transposing the Mortgage Directive only are permitted tying practices under restrictive conditions. In case those are not complied, the contract tied to the credit will be considered as invalid. Moreover the debtor has the right to offer to the bank an insurance coverage from the an undertaking other than that proposed by the bank with the same features without any penalti from the creditor.

ANNEX IV – ADDITIONAL FIGURES

Figure 72 - Denied claims for Regular Premium Mortgage CPI products, 2018-2020

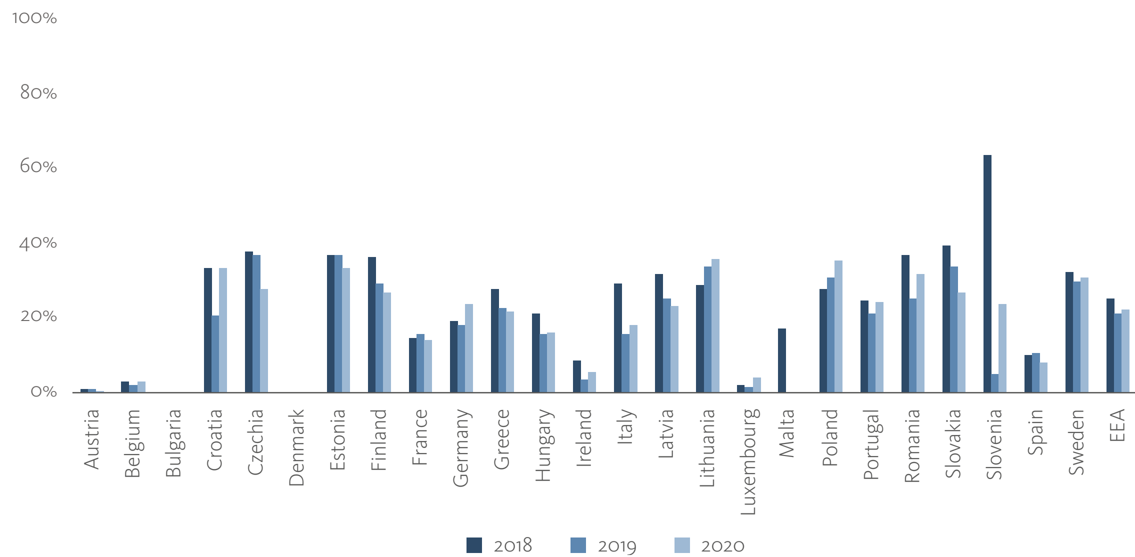


Figure 73 - Denied claims for Regular Premium Consumer Credit CPI products, 2018-2020

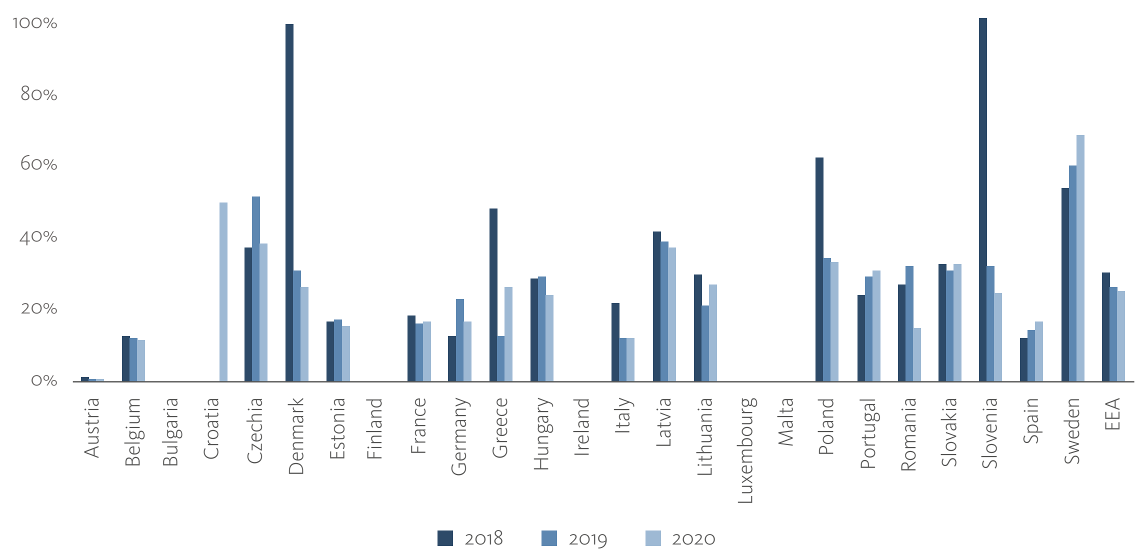


Figure 74 - Denied claims for Regular Premium Credit Cards CPI products, 2018-2020

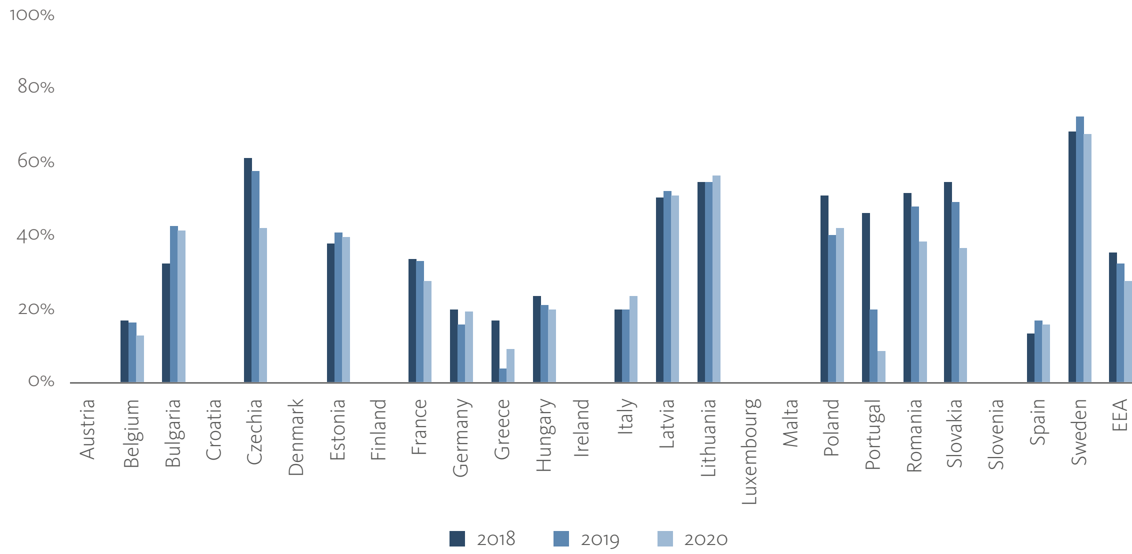


Figure 75 - Denied claims for Single Premium Mortgage CPI products, 2018-2020

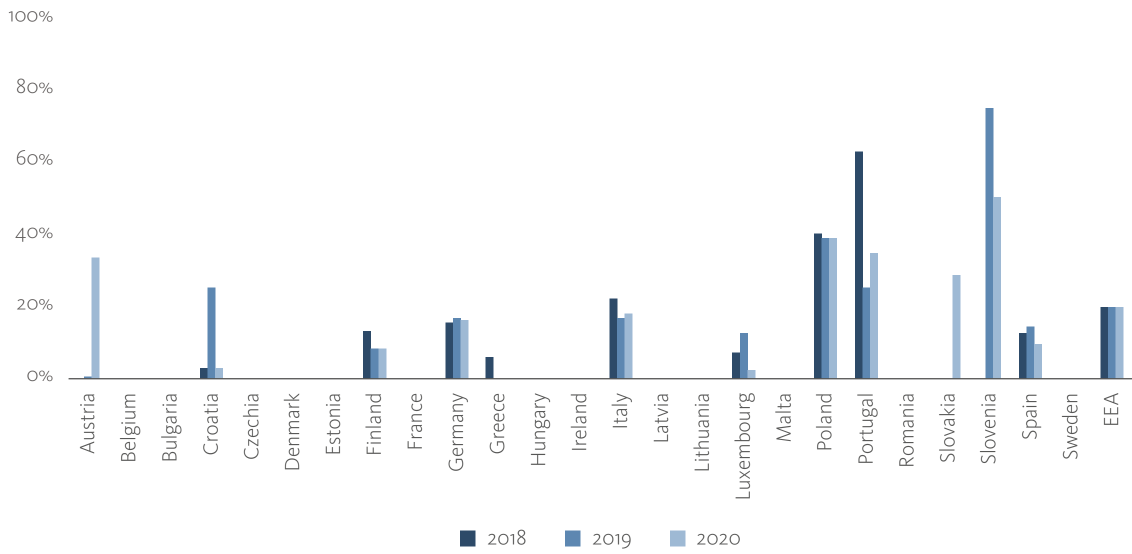


Figure 76 - Denied claims for Single Premium Consumer Credit CPI products, 2018-2020

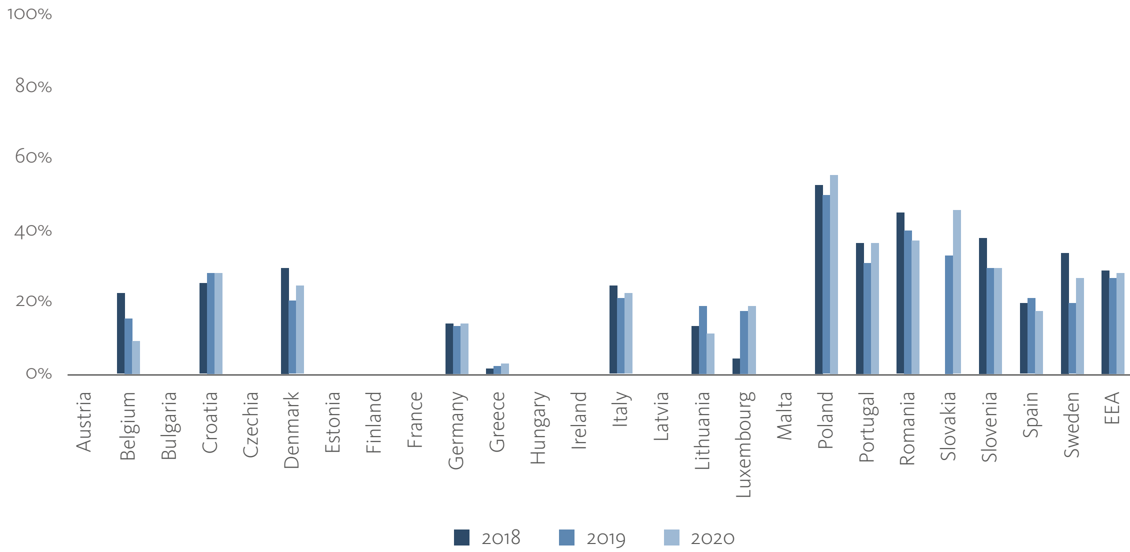


Figure 77 - Distribution of commissions, NUR and claims ratio, 2018, for Regular Premium Mortgage CPI

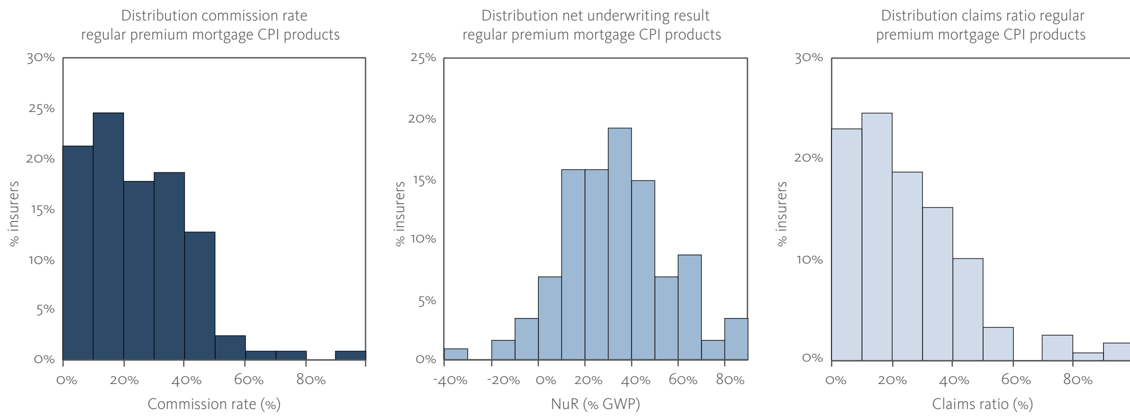


Figure 78 - Distribution of commissions, NUR and claims ratio, 2018, for Regular Premium Consumer Credit CPI

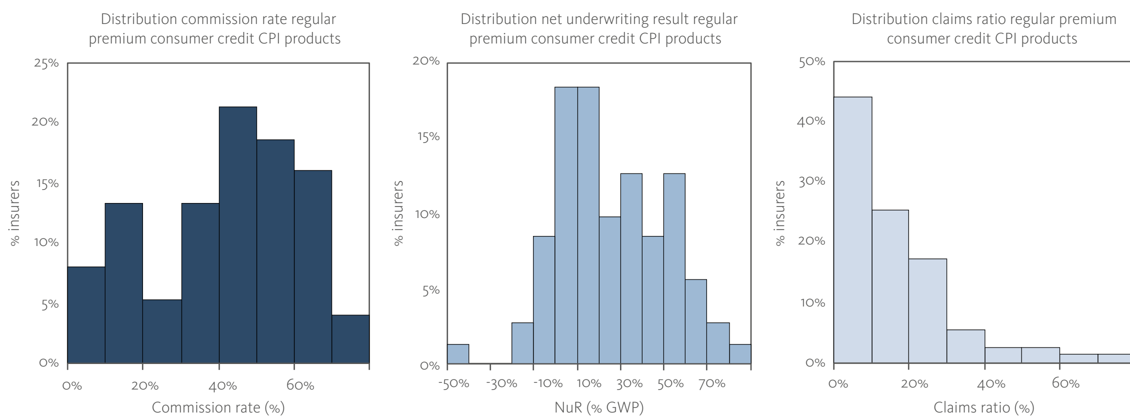


Figure 79 - Distribution of commissions, NUR and claims ratio, 2018, for Regular Premium Credit Cards CPI

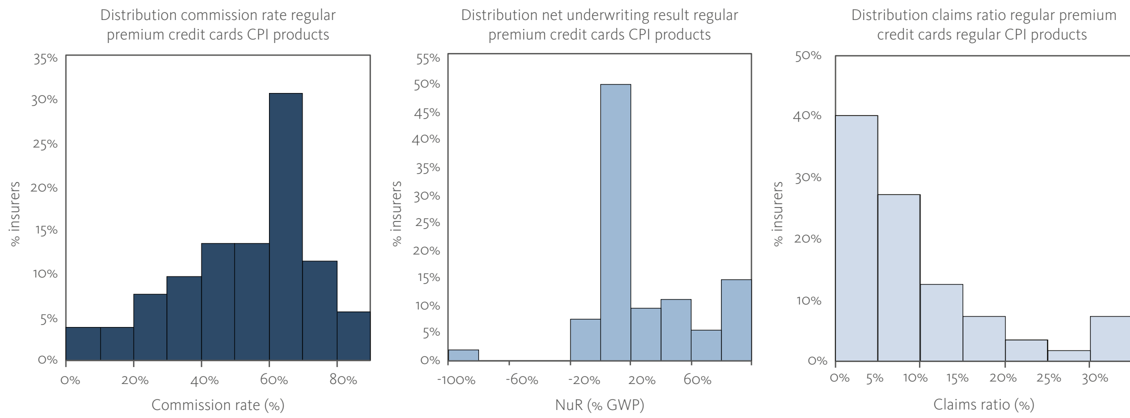


Figure 80 - Distribution of commissions, NUR and claims ratio, 2018, for Single Premium Mortgage CPI

Figure 81 - Distribution of commissions, NUR and claims ratio, 2018, for Single Premium Consumer Credit CPI

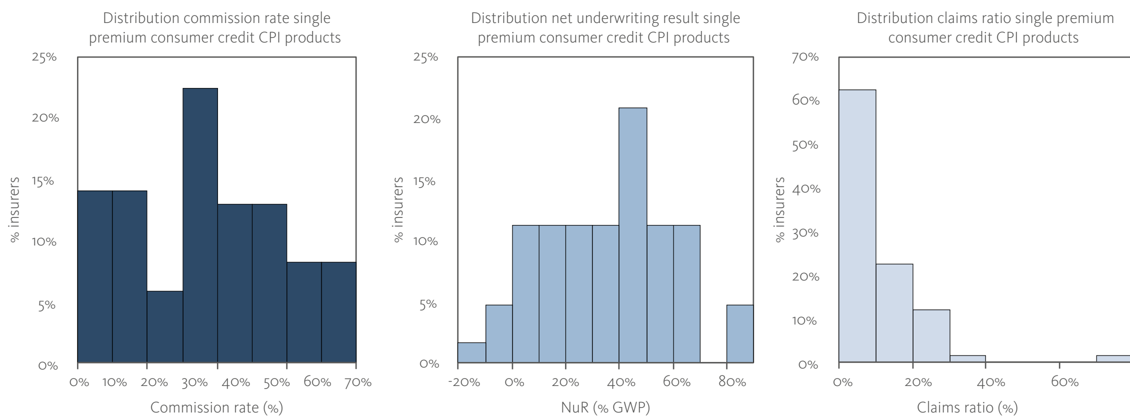


Figure 82 - Distribution of the expense ratio, by product, 2018

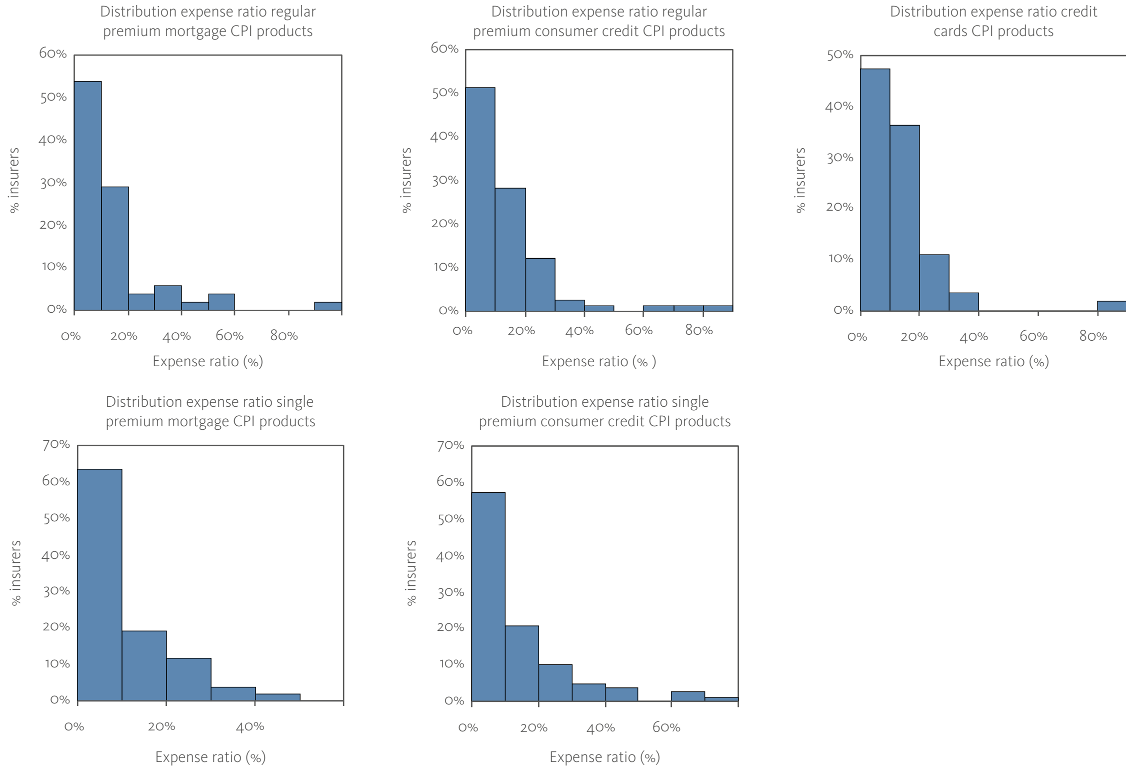


Figure 83 - Distribution of the combined ratio, by product, 2018

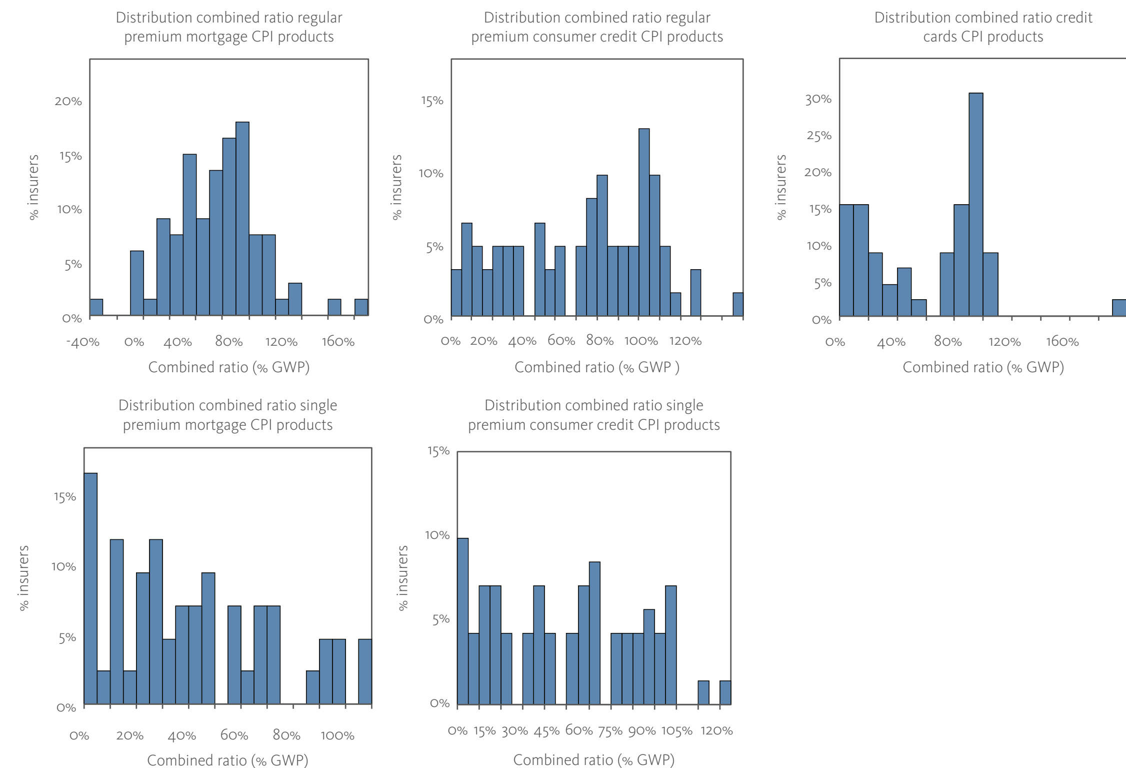


Figure 84 - Distribution of commissions, NUR and claims ratio, 2019, for Regular Premium Mortgage CPI

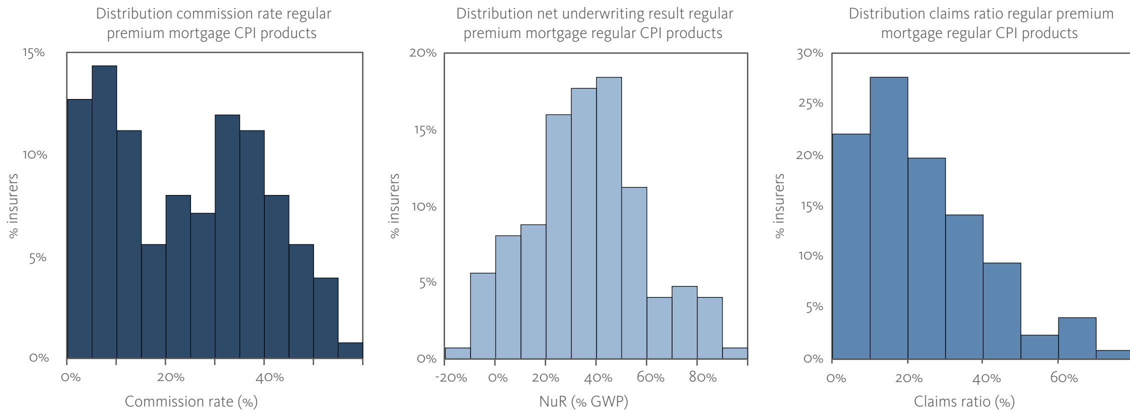


Figure 85 - Distribution of commissions, NUR and claims ratio, 2019,, for Regular Premium Consumer Credit CPI

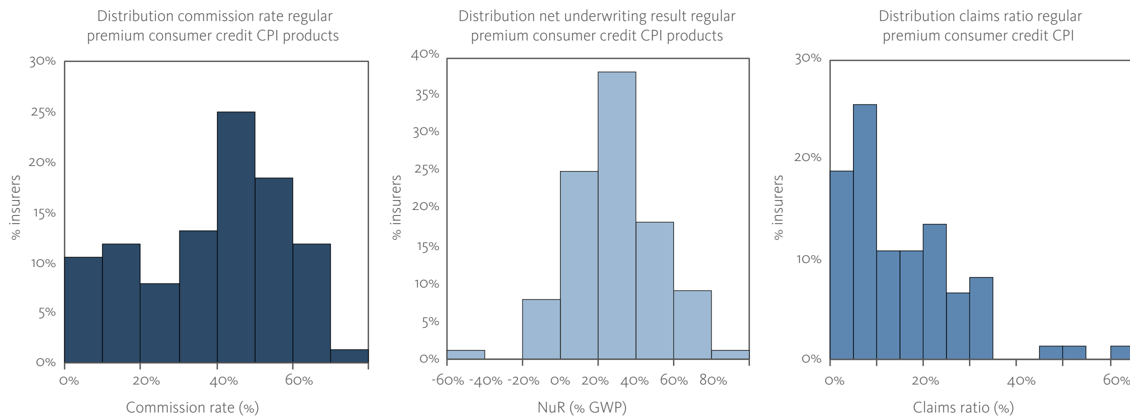


Figure 86 - Distribution of commissions, NUR and claims ratio, 2019, for Regular Premium Credit Cards CPI

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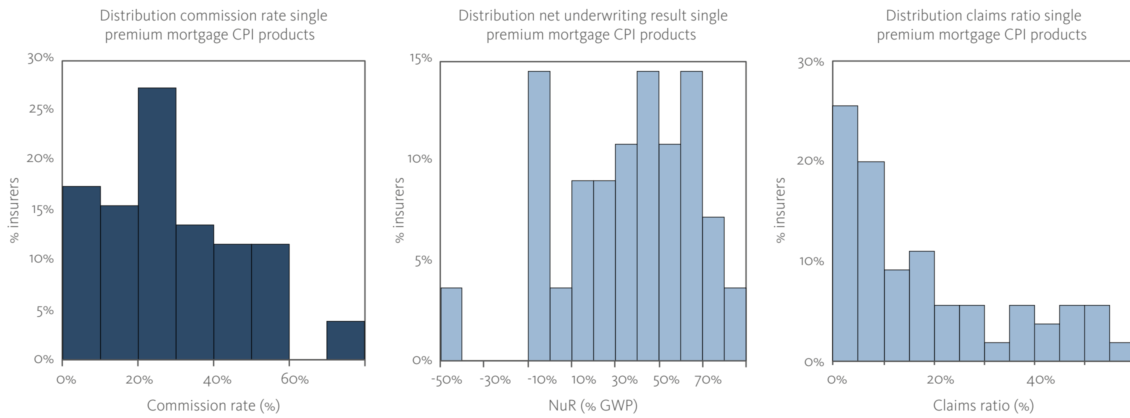

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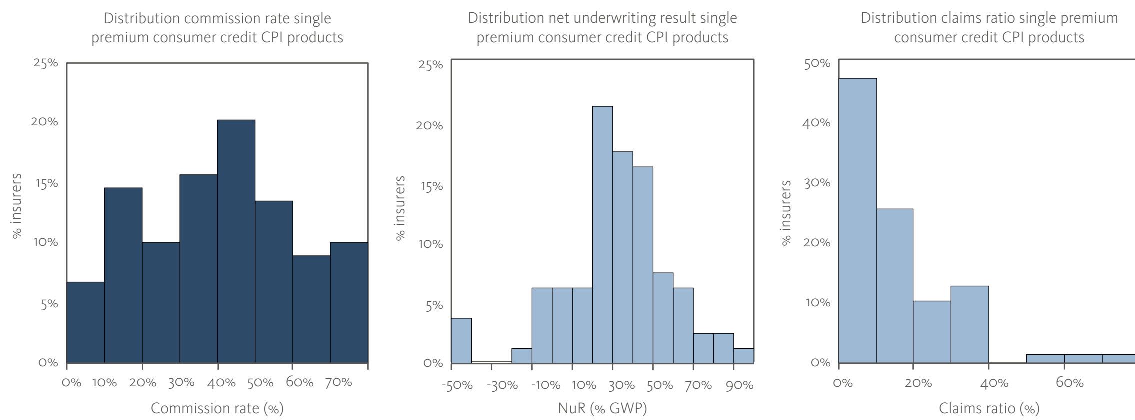


Figure 89 - Distribution of the expense ratio, by product, 2019

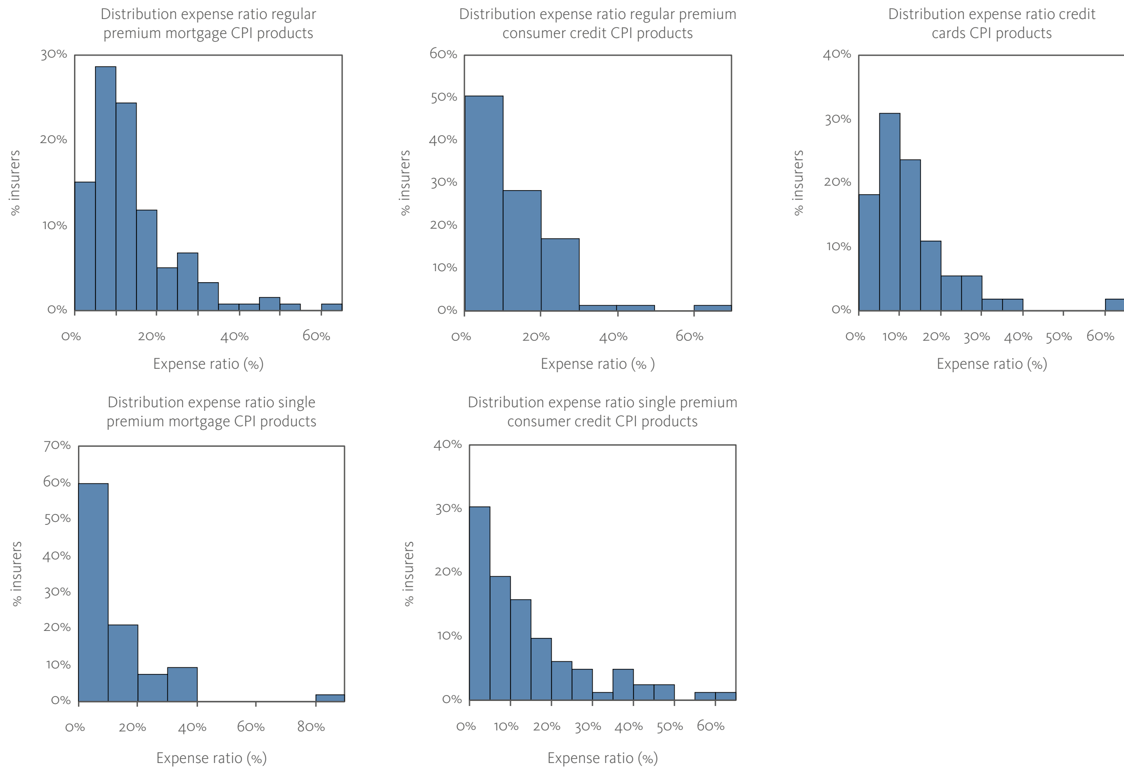
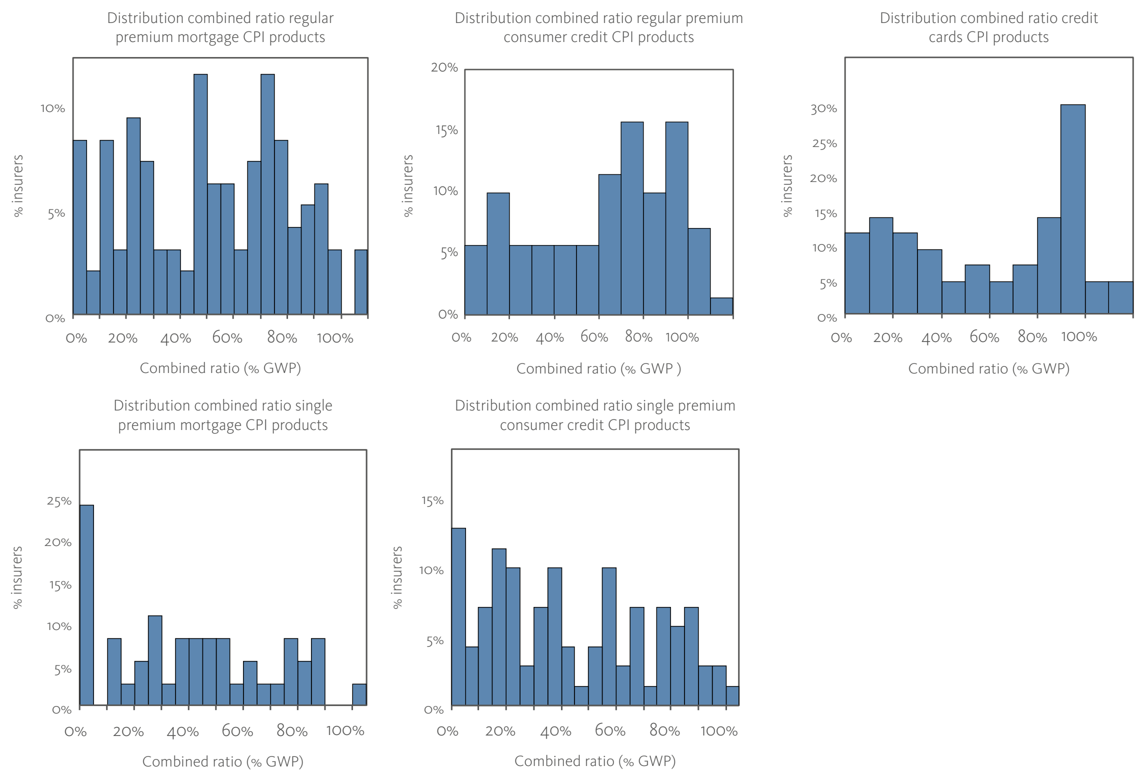


Figure 90 - Distribution of the combined ratio, by product, 2019



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ANNEX VI – LIST OF ABBREVIATIONS

ABC	Activity based costing
BMA	Business model analysis
CPI	Credit protection insurance
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
EEA	European Economic Area
FTE	Full time equivalent
GWP	Gross written premium
IDD	Insurance Distribution Directive
LoB	Line of business
MCD	Mortgage credit directive
MS	Member state
NCAs	National Competent Authorities
NPS	Net promoter score
NUR	Net underwriting result
POG	Product oversight and governance
SII	Solvency II

ANNEX VII – DEFINITIONS

Term	Definition
Mortgage protection insurance	Type of credit protection insurance designed to protect a mortgage credit and mortgage repayments. It can cover death, accident, sickness, unemployment and other type of risks.
Consumer credit protection insurance	Type of credit protection insurance designed to protect a consumer credit and consumer credit repayments. It can cover death, accident and sickness, unemployment and other type of risks.
Credit cards protection insurance	Type of credit protection insurance designed to protect a credit card and balance repayments. It can cover death, accident and sickness, unemployment and other type of risks.
Single premium insurance policy	An insurance policy designed with a single payment made upfront that covers the entire cost of an insurance policy for the entire policy term. This includes cases where the policyholder/insured person is financing the single premium using credit; the insurer receives upfront the premium from the bank, but the policyholder/insured person pays monthly installments on a regular basis.
Regular premium insurance policy	An insurance policy designed with regular installments at particular time intervals, such as monthly or annually.
Gross written premium	The total premium on insurance underwritten by the insurance undertaking during a specified period, before deduction of reinsurance premium.
Insurance overlap	Situation where the policyholder has two or more policies covering the same risk. E.g. double insurance where two policies cover the same risk.
Over-insurance	Situation where the level of cover a policyholder has - is higher than needed. E.g. coverage for more than the value of credit that is insured.
Under-insurance	Situation where the level of cover a policyholder has - is inadequate and lower than needed. E.g. coverage for less than the value of credit that is insured.
Non-exclusive distribution agreement	Agreement between the Insurer and the Bank, when the later distributes the Insurer's insurance products along with insurance products from other Insurers.
Strategic alliance (exclusive agreement)	Agreement between the Insurer and the Bank, when the latter distributes only the Insurer's insurance products.
Joint venture	A business entity created by the Insurer and the Bank for underwriting and/or distribution of insurance products.
Financial holding company	A holding company that can engage in Banking and non-Banking financial services (such as insurance underwriting), and owns both Banks and insurance companies.
Cashflow	Net amount of money being transferred into and out of a business (between the Insurers, Bank, customer)
Renewal commissions	Additional commission that may become payable to a distributor if an insurance product is later renewed or changed
Profit-sharing arrangements	Arrangements between the Insurer and the Bank that refer to various incentive plans that provide direct or indirect payments, based on business profits, as a remuneration for distribution activities

Claims ratio	Claims paid (excludes claims reserves and Incurred But Not Reported - IBNR) as a percentage of gross written premium charged during a specified period.
Commissions	Commissions paid to insurance distributors as a percentage of gross written premium charged during a specified period.
Expense ratio	Expenses (all expenses other than commissions) incurred as a percentage of gross written premium charged during a specified period.
Net underwriting result	Gross written premium less claims payments, commissions and expenses as a percentage of gross written premium charged during a specified period; excludes investment income earned on held premiums.
Complaint	Formal written expression (including in electronic mode) of dissatisfaction submitted to regulators regarding the provision of, or failure to provide a service or a product of the insurance undertaking.
Claims denied	Claims submitted by the policyholder and dully processed by the insurance undertaking which have ended without payment to the policyholder. For the purpose of the thematic review, only claims completely denied should be considered as claims denied. Claims partially denied should not be considered as claims denied.

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