

EIOPA identifies consumer protection issues in travel insurance and issues a warning to the travel insurance industry

The European Insurance and Occupational Pensions Authority (EIOPA) published today its [*Thematic Review on Consumer Protection Issues in Travel Insurance*](#).

With economic recovery, in the aftermath of the financial crisis, coupled with decreasing travel costs, travellers' numbers have been growing each year. This has led to growth in the travel insurance market.

Travel insurance is mostly a 'small-ticket' business, but it can be critical for consumers, since the impact of insufficient cover or denied claims – in particular for medical expenses while travelling – can be extensive at the individual level. It has been already in the spotlight of supervisors in some European countries given the specific conduct risks it entails, related to conflicts of interest arising from mis-aligned incentives in distribution channels, consumer behaviour issues arising in so-called 'add-on' markets, and consequential risks of poor value at the level of the product offer.

Furthermore, stakeholders highlighted in their dialogue with EIOPA issues around coverage, denied claims, unclear and conflicting terms and condition similar to the input gathered by EIOPA in the context of consumer trends reporting.

The travel insurance sector is facing important changes with new opportunities but at the same time with heightening existing problems and new risks. Insurance undertakings have been integrating new technologies into their business models leading to changes across the entire value chain, while new kinds of distributors have entered the market. Particular concerns arise with regard to rising commissions, the exploitation of behavioural biases when selling online travel insurance policies, and the potential erosion of product value and features.

To understand better travel insurance products, to identify sources potential of conduct risk and consumer detriment and to take possibly required relevant supervisory actions, EIOPA launched this Thematic Review. EIOPA issued a questionnaire to 201 insurance undertakings operating in 29 European countries to collect evidence. The national competent authorities (NCAs) distributed the questionnaire to undertakings representing approximately 60% of the total gross written premiums of the travel insurance line of business in the national market. In addition, EIOPA collected input from industry and consumer associations, as well as its Insurance and Re-Insurance Stakeholder Group.

The key findings are:

- The travel insurance market as a whole does not appear to face a general market failure, and travel insurance products remain valuable for consumers. However, heightened conduct risks leading to consumer detriment due to problematic business models with remuneration structures based on extremely high commission levels carrying.
- Strong potential of poor value for money for consumers due to some insurers paying extremely high commissions to distributors, in some cases significantly more than 50% of the premium. For example in one case, the insurer paid 5.5 times more in commissions to distributors than consumers received back in claims, with commission level of 77% of the premium paid by consumers. Although the average commissions in travel insurance are around 24% of the gross written premium (GWP).
- Strong potential of poor value for money for consumers due to very wide variations in claims ratio. Some insurers have claims ratios below 20% of the GWP compared to the average claims ratio of 40% of the GWP regardless of the distribution channel.
- Increased conduct risks due to new market players entering the market and selling travel insurance products online as an ancillary activity (airline and ferry companies, price comparison websites, aggregators, banks and supermarkets).
- Potential risks of low quality products and services for consumers due to newly established partnerships with distributors via international tenders. In some cases, these partnerships are based solely on commissions paid to the distributors.
- High degree of consumer detriment due to the potential high degree of dismissed claims through no pre-contractual medical screening and around 70% of insurers excluding pre-existing medical conditions from the coverage of travel insurance products.
- Potential increased costs for consumers as in most cases assessment of overlaps in cover only conducted at the claim stage and not already during the sales process. Insurers assess only at the claim stage, which policy will cover the incident and split costs between insurers.

Given these findings, EIOPA issued today a [Warning to the Travel Insurance Industry as a supervisory response](#) on the issues identified by the [Thematic Review](#). The issues addressed are in particular those problematic business models with remuneration structures based on extremely high commission levels and the business models that combine high commission with extremely low claims ratios, offering poor value for money to consumers.

EIOPA considers that such business models are not consistent with the fundamental regulatory principles set out in Directive (EU) 2016/97 of the European Parliament and of the Council of 14 December 2016 on Insurance Distribution (IDD), such as acting in the best interests of the customer and obligations on product oversight and governance.

EIOPA expects all market participants to comply fully with the IDD.

Notwithstanding that insurance undertakings remain free to set premiums or

prices, they should nevertheless assess their product offering and approval process, including their identification of target markets, to ensure that their products offer fair value to customers and are fully capable of meeting the needs of their customers.

Insurance undertakings and insurance intermediaries should assess their distribution agreements to ensure that they are able to act always honestly, fairly and professionally in accordance with the best interest of their customers.

To ensure better outcomes for consumers in the insurance market, EIOPA and NCAs will closely monitoring how effectively consumers' needs are taken into account in product development and testing as well as during distribution.

In this regard, insurance manufacturers and intermediaries should be aware that EIOPA and NCAs will intensify their risk-based supervision of insurance undertakings and insurance intermediaries, notably in the national markets where risks are identified, including monitoring the market for ancillary insurance products.

NCAs will, where necessary, exercise their supervisory powers, including investigatory powers and powers to impose sanctions for failures to comply with the conduct of business requirements set out in the IDD, including:

- The duty to act in the best interest of customers and not to pay or receive remuneration that conflicts with this duty
- The requirement not to enter into arrangements by way of remuneration, sales targets or otherwise that could provide incentives for the recommendation of a particular insurance product to a customer
- The obligation to maintain, operate and review the approval process for each insurance product, specifying an identified target market and assessing all relevant risks to that target market

Where risks are identified and other supervisory measures are not successful, taking into account the principle of proportionality and in line with national law, NCAs will exercise their powers to impose administrative sanctions and other measures such as:

- Requiring the insurance distributor to cease the conduct and to desist from a repetition of that conduct
- As measure of last resort, in the case of an insurance or ancillary insurance intermediary, withdrawal from the national register

NCAs will share with EIOPA supervisory measures taken to address the business models highlighted by the Thematic Review.

The [Thematic Review](#), accompanying [factsheet](#) and the [Warning](#) can be obtained via the Website.