Questionnaire to stakeholders gathering input for the EIOPA 2023 Consumer Trends Report

A. Background

EIOPA is required under its Regulation to collect, analyse and report on consumer trends[1]. The term 'consumer trend' is not defined in EIOPA's Regulation. EIOPA therefore devised the following working definition:

"*Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including intermediaries) that are significant in their impact or novelty*"

The term 'trends' is understood in a broad sense: it covers, for example, evolutions in volumes of business or in the relationship between customers and undertakings/intermediaries, as well as the emergence of new products or services, or other linked financial innovations. The trend may already be consolidated for a number of years, but it may also be only emergent, with the possibility of becoming significant in the future.

The report aims to inform EIOPA in the identification, prioritisation and development of targeted policy proposals or issues requiring supervisory measures. EIOPA seeks to identify possible consumer protection issues arising from identified trends. Nevertheless, positive developments are also identified and highlighted.

For the development of Consumer Trends Report, EIOPA follows an agreed upon methodology, which includes collecting inputs from stakeholders.

B. Questions

Like in the past years, EIOPA would like to collect informal input from stakeholders to complement the other sources of information available for the Consumer Trends Report. In addition to relevant information/answers, it would be very useful if supporting documents/links could be provided to complement your feedback. References to specific examples observed at national or European level are also strongly encouraged.

The deadline to provide your input is 14 August 2023.

[1] Article 9(1)(a) of the Regulation 1094/2010 establishing EIOPA

EIOPA | Westhafen Tower, Westhafenplatz 1 | 60327 Frankfurt | Germany
Tel: +49 69-951119-20
info@eiopa.europa.eu | https://www.eiopa.europa.eu

1. Insurance product trends

You are invited to indicate with an "X" the column(s) that best reflect the evolution, trends, and issues observed for the product, during 2022. In the column further to the right please include, in a brief manner, any text to highlight any other issues/developments for the relevant product.

	Impact of Inflation	Poor Value for money	Not serving all type of consumers in a fair manner (e.g., exclusions, discrimination against certain categories, excluded categories of consumers)	Increase digital distribution	Increase in differential pricing practices	Please highlight in a brief way any other issues/developments in your market(s) for this product
Life insurance - with profit						
Life insurance - unit linked						
Mortgage life insurance						
Other life insurance (please explain below)						
Assistance						
Travel insurance						
Income Protection insurance						
Gadget						
Business interruption						
PPI						
Household insurance						
Natural Catastrophe						
Legal Expenses						
Other Motor						
MTPL						
General liability						
Accident and health insurance						

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Affirmative cyber coverage						
Other (please explain)						

2. Focus topics

a. <u>Cross sectoral focus topic: Inflation's impact on life insurance and pensions products and schemes</u>

The high inflation environment significantly erodes the real value of life insurance and pension returns, hindering consumers' ability to meet financial objectives such as investment returns or retirement savings. Additionally, it adversely impacts beneficiaries dependent on fixed pension income, diminishing their purchasing power and financial stability over time. Finally, it can also limit consumers' ability to continue paying regular premium life insurance products or to continue contributing to voluntary pension schemes.

i. In your market(s) have you observed inflation substantially impacting the returns of insurance investment products or pension investments? Please provide further information below:

ii. In your market(s) have you observed inflation leading to consumers surrendering their life insurance policies due to disappointing returns or due to limited disposable income (i.e., needing liquidity to face day-to-day expenses)?

iii. In your market(s) have you observed inflation leading to consumers not renewing products and/or stopping regular voluntary payments and contributions due to limited disposable income?

iv. Do you have any additional views on the impact of inflation on consumers'/scheme members' investment returns in the insurance and/or pension sector? How do you think insurance and pension provider can lessen the impact of inflation on consumers/scheme members returns? Do you see a role for supervisors in this?

The development of competencies among the employees in the insurance and pension companies is the single most important factor when it comes to ensuring consumer protection. To effectively inform consumers about the impact of rising inflation and suggest ways to mitigate its effects, it is important to seek guidance from employees who are well-educated on the subject.

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b. Cross sectoral focus topic: Diversity and inclusion

Last year's EIOPA Eurobarometer, highlighted there is a gender gap in access to insurance and to pensions. In particular, there are growing concerns about a pensions gender gap, around some exclusion clauses which may unfairly discriminate against certain categories of consumers, as well as in relation to possible discriminatory pricing practices and overall limited access of certain categories of consumers. More and more supervisors are now working on ensuring the sectors develops products which meet the needs of and offer utility to a diverse range of customers and are distributed in a way which is aligned to such needs and characteristics and which takes into account their specificities.

i. In your market(s) have you observed instances of consumers who are vulnerable/minority/diverse compared to consumers who fit in a dominant/normative group that may not be sufficiently served? Have you noticed a gap in access to insurance/pension services when comparing one group of consumer with another group of consumers based on personal characteristics (e.g. gender)? Please provide further information below.

ii. In your market(s) have you observed instances of consumers who are vulnerable/minority/diverse being unfairly discriminated (e.g., because exclusions may more adversely impact this group of consumers, because of pricing, because of coverage may not offer utility because of their needs and characteristics) compared to consumers who fit in a dominant/normative group that may not be sufficiently served?

iii. In your market(s) have you observed instances of consumers who are vulnerable/minority/diverse compared to consumers who fit in a dominant/normative group that may not be sufficiently served because of the way in which products and services are being distributed? Please provide further information below.

iv. Pease provide below additional views. What is insurance or pension providers' role in mitigating such practices and fostering diversity and inclusion? Do you see any role for supervisors?

It is important to emphasize that employers at insurance companies play a crucial role in fostering diversity and inclusion. It is important for employers to set an example of diversity, inclusivity, and equality in the workplace. Otherwise, their efforts to provide financial services in such a manner may fall short. By having a diverse and inclusive team, companies are better equipped to meet the needs of a diverse consumer base. Everyone benefits when an insurance company and the whole sector have a diverse, inclusive workforce, from employees and executives to partners, clients, and individual policyholders. Every company must be resilient in enhancing diversity and inclusion in management, executive leadership, and the board.

c. Insurance focus topic: Inflation's impact on non-life insurance

The rising inflation can result in increased insurance premiums – as insurance providers face higher costs for claims pay-outs and higher operational expenses, insurers might increase premium - ultimately affecting consumers' ability to afford coverage and leaving them unprotected (under-insurance). Further, claims paid out, particularly if policies have maximum insured amounts, might not fully cover damages (e.g., in case of home insurance, as the price of raw materials increased, the pay-out might not be sufficient to cover the damages to a home). Additionally, there might be cases of policies being cancelled because of inflation as consumers may perceive insurance as a non necessary need.

i. In your market(s) have you observed inflation substantially impacting non-life insurance premiums or non-life insurance coverage (e.g., leading to underinsurance)? In relation to what non-life products have you observed this? Please provide additional information below.

ii. In your market(s) have you observed inflation driving a considerable number of consumers to cancel or not to re-new their non-life insurance policies? Please provide additional information below including on the specific impact you believe this can have on consumers and society as whole.

iii. Do you have any additional views on the impact of inflation on non-life insurance consumers? How do you think insurance providers can lessen the impact of inflation on such consumers? What is supervisors' role in this?

d. Insurance focus topic: Digital distribution

There is a digital shift in insurance distribution, encompassing channels like price comparison websites, robo-advisors, and fin-fluencers on social media. These platforms promote informed decision-making, tailored solutions, and influence consumer perceptions. However, they also pose risks including data privacy concerns, misleading quotes, potential for inadequate advice leading to inadequate coverage, computational errors, and the possibility of consumers being misinformed about investment activities.

i. In your market(s) are insurance providers increasingly using digital distribution channels to sell life insurance or non-life insurance? Is this due to an increase in consumer interest to purchase life or non-life insurance digitally?

ii. In your market(s) have you observed an increase in the use of Price Comparison websites or of automated advice/robo-advisors, as well as an increase in the use of social media or "fin-fluencers" in the distribution of insurance products? In your view what are the benefits and risks of these tools/digital channels for consumers (e.g., inadequate advice by robo-advisors, easier purchase experience for consumers)?

iii. Please provide below your view regarding digital distribution in your market. Which types of consumers are more at risk in a digital distribution environment? In your view, which actions/tools should be undertaken/implemented to mitigate the risks or enhance the benefits by insurance providers? Or by supervisors?

We are concerned that digital distribution can harm consumer protection. The absence of interaction between the consumer and trained employee increases the risk of not properly assessing the risks and providing appropriate insurance coverage for the individual consumer. In addition, too much emphasis on digital distribution might develop less inclusive insurance and pension markets as not all consumers have the same ability to navigate in an entirely digital market.

e. <u>Insurance focus topic: Differential pricing practices</u>

On top of underwriting risk-based actuarial tariffs (expected cost of claims) and other premium adjustments to take into account costs of service (e.g. commissions paid to distribution channels and other overheads like taxes, salaries, cost of capital, etc.), some insurance manufacturers further adjust the premium using a number of different practices which are unrelated to the underwriting risk profile of customers and the cost of service. For example, customers may be charged a different premium based on personal characteristics such as their price elasticity, propensity to shop around at the renewal stage or based on an estimation of the value that can be generated by up-selling and cross-selling other products to the customer (also known as customer's life-time value estimation "score"). The increasing competition in the markets coupled with the increased availability of data and usage of AI allows insurers are amongst the triggers of this trend. On the one hand customers who are more prone to search for a better deal and switch at point of renewal to benefit from lower insurance premiums. On the other hand, customers who are less price sensitive, who have limited access to digital tools that could allow them to compare insurance products, who are unaware of the existence of differential pricing practices, or who are more likely to renew their existing insurance contracts without searching for an alternative, may lose out due to differential pricing practices.

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i. In your market(s) have you observed an increase in differential pricing practices in non-life insurance? Please provide further information below.

ii. Please provide below your view regarding differential pricing practices and possible price discrimination in non-life insurance. What are the risks for consumers? What is providers role in mitigating such practices and ensuring they do not lead to consumer detriment?

One potential risk is that individuals residing in areas with lower socioeconomic status may experience differential pricing practices/price discrimination and, therefore, difficulties in obtaining insurance coverage. The possibility of this risk may rise as the availability of data increases, allowing for even more precise production models. These data sets do not only include personal data but also external data such as physical surroundings, weather data and so on. Thus, Climate change also poses an issue as it elevates the likelihood of extreme weather conditions, which potentially makes some areas uninsurable due to the high risk and cost involved (Forena, 2023)

Using AI in deciding pricing also poses a significant risk of bias, such as gender bias. Although it is illegal to set insurance premiums based on gender, the utilization of AI can indirectly discriminate. This is because the AI model uses various parameters for deciding individual pricing, and even though gender is not explicitly included, the model can still indirectly identify individuals as male or female (Forena, 2023)

As AI and other digital technologies are increasingly used to design, and price insurance, more individuals and/or groups of individuals will also inevitably be refused insurance. The insurance industry needs to, to a greater degree than today, proactively follow developments, share evidence, and contribute to finding solutions that mitigate against the possible negative effects that this may have on society and individuals (Forena, 2023)

Furthermore, we want to highlight that insurance companies using AI must prioritize the development of strategies, competencies, and routines to consistently identify and address potential risks associated with AI usage. In general, industry actors need to embrace openness, transparency, collaboration, and cooperation in order to develop the industry in a competitive direction while laying the foundation for productive, responsible and ethical use of AI. In that process, the social partners could play a much more active role in supporting their members to engage in dialogue about and in developing guidelines for what constitutes responsible, human-centred AI, as well as agreeing upon processes for dealing with problematic uses of AI. Agreements concerning the use of AI could, for instance, be reached through collective bargaining (Forena, 2023)

We also want to address that there is a huge need for training, competence development and resources for insurance employees to be able to measure up with the accelerated digitalisation and to be able to keep up with and address cybersecurity risks. We can't stress enough the need for future competence and learning on issues such as cybersecurity and data privacy. It is both in the interest of employees and consumers.

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