IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on consumer trends

IRSG-22/12
20 May 2022

European Insurance and Occupational Pensions Authority

EIOPA-22-12
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Questionnaire gathering input for the EIOPA 2022 Consumer Trends Report

1. Background

EIOPA is required under its Regulation to collect, analyse and report on consumer trends[1]. To date, EIOPA has produced ten Consumer Trends Reports. 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.

2. 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

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

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 input is **Friday 20 May 2022**.

2.1. Top 3 risks and positive developments observed in the market

2.1.1. Top 3 Consumer Protection Issues

Kindly highlight what are the most concerning consumer protection issues. The information on product specific initiatives will be requested in section 3 of the questionnaire.

Note: The wording 'first', 'second', and 'third', is not meant to rank the top 3 issues.

Consumer Protection Issue 1

Mireille AUBRY, France, Industry:

Availability of secure and performing products.

Note that performing products are not well described if solely put in relation with costs with no assessment of the global customer satisfaction and expectation towards short, medium and long term security (according to product and wish), peace of mind, multi-faceted service, trust and reliability, accessibility, financial performance, claims management performance …), suitability to legal and market background.

Pauline AZZOPARDI, Malta, Consumers and users:

The most pressing national issues are rising inflation, food security in face of wars and climate change, maintaining employment during challenging times.

We are already experiencing high costs for food in supermarkets and non-food retailers are upping their prices even for the already stored goods. Restaurants have already put up their prices after opening from Covid closures. Costs of raw imported materials like wood, aluminium have gone up immensely.

Typhaine BEAUPERIN, Belgium/France, Professional associations:

Cyber threats—63% of risk managers find it the biggest risk over next 12-months. Huge issue for large companies, and even more so for SMEs. That's one side. To add to that, a growing number of companies are unable to buy cyber cover because of capacity restraints and dwindling carrier choice. In our survey 60% of organisations observed some reduction in cyber coverage over the course of 2021, a further 11% of organisations got no coverage.

Monica CALU, Romania, Consumers and users:

In addition to the impacts of COVID-19, there have been risks of a deterioration in the financial situation of the household due to high energy costs and rising inflation, risks of job losses due to the deterioration of the economic situation and risks posed by the conflict in Ukraine.

Desislav DANOV, Bulgaria, Consumers and users:

Top concern is the inflation as it affects negatively all long-term insurance contracts while heavily affecting the consumers' willingness to enter in new ones.

Liisa HALME, Finland, Employees:

The importance of having enough resources eg. in statutory lines of businesses is crucial. Layoffs and automatization has decreased the number of employees and that can cause delays in claims handling.

Anthony O'RIORDAN, Ireland, Professional Associations:

The Right to be Forgotten has taken on greater significance in life insurance underwriting, with the Irish Cancer Society and others getting involved in this debate in Ireland.

Consumer Protection Issue 2

Mireille AUBRY, France, Industry:

Trustworthy and sustainable insurer with good reputation.

Pauline AZZOPARDI, Malta, Consumers and users:

As stated later, we saw insurers operating only online to avoid issues due to the pandemic. This trend meant that there was hardly any face-to-face contact. In order to understand the client especially when designing financial planning or a portfolio, a relationship has to be build up and this can be achieved successfully by face-to-face contact. Unless consumers are highly digital and are able to converse well online, this means that consumers may lose out on this relationship and not continue with their financial planning. Insurers must be aware of this. Please also keep in mind that in Malta, occupational pension schemes are mostly insurance based personal pension products.

Typhaine BEAUPERIN, Belgium/France, Professional associations:

Hard insurance market more generally is a big issue. Our survey found 66% of organisations made a change to their insurance buying pattern over 2021. 81% of those that made changes to their strategy cited the hard market conditions as the reason for doing so. Over the next two years, over 70% of organisations will look to retain more risk (!!), with around 35% looking to make more use of existing captive.

Add to this the conduct/behaviour of insurers not meeting expectations. For example, there is not sufficient attention paid to longer-term by the insurers.

Monica CALU, Romania, Consumers and users:

As consumers become increasingly dependent on digital channels for financial transactions, the frequency and number of cyber threats have increased, as has the sophistication of cyber threats. The insurance services sector, along with the banking and health services sectors, is one of the most affected among the critical information infrastructure sectors.

Desislav DANOV, Bulgaria, Consumers and users:

Another important issue is the cybersecurity of the insurers where huge gaps still exists and they have already been exploited by malicious agents to detriment of the consumers.

Liisa HALME, Finland, Employees:

Competence and lifelong learning for employees due for the new needs arising from regulation and AI/digitalisation.

Anthony O'RIORDAN, Ireland, Professional Associations:

Unclear Disclosure – with many cross cutting reviews at EU level (PRIIPs; RIS; DMFSD) and other changes domestically, the life assurance disclosure requirements are ever increasing which potentially results in regulatory overlap and confusion/lack of engagement from consumers.

Consumer Protection Issue 3

Mireille AUBRY, France, Industry:

Legible and clear & simple information & insurance covers.

Typhaine BEAUPERIN, Belgium/France, Professional associations:

All related to sustainability/ESG & climate risk: in FERMA's survey 41% of risk managers think that some locations of their organisations business activities, or their business activities in general will become uninsurable in the future. In a survey run by AMRAE, 61% of risk managers expect that due to climate change some of their activities will become uninsurable in the future.

Monica CALU, Romania, Consumers and users:

In order to operate successfully in the world of pandemics, the acceleration of the online distribution trend highlights the tendency of insurers to move from a predominantly face-to-face configuration to a virtual sales model. However, there are still a significant number of consumers, especially in the life insurance segments, who need personal contact, connection and relationship with the agent, otherwise there is a risk of excluding these consumers from the market. There are also a significant number of consumers who for various reasons (age, lack of digital skills, lack of internet access, remote areas) are not well covered by insurance services.

Desislav DANOV, Bulgaria, Consumers and users:

Pending raise in insurance premiums that is supposed to catch up overall raising of the costs of living.

Liisa HALME, Finland, Employees:

Cross boarder business, having claims handling/customer service done in different countries (regulation, legislation).

Anthony O'RIORDAN, Ireland, Professional Associations:

The cost and affordability of non-life insurance. The effect of inflation on this topic is unclear, but it is possible that it will exacerbate the issue further.

2.1.2. Top 3 Initiatives Observed

Kindly provide information about the top 3 initiatives observed. These can be initiatives put in place by insurance undertakings and/or insurance intermediaries to ensure the fair treatment of consumers. Initiatives referred to in this section should be focused on specific actions taken to guarantee the fair treatment of policyholders in general.

Note: The wording 'first', 'second', and 'third', is not meant to rank the top 3 initiatives.

Initiative 1

Pauline AZZOPARDI, Malta, Consumers and users:

None observed.

Monica CALU, Romania, Consumers and users:

The combined efforts of consumer associations and the insurance industry, in addition to other financial markets, to increase the degree of financial education in Romania. Lately, there have been countless campaigns, courses and projects in this regard, on various topics, such as car insurance, life and health insurance, home insurance, etc.

Desislav DANOV, Bulgaria, Consumers and users:

Not aware of any initiatives.

Liisa HALME, Finland, Employees:

Some insurance companies have established customer councils and chosen a customer ombudsman, and in these councils they are handling eg complaints.

Anthony O'RIORDAN, Ireland, Professional Associations:

"Shopping around for insurance" and "Be Insurance Savvy" (Advertising)

The Irish insurance industry launched campaigns designed to

- motivate consumers to shop around for insurance on renewal, with a goal of showing consumers how they can get best value, and
- Inform the public about how insurance works and how to buy

The Insurance Information Service (IIS) - operated by the Irish insurance association, has been providing general, jargon-free information about insurance to consumers since 1990. In 2021, there were approximately 6,900 queries, 600 complaints and 4,745 calls via the service, demonstrating its importance to the public and the industry.

Initiative 2

Monica CALU, Romania, Consumers and users:

The Romanian Financial Supervisory Authority has set out to develop a strategy for identifying, monitoring and addressing key risks that contribute to consumer harm by assessing the costs and potential difficulties posed by the economic impact of the crisis, such as illiquidity, inflation, the complex structure of tariffs in the case of unit-link products. Link: https://www.asfromania.ro/uploads/articole/attachments/602bd5bc861c5687157094.pdf

Desislav DANOV, Bulgaria, Consumers and users:

Not aware of any initiatives.

Anthony O'RIORDAN, Ireland, Professional Associations:

The Central Bank of Ireland has brought in a series of measures intended to strengthen the consumer protection framework in the areas of pricing practices, annual review and record keeping, and automatic renewals (effective 1 July 2022). From July there will be a ban on price walking, pricing policies and processes will have to be reviewed annually and additional information is required to be provided to policyholders as part of automatic renewals.

Initiative 3

Desislav DANOV, Bulgaria, Consumers and users:

Not aware of any initiatives.

Anthony O'RIORDAN, Ireland, Professional Associations:

Legislation is being drafted to pave the way for a new pensions auto-enrolment scheme which will see potentially hundreds of thousands of private sector workers automatically enrolled into a pension scheme.

2.2. Product related trends

You are invited to explain how the demand and/or offer for the below insurance products has increased/decreased/remained unchanged, during 2021. Please, where relevant, refer to any possible financial innovations, market developments, or positive/improved consumer outcomes you may have observed. Note the specific questions included are aimed at guiding the feedback sought but any issue/trend observed in relation to the products presented below is welcomed.

Product categories	**Developments in demand / offer / financial innovations / market environment / market practices / consumer protection**
Life insurance - with profit	*While information on all trends relating to profit participation products are welcome it would be extremely useful if you could highlight any trends you may have observed relating to the shift towards unit-linked and hybrid products. Any trends also relating/which are a cause of the low interest rate environment or high inflation are also highly appreciated.* Desislav DANOV, Bulgaria, Consumers and users: There is a trend similar products to be pushed by financial conglomerates in order to replace savings accounts that generate zero or negative interest rate.
Life insurance - unit linked	*While information on all trends relating to unit-linked products is welcome, if you observed any trends relating to the liquidity of unit-linked funds, surrenders/lapses, and/or changes in products as a result of the increase offer of sustainable funds is also highly appreciated.* Monica CALU, Romania, Consumers and users: In 2021, in Romania the private pension market continued to grow, despite the volatility induced by the COVID-19 crisis. Desislav DANOV, Bulgaria, Consumers and users: There is a trend similar products to be pushed by financial conglomerates in order to replace savings accounts that generate zero or negative interest rate.

Mortgage life insurance	*With particular regard to trends relating to mortgage life insurance products, it would be highly appreciated if you could highlight if and how they have contributed to the financial security of consumer during COVID-19 crisis.* Desislav DANOV, Bulgaria, Consumers and users: It fluctuates alongside the mortgage activity, which was significant in the last 12 months since the consumers were willing to move savings into real estate with the hope of evading inflation.
Other life insurance (please explain)	
Payment Protection Insurance	*While information on all trends relating to PPI are welcome, it would be good if you could detect any issue in relation to protection gap/exclusions for pre-existing medical conditions* Desislav DANOV, Bulgaria, Consumers and users: Not offered widely.
Motor insurance	*While information relating to any trends for motor insurance products is welcome, it would be highly appreciated if you could highlight any trends relating to an increase in uptake of pay-as-you-drive products* Desislav DANOV, Bulgaria, Consumers and users: Still biggest segment in Bulgarian non-life market. Anthony O'RIORDAN, Ireland, Professional Associations: Motor insurance premiums saw a substantial reduction in the Irish market with premiums being as low as in 2014. This follows on the introduction of revised personal injury award guidelines which may lead to lower claims costs if implemented as envisaged. See above also for comment on regulatory action on price walking/dual pricing which is likely to affect premium levels.
Household insurance	*While information relating to any trends for household insurance products is welcome, it would be highly appreciated if you could highlight any trends relating to exclusions.* Desislav DANOV, Bulgaria, Consumers and users:

	Usually goes hand-in-hand with mortgages. Slow penetration on stand-alone base. Anthony O'RIORDAN, Ireland, Professional Associations: Increasing prices in the real economy (material, labour) will impact insured risks and thereby might have an impact on premiums which consumers will face.
Accident and Health insurance	Desislav DANOV, Bulgaria, Consumers and users: Significant increase due to Covid-19 concerns, in comparison to pre Covid times.
Travel insurance	*While information relating to any trends for travel insurance products is welcome, it would be highly appreciated if you could highlight any impact that COVID-19 had on travel insurance – have you seen undertakings changing the structure of their products?* Desislav DANOV, Bulgaria, Consumers and users: While in low levels during the lockdown, the product experienced increase afterward. Anthony O'RIORDAN, Ireland, Professional Associations: Some companies are now explicitly including Covid-19 cover in travel policies (typically covering the policyholder in case they test positive for Covid-19).
Mobile phone and other gadget Insurance	Desislav DANOV, Bulgaria, Consumers and users: Not widely spread. Always bundled with new products' purchase.
Other non-life (please explain)	
Other, including non-product related issues	Monica CALU, Romania, Consumers and users: According to the analyzes performed by ASF Romania- the Financial Supervisory Authority, the excessive concentration registered on the MTPL market, in the last years, starts to gradually decrease, after the bankruptcy of CITY Insurance S.A. At least six of the eight companies, authorized to sell compulsory motor third party liability insurance, have gained considerable market share in the first month of this year. Link:

	https://www.asfromania.ro/ro/a/2399/comunicat-de-pres%C4%83:-mai-multe-op%C8%9Biuni-pentru-%C8%99oferii-rom%C3%A2ni.-scade-concentrarea-pe-pia%C8%9Ba-rca Desislav DANOV, Bulgaria, Consumers and users: Detrimental bundling of performance bonds with loan-sharking products. Legally they are pushed as some sort of collateral to the loans themselves but in general are just generating additional income to the loan originator in detriment of the consumer. Liisa HALME, Finland, Employees: The direct compensation from the insurance company when visiting veterinary station, medical providers etc is appreciated in the Nordic countries a lot. Customers don't have to use their own money when using the insurance for several purposes.

2.3. Focus topics

In addition, you are invited to provide input on the following focus topics:

2.3.1. Greenwashing

Greenwashing is the risk of portraying the insurance company as sustainable and of marketing products as allegedly meeting ESG standards while the green claims are unsubstantiated. This is a risk which can emerge in different phases including: (1) business model and management in relation to portraying the company as being sustainable as marketing technique; (2) manufacturing in relation to identifying products as green when they are not; and (3) sale & distribution in relation to portraying products as being green when they are not.

Q1: In your market(s) have you observed an increase in offering of products with "sustainable/green" features (e.g. underlying "green" funds)? Have you observed an increase in consumer appetite for these types of products? Please give more information below.

Pauline AZZOPARDI, Malta, Consumers and users: It is too early to judge any trends for ESG products on both supply and demand sides of the market. Desislav DANOV, Bulgaria, Consumers and users: Almost all "green" funds are offered by local subsidiaries of EU based financial groups. No stand-alone, Bulgarian green funds so far.

Claudia DONZELMANN, Germany, Industry:

I believe it's too early to observe meaningful trends for ESG products on both supply and demand sides of the market.

Monica CALU, Romania, Consumers and users:

Although the Romanian market diversifies its range of retail lending products by launching green consumer loans that can be used for cars, equipment and homes with low environmental impact, in terms of the insurance industry, product launches have remained, largely unchanged and do not incorporate climate risk into their products. In general, there are still relatively few companies on the market that make environmental, social and governance (ESG) a key feature of their products.

Michaela KOLLER, Germany, Industry:

In my view, the picture is mixed between different markets. Some markets seem to have been at the forefront of developing and offering products with green/sustainable features, such as in Scandinavia and larger markets, where there seems to be a good and increasing consumer demand for products with such features.

In other markets, there is less consumer appetite for this. Although products may contain such features, they are not necessarily advertised or pushed strongly.

The current instability (Ukraine war, inflation) no doubt will also impact consumers' appetite for such features, perhaps prioritising affordability over such features.

Patricia PLAS, Belgium, Industry:

We have observed in France an increase in products offering with sustainable/green features.

From a consumer perspective, 6 out of 10 French people declare that they attach importance to environmental and social impacts in their investment decisions (constant figure for 4 years)

Those remain intention and do not yet translate in contracting a product.

Q2: In your market(s) have you observed evidence of greenwashing as described above? If so please indicate for which type of products this evidence relates to (e.g. unit-linked, with-profit, hybrids), and at what stage of the product lifecycle was greenwashing identified (e.g. Business model and management, Manufacturing, Sales & distribution). Please give more information below.

Pauline AZZOPARDI, Malta, Consumers and users:

Again it is too early to observe evidence of greenwashing in the market.

Desislav DANOV, Bulgaria, Consumers and users:

Not observed.

Claudia DONZELMANN, Germany, Industry:

While I believe it's too early to observe evidence of greenwashing in the market, looking forward, I note there is limited legal certainty to support intermediate product disclosure for as long as detailed information on underlying target investments is not available, therefore increasing the potential of non-compliance with applicable regulation like SFDR/IDD. In fact, I observe a risk of non-compliance with regulation aiming at preventing greenwashing, rather than a greenwashing risk. This conclusion is based on the regulation intrinsic complexity and resulting legal uncertainty, combined with the lack of data, rather than insurers' unwillingness to comply.

As a result, interpretation standards for certain terms (e.g. use of estimates vs equivalent data for calculation of "taxonomy aligned investment") would be welcomed.

Irrespective of the current situation, it may be inferred that while for unit-linked products asset allocation and qualitative disclosure may be available in the future, for general account products, the respective asset allocation cannot be adjusted to individual preferences of the customer and the advisory process should reflect that difference.

Monica CALU, Romania, Consumers and users:

See Q1.

Michaela KOLLER, Germany, Industry:

My impression is that there is very little evidence of greenwashing in the EU. The new ESG framework will further contribute to transparency around green features. Many markets already use external rating agencies to ensure that products do contain what manufacturers say the contain, thereby reducing the risk of greenwashing.

Patricia PLAS, Belgium, Industry:

We have observed in France an increase in products offering with sustainable/green features.

From a consumer perspective, 6 out of 10 French people declare that they attach importance to environmental and social impacts in their investment decisions (constant figure for 4 years)

Those remain intention and do not yet translate in contracting a product.

Q3: For your market(s), please provide below your view with regard to Greenwashing. What are the main risks for consumers that you see? In your view, which actions/tools should be undertaken/implemented to mitigate such risks?

Pauline AZZOPARDI, Malta, Consumers and users:

Educating consumers is very important if we are to see proper choices in the ESG area and this will eventually avoid any reputational risk.

Manufacturers and distributors should explain in the documents what is the ESG criteria and environmental sustainability objectives to consumers.

Monica CALU, Romania, Consumers and users:

Issuers and distributors should clearly communicate ESG criteria and environmental sustainability objectives to consumers.

Desislav DANOV, Bulgaria, Consumers and users:

A coherent EU-level policy would do the trick since a purely national approach would hardly be effective.

Claudia DONZELMANN, Germany, Industry:

For the first years and as long as detailed information on underlying target investments is not available (i.e. on investee company level for aggregation at fund and IBIPs level), an enforced conversation with customers asking for quantitative preferences risks falling short on the customer's expectations, which may differ from the regulatory framework, raising the potential for reputational risk. To illustrate that, article 8 SFDR product definition does not require a minimum share, whereas the current economy and market situation only offers a rather low share of sustainable / taxonomy aligned investments.

Overall there is the need to increase retail customer's financial literacy, with the aim to manage their expectations, to counteract the general tendency to anchor proportions around 100% or 50%, therefore potentially falling short of their expectations, with the consequences above referred.

In the short term, to close the data gap required to implement the requirements, a clarification on the notion of "equivalent information" would be welcome to allow financial market participants to report efficiently for FY 2022, while ensuring harmonised understanding of "equivalent information" and hence SFDR product disclosure as from FY 2023.

Michaela KOLLER, Germany, Industry:

The greatest risk to consumers seems to me to be information overload. I see again and again financial literacy coming up as a point of concern. Although transparency should be increased with the ESG, its flipside is further information for consumers to assess and understand. Initiatives such as certifications my go some way in assisting consumers to find their way through the myriad of indicators of sustainability.

Patricia PLAS, Belgium, Industry:

It is of utmost importance to have a clear, consistent & understandable definition of the products & its sustainable/green features vis à vis the consumers. If we bring confusion through the communication that is given to them, we blur the messages even more, and we risk failing to direct the savings towards sustainability by creating mistrust.

2.3.2. Protection Gap

The Insurance Protection Gap measures the difference between optimal insurance coverage and actual coverage in every country. In other words, the protection gap describes uninsured losses in any given country. This gap is naturally dynamic and affected by many factors, such as economic strength, changes in GDP and population, as well as risks such as climate change, cyber, pandemics or technological and behavioural developments. In addition to these aspects this topic will also explore increases in protection gaps because of insurance providers cancelling coverage because the risk has become uninsurable – e.g., recent nat cat events – or too expensive to insurance – e.g., recent cancellations in assistance coverage and/or energy bills payment coverage because of sudden increases.

Q1: In your market(s) have you observed evidence of protection gaps as described above? If so please indicate for which type of products this evidence relates to (e.g. travel insurance, natural catastrophe coverage, cyber coverage), and at what stage of the product lifecycle were protection gaps identified (e.g. business model and management, manufacturing, sales & distribution). Please give additional information below.

Mireille AUBRY, France, Industry:

No, we do not identify protection gaps on our market apart from agriculture.

Pauline AZZOPARDI, Malta, Consumers and users:

In 2021 we see that certain insurance products, travel and even Buildings and Contents were excluding Covid related causes. I could not see any sense in excluding Covid from Building covers but insurances were not taking any chances. If one required Covid cover under travel, one pays extra premium and this only covered if one contracts Covid himself/herself not if trips cancelled due to Covid related incidences. Example if one travels on a plane where another passenger had Covid, one had to quarantine at own expense and insurance would not cover. Only in 2022 we are now seeing premiums covering Covid and again not if one suffers due to Covid related incidences.

Typhaine BEAUPERIN, Belgium/France, Professional associations:

In cyber and natcat we are experiencing protection gaps. In cyber, 60% of risk managers noticed a reduction in coverage in 2021, 11% reported no coverage available. Put another way, the vast majority of organisations were getting less financial protection for a growing cyber risk. This is hugely problematic. In addition, over 30% of risk managers cited 'cyber risk' as the major reason they believe some of their activities or locations will become uninsurable in the future.

In the case of natcat, 40% of risk managers observed a reduction in their coverage against the risks in 2021. This is problematic, since 48% observed 'no change' in coverage vs. the previous year, and there was already a natcat protection gap in play.

Monica CALU, Romania, Consumers and users:

The Romanian economy is facing negative shocks from very high inflation that reduces people's real disposable income, unemployment could rise, and prolonged warfare and increased uncertainty reduce the confidence of individuals and companies. In addition, there is limited space for the government to provide financial support, as the public budget deficit is large and difficult to finance, especially in a rapidly growing international interest rate environment.

In an increasingly "digitalized" world, cyber risks are increasingly threatening consumers and companies, regardless of their size. A series of DDoS (Distributed Denial of Service) cyber-attacks took place in late April and May in Romania. The attacks were claimed by the Killnet group, in the context of the war in Ukraine. In Romania, human error and the lack of digital education are among the causes that lead to the increase of online fraud and consumers are vulnerable to cybercrime.

In this context, the cybersecurity policy / cyber liability insurance / cyber risk insurance should be available on the market for consumers, although there are not many products available on the market that cover this risk.

Romania ranks in the top of European countries with the fastest internet connections, but with a low level of digital education. Thus, 87% of households in Romania have a subscription to very high speed broadband services. However, less than a third of citizens have at least basic digital skills.

Desislav DANOV, Bulgaria, Consumers and users:

There is something similar to protection gap in the area of MTPL where the insurance itself is almost not profitable to the carrier. That is why in many cases it is bundled with CASCO insurance in order to offset the low margins in MTPL with fatter margins in CASCO.

Claudia DONZELMANN, Germany, Industry:

COVID-19 has provided evidence that protection gaps exist for global pandemic events. Similarly, no coverage exists for other non-diversifiable accumulation risks such as large cyber-attacks and large scale natural catastrophes. For further information, see below Q3.

Michaela KOLLER, Germany, Industry:

The COVID-19 pandemic has shown the protection gaps that exist in relation to such major, global events. Although insurers have done a lot over the last few years to meet customers' needs and ease the difficulties brought about by the pandemic and the imposition of various restrictions, it highlighted a gap.

Similarly, there is no coverage for major cyber-attacks and large-scale natural catastrophes. Such events are simply too significant to be able to cover.

There are also concerns over the long-term care provision and retirement; here again the pandemic has not helped consumers focus attention on the longer term, when the immediate living standards are being affected or eroded.

Anthony O'RIORDAN, Ireland, Professional Associations:

Ireland sees a further hardening of the market for EL/PL insurance for certain niche sectors with a particular exposure to personal injuries. Uncertainty and volatility of claims awards have substantially reduced the available capacity for these niche sectors. Government reforms to bring down the cost and volatility of claims, but important components, e.g., a review of the duty of care and occupiers' liability, are still outstanding or their impact cannot be assessed, yet, e.g., on new guidelines on Personal Injuries awards. While these guidelines have been implemented, important court cases are still pending to confirm that the guidelines will be adhered to in litigation.

Patricia PLAS, Belgium, Industry:

Natural catastrophe:

Protection gaps on natural catastrophe coverage can be significant in some emerging markets, where consumers are not aware enough of the hazard or can't afford to pay the required premium in front of the risk. There is no obvious signal of increasing protection gaps over the last 20 years. In mature markets, with some exceptions (for example earthquake coverage in some European countries), natural catastrophes are relatively well covered with various mechanisms, including private insurance, public schemes or a combination of both.

Cyber insurance:

In European markets, there is a structural deficit of cyber insurance for retail and SME insurance whereas the risk is increasing. Raising awareness and prevention should be enhanced in all markets.

Also, cyber insurance evolved as a product to deal with privacy and security related risks not already covered by other products, so gaps can arise when the broker/agent/adviser does not consider the customer's holistic cyber risks/exposures and does not address all of these with the relevant combination of products. Cyber insurance was not designed to cover all scenarios related to "cyber exposures" – which is not commonly understood.

Bruno SCARONI, Italy, Industry:

The main protection gaps I observed are in the areas of natural catastrophe, cyber, healthcare and pension risk.

In addition, the pandemic crisis highlighted a further area where more efforts are needed in order to have sufficient coverage for any future crises. Indeed, the lockdown forced many businesses to cease their activities and caused a widespread cancellation of events and travel. This has resulted in considerable business interruption losses that were largely uninsured or insured only partially.

Q2: In your opinions, what are the main reason(s) leading to a protection gap in your market(s) (e.g. affordability, behavioural biases, exclusions, regulatory environment)? Can you provide some examples?

Mireille AUBRY, France, Industry:

Affordability, behaviour.

Typhaine BEAUPERIN, Belgium/France, Professional associations:

All of those factors mentioned. In addition, risk managers have also cited eg the hard market conditions as well as increasing attention on transition risks as being factors leading to a widening protection gap.

Monica CALU, Romania, Consumers and users:

Whether caused by the conflict in Ukraine, climate-related events (such as prolonged drought or wildfires) or the Covid-19 pandemic, the crises have steadily increased in frequency, severity and complexity in Romania. Although the nature and incidence of these crises vary significantly, they affect a large number of people, especially the most vulnerable. Poor people have fewer assets to support their livelihoods, have much lower incomes and often cannot rely on savings to allocate money for health, life or pension insurance.

Desislav DANOV, Bulgaria, Consumers and users:

Poor tradition with MTPL underwriting that has deep roots and is hard to change.

Claudia DONZELMANN, Germany, Industry:

See details under Q3 below.

Michaela KOLLER, Germany, Industry:

The causes for the protection gaps vary depending on the product class.

For long-term care and retirement – and implications of the pandemic – causes range from price-sensitivity by consumers, to the sustained low-interest rate environment, to national differences in employment and tax law.

In respect of major, global events such a significant cyber-attacks and natural catastrophes, the causes are the inability to underwrite such significant and unpredictable losses in the private market; the losses simply cannot be absorbed when they hit many locations at the same time.

Anthony O'RIORDAN, Ireland, Professional Associations:

The claims culture, volatility and level of awards and the regulatory environment present the biggest obstacles to the capacity in the Irish non-life market. In addition to the full implementation of the reform agenda which has been launched by the government and the unresolved questions on adherence to new guidelines by the courts (i.e. new Personal Injuries Guidelines), it might be the divergence from an EU-consistent regulatory environment (gold plating), and extensive authorisation and approval requirements, potentially creating barriers for new entrants to the market.

Patricia PLAS, Belgium, Industry:

Natural catastrophe

Regarding natural catastrophes, protection gap first arises from a lack of awareness of the risks. Due to inherent rare nature of these phenomena, when no significant event has occurred for a long period of time (for instance 30 years), consumers tend to consider the risk too remote and won't be purchasing nat cat covers (if not mandatory). The regulatory environment plays an important role then, as it can impose the purchase of nat cat insurance, like the CCR regime in France. This enables to reduce significantly the protection gap; however the counterpart is that it does not create any incentive for people to better protect or build in less risky zones

Q3: Please provide below your view with regard to the protection gap in your market. What are the main risks for consumers that you see? In your view, which actions/tools should be undertaken/implemented to mitigate such risks?

Typhaine BEAUPERIN, Belgium/France, Professional associations:

The risks for EU enterprises are manifold. Protection gaps in cyber and natcat only tell some of the story. It threatens resilience of the economy that enterprises are unable to transfer more of the risks that they have to self-retain and hold or ultimately seek government support for.

Desislav DANOV, Bulgaria, Consumers and users:

The MTPL, if sold on stand-alone base might become entirely unprofitable to the insurers and consequently some of them might cease to offer it.

Claudia DONZELMANN, Germany, Industry:

With respect to business interruption risk, in my experience, the top two concerning reasons for policyholders are pandemic outbreaks and cyber incidents. From an insurance perspective the key difference is that cyber risk can materialize on an individual basis while pandemic risk is per definition widespread and global. While cyber risk can therefore be insured on an individual basis subject to specified limits (per policy and in aggregate), this would not be sufficient to mitigate the impact of a large-scale cyber-attack. For such cyber risk accumulation scenarios, the private sector cannot provide cover for the same reasons as in pandemic risk (lack of diversification of the risk plus correlation with other risk types) but also because cyber risk is a man-made risk and might even increase in frequency going forward.

Climate change is different compared to cyber and pandemic. First of all, climate change is a slowly developing risk which will initially increase claims from severe weather events. In addition, it is typically not about business interruption insurance but building, home contents and similar lines of business where maximum losses are clearly defined. While there is a discussion about stranded assets and related losses on investments, this is not directly correlated with wider capital market risk. As a result, insurers can and will continue to insure customers and their homes, cars etc. against severe weather events like flooding, windstorm etc. In the longer term, climate change can increase the scope of uninsurable objects or unaffordable premia and protection gaps occur for example for beachfront properties in some areas due to the increased risk of storms, flooding etc. For such risks governments can play a major role in terms of risk prevention and mitigation: For example forward-looking definition of building codes by authorities so that in certain at risk areas no new buildings are permitted or only subject to strict risk mitigation requirements.

A loss-sharing arrangement between governments and (re)insurers for future pandemics established through some form of public-private partnership would make a significant contribution to reducing this risk by embedding resilience measures and managing losses from similar events in the future. Such an approach would leverage not only the financial capacities of insurance and capital markets, but also support better risk management and enhance resilience against future pandemic risk.

However, it is also clear that not every risk is insurable – in particular non-diversifiable risks such as large scale cyber-attacks, natural catastrophes and wars. For some risks there is a gap between what insurers are able to insure and what clients and society expect them to cover. In order to avoid false expectations, the insurance industry has to become better in communicating what risks policies cover.

Liisa HALME, Finland, Employees:

Cyber-attacks, attempts to influence to the business. Are insurance companies really as good as they should be prepared. How is this monitored and incidents reported to national finance inspection?

Competence and ongoing education to the employees, yearly plans?

Anthony O'RIORDAN, Ireland, Professional Associations:

The implementation of the Irish government's action plan for insurance reform and its adoption by courts and organisations are important elements for non-life. It is important to note that the environment has only a very limited direct consumer impact, but the availability of services, e.g., Creches, recreational activities etc., might impact overall consumers.

Further a targeted reform to address regulatory burden (for approval and ongoing) might increase the attractiveness for increased capacity for the niche sectors at question.

Legislation is being drafted to pave the way for a new pensions auto-enrolment scheme which will see potentially hundreds of thousands of private sector workers automatically enrolled into a pension scheme.

Patricia PLAS, Belgium, Industry:

Cyber: As above, gaps arise because customers and their insurance intermediaries may not fully understand all of their cyber exposures and how a suite of covers is required to effectively protect them. Good advice is essential.

Bruno SCARONI, Italy, Industry:

Regarding NAT-CAT in particular, a key step to reduce the protection gap is to increase risk awareness and knowledge of insurance options. Also, appropriate tax incentives should favour its reduction. I would highlight however that excessively prudent risk assessments, if combined with associated additional capital requirements, would constitute a trade-off vs the desire to close the insurance gap in natural catastrophes, which is already present even without considering the future effects of climate change.

I believe the insurance industry is ready to play its role by increasingly providing enhanced or additional services to its clients, e.g. by providing early warning alerts, loss mitigation knowledge sharing, quick claims handling, innovative products such as parametric covers for quicker claim settlements, etc.

Furthermore, it is crucial to close knowledge gaps by improving the collection and sharing of detailed results of peer-reviewed current scientific knowledge on climate change. Current scientific knowledge on the exact effects of climate change is still extremely sparse and not always reflecting the actual confidence of scientists on what will happen in terms of climate induced changes to weather related events. This is especially true when high level predictions on carbon concentrations and global temperatures are translated to the effects these will have on specific events and territories. Many scientific papers have been produced, but not all reaching the same conclusions or predictions. Efforts to create a centralized, standardized and easy to use repository on the detailed scientific results on the effects of climate change would be extremely helpful to the industry. This could be achieved, for example, via a geospatial repository, which should include exclusively peer-reviewed information segmented by:

- peril
- territory
- time horizon considered
- representative pathway considered (e.g. by level of warming)
- expected effect in terms of frequency and/or severity if unmitigated
- confidence in the climate-change signal or uncertainty range

Pandemics pose challenges to the basic principles of insurance such as diversification and mutualisation of risks and a solid claims history to calculate fair premiums. In addition, there is no clear, predictable time limit on a pandemic: this means the potential loss is infinite, and therefore uninsurable under the traditional insurance business model.

Clearly, the pandemic risk cannot be borne by the private insurance industry alone and therefore appropriate solutions are needed. Like other large, difficult-to-insure risks, it will require partnerships between public bodies and the insurance industry to develop innovative solutions. The drastic economic impact for SMEs, and especially micro and small enterprises, has been visible right from the start of the pandemic. They have been strongly affected by the current crisis and the subsequent Non-Damage Business Interruption (NDBI) losses. An ambitious EU-wide solution is therefore needed to anticipate and manage the negative effects of a future pandemic crisis. In this sense, I believe the it is essential to create a Pandemic Risk Pool involving institutional investors, Member States and the EU Institutions. The main features of this Pandemic Risk Pool, with the Public intervention as a backstop, should be based on a multilayer scheme, involving primary insurers, professional reinsurers, financial investors, National Governments and ultimately EU Institutions.

2.3.3. Financial Health

Financial health or wellbeing is the extent to which a person or family can smoothly manage their current financial obligations and have confidence in their financial future. The aim would be to collect information on practices observed to ensure that insurance improves financial health by improving policyholder's resilience in managing financial shocks – via insurance savings products and payment protection products – and other shocks such as medical emergencies, fires, etc. – via other products.

Q1: For your market(s), please indicate below how consumers' financial health has evolved in the last 2 years, and how the insurance sector contributed to this evolution (e.g. positively, negatively)? Please give additional information below.

Mireille AUBRY, France, Industry:

Life savings have been well protected.

Pauline AZZOPARDI, Malta, Consumers and users:

In my country Malta we experienced generous state support for companies to hold on to their employees by giving them 800 per employee per month. I believe that even the self-employed were also assisted.

Unfortunately education suffered. Many had to go online and stayed at home. This caused lack of social interaction which is crucial in young people.

Also having to do insurance business online, may have helped those who are digitally savvy and even was an advantage not to waste time visiting offices but this was not good for the elderly or those not good with computers. The latter had to rely on others to do their insurances.

Monica CALU, Romania, Consumers and users:

In Romania, bank rates are rising rapidly, becoming increasingly difficult for borrowers to bear as a result of rising market interest rates, and analysts estimate a significant increase in non-performing loans. The National Institute of Statistics (INS) published data for April, which shows that the annual inflation rate rose to 13.8% in April this year.

Desislav DANOV, Bulgaria, Consumers and users:

The answer needs to take into account the skyrocketing inflation in core goods and services (food inflation +60% YoY). If the trend continues it will dry up all discretionary spending of the consumers, curtailing any insurance that is not obligatory.

Claudia DONZELMANN, Germany, Industry:

Financial well-being is a complex concept to measure as it aggregates different dimensions of each individual, inter alia income level, savings rates, spending requirements (including inflation), debt-to-income ratio, planning for future events and financial education. Financial well-being is therefore heterogeneous across the markets as it depends not only on the socio-economic background of the consumers, but also on national driven factors such as governance, tax policies and the educational priorities of each country.

While I'm not in a position to offer a thorough assessment of the evolution of consumers' financial health across Europe, research suggests that the situation of the middle class has deteriorated with respect to its share of total wealth. While the direct impact of Covid-19 is likely to have increased inequality in many countries, the generous state support is expected to have cushioned the blow. Furthermore, material concerns persist on the consequences of disrupted education that may contribute to entrench social immobility.

Against the background of the worsening of families' financial health across Europe in the past two years, the insurance sector contributed positively to mitigate the effects of the pandemic crisis on society inter alia via 1. premium refunds in insurance coverage such as MTPL and Property for SME clients; 2. ex-gratia payments in different dimensions and scopes in e.g. business closures and MTPL; 3. contributions to solidarity funds in favour of the sectors most hit by the pandemic crisis.

Michaela KOLLER, Germany, Industry:

Over the last 2 years, the pandemic has had an impact on consumer's financial health. This is now further exacerbated by the impact of high inflation (following a sustained period of low interest rates) and uncertainty due to the war in Ukraine.

If inflation becomes too significant, we may see that sums insured may no longer be sufficient to properly protect consumers, yet the reductions in disposable income may also reduce consumers' willingness or ability to increase their limits.

Over the last 2 years, insurers have gone to great lengths to assist consumers, be it by extending home insurance coverage to second homes during periods of strict confinement, to exceptional assistance for repatriation under travel policies, to forbearance of premium and innovative solutions to enable medical assistance and consultations via video links instead of "in-person".

Bruno SCARONI, Italy, Industry:

During these times of uncertainty, and in particular in the last 2 years, the financial situation of households has certainly become less favourable, so it's understandable that many people become focused on their overall wellbeing – particularly their financial security and confidence for both the short and long term.

The insurance industry is at the crossroads of some of the great contemporary issues: pandemics and extreme events; climate change; geopolitical and financial instability; digital revolution and cyber security; ageing and new welfare.

In this context, the objective of insurers should be to monitor the mega trends that pose significant risks and opportunities, with a view to become a trusted partner in improving the financial wellbeing of our customers – and create relationships that can last a lifetime.

In particular, during the pandemic crisis, several initiatives have been taken by insurers, such as the development of new medical covers, the set-up of solidarity and emergency funds, 24-h teleconsultation services.

Q2: Do you think manufacturers do sufficient efforts to ensure consumers' financial health/well-being?

Pauline AZZOPARDI, Malta, Consumers and users:

As stated by Claudia Donzelmann I agree to her comments stated below:

"Insurance plays a key role in improving consumers' financial health by contributing to long-term planning of consumers and their households, in the extent it:

- equips them with the financial means to face unexpected events not only connected to death, disability, unemployment, but also to property and casualty occurrences.
- offers the organisation and discipline incentive to build up for old age provision via typically long-term products, in which risk mitigation elements and protection elements frequently play a role. Considering the duration of these products, they are often equipped with tailor-made solutions that are fitting to the several life changes of customers (e.g. options). "

Monica CALU, Romania, Consumers and users:

Unfortunately, there are not enough efforts in this regard in Romania.

Desislav DANOV, Bulgaria, Consumers and users:

In the light of the answer to Q1, manufacturers are also in unchartered territory.

Claudia DONZELMANN, Germany, Industry:

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elements frequently play a role. Considering the duration of these products, they are often equipped with tailor-made solutions that are fitting to the several life changes of customers (e.g. options).

Liisa HALME, Finland, Employees:

Ethics of these products and purposes should be analysed critically. How is the information used and stored.

Michaela KOLLER, Germany, Industry:

Insurers go to great lengths to improve the financial literacy of consumers, assist in developing new and innovative products to meet consumer needs and demand and continue to work hard to make product information more accessible and easy to understand.

Bruno SCARONI, Italy, Industry:

It is important to focus on the long-term value in order to create value over time and to personalize every aspect of the customer experience by developing flexible product solutions suitable for a challenging and complex operating environment.

Technological innovations and digitalisation are key to increase customer value by scaling digital advisory capabilities and establishing a seamless omni-channel approach across all distribution channels.

Q3: Please provide below your view with regard to financial health in your market(s). What are the consumer risks most affecting financial health? In your view, what should be done in order to ensure that consumers have healthy financial habits and take good financial decision?

Pauline AZZOPARDI, Malta, Consumers and users:

Again I agree with Claudia Donzelmann on the following, but must add that in Malta tax incentive to save for pensions is very low at 750 euros per year refund as a maximum.

"Considering the rapid aging of the population, the old age and pensions gap presents one of the key challenges affecting consumers' financial health in Europe. While the respective financial burden may be distributed on several pillars by supplementing the state pension system with a strong occupational and private pension provision, past experience shows the challenge to reach low-income groups and incentivize them to save for old age.

From a broader angle, poor financial literacy can lead to incorrect financial planning and a savings gap, and the very damaging psychological issues of a feeling of helplessness in times of financial stress and financial exclusion. While noting that improving financial literacy is not a silver bullet, I believe that one of its benefits is that more financially literate consumers are more likely to buy the right product at the right time for the right need and is more likely to make sufficient financial provision for their future.

Beyond the promotion of financial education by Member States in schools from an early age and continued vocational training, measures such as tax incentives are expected to have a more immediate impact in reaching low-income groups and help them to build sufficient capital for old age.”

Desislav DANOV, Bulgaria, Consumers and users:

Before the inflationary shock the answer would have been “Financial education”. Now it is common sense, dictating postponing outright cancellation of all spending that is not necessary.

Claudia DONZELMANN, Germany, Industry:

Considering the rapid aging of the population, the old age and pensions gap presents one of the key challenges affecting consumers’ financial health in Europe. While the respective financial burden may be distributed on several pillars by supplementing the state pension system with a strong occupational and private pension provision, past experience shows the challenge to reach low-income groups and incentivize them to save for old age.

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Beyond the promotion of financial education by Member States in schools from an early age and continued vocational training, measures such as tax incentives are expected to have a more immediate impact in reaching low-income groups and help them to build sufficient capital for old age.

Michaela KOLLER, Germany, Industry:

Low financial literacy, low income relative to financial commitments and sudden life-changes and shocks tend to be the main drivers for causing poor financial health. However, the impact of rising inflation and the sustained impact of the pandemic should not be underestimated.

Bruno SCARONI, Italy, Industry:

Financial education can play an important role in helping consumers to make appropriate choices about insurance. It refers to a combination of financial awareness, knowledge and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being.

The pandemic crisis has further increased the need to improve household financial resilience and address financial vulnerability, so it is very important that institutions take action on this issue and I welcome initiatives such as the joint ESAs thematic repository on financial education and digitalisation initiatives of National Competent Authorities.

Q5: In your view, what are the causes and consequences of poor financial health?

Desislav DANOV, Bulgaria, Consumers and users:

ECB money printing.

Claudia DONZELMANN, Germany, Industry:

See Q1.

Michaela KOLLER, Germany, Industry:

See answer to Q3 above.