Consumer Trends Report 2024

Main report

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Consumer Protection Department
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EXECUTIVE SUMMARY

Insurance and pension services offer substantial benefits as evidenced by the improvements observed in 2023. Returns have significantly improved in line with overall market performance (from -10% in 2022 to 9% in 2023). Moreover, the commission rates of life lines of business (LoBs) remained stable or decreased in 2023. However, some outlier products continue to drive NCAs' supervisory activities and consumer concerns, with 25% of consumers[1] believing that IBIPs do not offer value for money (VfM). On the non-life insurance front, most consumers reported finding value in non-life insurance products. However some NCAs have identified instances of products with undue costs or commission rate structures that hinder value, particularly for ancillary insurance products. Solvency II data shows that the lines of business where possible consumer detriment is at higher risk of materialising are income protection, miscellaneous financial loss, and legal expenses. To tackle instances of poor value for money and to build on the observed improvements, NCAs carried out supervisory activities based on, or closely related to EIOPA's methodology.

The ongoing digitalisation of insurance and pension services streamlines processes, enhances consumer awareness, and facilitates greater product uptake and smoother interaction between consumers and providers. Digitalisation can facilitate access to and comparison of information on product availability, costs, performance, benefits, and terms and conditions. It can further contribute to raising more awareness around pension planning and the availability of insurance as a risk-management tool. Digital integration can also improve VfM by streamlining claims management and by enhancing consumer service processes. However, not all consumers benefit equally from digitalisation. The risk of exclusion is particularly relevant for older or lower-income consumers, or those lacking digital literacy, with 43% of EU consumers reporting a preference for receiving information in person rather than online. Related risks are inadequate support and mis-information, where overly standardised processes, insufficient online disclosure, and reduced/absent interaction with insurance intermediaries may lead to poorer quality consumer support or the provision of less suitable or less adequate products (e.g. via social media or by '*fin*fluencers').

The ageing EU population heightens concerns about widening pension gaps. EIOPA's Eurobarometer shows that consumers with higher access to pension services tend to have higher financial confidence in retirement, yet uptake remains low overall. While comprehensive data on pensions coverage and uptake remains a challenge, EIOPA's 2024 Eurobarometer survey[2] shows that

[1] In this report, "consumers" is understood as a term englobing consumers, savers, pension scheme members and beneficiaries. This term is therefore used to refer broadly to people using or benefitting from pensions and insurance services.
[2] These figures come from a representative sample of EU consumers with various occupational statuses: Self-employed (8%), Employee (41%), Manual Worker (7%), Retired (26%), Others not working (18%).

only 20% of EU consumers declared being members of an occupational pension scheme, and only 18% declared owning a personal pension product. This can partially explain why overall EU consumers have modest levels of financial confidence in retirement. While the lack of financial resources remains the primary reason for not having a personal pension, costs and the perceived complexity of some products are also barriers.

Good governance of pension funds is recognised as a key factor in ensuring good outcomes for members and beneficiaries with overall sound practices being observed across the EU. Robust governance frameworks safeguard the interests of members and beneficiaries, leading to trust in pension providers and fostering supplementary pension participation. Most NCAs observed sound IORPs governance practices. Moreover, the shift to Defined Contribution schemes and the integration of digital tools by IORPs have, to some extent, contributed towards the implementation of enhanced governance frameworks as the increased risks for members and beneficiaries need to be duly managed. Despite positive trends, NCAs indicate that this area still requires further supervisory scrutiny.

Artificial Intelligence (AI) is expected to have a positive transformative effect on insurance, particularly in specific non-life lines of business, with some concerns requiring supervisory attention. An increased usage of AI-based tools has been observed primarily in the Motor Third-Party Liability (MTPL), other motor, household, and health lines of business. Around half of EU consumers and half of reporting NCAs indicate that the use of automated tools makes claims processes faster and easier to navigate. Further, AI-based tools used in pricing can reduce costs and improve insurability due to more accurate segmentation and price optimisation. However, qualitative information shared by NCAs highlights instances of poor AI decision-making, inadequate support, and limited consideration of consumers' specific circumstances. AI may also lead to excessive standardisation of pricing, underwriting and settlement processes, neglecting non-standard situations, and leading to unintentional errors. Furthermore, data privacy, security, and ethical use should be ensured.

Beyond these trends, it is important to underline developments and risks for consumers, including:

- From 2023 to 2024 there was a slight decline in access rates to insurance and pensions investment products, as well as various non-life insurance lines of business. The 2024 Eurobarometer shows that access to insurance and pensions has slightly decreased from 2023 to 2024, which may present risks to consumers’ financial health and could be an overall result of worsening financial conditions of European households and increased costs due to inflation.
- Consumers’ awareness of insurance or pension products with sustainability features remained stable. Sustainability claims about insurance and pension products continue to drive supervisory activities.

- The provision of cross-border insurance products continues to increase moderately, partially driven by digitalisation. Consumers report that cross-border business provides access to better-value products through increased competition and broader coverage. However, a lack of consumer trust in the cross-border provision of insurance, albeit not widespread, remains a barrier and may be exacerbated by existing challenges to cross-border supervision.
- Digitalisation has led to improvements in claims management processes. However, instances of delayed payments and poor-quality customer service were reported by some NCAs, mainly in the MTPL line of business as this is the most commonly sold product.
- NCAs continue to report that high commissions and poor value offered by some cross-sold and ancillary products remain significant concerns.

1. INTRODUCTION

Article 9 of EIOPA's founding regulation requires the Authority to 'collect, analyse, and report on consumer trends'[3]. EIOPA interprets trends in a broad sense to include conduct-related risks as well as positive developments. A trend may be one that has been prevalent for several years, or one that has recently emerged. For a trend to be included in the Report, it does not necessarily have to be present in all Member States. One of the Report's key objectives is to identify risks for consumers, savers and beneficiaries arising from trends in the insurance and pension market (including exogenous ones), which may require specific policy proposals or supervisory actions from NCAs and/or EIOPA.

EIOPA follows a methodology to produce Consumer Trends Reports on an annual basis which has been updated in June 2021 (see the Annex). Consumer and behavioural research now form an integral part of EIOPA's consumer trends work. This allows EIOPA to better capture consumers', savers' and beneficiaries' experiences with insurance and pension products. In particular, it gives EIOPA additional insights on benefits and risks associated with key trends and it allows EIOPA to draw more concrete conclusions as consumers' data complements data reported by providers (i.e., supervisory reporting), stakeholders (i.e. dedicated surveys to stakeholders) and NCAs (i.e., dedicated surveys to NCAs). To better inform the identification of risks and trends, in 2024 (like in 2023 and 2022), EIOPA carried out an EU-wide Eurobarometer survey covering a representative sample of European consumers[4] to get a comprehensive overview of consumer trends in insurance and pension products/services.

Like in 2023, this year's Report expands on 4 key areas, while an overview of recurring trends is provided in the last section and in the Statistical Annex. To this extent, the Report is divided into four main sections. The first covers trends in both insurance and pension: value for money and digitalisation. The second one explores pension-specific trends by looking at the uptake of supplementary pension products – including a focus on the Pan-European Personal Pension Product (PEPP), and pension governance. The third one focuses on insurance-specific trends with a focus on AI and its impact on policy servicing in insurance. The final section discusses developments in terms of access to insurance and pension, and explores enduring trends and risks that, although not elaborated on in this year's Report, continue to be of significance, as evidenced by the risk heat-map and are actively monitored by EIOPA.

[3] Article 9(1)(a), Regulation 1094/2010 establishing EIOPA, Link.

[4] The survey was carried out between 17/07/2024 and 25/07/2024 and targeted EU consumers 18 years and above for a total of 25.951 online interviews.

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2. VALUE FOR MONEY

In 2023, Value for Money (VfM) remained a central priority for most NCAs. Many NCAs continue to identify VfM-related issues both in life and non-life insurance. For pensions, while there has been limited focus, some NCAs also reported VfM concerns. Overall, VfM remains a key area of concern for unit-linked[5] and hybrid insurance products and it is gradually becoming an area of attention for pension. VfM in non-life insurance is also an area of focus for some products.

2.1. VALUE FOR MONEY IN INSURANCE AND PENSION INVESTMENTS

Although VfM risks are not widespread, the continued presence of some products in the market offering low VfM causes consumer detriment and can have a wider effect of diminishing consumer trust. While NCAs indicate that VfM issues are not widespread in their market, with most of those reporting VfM concerns indicating these relate to products accounting between 0% and 25% of the total market, the continued presence of products with low VfM can diminish consumer trust and hinders consumers' willingness to invest through insurance and pension products. While high costs do not necessarily indicate poor value for money, as some pricier products provide significant value to specific target markets, overall affordability remains a concern for consumers. Indeed, 17% of EU consumers indicated not buying or renewing an IBIP due to high costs and high fees. The figure increases to 19% for personal pension products.

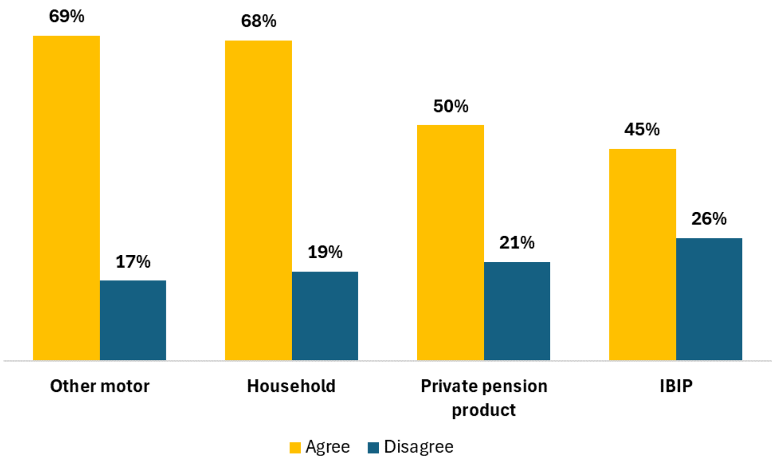
When compared with other insurance and pension products, IBIPs are the products with the lowest percentage of consumers believing that they offer VfM. EIOPA's 2024 Eurobarometer data indicates that 45% of consumers believe their IBIP offers them value for money, whereas this figure increases to 50% for personal pension products and above 50% for certain non-life insurance products. This varies among Member States, with 63% of consumers finding that IBIPs offer value for money in Cyprus and Romania, to only 36% in Spain. This is also in a context where complaints data shows an increase in total life insurance complaints from 2022 to 2023 for both complaints managed by undertakings and those managed by external complaints resolution bodies and NCAs.

For EU consumers low costs and good returns are the most important factor in assessing whether their insurance and pension investments offer VfM. 37% of EU consumers identified low costs as an important factor for the VfM assessment, whereas this figure is 34% for good returns. This shows that while costs are EU consumers' main concern, this is closely followed by good returns indicating

[5] 'Unit-linked insurance' encompasses also 'index-linked insurance'

the importance of ensuring a comprehensive approach towards VfM – i.e., not an over-focus on costs (see Figure 6 below).

Figure 1 – Percentage of EU consumers that consider a given product offers value for money



Source: EIOPA's 2024 Eurobarometer survey

Unit-linked insurance gross returns improved in 2023 in line with market developments, with some concerns lingering in terms of real returns. According to EIOPA's Solvency II database, the EEA return ratio recovered from -10% in 2022 to 9% in 2023 (Figure 2). However, concerns arose in relation to products' real return, particularly due to inflationary trends but also due to costs hindering returns. Indeed, according to EIOPA's 2024 Eurobarometer survey, 10% of consumers cited poor performance as the reason for non-renewal of an insurance-related investment product. Moreover, NCAs ranked inflation impacting IBIPs real returns as one of the highest consumer protection concerns.

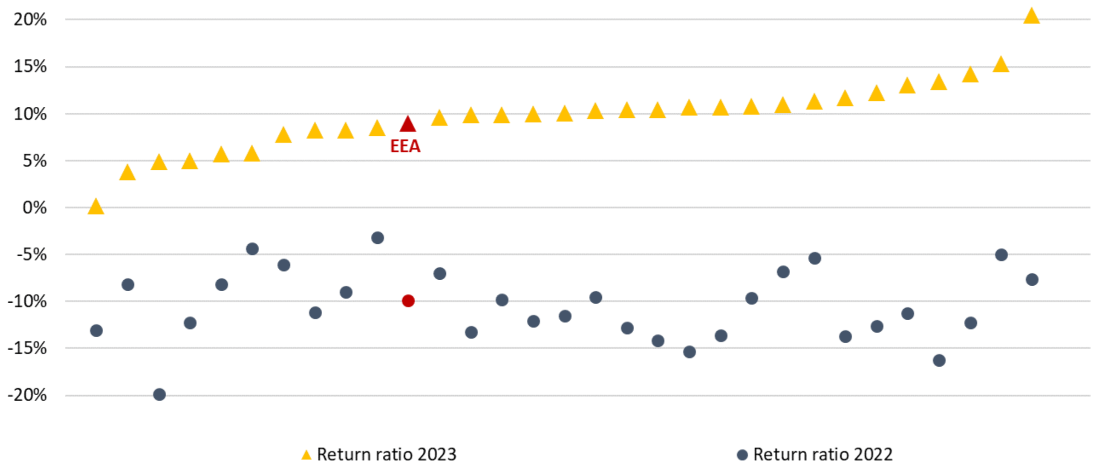
Solvency II reporting shows that, despite inflationary pressures, commission rates remained stable or declined in 2023, indicating that the VfM supervisory focus is driving better outcomes, though divergences across Member States exist. While not a direct measure of costs, commission rates[6] may indicate higher costs for consumers as well as higher risk of possible mis-selling, as it may lead distributors to offer an unsuitable product with the intention of generating commissions**.** From 2022 to 2023, index-linked and unit-linked commission rates remained at 3.3% – ranging from 13.2% in Lithuania to 0.2% in Iceland (Figure 3). They decreased from 3.9% to 3.6% for profit-participation and decreased from 17.6% to 15% for other life insurance.

Further, product complexity can contribute to consumers not understanding their products and result in the non-purchase and/or non-renewal of such products. Consumers face challenges in understanding various aspects of life insurance and/or pension products, particularly the

[6] As outlined in the EIOPA RRI methodology, the 'commission rate' is acquisition costs (but no other source of costs which are often considered "commission", such as: advertising or back-office costs, given the limited data available) divided by gross written premium.

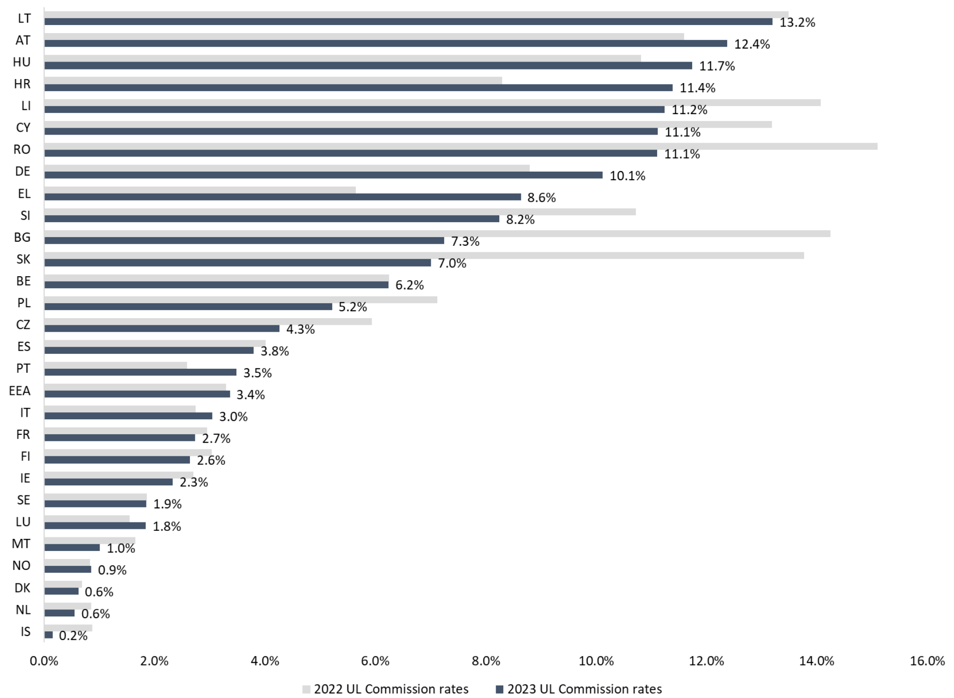
investment component. This is evidenced by 15% of consumers citing not buying or renewing an IBIP due to it being difficult for them to understand the product – a figure mirrored for personal pension products.

Figure 2 – Return ratio for the unit-linked line of business – 2022-2023



Source: EIOPA's Solvency II database

Figure 3 – Unit-linked commission rates by country, 2022-2023[7]

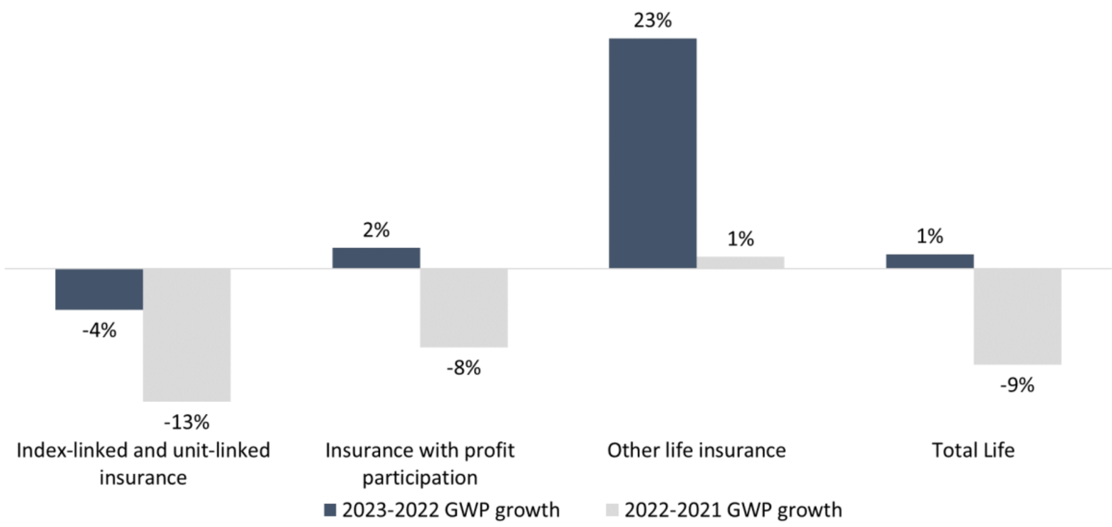


[7] Higher commission rates can be driven by different factors including product design and product duration. While high commission rates can have an impact on value, higher commission rates do not always lead to lower value products.

Source: EIOPA's Solvency II database

Despite these concerns relating to certain products in the market, life insurance GWP grew by 1%, driven in large part by growth in the 'other life' line of business and substantial GWP growth in certain countries indicating that consumers see value in insurance. Bulgaria saw an increase of 46% and Spain of 35%, whereas countries like Croatia (-23%) and Luxembourg (-19%) experienced significant GWP declines. The important growth in the other-life lines of business (LoB) is mostly attributable to Spain with 55% growth[8], Germany with 54% growth and Portugal with 37% growth. Contract data shows similar trends.

Figure 4 – GWP growth in 2021-2022 versus 2022-2023 in life insurance lines of business



Source: EIOPA's Solvency II database

With regard to pensions, six NCAs identified a few instances of value for money issues, with consumer data highlighting possible issues. Eurobarometer data shows that nearly half of EU citizens believe personal pension products offer value for money. However, high costs, cited by 19% of consumers, remain the main reason consumers have chosen not to buy a personal pension over the last two years. Other reasons include poor performance (10%). (See Section 4 for further details).

Most NCAs have carried out supervisory activities related to value for money, based on or closely related to EIOPA's methodology developed for unit-linked and hybrid insurance products. These activities include 8 NCAs undertaking thematic reviews and 11 conducting off-site or on-site inspections, focusing in particular on the value for money offered by unit-linked products and the integration of value for money in POG arrangements. Some examples include:

[8] The growth in the Other life LoB in Spain is largely due to the increase of annuities (life and temporary) and deferred capital products.

- The Italian NCA published a letter to the market on supervisory expectations on governance, identification of the target market, and the measurement of value for money in POG arrangements, primarily relating to IBIPs[9].
- The Latvian authority has monitored value for money in unit-linked products via discussions, market monitoring, thematic reviews, and mystery shopping exercises.
- The French NCA called upon the industry to conduct a review of its unit-linked products, including personal pensions.
- The Lithuanian NCA has assessed all unit-linked products in its market with Layer I and II of EIOPA's methodology.
- The Belgian NCA examined the extent to which a pension provider assessed its value for money for a range of products.

EIOPA continued its effort towards providing more convergence and developing tools to address value for money risks in the market. In particular, following the publication of its methodology to develop VfM benchmarks in December 2023[10], it carried out a data pilot and work with NCAs towards revising the methodology considering the useful feedback received in the public consultation and the findings from the pilot. In October 2024 it published a revised methodology[11].

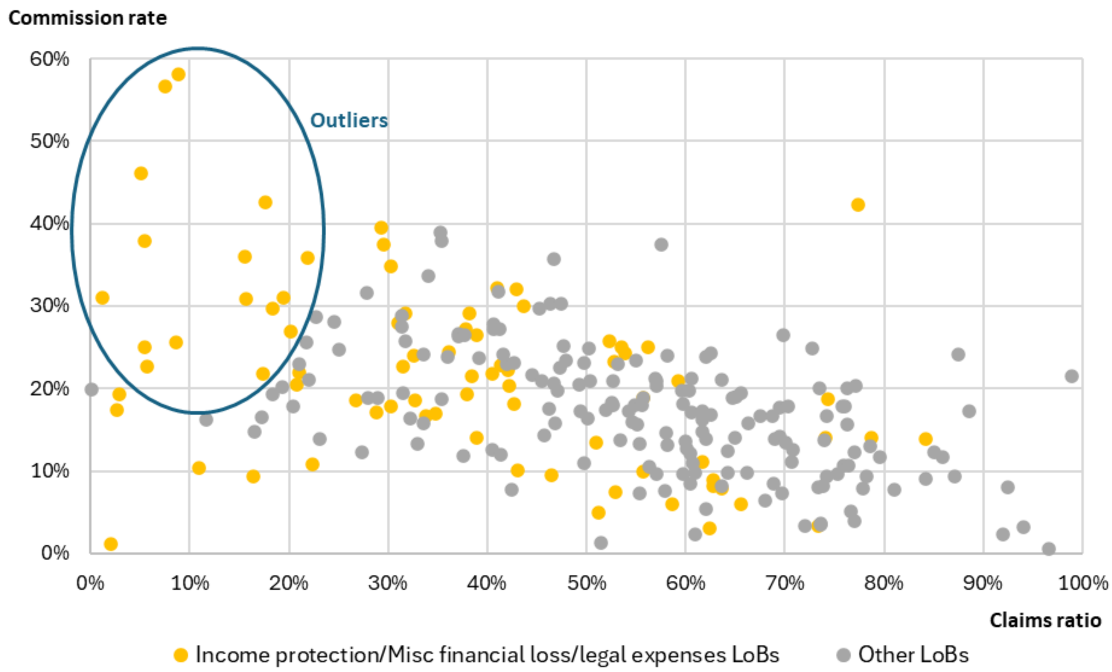
2.2. VALUE FOR MONEY IN NON-LIFE INSURANCE

Value for money issues have also been identified in relation to non-life insurance products. 12 out of 26 NCAs found instances of non-life insurance products offering poor value because of unjustified costs and/or commissions in their market. This was highest for payment protection insurance (11 NCAs), followed by gadget insurance (4 NCAs), by income protection insurance (4 NCAs) and by legal expenses insurance (4 NCAs).

Solvency II data confirms these concerns, as it shows that income protection, miscellaneous financial loss[12] and legal expenses are the LoBs with the highest commission rate and lowest claims ratio. The 'claims ratio' and the 'commission rate' at country level for each line of business[13] show that the majority of outliers – i.e. those with high commission rate and low claims ratio – are on the income protection, miscellaneous financial loss and legal expenses LoBs.

[9] https://www.ivass.it/normativa/nazionale/secondaria-ivass/lettere/2024/lm-27-03-24/index.html
[10] EIOPA consults on its methodology for setting value-for-money benchmarks - EIOPA (europa.eu)
[11] EIOPA presents its value for money benchmark methodology for unit-linked and hybrid insurance products - EIOPA
[12] Miscellaneous financial loss LoB typically includes various coverages not classified elsewhere, encompassing pecuniary loss, credit insurance, gadget insurance, and payment protection insurance.
[13] These two indicators are defined in EIOPA's retail risk indicator methodology - Link

Figure 5 – Claims ratio and commission rate at country-level for non-life lines of business – 2023



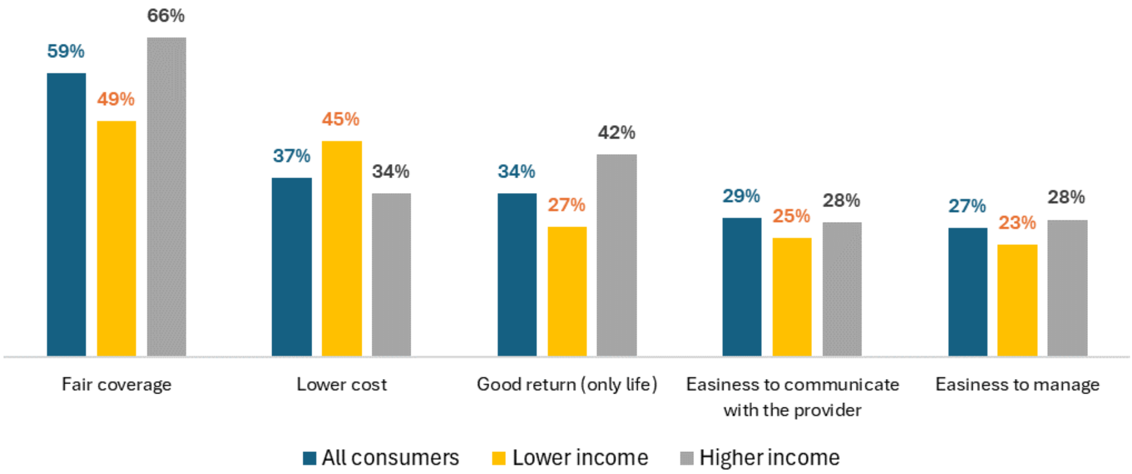
Source: EIOPA's Solvency II database, EIOPA's retail risk indicators methodology

The complaints data for products falling in the miscellaneous financial loss LoB shows that the highest ratio of complaints to gross written premium (GWP) is in this LoB. When dividing the total number of complaints (of products falling in the miscellaneous financial loss LoB) in 2023 by the 2023 GWP, the miscellaneous financial loss LoB results having the highest ratio, followed by Motor Third Party Liability (MTPL), assistance and legal expense insurance.

Despite the highest number of complaints, motor insurance and household insurance are the LoBs where EU consumers perceive the greatest value and for which NCAs reported the lowest value for money concerns – this is because often the high number of complaints is also due to high-penetration and the mandatory nature of these products. Over 68% of EU consumers find that motor insurance and household insurance offer them value for money, whereas this figure is only 45% for an IBIP. Moreover, NCAs reported that the LoBs with the fewest value for money issues were motor insurance (16 NCAs) and household insurance (14 NCAs). However, some NCAs reported instances of delays in claims payments on the MTPL LoB. Solvency II data also shows that motor insurance and property insurance LoBs had higher claims ratio and lower commission rate than other non-life lines of business. Contrastingly, motor insurance (24%, 49%) and household insurance (6%, 15%) had the 2nd and 3rd highest share of non-life complaints received/managed by undertaking, and the 1st and 2nd highest share of non-life complaints received/managed by external dispute resolution mechanisms bodies. However, this can be attributed to motor and household insurance being significantly more widespread than other insurance products and their mandatory nature, which often results in consumers over-focusing on price rather than more comprehensively looking at coverage. The Eurobarometer data confirms over 50% of EU consumers have a motor or household insurance product.

Fair coverage — where the coverage is proportional to the price paid — is the most important factor for EU consumers in assessing whether their non-life insurance offers value for money. 59% of EU consumers identified fair coverage as an important factor for the value for money assessment, whereas this figure is 37% for lower costs, 29% for ease of communication with provider and 27% for ease of management (e.g. submitting a claim) (see Figure 6). This shows that most consumers are not solely focused on price, but on the fairness of coverage given the price paid. However, this does not hold true for all types of consumers, as for those with lower income[14], lower costs are almost as important as fair coverage.

Figure 6 – Percentage of EU consumers identifying these factors as important for value for money assessment



Source: EIOPA's 2024 Eurobarometer survey

According to newly available Solvency II data[15], claims ratio are higher and commission rates are lower when non-life products are distributed directly by the insurer. This may be justified by the provision of an additional service. By splitting non-life undertakings into three distribution arrangements groups – i.e. the first having 75% GWP generated via direct sales, the second having 75% GWP generated via credit institutions, the third having 75% GWP generated via other distributors – the first group is the one with the lowest commission rate (6%) and the highest claims ratio (74%). The second group has 18% commission rate and 59% claims ratio, while the third has 16% commission rate and 43% claims ratio. Considering insurers writing directly their own business

[14] The classification of consumers by income level follows the Eurobarometer methodology. Lower-income consumers correspond to income quintile 1, whereas higher-income consumers correspond to income quintile 5.
[15] Solvency II reporting template S.14.02.01.01

may rely more often on digital tools, this analysis shows that digitalisation may contribute towards lowering costs.

NCAs have carried out various activities aimed at measuring and tackling value for money issues in non-life insurance, specifically in relation to ancillary and/or cross-sold products (e.g. payment protection insurance, gadget insurance, credit card insurance). Indeed, various NCAs conducted investigations on distribution arrangements related to such products, some of which found instances of high commissions and/or high claims rejected.

- The Italian NCA, conducted an in-depth Value for Money analysis for payment protection insurance because the data collected revealed low claims ratios and high claims rejected ratios. After the NCA engaged with some of the undertakings, there were product revisions. In addition, two surveys[16] have been conducted on cyber risk policies and on policies covering natural catastrophes looking also at exclusions and limitations of the guarantees offered.
- Similarly, the Slovakian NCA conducted a review of its payment protection insurance market and found value for money issues. Following exchanges with undertakings, the NCA observed positive changes in the market.

EIOPA continued coordinating activities following its Warning on credit protection insurance.[17] Following its thematic review and the related a Warning on credit protection insurance, EIOPA continued to monitor and to coordinate activities amongst NCAs. Moreover, at the end of 2024, EIOPA launched a survey to insurance product manufacturers to see whether there is a gradual shift towards more customer-centric credit protection insurance products.

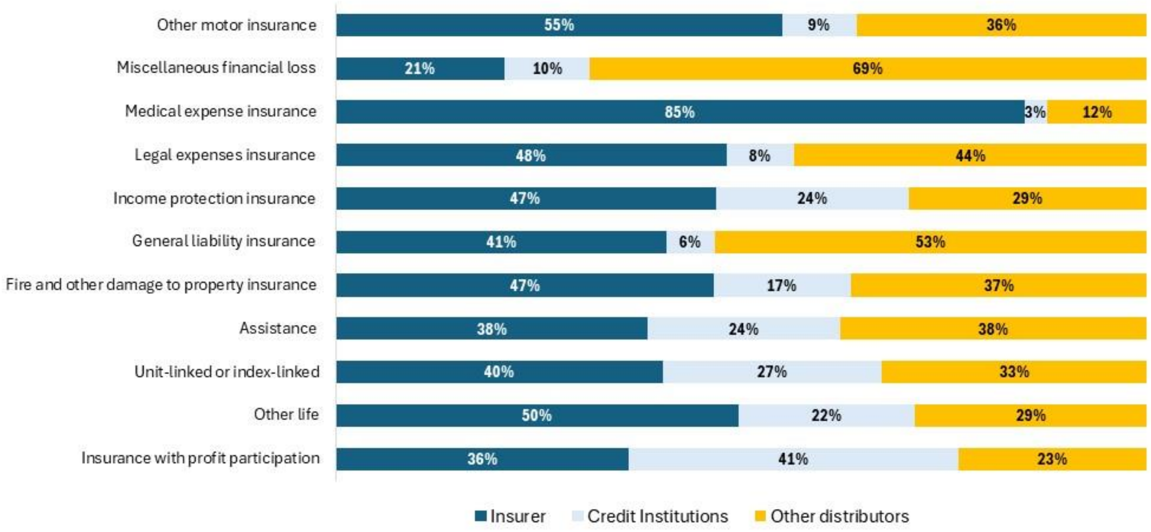
[16] Link to survey 1, Link to Survey 2

[17] Warning to insurers and banks on Credit Protection Insurance (CPI) products - EIOPA (europa.eu)

3. INFORMED DECISION-MAKING IN THE DIGITAL AGE

Digitalisation is changing the way consumers and insurance and pension providers interact. Following recent years' trends in increasing digitalisation, more and more consumers are checking their insurance and pensions related information using digital tools and purchasing products online. While EIOPA's Solvency II data does not have data on digital channels it shows how much GWP is written directly by insurers which often rely on digital channels especially in relation to non-life insurance. This increased digitalisation brings new opportunities – such as faster claims management, easier comparability and ease of making projections for pension – it also raises new risks or amplifies existing risks such as absent advice, and the usage of aggressive sales techniques resulting in an increased risk of dark patterns.

Figure 7 – Share of GWP written via a given distribution channel by life and non-life lines of business – 2023



Source: EIOPA's SII database

Digitalisation may lead to easier access and comparison of information across various insurance providers. Some consumers find online information easier to access and compare thanks to website platforms/dashboards. For example, the method of "layering" the information to solve information overload is easier to put in place online. In particular, digital tools may offer clearer, more accessible information to policyholders about the costs and performance of the products, terms and conditions, benefits and options among other information.

Digitalisation may enhance value for money by improving efficiency and aligning services more closely with consumer needs. As digital tools make it easier for customers to access information, it facilitates quicker contract processes and improves cost-quality ratios. Operational efficiencies are gained through streamlined claims management, which speeds up response times and enhances customer satisfaction. For example, in Italy, digitalisation is perceived as enabling the usage-based pricing models, such as pay-per-use auto insurance, where premiums are calculated based on actual vehicle usage. Indeed, digitalisation enables the rapid development of innovative insurance products that can adapt swiftly to changing market needs. Further, digitalisation may also reduce costs for insurers, resulting in lower prices for consumers.

Overall, digitalisation can raise awareness on insurance to new customer segments via bundling with other services, ultimately increasing insurance uptake. It can also facilitate and enable access for new customer segments such as younger and digital-savvy consumers, for example via social media or finfluencers.

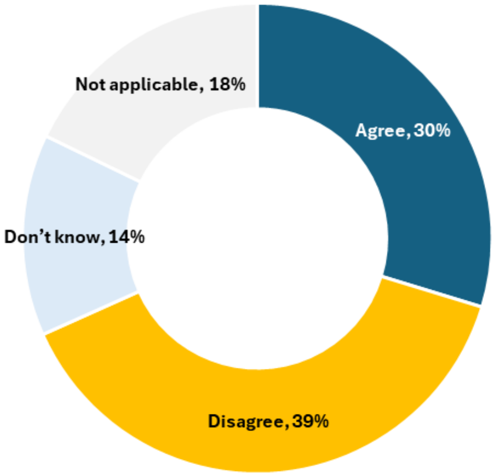
Some digital tools have also appeared in the pensions' sector with an increasing number of savers and beneficiaries accessing and receiving information online. EU consumers reported using various channels to communicate about their pension benefits such as in-person communication (43%) and paper-based communication (14%), but also via email (44%) and via smartphone applications (18%). Older consumers (55+) reported preferring in-person communication. This split may be explained by consumers' digital skills but also by the complexity of the information provided, and the fact that it is sometimes less easy for consumers to understand their supplementary pension in the absence of a contact point. Moreover, only 55% of EU consumers find that it is easy for them to understand their pension products/schemes and their overall pension benefits.

The gradual increase in the use of digital tools can benefit members and beneficiaries. Supporting the decision-making process is particularly relevant since, as reported by NCAs, the average member or beneficiary does not have the necessary financial literacy to take optimal investment decisions. New digital tools may enable members and beneficiaries to compare different schemes, scenarios and investment options and make informed decisions, leading to better financial planning for retirement.

Digitalisation gives rise to some risks, such as the risk of exclusion. The rapid growth of digitalisation brings the risk of digital exclusion, particularly affecting individuals lacking digital skills or internet access. Insurers are addressing this by taking proactive measures to balance digital tools with adequate human support, ensuring that all consumers can access and understand the information and services provided. This includes initiatives aimed at enhancing digital literacy and designing inclusive digital platforms.

Digitalisation may lead to an over standardisation of consumer-related processes. Online claims management processes are increasingly supported by automated chatbots. However, 39% of consumers believe that the support received via chatbots is often neither accurate nor complete. This may be due to the fact that chatbots are limited when it comes to answering complex inquiries and resolving non-standard problems. Some complaints were reported by a few NCAs in relation to chatbot functioning and the difficulties in getting in contact with a person.

Figure 8 – Consumers believing that the support received via chatbots is accurate and complete



Source: EIOPA's 2024 Eurobarometer survey

Increasing digitalisation may also lead to issues related to adequate disclosure. More than half of the NCAs find that there are instances of poor disclosure online. Examples of issues include instances of clauses and contractual provisions being formulated as declarations or exclusions not being easily provided and explained to consumer in one single place. 12% of EU consumers found that the timing for the provision of pre-contractual information did not allow them to make an informed purchase choice.

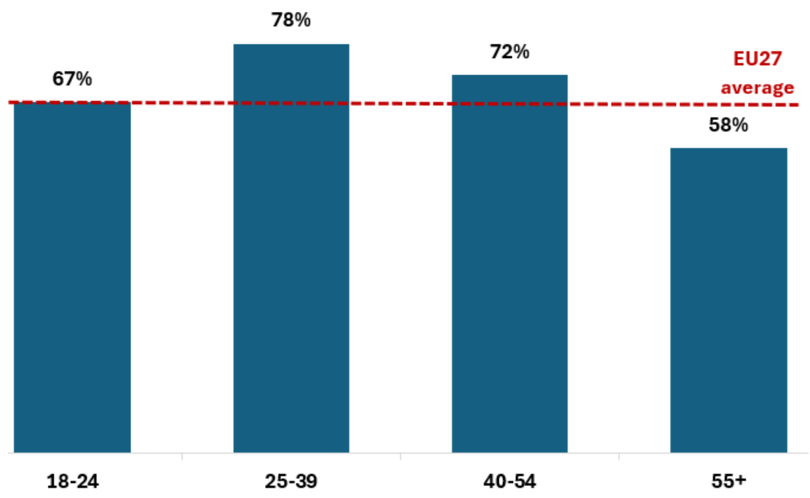
Digital tools may also reduce the advisor's role, which may lead consumers to opt for products that are not always suitable. When implementing digital tools in customer interactions, technology should provide accurate and clear guidance to consumers. Further, the Eurobarometer data shows that consumer value human interaction as 70% customers reported purchasing insurance in person or on the phone.

The purchasing process and the choice architecture of the pre-contractual and contractual information may also give rise to some risks such as dark patterns. In their online navigation, 16% of EU consumers encountered statements that the offer to make the purchase at the price quoted was limited in time and another 15% EU consumers were exposed to statements, including in advertising material, stating that a lot of people already bought that specific insurance policy. These statements – although they do not necessarily lead to consumer detriment - aim to encourage customers to make quicker decisions.

Not all consumers have access to digital technologies, for instance those with low-income or without internet access, preventing them from benefiting from digital platforms to compare

policies or manage their policies. Moreover, consumers may also lack the knowledge to use digital channels or do not feel comfortable (lack of trust). Full digital services may be less suitable for certain categories of population, such as elderly, as they may not have the necessary skills to make proper use of them or may not have access to them. 10 out of 26 responding NCAs find that in their market there are certain categories of consumers who are excluded or may not be sufficiently served because of the way in which products and services are being distributed online.

Figure 9 – EU consumers that purchased insurance online in the past two years - by age group



Source: EIOPA's 2024 Eurobarometer survey

Risks also arise related to social media and fin-influencers, which may nudge consumers towards risky and unsuitable products, potentially leading to financial losses. Finfluencers however can also help raising awareness when adequately regulated. Poor consumer outcomes from fin-fluencing may also be led by commissions or monetary benefits by the entity promoting these risky and unsuitable products. Such experiences can erode consumers' trust and lower their financial confidence, which might deter them from investing in financial markets. However, in a context of limited access, the role of fin-fluencers—provided they offer accurate and reliable information—should not be underestimated.

Box 1 – Price comparison websites

Price Comparison Websites (PCW) offer the possibility to compare products (in terms of costs, benefits and performance) with the main goal of reducing search costs for consumers and increase supply visibility. Increased comparability might enhance consumer's ability to shop around and empower them to choose more suitable and cost-effective products**.** 19 out of 26 responding NCAs consider that in their market the implementation of PCW is increasing transparency and provides for better comparability.

However, risks also exist. Some online comparators may not be independent and therefore fail to offer a comprehensive view of the products available on the market or may not include the most competitive products. This is illustrated by the fact that for 19% of EU consumers it was unclear whether the range of products offered on price comparison websites was covering all products available on the market or not. The share of respondents having encountered this issue ranges from 14% in Italy and the Netherlands to 26% in Finland and 27% in Ireland.

Comparison tools can pose risks by overemphasising costs or price in product rankings, which can mislead consumers as they would not be able to consider the qualitative elements of the products (e.g. risk coverage, exclusions, assistance, specific services, etc.). This in turn could lead to misleading outcomes and could potentially lead consumers to prioritise cost and choose the cheapest policies over other factors like coverage, exclusions, guarantees and other benefits.

Stakeholders also reported concerns about unclear or misleading information in online insurance-related disclosures, particularly in online comparison tools and platforms. 19% of EU consumers find that the way in which information was presented on PCW was misleading.

Generally, NCAs view that consumers who purchase online are adequately and sufficiently serviced. Still, 14 NCAs conducted supervisory activities related to risks stemming from the use of new digital tools. For example:

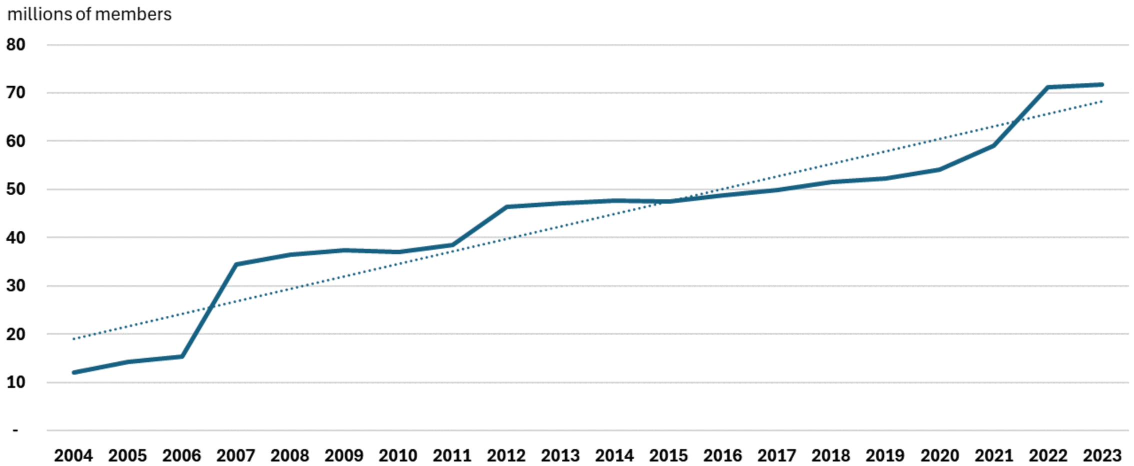
- The Belgian NCA investigated whether the conditions that apply to the advertisement of insurance products are also met when using new communication channels such as dedicated apps, interactive websites (including direct sales), social media, etc.
- The Latvian NCA conducted a thematic review on information provision to consumers in online (distance) sales (via webpages, Apps etc.) by insurance brokers, insurers and their intermediaries. The NCA found that the IDD requirements regarding provision of information to consumers were not always met, as in some cases not all the necessary information was provided during the online sales process.

4. TRENDS IN UPTAKE OF SUPPLEMENTARY PENSION

The ageing EU population will continue to put pressure on state pension provision. Currently, there are almost 3 people of working age for every pensioner, but this will decline to less than 2 in the coming 50 years. Many Member States have already taken measures to make future public finances more sustainable – such as increasing the statutory retirement age and reducing future pension increases or making benefits dependent on life expectancy at retirement.

The future adequacy of state pension provision is at risk. The average state pension in the EU as a percentage of earnings at retirement is expected to fall from 46% in 2019 to 38% in 2070[18]. Supplementary pensions can reduce pension gaps, provide citizens with adequate and sustainable retirement income, and boost the financing of the EU economy[19]. Supplementary pension participation in the EU has increased steadily over the last two decades but may still be insufficient to counter the decrease in state pensions and effectively reduce pension gaps.

Figure 10 - Number of Members in IORPs in the EEA, in millions – 2004 to 2023



Source: EIOPA's IORPs reporting database

According to EIOPA's 2024 Eurobarometer survey, only 20% of EU citizens reported that they participate in an occupational pension[20] while only 18% own a personal pension[21]. Pension

[18] Source: European Commission Ageing Report; available here

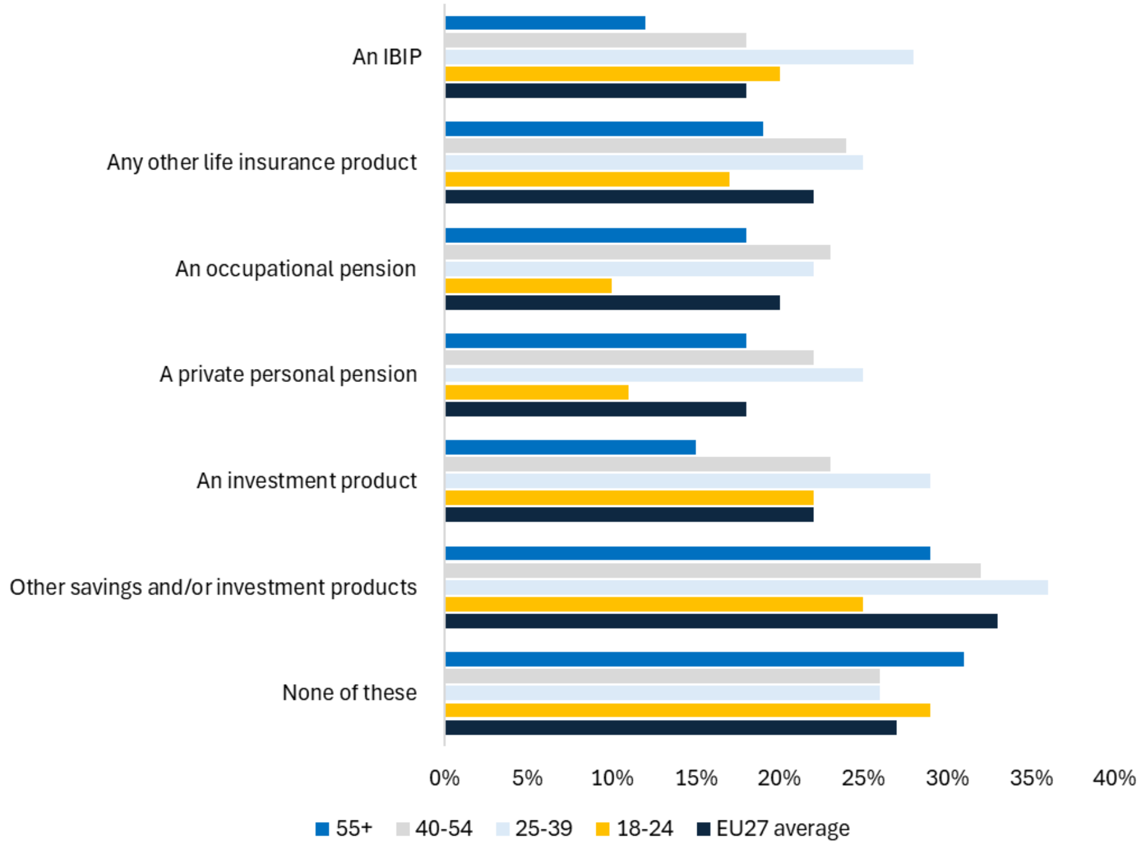
[19] Notwithstanding that private pensions do not seek to replace statutory pensions which plays an important role in income and fair redistribution of retirement income.

[20] Provided by an employer or offered by a private company on a voluntary basis.

[21] These figures come from a representative sample of EU consumers with various occupational statuses: Self-employed (8%), Employee (41%), Manual worker (7%), Retired (26%), Others not working (18%).

participation increases significantly from the age of 25, as the majority of EU citizens enter active life. The 25-39 age group has the highest participation rate.

Figure 11 – EU consumers access to savings products per age group – 2023



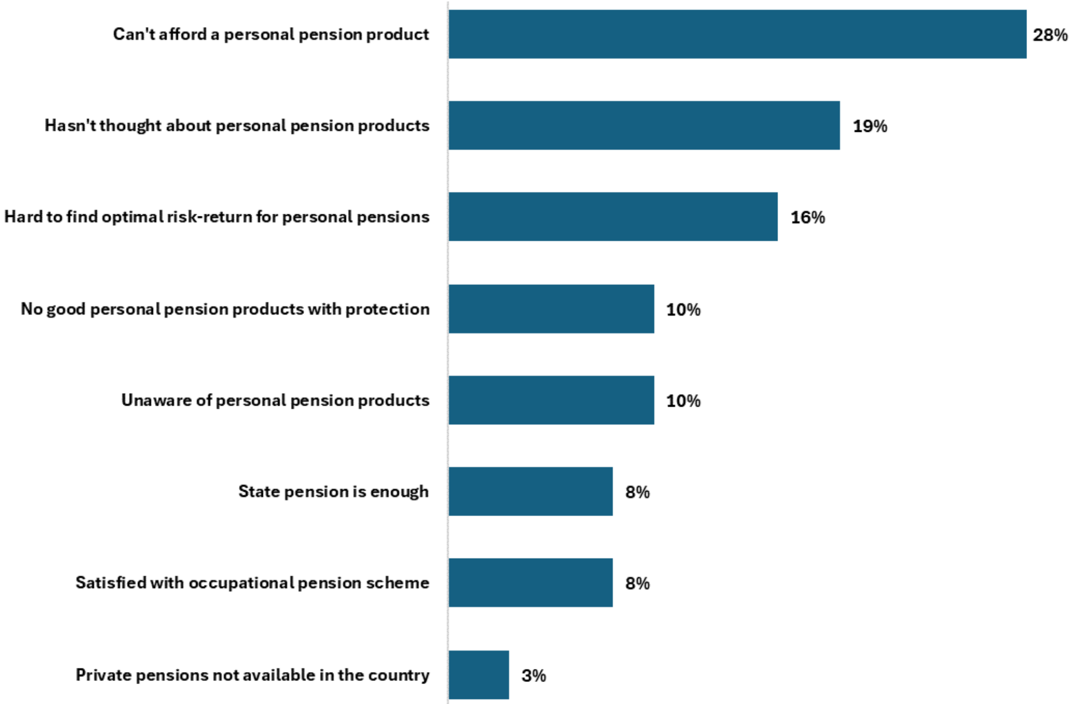
Source: EIOPA 2024 Eurobarometer survey

NCAs have continuously highlighted that pension products penetration remains low for a number of reasons. Demand-side and supply-side issues may be preventing the uptake of supplementary pensions such as the level of transparency of costs and charges, the level of information provision, poor product design, poor advice, the level of consumer awareness and consumer behavioural biases.

Less than half of NCAs view regulatory aspects or market practices as discouraging the uptake of supplementary pension products in their market, with some having identified specific issues. Where issues have been identified, these are mostly related to taxation issues. Indeed, various NCAs point to the importance of financial incentives in making supplementary pension provisions more attractive and encouraging EU citizens to save via long-term pension products. In addition to taxation issues, NCAs have identified issues linked to limitations in transferring pensions between companies (Denmark) and decumulation options not being always entirely aligned with plan members' preferences (Italy).

From a consumer's perspective, the main reason put forward by EU citizens for not having a personal pension is the lack of financial resources to afford one (28%). High inflation and the resulting cost-of-living crisis mean that consumers have less disposable income. As a consequence, individuals may save less and diminish or suspend contributions towards pension schemes and products.

Figure 12 - EU consumers' that do not own a personal pension by reason – 2024



Source: EIOPA 2024 Eurobarometer survey

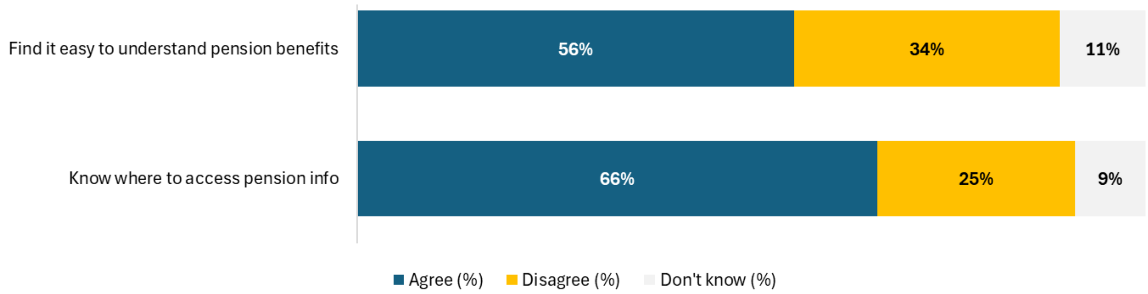
In addition to their financial situation, costs continue to play a major role in decisions by consumers, with variations across Member States. While almost half of EU citizens agree that personal pension products offer value for money, high costs remain the main reason for 19% of EU consumers have indicated why they did not buy or renew a personal pension product over the last two years. The number of consumers that indicated that they did not buy or renew a product due to high costs and high fees are the highest in Greece (38%), France (25%) and Austria (25%). The lowest number of consumers indicating that they did not buy a product due to high costs and high fees are Finland (10%), Sweden (11%)[22] and the Netherlands (12%). This is in line with EIOPA's findings from previous costs and past performance reports where it clearly emerged that Sweden is

[22] Particularly in Sweden the reduced possibilities for tax deductions may be a reason for why consumers have answered this way.

amongst the market with consistently lower costs. This trend may also reflect differences in how consumers in these countries evaluate the cost-benefit ratio of pension products.

Some pension products tend to be inherently complex and challenging for consumers to understand, especially for those without financial expertise. Complexity often leads to confusion, lack of trust in providers and products and hesitation in making financial decisions, hindering pensions uptake. Difficulties in understanding pension products remain one of the main reasons why EU citizens did not renew or buy a personal pension product in the last two years. Nonetheless, the majority of EU citizens that participate in an occupational pension or own a personal pension find it easy to understand their pension products/schemes and overall pension benefits.

Figure 13 – EU consumers' views on access to information and understanding of pension products/schemes



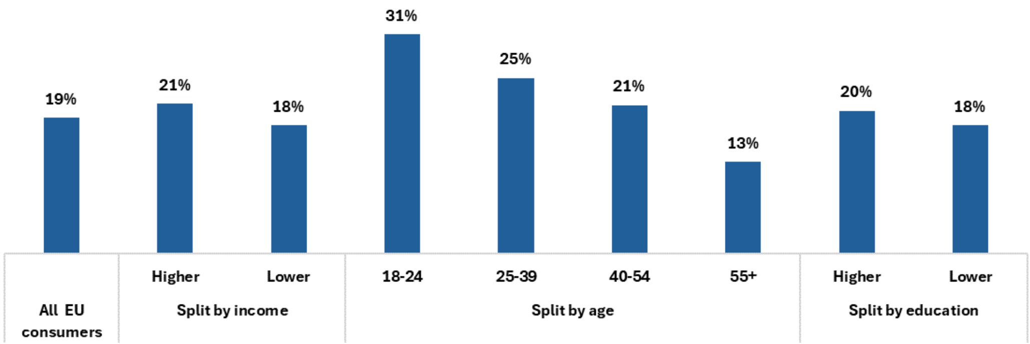
Source: EIOPA 2024 Eurobarometer survey

Overall awareness and interest around personal pension products are low, and this constitutes another barrier to the uptake. 12 out of 25 responding NCAs consider that the level of interest and engagement around personal pension products is still low. Planning for retirement savings is important, but individuals spend little time doing so, which could have negative effects on their future financial well-being. Moreover, actual behavioural engagement with retirement planning, and especially the first step of acquiring relevant information about one's own situation as well as about pension products, is low. This reflects time-inconsistent preferences, lack of financial literacy and problems in anticipating the future and planning ahead for retirement. One in five consumers has not yet thought about personal pension products. This number is higher for younger consumers – 31% of individuals in the 18-24 age group and 25% of individuals in the 25-39 age group have not thought about personal pension products yet.

Consumers that participate in an occupational pension or own a personal pension are increasingly more aware about their entitlements. Indeed, 22 out of 25 respondent NCAs, agree or somewhat agree that scheme members are increasingly aware of their pension entitlements and other 9 NCAs report that there is no evidence to sustain it. In addition, 11 out of 25 respondent NCAs, agree or somewhat agree that scheme members are increasingly aware of the costs associated to their scheme.

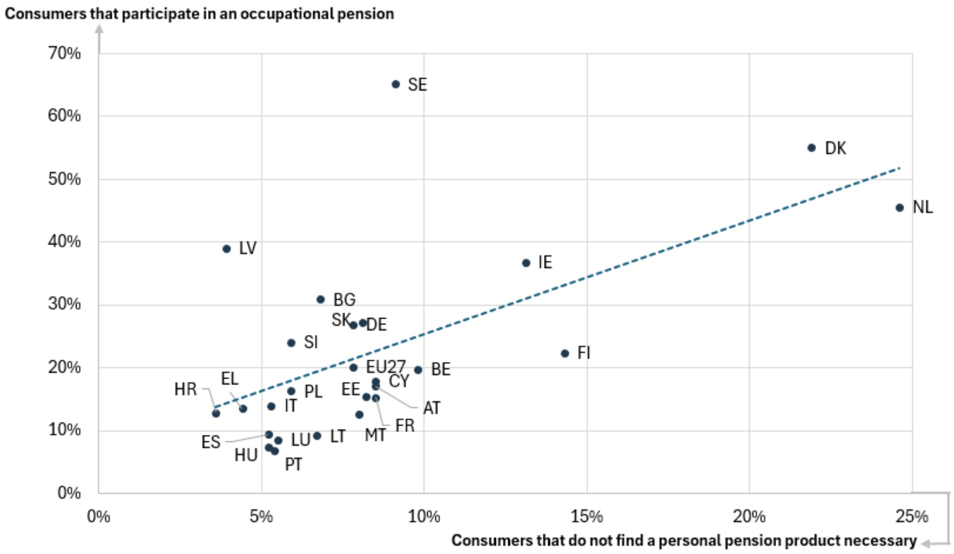
The interactions and the relative importance and role of the different pension pillars also impact consumer choices and the uptake of supplementary pensions. 8% of EU citizens do not find a personal pension product necessary since their state pension is enough. Similarly, the same percentage of EU citizens do not find a personal pension product necessary because they are satisfied with their occupational pension scheme. This number is highest for the Netherlands (25%), Denmark (22%) and Finland (14%) and above the average for countries with significant occupational pension markets. For instance, in Denmark and the Netherlands, the percentage of citizens that stated they participate in an occupational pension is, respectively, 55% and 46%.

Figure 14 – EU consumers that have not yet thought about personal pension products – by socio-demographic characteristic



Source: EIOPA 2024 Eurobarometer survey

Figure 15 – Correlation analysis between consumers that participate in an occupational pension and consumers that do not find a personal pension product necessary



Source: EIOPA 2024 Eurobarometer survey

EU citizens face complexity when planning for retirement. EU citizens often have a variety of retirement entitlements coming from different sources – state, occupational and personal – which may impact their ability to fully understand the aggregate future retirement income and make informed decisions. Providing EU citizens with transparent and easily accessible information on all retirement entitlements can support better planning for retirement and long-term savings. Pension monitoring tools such as Pension Tracking Systems (PTSs) can support consumers and empower them in making sound decisions.

To increase uptake of supplementary pension products, there should be a sufficient and diversified offer that meets the needs of consumers. While not the primary reason for limited uptake of supplementary pensions, a non-negligible number of consumers declared scheme and product design are an important factor limiting their uptake of supplementary pensions. Indeed, a limited number of consumers do not own a personal pension because it is difficult to find an optimal risk-return ratio (16%) or because there are no good personal pension products available with protection of the sum invested (10%).

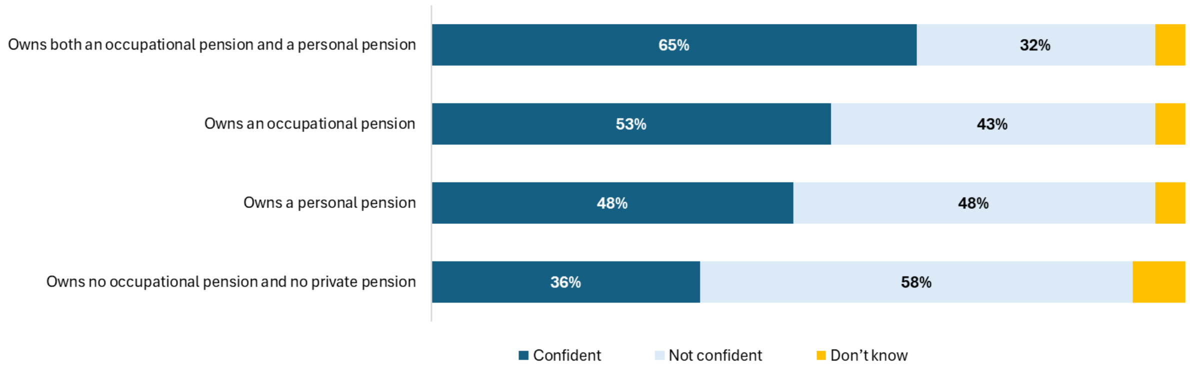
NCAs agree that there is a necessity to make supplementary pension provisions more attractive and increase uptake of supplementary pension products. To this end, a few Member States have introduced different reforms to increase uptake of supplementary pension products. For instance, Poland introduced a new type of savings scheme (PPK – Employee Capital Plans) intended for long-term savings, including retirement,[23] and Spain created simplified occupational pension plans and publicly promoted occupational pension funds, aimed at Small and Medium-sized Enterprises (SMEs), self-employed and public servants. In Denmark, the rules allowing for a tax-free saving (‘*aldersopsparing*’) were loosened in 2023, allowing for higher limits to tax-free savings. In Ireland, changes in tax legislation enhanced the flexibility and scope for employers to contribute to a Personal Retirement Savings Account (PRSA) in respect of employees albeit certain restrictions apply from 1 January 2025. In addition, legislation has been enacted to introduce an auto-enrolment retirement savings system in Ireland and it is expected this will come into effect on 30 September 2025.

The moderate-to-low penetration of pension services explains the low confidence among EU consumers regarding retirement, as those with access to pensions are more confident than those without. According to EIOPA’s 2024 Eurobarometer survey only 42% of EU consumers are confident that they will have enough money to live comfortably throughout their retirement – this varies greatly across countries with highest levels of confidence in the Netherlands (59%), Luxembourg (57%) and Austria (55%) and the lowest in Latvia (24%), Estonia (27%) and Greece (27%). This low financial confidence in retirement may also affect consumer spending and during retirement.

[23] Employee Capital Plans (PPK) are a long-term savings scheme in which the employee’s private savings are contributed to by the employer and the state. The main objective of PPK is to provide its participants with funds for when they stop being professionally active.

Overall, consumers that are part of an occupational pension scheme and have a personal pension product feel more confident in their retirement (65%) than those that have none (36%) (Figure 16).

Figure 16 – EU consumers' confidence in retirement by pension-related investments they own



Source: EIOPA 2024 Eurobarometer survey

EIOPA's 2024 Eurobarometer survey confirms that, like in previous years, there is clear and evident gender gap in terms of pension participation. The number of women that participate in an occupational pension or own a personal pension is, respectively, 5 basis points and 6 basis points lower than for men. Ultimately, women feel more negative than men about their retirement outlook, 47% for women, against 37% for men.

Box 2 – The PEPP

The Regulation on the Pan-European Personal Pension Product (PEPP) introduced the first EU-wide voluntary personal pension product in March 2022[24] but, to date, the PEPP saw limited success, failing to boost the cross-border and personal pension markets. At the end of 2023, there was a single PEPP provider, distributing PEPPs in Croatia, Czechia, Poland and Slovakia to fewer than 5,000 PEPP savers.

The reasons identified by NCAs and stakeholders for the limited success of the PEPP corroborate the reasons outlined in EIOPA's Staff Paper[25]. These reasons are more structural than circumstantial and are attributed to both supply and demand side factors and to the delayed publication, by certain Member States, of the provisions applicable to the PEPP and heterogeneous tax regimes.

Some NCAs indicated that providers do not see significant opportunities in the PEPP. This is due to the costs and fees cap of 1% of the accumulated capital per year[26] and challenges around offering a product which is capital guaranteed. The level of development of national supplementary pension

[24] Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP); available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R1238.
[25] https://www.eiopa.europa.eu/publications/eiopa-staff-paper-future-pan-european-pension-product-pepp_en.
[26] Article 45 (2) of the PEPP Regulation.

markets and the competition with well-established products have also been highlighted by NCAs and stakeholders as reasons for the limited offer of the PEPP. Some NCAs indicated that their domestic personal pension market is still under development while others pointed to a broad coverage of mandatory occupational pensions or to a competitive advantage of a well-established offer of personal pension products.

National regulations, or the lack thereof, is also pointed out as a factor hindering the PEPP's development. Two NCAs indicated that the distribution of the PEPP is limited by the fact that IORPs are legally not allowed to offer the PEPP. Requiring the PEPP to be considered on an equal footing with national products is essential, as pointed out by one NCA. The absence of an incentive for the PEPP equivalent to that offered to similar national products is a limitation in some markets.

From the demand side, the PEPP is negatively impacted by overall low pension participation and to a significant extent, by low awareness. NCAs continue to report to EIOPA that interest and awareness about the PEPP remains low while 76% of EU consumers who responded to EIOPA Flash Eurobarometer survey have not heard of the PEPP and another 15% heard of it, but they do not know what it is. More critically, this lack of awareness seems to be generalised across Member States, including those with high supplementary pension participation.

Box 3 – Use of pensions' data in this section

The analysis above is partially based on the EIOPA 2024 Eurobarometer survey covering a sample of EU citizens in each of the 27 EU Member States. The results reflect consumers' perspective and perceptions, which may be prone to interpretation issues and inconsistencies, impacting or confining conclusions. Focusing on pension issues from the consumer's perspective is essential while availability of more and better pensions data would further strengthen the findings.

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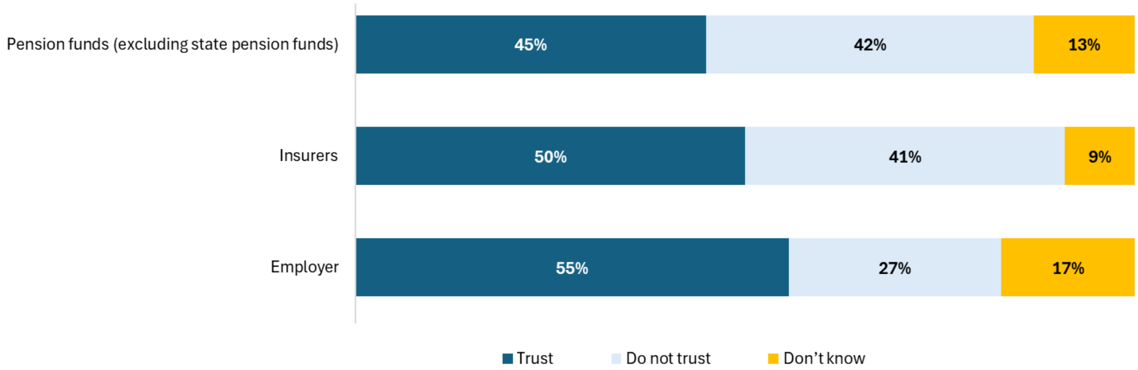
5. GOVERNANCE AND RISK MANAGEMENT IN PENSIONS

Governance is increasingly recognised as an important aspect of pension schemes and ensures good member outcome. Strong and robust governance frameworks support a structured and accountable environment capable of identifying, evaluating and managing the risks related to pension schemes, improving transparency and confidence, engaging stakeholders and enhancing investment performance and benefit security. A clear risk management culture and effective risk governance frameworks play a key role in the management of pension schemes and in ensuring good outcomes for members and beneficiaries, also making sure supplementary pension schemes provide value for money.

Supplementary pension governance should ensure an optimised alignment of the interest of the governing board with those of the pension scheme's objectives and of members and beneficiaries; however, NCAs and consumers' views differ, even though consumers' trust seems to be increasing. 17 out of 25 responding NCAs considered that IORPs' activities and decisions are aligned with the interests of members and beneficiaries. When asked, more than half of EU consumers answered that they trust their employer to ensure a good consumer outcome, as well as an adequate retirement outcome, with respect to their supplementary pension plans. However, lower levels of trust are observed for pension funds. Still, the trust of EU citizens in pension funds to ensure a good consumer outcome, as well as an adequate retirement outcome has, nonetheless, increased from 2023 by 7 percentage points**.**

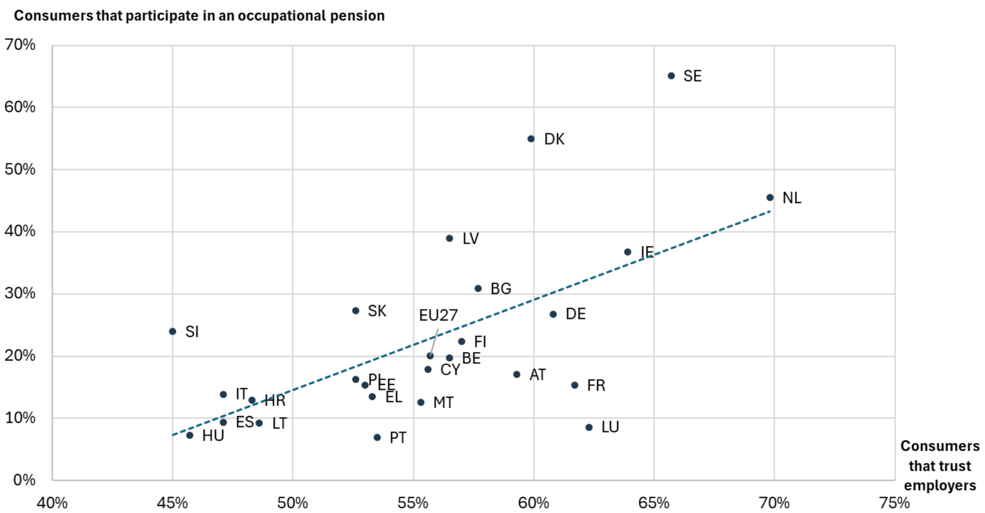
Figure 17 – EU consumers trust in providers of insurance and supplementary pension plans



Source: EIOPA's Eurobarometer Survey, July 2024

The level of trust in entities involved in the distribution and/or design of personal pension plans is also influenced by socio-demographic factors and it also varies by Member State. The level of trust is generally lower among older respondents. Although differences across levels of education are minor, more highly educated respondents are more likely to 'trust a lot' or 'tend to trust' their employer with respect to their supplementary pension plans (61% vs 51%-55%). The higher the respondents' household income level, the higher their degree of trust in pension providers. The highest percentage of EU consumers trusting their employers are observed in the Netherlands (70%) and in Sweden (66%) – where occupational pensions are prevalent and have robust frameworks. In Slovenia, on the other hand, this view is shared by just 45% of respondents. A moderate correlation of (0.6) can be observed between the level of participation in occupational pensions and trust in employers in ensuring a good consumer outcome, as well as an adequate retirement outcome.

Figure 18 – Correlation analysis between consumers that participate in an occupational pensions and consumers who trust employers



Source: EIOPA's Eurobarometer Survey, July 2024

The above findings emphasise the importance of good governance in the uptake of supplementary pensions. Good governance can have a cascading and knock-on effect on trust and the factors that can impact on the uptake of supplementary pension products – trust, transparency, level of information, product design, advice and most importantly, the level of consumer awareness and pension engagement.

Almost all NCAs[27] reported that they have not observed poor IORPs governance practices that have led to members' detriment (as IORPs integrate more digital tools). NCAs have not reported poor practices linked to inadequate risk management (including the internal risk function),

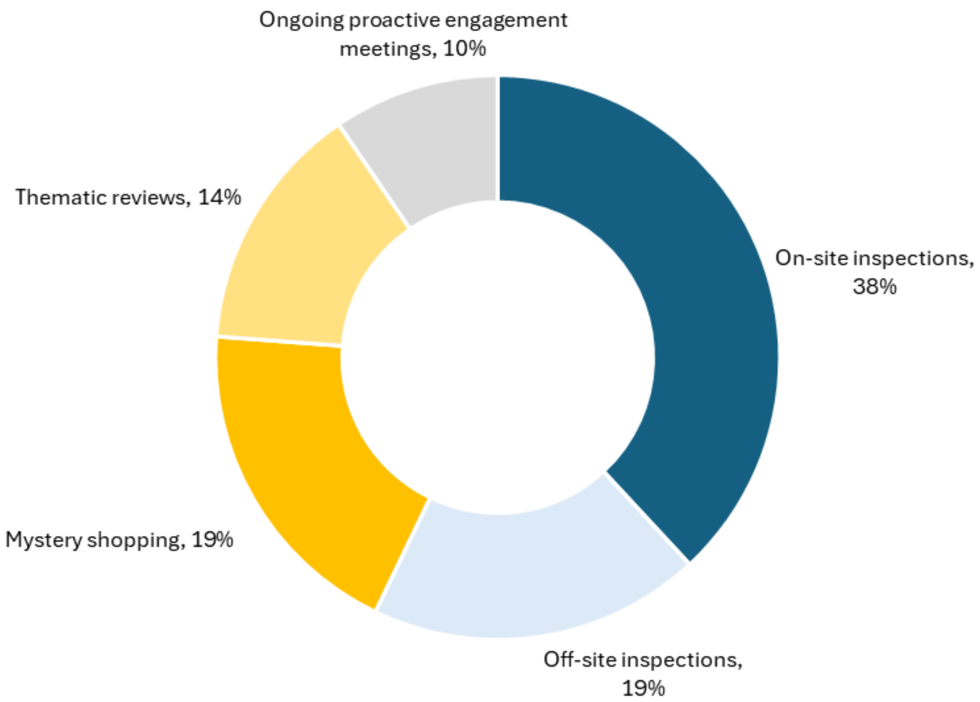
[27] 19 out of 20 NCAs.

unmitigated conflicts of interest, responsibility of the Administrative, Management and Supervisory Body (AMSB), remuneration policies or the use of AI tools.

The transparency of the direct and indirect costs in the outsourcing agreement with service providers is a potential risk that remains to be fully assessed. A transparent and comprehensive view of all costs and charges is essential for IORPs, social partners and supervisors to assess the value for money and affordability of occupational pension schemes for members and beneficiaries[28]. As a principle, transparency is fundamentally linked to fairness of cost disclosure, thus reducing uncertainty, supporting trust and fostering accountability.

Supervisory activities linked to pension governance appear to be an area for further development. Out of 17 respondent NCAs, 10 NCAs have conducted supervisory activity aimed at assessing governance and culture aspects, while 7 NCAs have not yet looked closer into potential issues. 8 NCAs opted for on-site inspections, 4 for off-site inspections, 3 for thematic reviews and 2 for ongoing proactive engagement meetings. Overall, the results of the supervisory actions did not identify critical aspects, rather areas for improvement.

Figure 19 – NCAs that conducted supervisory activities aimed at assessing governance and culture aspects and distribution by supervisory activity



Source: Committee on Consumer Protection and Financial Innovation, 2024

[28] Opinion on the supervisory reporting of costs and charges of IORPs, available at: Opinion cost reporting IORPs (europa.eu).

Few regulatory or industry-led measures have been taken to mitigate pension governance risks. Only two Member States (the Netherlands and Belgium[29]) have issued guidelines on governance and risk management aspects, including on outsourcing by pension providers.

Two major trends have emphasised the need for strong and robust governance frameworks and risk management requirements for IORPs as pre-requisites for the protection of members and beneficiaries: the shift to Defined Contribution pension schemes and digitalisation.

5.1. SHIFT TO DEFINED CONTRIBUTION PENSION SCHEMES

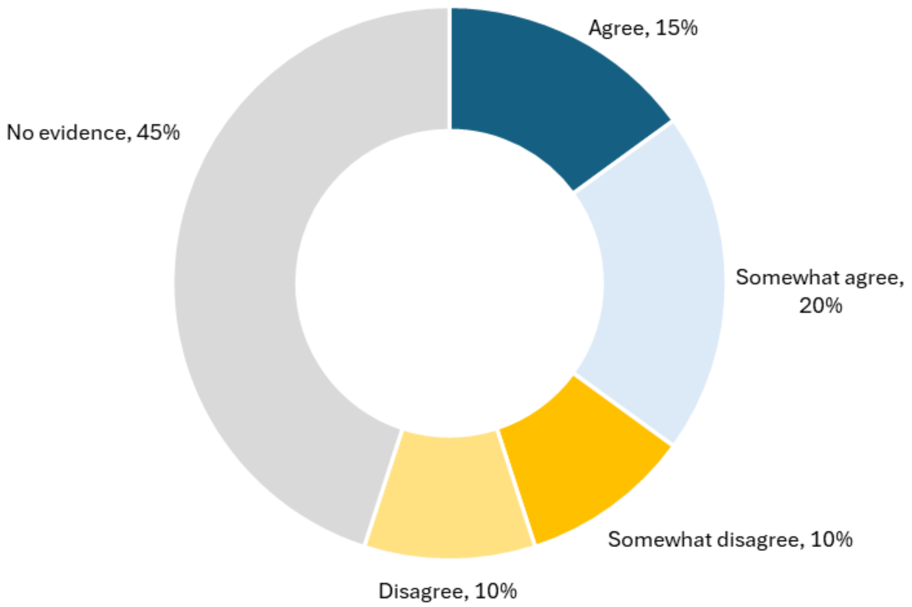
The shift from Defined Benefit (DB) to Defined Contribution (DC) pension schemes implies that pension savers have increased financial responsibility and are facing multiple risks. In addition to investment risk, which shifted from pension providers/sponsors to pension savers, risks include gathering necessary information, choosing the right investment(s) and building up financial skills. The most salient risk that pension savers face is that they might end up with insufficient savings to provide an adequate retirement income.

With the shift from DB to DC schemes, strong and robust governance systems are needed to enhance the protection of members and beneficiaries and good outcomes. With more risks borne by members and beneficiaries in terms of securing an adequate future retirement income, it is imperative for pension providers to improve their governance systems and enhance risk management frameworks. This may imply that pension providers set up values, attitudes and practices which are oriented towards supporting their members and beneficiaries in the decision-making process and enhancing their protection. While governance systems of DC schemes are based on different models, which creates a heterogeneous landscape at the EU level, inadequate governance arrangements for DC schemes needs to be addressed, potentially via management committees, increased fiduciary responsibility for relevant parties or via a strengthened role for pension supervisory authorities.

The implementation of the IORP II Directive should have contributed substantially to improving the governance of DC schemes. The Directive should have had a significant impact in Member States where a shift from DB to DC schemes happened and also for personal pension plans, as long as these are managed by IORPs. However, most NCAs reported no evidence on whether the shift from DB to DC schemes has led to the implementation of governance measures to enhance the protection of members and beneficiaries.

[29] Belgium in 2021, updated in 2024.

Figure 20 – NCAs' views on whether the shift from DB to DC schemes has led to the implementation of governance measures enhancing the protection of members and beneficiaries



Source: Committee on Consumer Protection and Financial Innovation, 2024

From a consumer perspective, addressing investment risk in DC schemes is essential to achieve good outcomes and good disclosure can contribute to this. Members and beneficiaries need to be able to understand the relationship between the nature of the financial risks and the long-term implications in their savings and future pensions. Adequate disclosure and transparency are crucial as it empowers individuals to make informed decisions about savings, investments and pension schemes. Disclosure and transparency also foster pension-related knowledge, increased confidence of EU consumers in their retirement and, ultimately, supplementary pensions uptake. Over the recent years, there has been a significant number of initiatives across Member States to improve disclosure and financial literacy to foster pension awareness and adoption.

Effective governance must focus on the protection of members and address risks members incur in the investment decision process. A pension scheme should set suitable investment approaches, support members in the selection of any available investment options and regularly measure performance, so as to ensure members are reaching an adequate outcome[30]. There is a need for the provision of actionable information, that is, information that is accessible and relevant and that enables and facilitates members and beneficiaries in taking informed decisions that are adequate to their personal goals. In this regard, disclosures should consider the level of financial literacy of the recipient of the information and adjust it in accordance.

[30] EIOPA's technical advice to the European Commission on the review of the IORP II Directive.

The use of behavioural insights, coupled with the use of digital tools (see Section 3) could help to increase the effectiveness of investment decisions by members and beneficiaries. Members and beneficiaries may not always behave rationally and may be faced with complexity and uncertainty and be prone to heuristics and behavioural biases which affect their decision-making process. This means that, in many situations, financial decisions are influenced by non-relevant aspects stemming from the decision environment and context, which might lead to sub-optimal outcomes.

Various measures were taken by Member States to enhance the protection of members and beneficiaries considering the shift from DB to DC schemes:

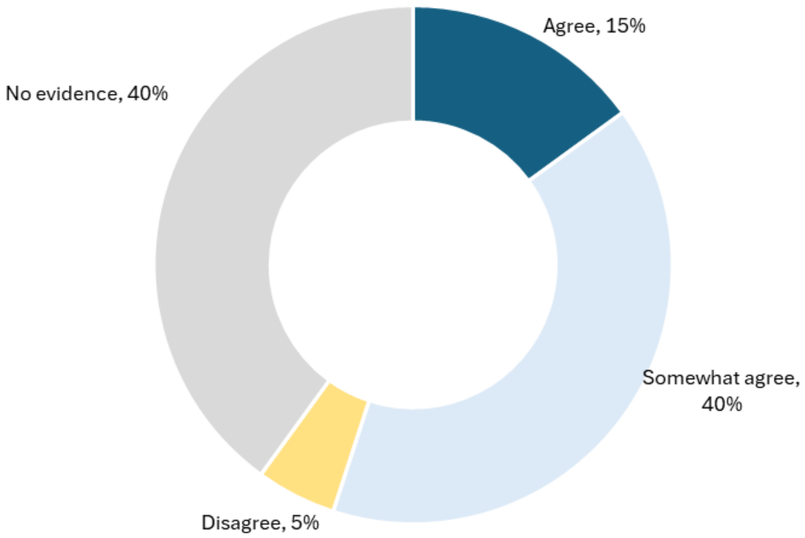
- The mandate of the Dutch NCA has been expanded to include requirements on complaints handling by pension providers, communication to scheme members and the quality of pension advice services.
- The Italian NCA set standardised rules and formats for funds and schemes' governing documents and for information documents to allow members to compare information and make informed choices. It has also introduced a self-assessment questionnaire to assess potential members' retirement needs and profile, to provide guidance in the choice of the investment option most suitable to age, risk appetite and other personal traits.

5.2. DIGITALISATION

As IORPs integrate more digital tools, robust governance frameworks become crucial to ensure alignment with members' and beneficiaries' best interests, while emphasising transparency, accountability, and data security. Effective governance must also focus on the protection of members and beneficiaries, addressing potential digital risks such as data breaches and cyber threats, to safeguard members' data and ensure the integrity of pension management in a digital landscape. Governance aspects are also relevant in the context of the proliferation of digital technologies that has expanded the opportunities for data exchange while AI supported analyses can improve the efficiency of internal processes, for instance by enabling automatic checks on data and raising red flags early.

NCAs reported mixed results as to whether governance frameworks have been improved and are now more robust as a result of IORPs integrating more digital tools. 10 out of 21 responding NCAs consider that, as IORPs integrated more digital tools, governance frameworks have improved and are now more robust, while the same number of NCAs report they have no evidence to sustain this statement. Additionally, NCAs have not pointed to the need for additional measures to be implemented by IORPs in view of increased digitalisation.

Figure 21 – NCAs' views on whether governance frameworks improved thanks to digitalisation



Source: Committee on Consumer Protection and Financial Innovation, 2024

Pension providers must determine a strategy of how digital security fits into their organisation's governance structure. The aim is to ensure that digital risks are identified, prioritised and mitigated. Should they materialise, there are adequate measures to respond to these incidents in an organised and effective manner, safeguarding the interests of members and beneficiaries. Most NCAs – 14 out of 21 responding NCAs – reported that IORPs have in place adequate measures to address digital risks, while 7 NCAs reported they have no evidence of this.

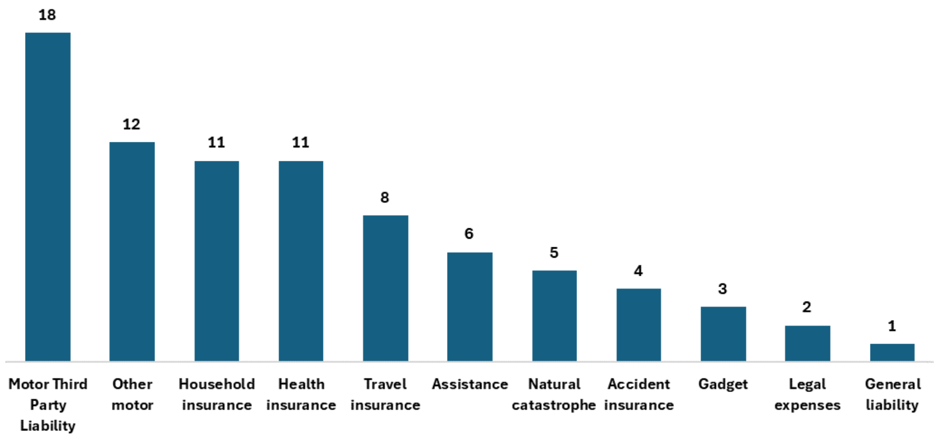
NCAs recognise that IORPs need to invest in the security of digital tools and information systems and monitor, manage and mitigate potential cyber risks to ensure good outcomes for members and beneficiaries. NCAs have not reported any cases of data breaches or cyberattacks against or impacting IORPs. Consequently, NCAs have neither reported measures taken by IORPs to mitigate these risks in the future nor any administrative measures (including sanctions or requests to enhance practices and procedures) against IORPs. The above results are not conclusive on the absence of data breaches or cyberattacks impacting all pension providers since these only refer to incidents reported to NCAs by IORPs.

6. AI AND ITS IMPACT ON INSURANCE SERVICING AND OTHER BACK-OFFICE APPLICATIONS

Most NCAs expect Artificial Intelligence (AI) to have a transformative impact on society and on the insurance sector. The introduction of AI technology in the insurance market is expected to enhance the automation of processes, leading to an increase in operational efficiency and improve several value chain processes, for instance by making them faster and more intuitive claims management processes from a customer's perspective. Innovations such as robo-advisors or chatbots provide constant support, and streamline policy and claims handling processes, in addition to being always accessible for the consumer and from any location.

Recent developments in the AI landscape, in particular Generative AI technology (Gen AI)[31] are expected to enhance and accelerate the impact of AI in the insurance sector. Non-life insurance lines of business such as motor, health and household insurance are the lines of business expected to be most affected by it. The benefits arising from Generative AI are similar to the ones of other AI systems, albeit more pronounced; they include benefits such as easier and faster claims handling process (13 out of 27 responding NCAs), followed by increased efficiency of insurance digital distribution (5 out of 27 responding NCAs), the customisation of products to fit consumers' preferences (4 out of 27 responding NCAs), and increased coverage of risks due to more precise risk assessment (5 out of 27 responding NCAs), as shown in the figures below.

Figure 22 – Number of NCAs that see a higher usage of generative AI in lines of business



Source: EIOPA's Committee on Consumer Protection and Financial Innovation, 2024

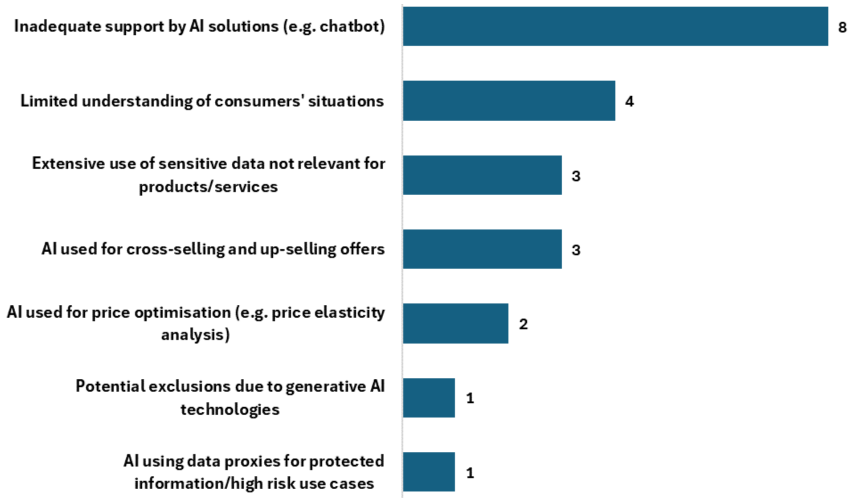
[31] Generative AI refers to AI systems capable of creating new content, such as text, images, or data, based on input patterns.

Claims settlement processes – where most consumers complaints generate – may be improved by AI. Claims settlement has often been a time-consuming process typically done via paper forms requiring manual involvement of claims experts such as loss adjusters. Since EIOPA's first Consumer Trends Report and also in 2024, claims handling is where most complaints arise (see the Data Annex), due to a wide variety of reasons such as unjustified rejection of claims, insufficient compensation or excessively long claims management processes.

AI applications could automate or enhance claims settlement processes and improve the overall customer experience. For example, thanks to AI-based image recognition tools, these are automatically analysed so that a decision on repairs or the amount of damage can be made rapidly and a corresponding cost estimate prepared. There are providers that already use AI-powered chatbots to handle claims and customer queries. Indeed, one provider reportedly settled a claim for property theft in 3 seconds, without any human intervention. Moreover, 13 out of 27 responding NCAs find that the use of AI technology enables easier and faster claims handling process**.** The Eurobarometer results show that 52% of EU consumers believe that the claims handling processes are easier and faster due to online automated processes**.** The benefit of easier and faster claims handling process is more commonly perceived among consumers located in Czechia (71%), Romania (66%) and Finland (64%).

However, there are concerns about risks and poor decision making arising from AI. 8 NCAs have reported instances of inadequate support provided by Gen AI solutions (e.g. chatbot) and 4 NCAs reported limited understanding of consumers' specific or non-standard situations. A few NCAs, based on the complaints received, reported issues related to the functioning of the providers' servicing systems (e.g. problems with support accessibility).

Figure 7 – Number of NCAs that observed certain issues related to the use of generative AI in their market

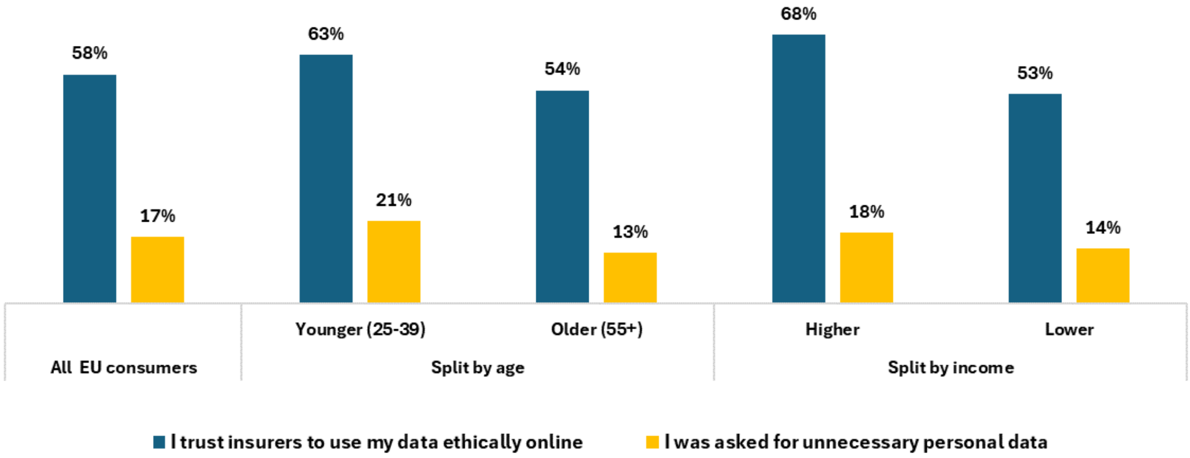


Source: EIOPA's Committee on Consumer Protection and Financial Innovation, 2024

AI may also lead to excessive standardisation of settlement procedures which could trigger an increase in litigation, and could fail in non-standard situations. NCAs pointed to problems related to the quality and timeliness of information from AI sources and to situations where AI can make mistakes which can go unnoticed or unchallenged.

Looking at the pricing and underwriting area of the value chain, AI can have benefits but it can also lead to some risks. NCAs reported that AI in pricing and underwriting can offer benefits like more precise segmentation and price optimisation, potentially lowering costs and increasing insurability for some consumers. However, NCAs noted that AI also poses risks, such as higher premiums or reduced access for high-risk or vulnerable clients, and the potential for biases in poorly designed systems. Limited explainability (black box issues) can amplify challenges like unfair exclusions, discrimination, or flawed outcomes due to biased data.

Figure 23 – Consumer views on data privacy and ethical use of data



Source: EIOPA's Eurobarometer survey, 2024

AI raises concerns about data privacy, security and ethical use. The amount of data collected and shared with third parties is increasing. The more sensitive the data that is shared and stored, the greater the risks that need to be managed. This presents challenges related to data protection, data privacy and security, consumer protection and raises concern on the ethical and discriminatory use of data, for instance. Therefore, it is important that insurance providers and supervisors ensure that the collection and the usage of data is done in accordance with General Data Protection Regulation (GDPR) principles[32] including the ones of fairness, transparency and data minimisation. This should also consider sector specificities, particularly the fact that the core business of insurance is to differentiate among various risk profiles. This is shown in the allowance of certain data (e.g. customer's age) for underwriting purposes in insurance, whereas it is prohibited for pricing in other

[32] Available here

sectors. Relatedly, 17% of EU consumers consider that the personal data they were requested to provide when purchasing insurance online was not needed, and 24% of EU consumers do not trust insurers to collect and use their personal data in an ethical way according to Eurobarometer survey results. The lack of trust is higher in younger consumers than their older peers (Figure 23).

Some NCAs have already conducted supervisory activities related to AI, and several are currently planning capacity building initiatives in relation to AI.

- The Italian NCA carried out a Survey on the use of Machine Learning algorithms in retail insurance by companies. Results show that 27% of companies use at least one ML algorithm in processes with direct impact on customers, for a market share of 78% in non-life and 25% in life business. Moreover, 56% of undertakings using ML algorithms say they have internal mechanisms in place to assess fairness to policyholders and detect unwanted exclusions or discrimination of customers.
- The Hungarian NCA has conducted a thematic audit in 2023 on the use of Artificial Intelligence and Machine Learning applications, which also covered the insurance sector.
- The Danish NCA published a report[33] exploring data ethics in AI use within the financial sector, focusing on responsible practices.

EIOPA is scaling up activities to monitor AI related risks and ensure AI works to the benefit of consumers. EIOPA is committed to enhance the digital transformation while mitigating the risks stemming from it by ensuring that innovation is aligned with the best interests of citizens as stated in its Digital Strategy published in October 2023[34].

Box 4 – The AI Act and the insurance sector

The European Union's Artificial Intelligence (AI) Act[35] has significant implications for consumer protection in the insurance sector, given the various AI applications in insurance (e.g. claims processing, risk assessment). AI is expected to play a pivotal role in transforming the insurance industry, enhancing areas such as risk assessment, pricing, and operational efficiency. However, with this potential come concerns around the protection of fundamental rights, data privacy, health, and safety, which the AI Act seeks to ensure. The AI Act introduces a risk-based classification of AI systems, categorising them into different levels: unacceptable risk, high risk, limited risk, and minimal risk.

AI systems used for life and health insurance, especially for risk assessment and pricing, are deemed high-risk and are subject to stringent requirements. Providers and users of these systems must comply with various standards, including the use of data governance practices to avoid biases and

[33] Report on data ethics using AI in the financial sector.pdf (dfsa.dk)

[34] EIOPA's Digital Strategy - European Union (europa.eu)

[35] Regulation (EU) 2024/1689 of the European Parliament and of the Council of 13 June 2024 laying down harmonized rules on artificial intelligence and amending Regulations (EC) No 300/2008, (EU) No 167/2013, (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1139 and (EU) 2019/2144 and Directives 2014/90/EU, (EU) 2016/797 and (EU) 2020/1828 (Artificial Intelligence Act).

ensure transparency in how AI outputs are interpreted. Additionally, there is an obligation to conduct conformity assessments and fundamental rights impact assessments before deploying these high-risk systems. To manage the potential overlap with existing insurance regulations, limited derogations are introduced, particularly for entities regulated by Solvency II.

The AI Act also designates NCAs as authorities for overseeing high-risk AI systems in the insurance sector, though member states can assign other authorities. Further, insurance providers remain accountable for ensuring compliance with regulatory obligations, even when using third-party AI systems, as this could be classified as outsourcing under Solvency II.

At European level, a new European Artificial Intelligence Board, composed of NCAs, the European Data Protection Supervisor, and the European Commission, will provide recommendations and opinions. Additionally, a European AI Office was established to ensure coordination between EU institutions, bodies, and stakeholders, while enforcing new rules for General-Purpose AI models. The European Supervisory Authorities (ESAs) and the AI Board are closely working together to ensure that the AI Act is complied with.

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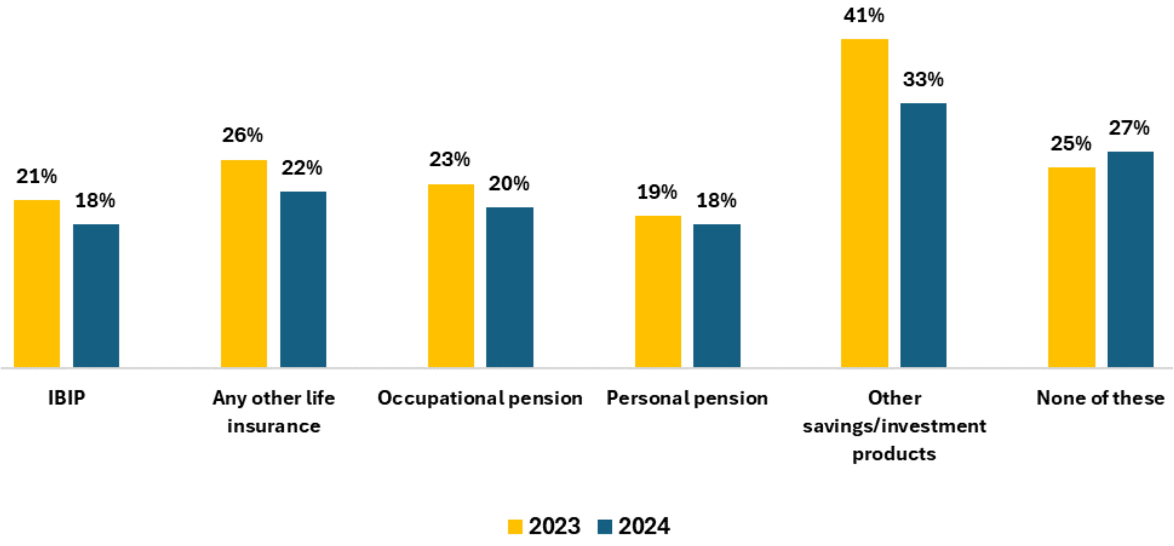
7. DEVELOPMENTS AND RECURRING TRENDS

7.1. DEVELOPMENTS IN INSURANCE AND PENSIONS ACCESS

Access to insurance and pension products is fundamental to consumer financial health, the ability to withstand economic shocks, and to achieve long term financial health.

Yet a significant portion of EU consumers do not have insurance and pension-related investment products, with 2024 showing lower access rates than in 2023. According to EIOPA's 2024 Eurobarometer survey, 27% of EU consumers do not own any savings or investment products from an insurer, which ranges from only 10% in Sweden to 39% in Greece. As Figure 24 below shows, since 2023, the amount of consumers that do not own any type of selected saving product has increased by 2 percentage points (pp), whilst access to investment/savings products from insurers and occupational pensions have both decreased by 3 pp, and other types of savings/investment products have decreased by 8 pp. This may be due to the continuing inflationary environment constraining consumer disposable income, driving some consumers to withdraw their savings.

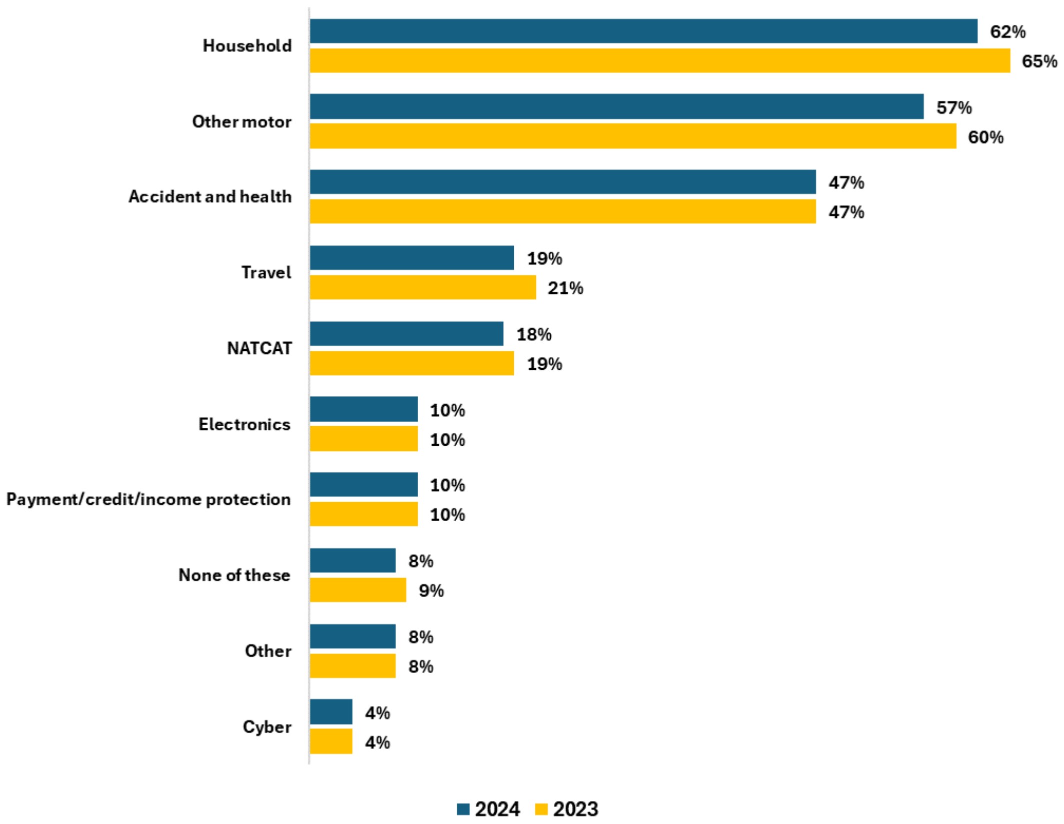
Figure 24 - Consumers reporting owning life insurance, pension and other saving products – 2023-2024



Source: EIOPA's 2023 and 2024 Eurobarometer

Similarly, in several non-life insurance lines of business, levels of access have decreased from 2023 to 2024. Whilst the number of consumers who do not own any non-life products is lower (8%) than those who do not own any savings or life insurance products (27%), this is in large part driven by motor insurance (57%) which is mandatory across the EU and household insurance (62%), which is mandatory in most Member States when the house is financed with a mortgage. Access in all non-life products remained stable or decreased. As Figure 25 below shows, the other motor and household insurance products have experienced a 3 pp decrease in access since 2023, travel insurance has decreased by 2 pp, and access to coverage for damage from natural catastrophes saw a 1 pp decline. This may be due to lower levels of consumer disposable income, which could leave consumers under-insured as a result of unaffordable coverage, or the perception of some insurance products as not essential when facing financial constraints. Still, decreased access to both life/savings and non-life insurance products can make consumers more vulnerable to shocks.

Figure 25 – Consumers' access to non-life insurance products between 2023 and 2024



Source: EIOPA's 2023 and 2024 Eurobarometer

7.2. SUSTAINABILITY CLAIMS

EU consumer awareness of sustainable or 'green' insurance or pension products has remained stable from 2023 to 2024. EIOPA's Eurobarometer reveals that 31% of EU consumers are aware of sustainable or 'green' insurance or pension products in 2024, this figure was 32% in 2023. However, in certain Member States awareness of sustainable products has increased since last year, including a 14 pp increase in Sweden and 8pp increase in Hungary. Further, more consumers report considering purchasing such a product in 2024 (16%) as compared to last year (13%), as well as 30% being interested in knowing more even though they have not heard of such products in 2024 compared to 27% in 2023.

NCAs perceive the increased sale sof insurance and pension products with sustainability features as a positive development, yet recognise the risk of greenwashing, driving supervisory activity. Various NCAs noted raising awareness on the importance of fair commercial practices regarding sustainability claims to avoid greenwashing. Some NCAs conduct reviews of sustainability claims, including in the non-life insurance sector.

EIOPA, in conjunction with NCAs, will continue to monitor sustainability claims and greenwashing. In response to a Call for Advice from the European Commission, EIOPA published a Report on greenwashing in June 2024, setting out key proposals aimed at enhancing the supervision of greenwashing and at improving the sustainable finance regulatory framework. EIOPA further published an Opinion on sustainability claims and greenwashing, establishing key principles that supervisors should consider in their assessment of undertakings' sustainability claims, which EIOPA will continue to monitor for effective implementation.

7.3. CROSS-BORDER BUSINESS

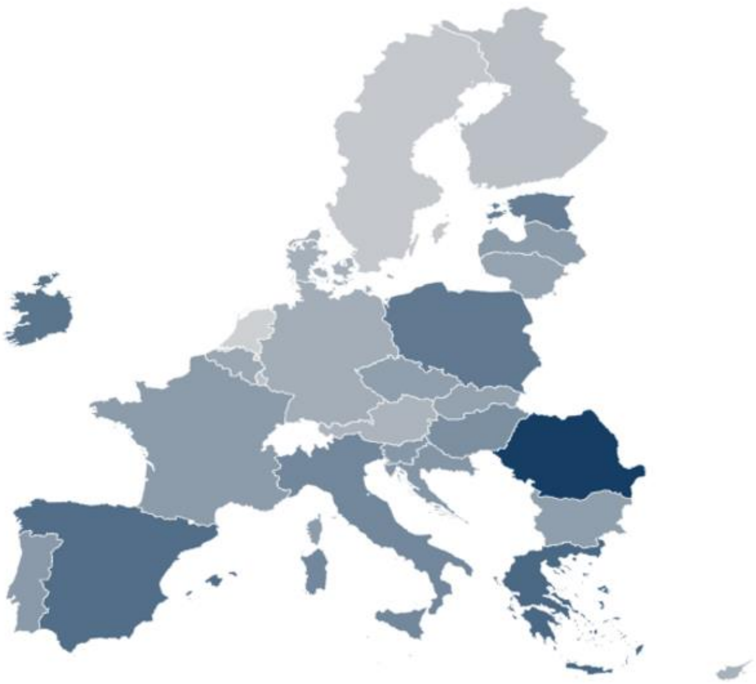
The provision of insurance on a cross-border basis has been increasing moderately, with divergences across lines of business and countries. According to Solvency II data, there was a modest increase in cross border business from 2022 to 2023. EIOPA's Eurobarometer shows that 19% of EU consumers reported having knowingly bought insurance on a cross-border basis, this figure increases to 32% for younger consumers (25-39). Moreover, 14 NCAs find that cross border business is growing due to digitalisation, and 13 NCAs find that this is due to other factors.

Key factors such as digitalisation, instances of products with better value, a lack of domestic offer and greater expertise are factors driving cross border business in the EEA. According to 14 NCAs, this growth is partly driven by the digitalisation of services, while 13 NCAs attribute it to additional factors, including more innovative products, more competitive pricing, and greater expertise in specific lines of business from insurers operating cross-border. 9% of consumers reportedly know they purchased products sold on a cross-border basis because they found those products offered better value (e.g., coverage, costs, returns, exclusions), while 6% consumers chose such products because there was no domestic offer.

However, factors such as consumer mistrust and unawareness may hinder further growth of cross-border business. Despite the benefit of cross-border business, 12% of EU consumers are not aware of the fact that insurance can be sold on a cross-border basis, 18% do not trust providers offering products on a cross-border basis, and 12% of consumers believe that it would be too complicated in case of issues (e.g. claims). Indeed, 19 NCAs noted limited consumer awareness on who is the competent authority in case of dispute settlement. NCAs also pointed to other cross border-related issues – similar to domestic ones – such as instances of delays in claims compensation and of value for money issues. 19 NCAs reported having conducted supervisory activities covering cross-border business to tackle these issues, however some of these NCAs highlighted challenges in supervising cross-border business.

Figure 26 – Consumers who purchased insurance from a cross-border insurer

RO	32%
EL	26%
ES	25%
IE	24%
PL	23%
EE	22%
IT	21%
HU	20%
EU27	**19%**
HR	19%
SI	19%
PT	18%
LV	18%
FR	18%
BG	18%
CZ	18%
SK	17%
LT	17%
BE	16%
DE	16%
DK	15%
CY	15%
AT	15%
FI	13%
LU	13%
SE	12%
NL	11%
MT	10%



Source: EIOPA's 2024 Eurobarometer

7.4. CLAIMS MANAGEMENT

Several NCAs have observed issues relating to delays in payment and poor quality of customer service. Several NCAs have observed issues in their markets in relation to the claims management and compensation processes, especially in the MTPL and other motor LoBs, notably, delayed payment. Looking at Solvency II data, the claims opened ratio moderately increased for both motor vehicle liability (from 34% in 2022 to 36% in 2023) and other motor insurance (from 21% to 22%). This may suggest that claims in those lines of business are taking longer to be settled in 2023 compared to 2022.

Consumers perceive that digitalisation facilitates claims handling processes, however this figure decreased from 2023 to 2024. EIOPA's 2024 Eurobarometer data indicates that 52% of EU consumers find the claims process faster and easier due to automated processes used online, whereas in 2023, 62% of consumers found the claims process easier due to digitalisation. Whilst it is positive that over half of EU consumers find digital tools improve their experience, digitalisation may not always result in good consumer outcomes, especially for the less digitally literate. Indeed, a few NCAs reported that consumers complained about digitalisation, noting that these inquiries and claims were not adequately dealt with. Conversely, a few NCAs raise that the development of digital channels like apps and websites simplified the claims management and settlement processes, making it easier to submit claims and receive customer service.

7.5. CROSS-SELLING/BUSINESS MODELS LEADING TO POOR CONSUMER OUTCOMES

While cross-selling offers benefits, such as a 'one-stop shop' that can boost uptake, NCAs continue to highlight cross-sold products as a significant consumer protection concern due to instances of high commissions and poor value for money. In 2024, 14% of EU consumers bought insurance policies that came with the purchase of a non-insurance product. As part of EIOPA's 2022 Thematic Review on Bancassurance, consumer detriment concerns emerged in relation to Credit Protection Insurance (CPI) being sold by insurers and banks in conjunction with mortgages, consumer credits and credit cards. This is also demonstrated by NCAs ranking 'high commissions and poor value for money offered by ancillary and/or cross-sold products' as the most concerning consumer protection issue.

Solvency II reporting commission rates data supports these concerns. Indeed, the Solvency II LoBs where cross-sold products would most likely be included – i.e. 'miscellaneous financial loss' LoB (28%) and 'income protection insurance' LoB (16%) – have a commission rate above the total non-life commission rate standing at 14%.

Beyond cross-selling, some NCAs have concerns with business models which are conducive to bad consumer outcomes. While for a number of years risks have been identified with cross-selling, this practice can offer significant benefits when implemented correctly. Rather than reporting concerns specific to cross-selling NCAs are increasingly reporting issues with specific business models. In fact, when business models are not customer-centric or focus solely on profit generation rather than achieving the societal goals of insurance, significant risks can arise for consumers. NCAs rank 'business models leading to poor consumer outcomes' as one of the highest consumer protection issues.

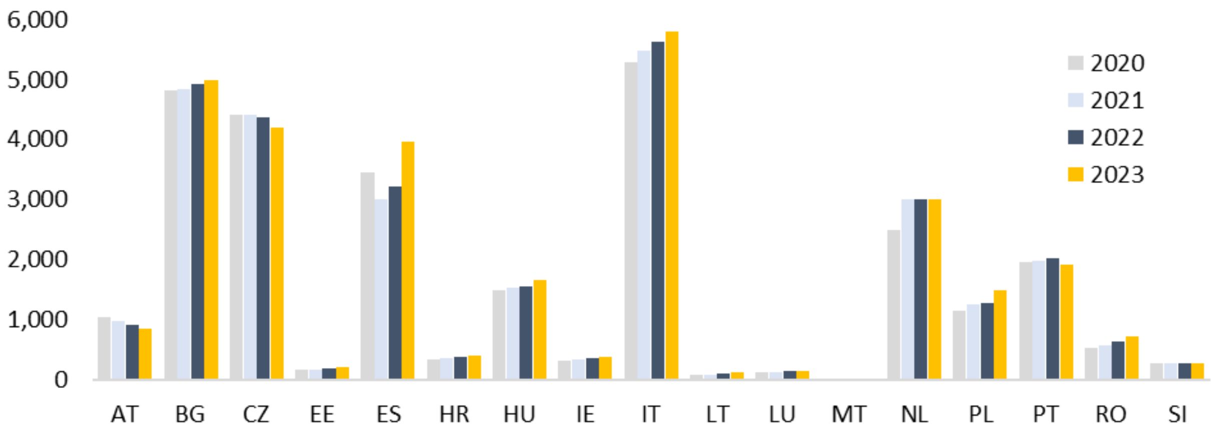
7.6. PENSION MARKET OVERVIEW

Occupational and personal pension products contribute positively to financial health in retirement, complementing state retirement benefits. A balanced three-pillar system increases pension savings, enhances the efficiency of the economy and increases transparency of pension systems.

PERSONAL PENSION PRODUCTS

Personal Pension Products (PPPs) across Member States differ in terms of product features but serve similar purposes and face similar conduct challenges. Most importantly, they differ significantly in terms of relative importance in funding retirement income, reflecting differences in statutory social protection, participation in occupational pensions and policy options. For more details on the designs and main characteristics of PPPs by Member State, please refer to the Annex.

Figure 27 – Number of PPPs contracts by Member State, in thousands – 2020-2023



Source: EIOPA's Committee on Consumer Protection and Financial Innovation, 2024

Figure 27 shows a steady increase over the past 4 years in the number of PPPs contracts in 13 Member States while 2 Member States have seen a decrease in the number of PPPs contracts over the same period.

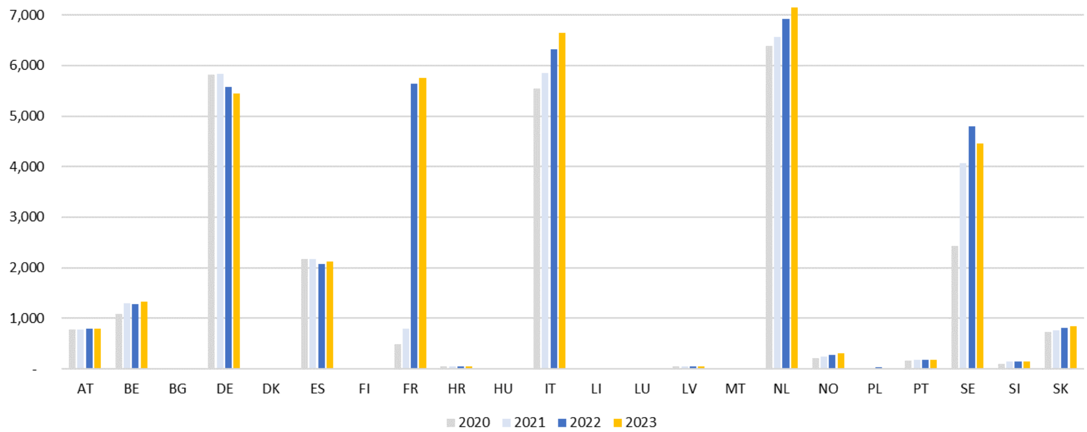
In some Member States, the relevance of state and of occupational pensions, in some cases of a compulsory nature, diminishes the relevance, necessity and awareness of PPPs. In 2023, the growth of PPP contacts were also curbed by the general macroeconomic situation and the cost-of-living crisis leading to anticipated withdrawals before retirement. Some Member States introduced temporary flexible reimbursement rules for PPPs, often limiting or eliminating tax penalties.

Incentives (e.g. tax incentives) continue to drive the increase in the number of PPPs contracts in some Member States. The increase has also been driven by continued efforts to enhance financial literacy and to raise awareness of the importance of pension savings and retirement planning. Marketing and information campaigns, both public and private, as well as an increase in digital distribution and communication with members also supported this trend.

OCCUPATIONAL PENSIONS

IORPs are highly diverse in terms of structure across Member States. For more details on the designs and main characteristics of IORPs by Member State, please refer to the Annex document. The overall diversity in IORPs market structure leads to different coverages across Member States. Due to lack of data, this section only considers occupational pensions managed by an IORP thus providing only a partial view of the whole occupational pension sector. Figure 28 shows a growth in active members across the EEA from 2020 to 2023. The number of active members increased only marginally from 2022 to 2023 (+1%), well below the increase of 22% from 2021 to 2022, and of 10% from 2020 to 2021.

Figure 28 – Number of Active Members in IORPs, in thousands – 2020-2023

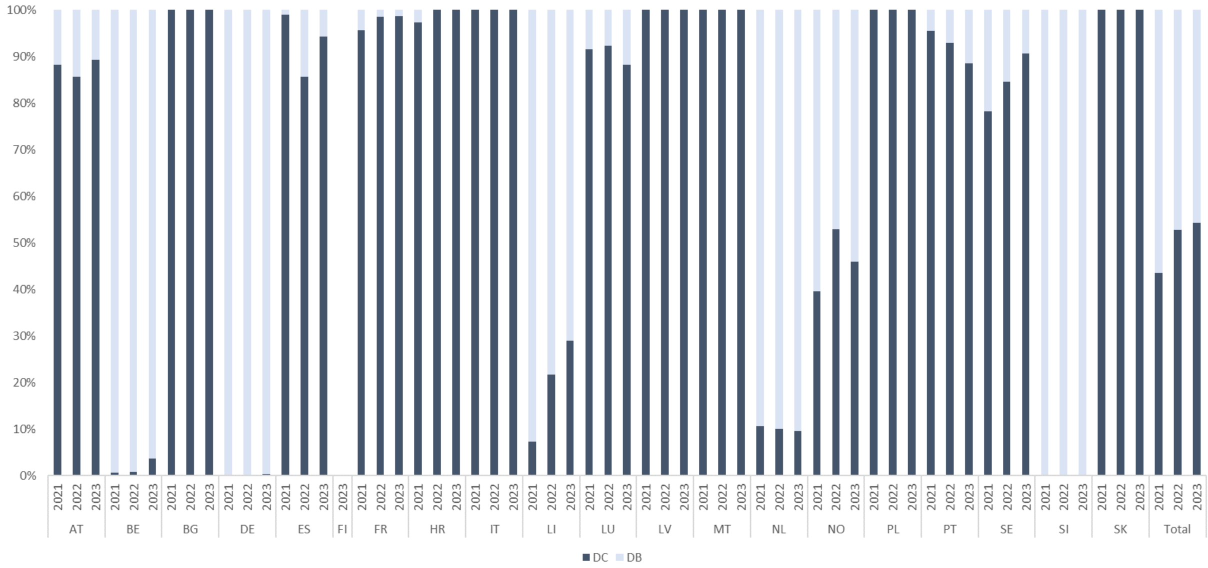


Source: EIOPA IORPs pension database, Eurostat

There were significant differences in variations among Members States. Member States that saw significant increases indicated that this was due to national pension reforms, continued implementation of auto-enrolment, use of digital channels, increased interaction between providers and potential scheme members (e.g., online portals) and an increase in awareness.

The shift from DB pension schemes towards DC pension schemes, already identified in previous Consumer Trends Reports, continued in 2023. The number of active members in DC schemes increased by 4.2% while the number of active members in DB schemes decreased by 5.3%.

Figure 29 – Percentage of Active Members by type of scheme – 2023



Source: EIOPA IORPs pension database[36]

[36] In relation to BE, Belgian pension schemes are structured as DC schemes but are classified as DB by EIOPA because the plan sponsor or provider is legally obliged to make additional contributions to an ongoing plan in case of adverse plan performance.

8. ANNEX

8.1. ACRONYMS AND ABBREVIATIONS

AI	artificial intelligence
AMSB	administrative, management and supervisory body
CFA	Call for Advice
CPI	credit protection insurance
DB	defined benefit
DC	defined contribution
DR	Delegated Regulation
EB	EIOPA's Eurobarometer Survey
EC	European Commission
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Authorities
FMPs	financial markets participants
Gen AI	generative artificial intelligence
GWP	gross written premium
IBIPs	insurance-based investment products
IDD	Insurance Distribution Directive
IORP	institution for occupational retirement provision
LoB	line of business
ML	machine learning
MS	member state
MTPL	motor third party liability
NATCAT	natural catastrophe
NCAs	National Competent Authorities
PCW	price comparison website
PEPP	Pan-European Personal Pension Product
POG	product oversight and governance

PP	with profit participation products
PPPs	personal pension products
PTS	pension tracking system
SII	Solvency II Directive
UL	unit-linked insurance

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