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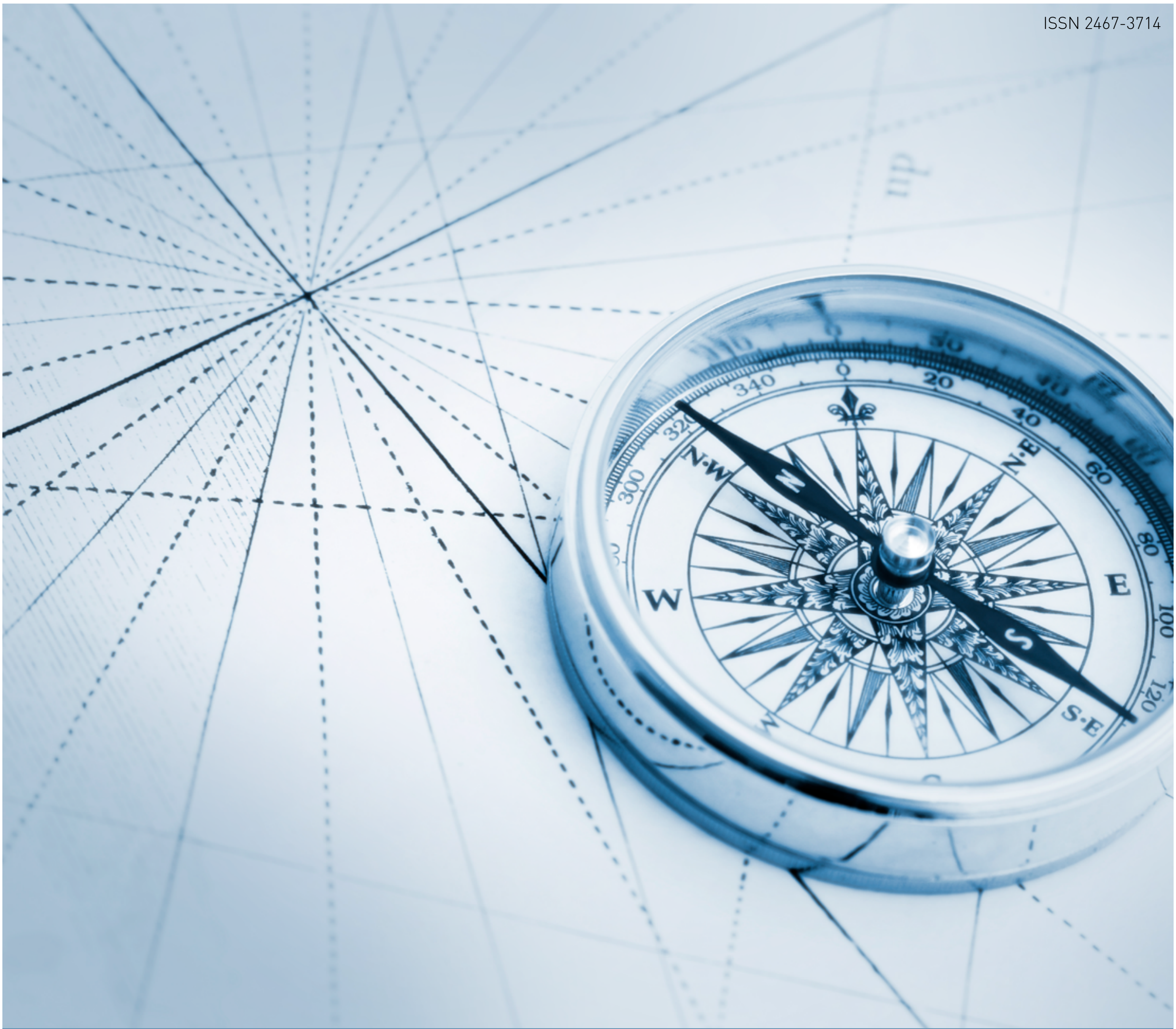

SIXTH CONSUMER TRENDS REPORT

eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

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SIXTH CONSUMER TRENDS REPORT

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EXECUTIVE SUMMARY

The European non-life insurance market experienced a year-over-year (YoY) growth in premiums in 2016, with the majority of premiums generated by the "medical expenses insurance", "fire and other damage to property insurance" and motor insurance lines of business. Life insurance premiums decreased in a majority of Member States, and there was an increase in "hybrid life insurance products" and new "with-profit life insurance products", where the economic value of embedded guarantees appears significantly lower compared to traditional with profit products.

Digital technologies continue to progressively penetrate the European insurance sector; leveraging their cutting-edge data analysis tools and technologies, **InsurTech start-ups have proliferated, frequently specialising in developing specific areas of the insurance value chain**. Distribution channels have been most targeted to date. **Peer-to-peer insurers** often follow this pattern, though their business model may not in all cases be very different from that of traditional undertakings, as they can only operate in the EU through a licensed insurance undertaking or through a broker/intermediary in cooperation with a licensed insurance undertaking.

The still moderate use of telematics devices in health, motor or household insurance has enabled the development of **usage-based insurance (UBI)** products adapted to the characteristics and behaviour of consumers. These can also enable improved customer relationships or the prevention of risks, although, linked to the broader Big Data phenomenon, UBI could also have an impact on the access to insurance of high-risk consumers. The use of other technical innovations, such as blockchain technology or artificial intelligence, still appears limited in insurance, although there are some examples where they are already being applied in practice.

It is increasingly evident that digital technologies represent a key competitive factor and a source of economic growth; in this context some **national competent authorities (NCAs) have been actively promoting financial innovation** through a series of initiatives, such as Innovation Hubs, regulatory sandboxes, or public-private partnerships like start-up accelerators. Other than in the area of financial innovation, in 2016 NCA's consumer protection activities predominantly focused on supervising unit-linked life insurance products and product information issues.

From a consumer protection perspective, it is also noteworthy that **consumer complaints in the insurance sector considerably increased in 2016**. This increase has taken place in most Member States and has been particularly significant in the non-life insurance sector, which to a limited extent could be related to the stronger market growth explained above. Moreover a significant part of these complaints are related to claims handling issues. In this regard, the claims ratios (i.e. the proportion of premiums used to pay claims) in lines of business such as "legal expenses insurance", "assistance", or "miscellaneous financial loss" are below 50%, and in these lines of business high commission rates can be seen compared to other lines of business. However in 2016 the claims acceptance rates of the last two lines of business were relatively high compared to legal expenses insurance.

As far as the pensions sector is concerned, taking into account the inherent specificities of the pensions market and bearing in mind that the delineation between pension pillars in some Member States can be complex, most of the Member States that provided data to EIOPA experienced a **YoY increase in the number of active members both in the personal and occupational pensions sectors**. This is likely related to the moderate recovery of the European economy and labour markets, as well as the reforms introduced by some Member States in recent years.

Life-cycle funds are a relatively new approach to retirement investment in several European pension markets. These appear to quickly gain momentum in some markets, reflecting once again changes to national pension legislation. This interest in life-cycling is also reflected in the pan-European personal pension product (PEPP) legislative proposal.

The use of digital technologies such as mobile phone applications or robo-advisors in the pensions sector is still moderate. This partly could be due to legacy issues such as Defined Benefit (DB) schemes, where the outcome is pre-determined in advance and there is little need for engagement from the individual. However the shift from DB to Defined Contribution (DC) observed in several Member States together with other developments such as the increasing penetration of smart phones and digital technologies in the European economy are progressively changing this situation.

Finally, the number of complaints in the pensions sector slightly increased in 2016, although in several Member States the increase is too low to draw conclusions for the whole sector based on them. During 2016 one of the main priorities of NCA's consumer protection activities in the pensions sector was to ensure that individuals were provided **with adequate and transparent information about their pensions rights and expected retirement income**.

Looking ahead, it is notably that 2018 and 2019 will bring significant **improvements and changes in the EU regulatory environment** related to insurance and pensions.([1]) These can be expected to impact trends of all types in the future, though the impacts may take a number of years to become clear.

([1]) The application of the Insurance Distribution Directive and the Packaged retail investment and insurance-based products (PRIIPs) Regulation will resume in 2018, and the Institutions for Occupational Retirement Provision Directive (IORP II) in January 2019.

INTRODUCTION

Article 9 of EIOPA's founding Regulation requires the Authority to "collect, analyse and report on consumer trends."[2] The term consumer trend is not defined in the EIOPA Regulation. EIOPA has devised the following working definition: "Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including intermediaries) that are significant in their impact or novelty".

To date, EIOPA has published five Consumer Trends reports. The report covers **trends both in the insurance sector and in the pensions sector.** A description of the main market developments is provided in the first section, complemented with the analysis of quantitative data extracted from EIOPA's Solvency II database. Then, a series of financial innovations are subsequently analysed. EIOPA decided to place special focus on financial innovations as a distinctive feature of this year's report, in response to the increasingly prominent role played by digital technologies.

Next, and bearing in mind the **supervisory background of this report**, an analysis of last year's consumer complaints and NCA consumer protection activities is provided. One of the key objectives of the report is to try to identify risks for consumers arising from trends in the market, which may require specific policy proposals or supervisory action from EIOPA and/or its Members. Moreover, by highlighting the non-confidential activities reported by NCAs for their respective jurisdictions, EIOPA contributes to the task that it has been assigned by its founding Regulation of encouraging a common supervisory culture amongst its Members through the promotion of exchanges of information between competent authorities.[3]

Not all trends identified exist in all the EU Member States; in some Member States the trends described may not exist, in others they may only be at a very incipient stage, while in other Member States the trends might be already consolidated for a number of years. However, the fact that one Member State is not mentioned under a specific trend does not necessarily mean that such a trend does not exist in that Member State or that the relevant NCA has not undertaken any activities in that specific field.

In order to meet the above objectives, EIOPA has developed a **Methodology [4] for producing a Consumer Trends Report on an annual basis** (see Annex I for further details). It essentially consists in the collection of quantitative and qualitative consumer information from EIOPA's Members as well as from stakeholders. This year's report also includes interviews of stakeholders providing their first hand views on key developments that are taking place in the markets.

There are certain **limitations to the methodology**, for example, a number of NCAs were not in a position to provide all the input requested by EIOPA and that given that it is only the first year of the new Solvency II reporting framework its data must be interpreted cautiously. However the information gathered is extensive, both of quantitative and qualitative nature, and from a wide variety of sources, which allows EIOPA to confidently identify consumer trends in the European insurance and pension markets.

[2] Article 9(1)(a), Regulation 1094/2010 establishing EIOPA, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0048:0083:EN:PDF

[3] Article 29 of EIOPA Regulation

[4] EIOPA, Consumer Trends Methodology, November 2012, https://eiopa.europa.eu/Publications/Reports/2012-11_Methodology_on_collecting_consumer_trends.pdf

INSURANCE SECTOR

1. Market growth

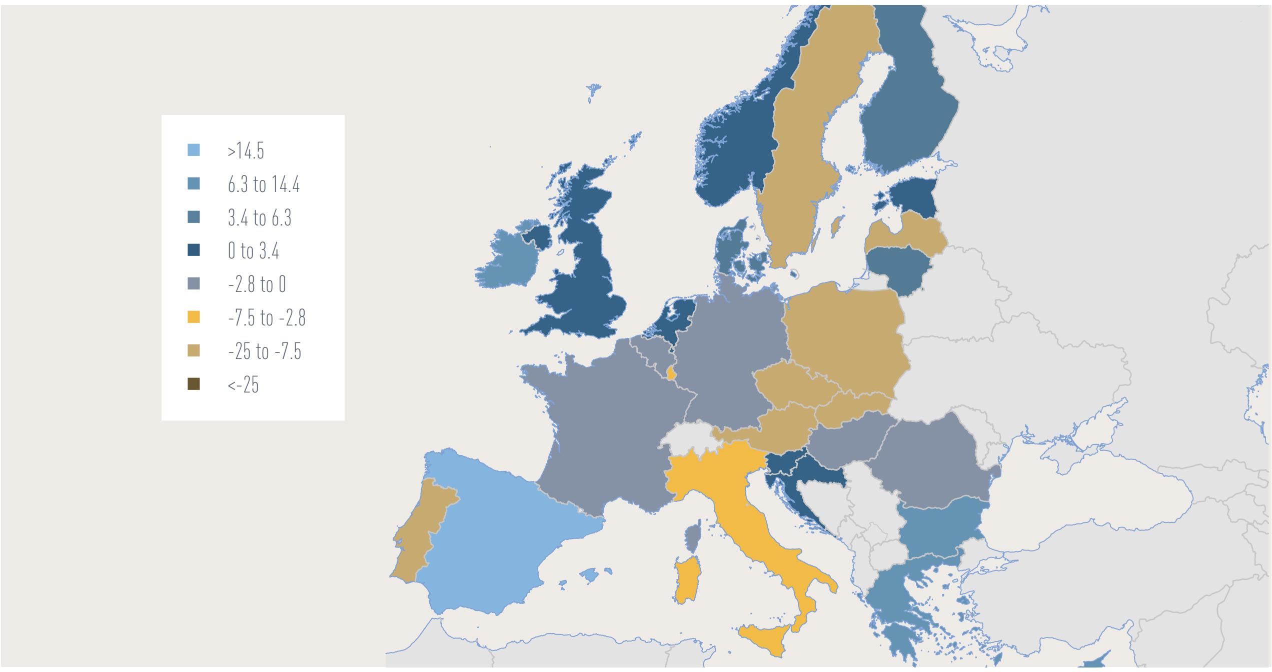
1.1. LIFE INSURANCE

In a context of a persistent low interest rate environment and moderate economic growth, coupled with the introduction of the Solvency II regulatory framework, **life insurance premiums decreased in a majority of Member States** during 2016.

Guaranteed products, such as with-profit life insurance, put considerable pressure on insurance undertaking's liabilities in the context of a low interest rate environment, prompting business shifts. As a result, based on the information provided to EIOPA by NCAs, with-profit life insurance premiums have decreased in several Member States including Croatia (-10.8%), Sweden (-6%), Latvia (-13.5%) or Portugal (-38.4%). However, with-profit premiums have also increased in Member States such as Estonia (+7.1%), Luxembourg (+2.4%) or Norway (+1.9%). Indeed in some Member States with profit products are still attractive for consumers since the **guarantees offered may exceed those of comparable banking products**.

While indeed the trend in several Member States is to progressively introduce products with lower guarantees, until existing long-term contracts mature, **with-profits policies remain the largest single life insurance line of business** in terms of GWP, as it can be observed in figure 2.

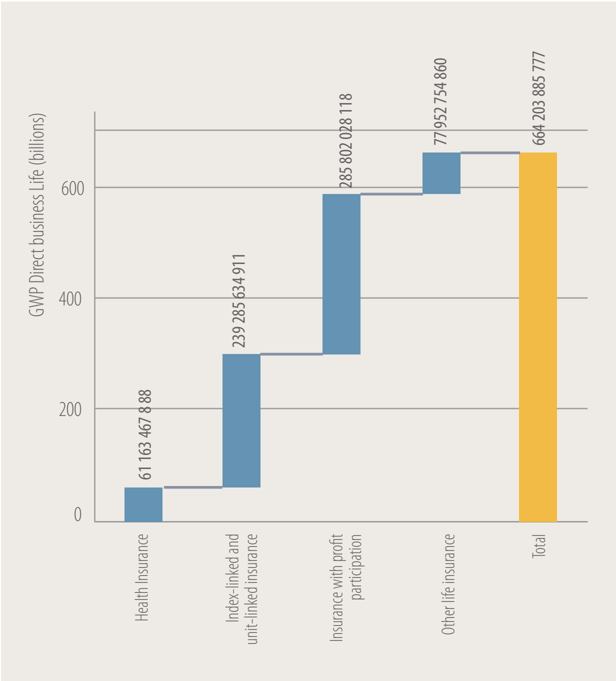
Figure 1 Life insurance 2016 YoY real premium growth (adjusted for inflation)



Source: Swiss Re Institute, Sigma Explorer [5]

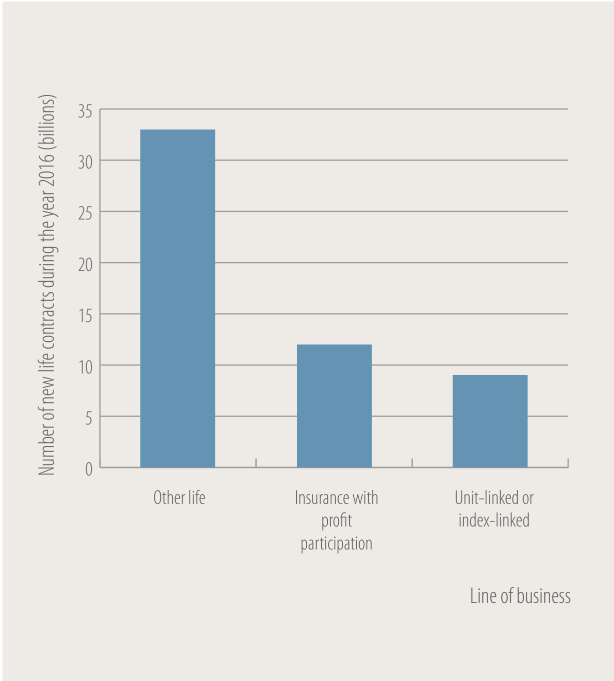
[5] http://www.sigma-explorer.com/explorer/map/index_map.php?indis=rpgr&modi=life|&regi=WOR&ext=1

Figure 2 Life insurance premiums in 2016 for selected lines of business



Source: EIOPA Solvency II database

Figure 3 New life insurance contracts during 2016 for selected lines of business [6]



Source: EIOPA Solvency II database

In 2016 unit-linked and index linked life insurance was the second most important life insurance line of business with over 239 billion GWP. While unit-linked life insurance premiums grew in Member States such as Bulgaria (+115.9%), France (+16.9%) or Norway (+20.3%) **a majority of Member States reported a year-on-year drop of unit-linked life insurance premiums** including Malta (-30.7%), Italy (- 24.5%), Slovakia (-11%) or the Netherlands (-4.9%).

In Finland the decrease in unit-linked life insurance premiums was motivated by a series of factors such as fluctuations in the stock market, discussions on the taxation regime of insurance products, or the strategic decisions of some large financial conglomerates. In Poland (-21.3%) **poor performance** in recent years together with some mis-selling scandals have resulted in a major drop of unit-linked premiums in 2016.

During 2016, **most of the new life insurance contracts (that is by number of contracts) were in the "other life insurance" line of business,** which generally covers premiums from products such as traditional life insurance protection products without an investment component or mortgage protection life cover (term insurance), and which are often sold through banking institutions.

While the number of new "other life insurance" contracts as well as the commissions paid for the sale of these contracts (see figure 7 below) are more than double than for the other life insurance lines of business, in terms of GWP this line of business is still relatively small as shown in figure 2 above. Member States that experienced a premium growth in this line of business include Malta (+19.7), Italy (+4.2%), Hungary (+42.6%), Spain (+32%) or Slovenia (+5.4%).

Finally, it is remarkable the fact that the number of new with-profit life insurance contracts was greater than the number of unit-linked and index linked contracts in 2016, which shows that consumers still look for some level (even if small) degree of guarantee when purchasing life insurance products.

[6] Does not include the new contracts data from ES.

1.2. NON - LIFE INSURANCE

Most Member States experienced a YoY premium increase in their respective non-life insurance markets. As it can be observed in the figure below, the premium growth has generally been stronger in Eastern European Member States, while in Central and Northern Europe the premium growth has been more moderate.

According to the information provided to EIOPA by NCAs, the **increasing sales of motor vehicles** are reportedly one of the key drivers of the motor insurance premium growth experienced in Member States such as Portugal (+3.5%), Bulgaria (+5.5%), France (+2.2%) or Slovakia (6.7%). In other Member States such as Lithuania (+16.2%), UK or Poland (108.7%**)**, the GWP growth in the motor insurance sector was motivated by higher premiums. In Italy (-3.1%) motor insurance premiums decreased as a result of increasing competition and reduced claims costs, in part owing to the increasing penetration of telematics-based motor insurance policies.

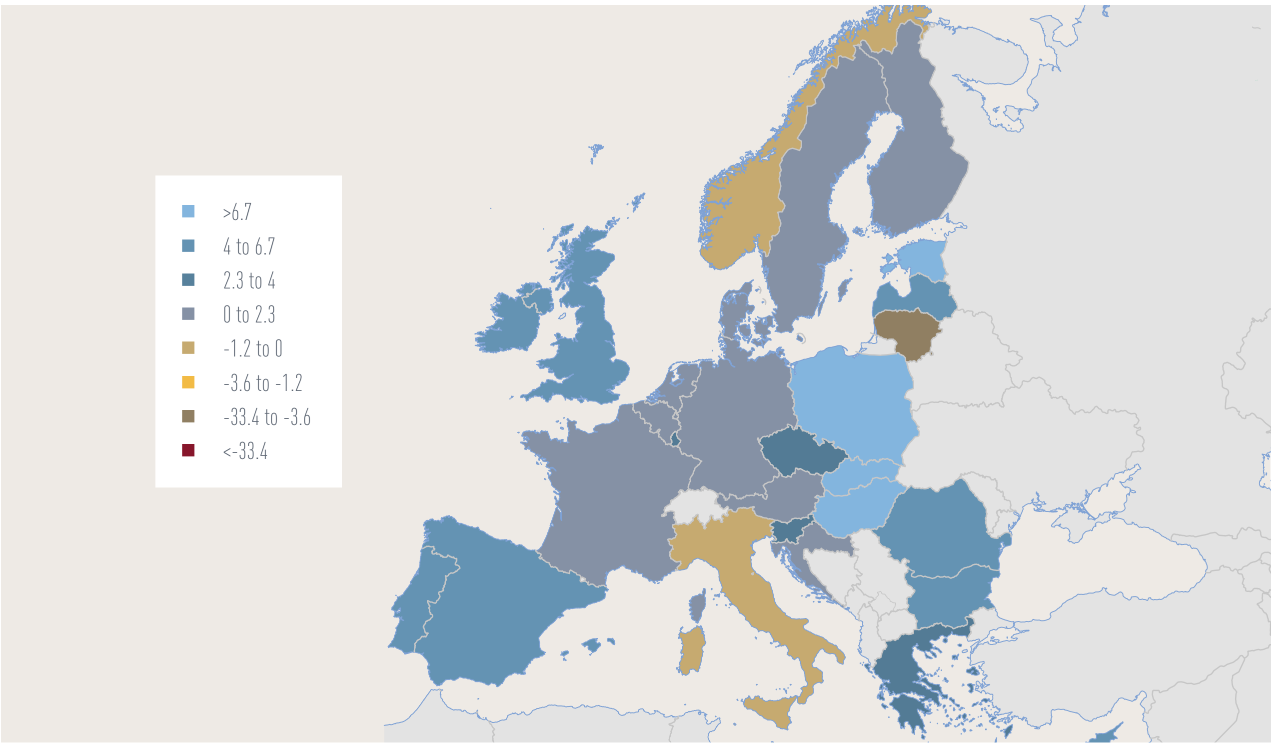
The sum of the lines of business "motor vehicle liability insurance" and "other motor insurance" accounted for over 124 billion euros in 2016. This can be observed in the figure 5, which captures the **GWP from both retail and corporate clients**.

The line of business "medical expenses insurance" was the biggest individual non-life insurance line of business in 2016, although "workers compensation insurance" and "income protection insurance" are also **health-related (accident) lines of business**. This is also the case for the life insurance line of business "health insurance" which covers invalidity and critical sickness policies underwritten by life insurance firms.

Accident and health insurance GWP increased in Member States such as Malta (+58.5), Luxembourg (+13.2%), France (+13.5%) or Croatia (+10.4%). In Lithuania (+15.5%) employers are increasingly offering health insurance coverage to their employees to make their salary packages more attractive. In the UK the launch of **Flood Re** has given over 50.000 customers in flood-prone areas access to flood cover.

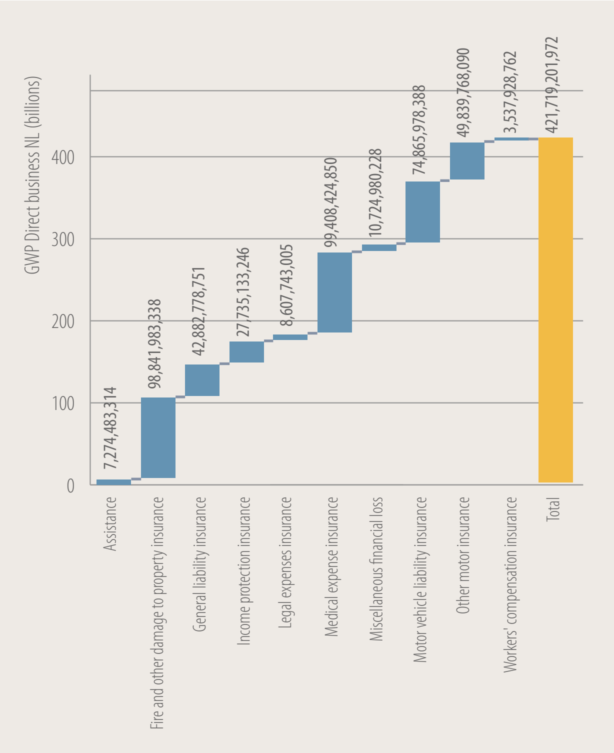
The line of business "Fire and other damage to property" generated over 98 billion euros in 2016. Household insurance GWP increased in a majority of Member States during 2016, including Austria (+2.4%), Estonia (+10.3%) or Lichtenstein. In Romania the

Figure 4 Non-life insurance 2016 YoY real premium growth (adjusted for inflation)



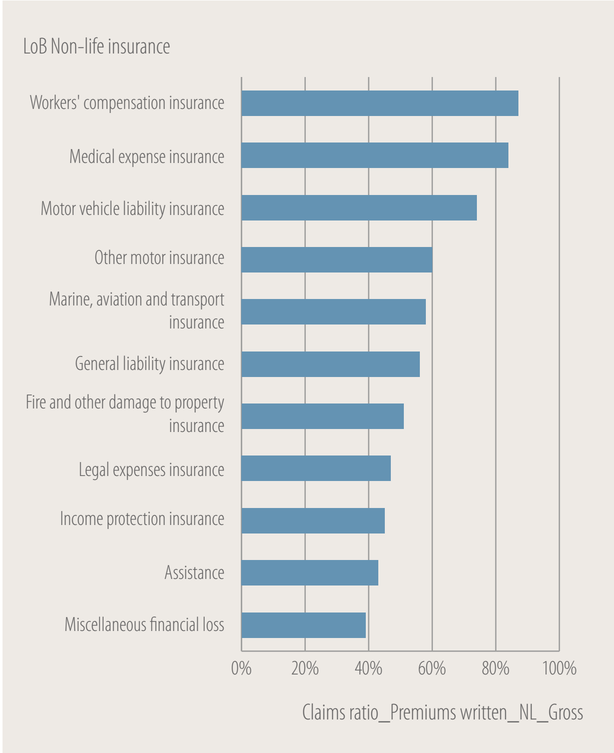
Source: Swiss Re Institute, Sigma Explorer

Figure 5 Non-life insurance premiums in 2016 for selected lines of business



Source: EIOPA Solvency II database

Figure 6 Claims ratio in 2016 for selected non-life insurance lines of business



Source: EIOPA Solvency II database

growth in the household insurance market is linked to the **increase in the number of mortgage loans**, which commonly are given together with insurance policies such as household insurance.

In 2016, the claims ratio [7] for the "Fire and other damage to property" line of business was 51%, which means that **half of the premiums were used to pay claims**. The claims ratios for other non-life insurance lines of business are shown in the figure 6.

The fact that claims ratios for "medical expenses insurance" and "workers compensation insurance" are 84% and 87% respectively suggests that they are **good value for money for consumers** and that they may be relatively expensive for insurance undertakings, [8] possibly as a result of increased health care costs, although cross-selling with other less expensive lines of business (e.g. legal expenses insurance) might mitigate costs.

The claims ratios for lines of business such as assistance (e.g. assistance to motor vehicles on the road or travel insurance) or miscellaneous financial loss (e.g. employment risks in payment protection insurance, mobile phone insurance or cyber insurance) are the lowest. However the claims acceptance rates are very high (see figure 13 below), which suggests that consumers buy them for **peace of mind** while they are away from home but in the end they rarely need to use them or that they are not fully aware of the coverage that they have.

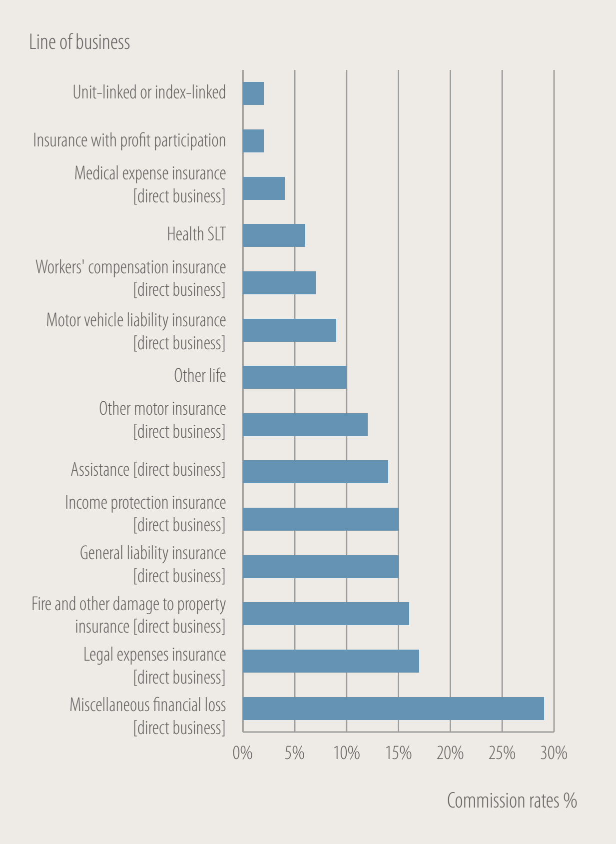
It the UK single trip single-trip travel insurance policies have fallen by 76% in the past decade, although **multi-trip travel insurance policies** sold via packaged bank accounts or credit cards have increased. Another relevant development impacting the travel insurance market is increasing risks in several popular tourist destinations; for example in the Italian travel insurance market (+7%), some travel insurance policies have started to offer trip cancellation coverage in case of terrorist attack.

Finally, the **commission rates for the lines of business "miscellaneous financial loss" and "legal expenses insurance" are the highest** amongst the life and non-life insurance lines of business, as represented in figure 7.

[7] Claims incurred in the reporting period as defined in directive 91/674/EEC where applicable: the claims incurred means the sum of the claims paid and the change in the provision for claims during the financial year related to insurance contracts. This shall exclude claims management expenses.

[8] For further information see the Net Combined Ratio across business lines on page 31 of the EIOPA June 2017 Financial Stability report: https://eiopa.europa.eu/Publications/Reports/2.The%20European%20insurance%20sector_FSR-June-2017.pdf

Figure 7 Commission rates in 2016 for selected non-life insurance line of business



Source: EIOPA Solvency II database

The percentage of the premiums paid in commission for life insurance lines of business are lower than for non-life insurance lines of business, with the exception of "other life insurance". From a consumer protection perspective, **high commission rates could provide incentives to distribution channels to sell products to consumers so as to generate commissions**, potentially triggering a conflict of interests that may not be effectively mitigated, which would lead to poor consumer outcomes. However commission rates need to be jointly analysed with other retail risk indicators, and certainly they may also not lead to consumer detriment, especially when there are adequate governance and control frameworks in place to mitigate potential conflicts of interest.

2. Financial innovation

As announced in the introduction, this year's Consumer Trends report places an increasing focus on financial innovation in view of the increasing penetration of digital technologies in the insurance and pensions sectors. In view of the **findings of previous reports**, a number of topics were selected to be analysed in the present report: InsurTech firms / start-ups, new life insurance policies, the use of telematics in insurance, peer-to-peer insurance and supervisory activities to foster financial innovation.

Certainly, there are many more innovative developments which deserve to be carefully analysed. Last year's report for instance analysed the use of **geolocation technology in household insurance or mobile phone applications in insurance**. Other developments such as block-chain, artificial intelligence or the application of precision medicine in insurance could certainly be topics to be more thoroughly analysed in forthcoming reports.

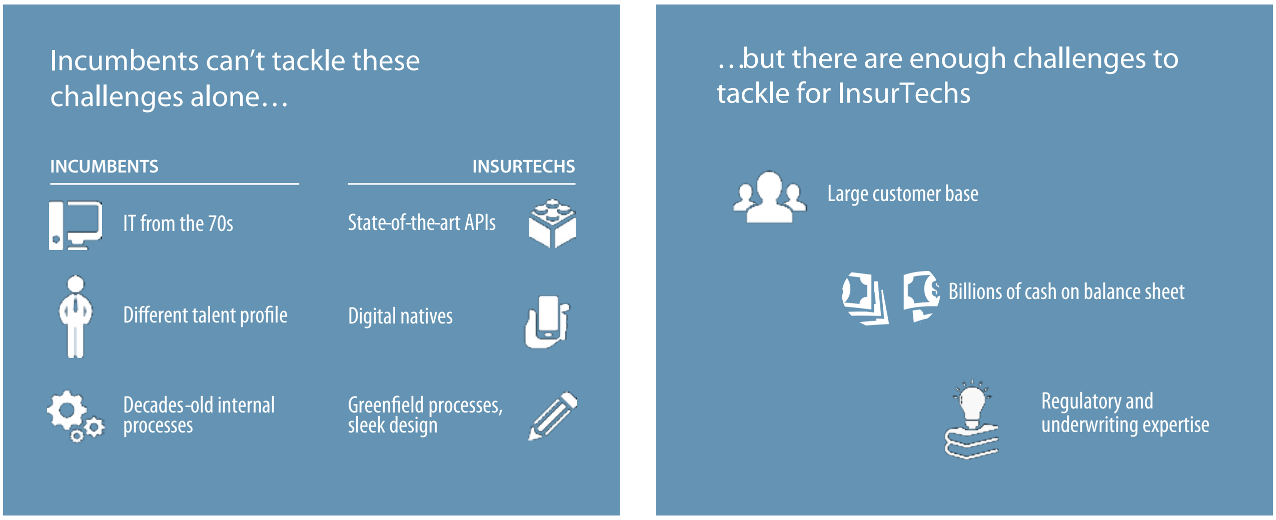
2.1. INSURTECH FIRMS/START-UPS

Compared to other sectors, the insurance sector has been relatively slow to embrace new technologies, but there are signs that this situation is rapidly changing. Many existing insurers (so-called 'incumbents') are reportedly embarking on **ambitious digital transformation projects**, and upgrading their digital capabilities through the set-up of in-house and external innovation labs, partnering with large tech firms and/or collaborating with InsurTech start-ups.

By cooperating with InsurTech start-ups, incumbents can benefit from their **cutting-edge data analysis tools and technology**. InsurTech start-ups offer their technological expertise to incumbents all along the insurance value chain: use of big data and open data for pricing and profiling customers, development of robots and connected objects, development of new distribution channels that rely more on mobile solutions such as the increasingly popular chat boxes etc.

Start-ups also benefit from such collaboration,namely through access to incumbents' large customer databases or **underwriting and regulatory expertise**. The latter is particularly relevant in insurance given the comprehensive regulatory framework under which insurance is conducted, and this is also the reason why a number of NCAs have set up Innovation Hubs to help start-ups navigate the applicable regulations (see figure 8).

Figure 8 Cooperation between incumbents and start-ups



Source: EIOPA InsurTech Roundtable, presentation by Finleap [9]

If InsurTech start-ups decided to enter the insurance market alone, they **can only be registered under one of two distinct categories: as an insurance undertaking or an insurance intermediary**. Regulators typically consider that similar risks should be regulated in similar ways, and as such, new entrants should be regulated like any other insurance firm in so far as the risks are similar. However the Solvency II Directive also explicitly states that its rules need to be applied proportionally to the nature, scale, and complexity of the risks inherent in the business, in particular to small insurance undertakings.[10]

Moreover, as a result of new technologies and actors (e.g. InsurTech start-ups or IT companies), which often specialise on specific areas of the value chain, there can be increased **fragmentation of the insurance value chain**; this possible scenario raises a number of challenges from a supervisory standpoint. Indeed it can bring complexity and make overall risks harder to capture, although it can also increase resilience and reduce the impacts of individual failures. It is therefore necessary to assess how existing legislation such as Solvency II's requirements on the supervision of outsourced functions and activities will apply in view of the impact of financial innovation.[11]

2.2. NEW LIFE INSURANCE PRODUCTS

In the on-going context of low interest rates environment and the increasing aging population, **guaranteed products have continued to give way to non or less guaranteed products**; insurance products in which insurance undertakings guarantee an annual benefit and thereby bear the risk of adverse financial markets are progressively being replaced by products in which customers increasingly bear to a greater extent the investment risk themselves.

This trend is driven by commercial strategies put in place by insurance undertakings towards the selling of unit-linked products and/or to incentivise consumers to switch from guaranteed products to products with fewer guarantees. As a result **pure unit-linked life insurance products**, where there are no financial guarantees at all and the investment risk is born completely by the consumer, are increasingly popular in some Member States. However in other Member States, there is evidence that poor investment performance in recent years has led consumers to demand again more traditional life insurance products.

Insurance companies also increasingly offer **new "with profit life insurance" products**, where the economic value of embedded guarantees and the associated interest rate risk is significantly lower compared to traditional with profit products. Some of the main features of these new life insurance products are the following:

[9] EIOPA InsurTech Roundtable, April 2017, [Link]

[10] Article 29 Solvency II Directive

[11] Article 38 Solvency II Directive

- The full guaranteed interest rate is not guaranteed for each single year, but only for a certain number of years or on average for the whole life time of the contract.
- Very often no interest rate is explicitly guaranteed, but insurers guarantee that the accumulated capital at least reaches the sum of paid premiums at the end of the contract or until the start of annuity payments (minus fees and charges and without taking into account inflation).
- For annuity products the conversion rate which is used to convert the accumulated capital into an annuity is set at the time when annuity payments start. Only a very small conversion rate is already guaranteed at the inception of the contract.

Another example of new life insurance products are the **hybrid products** that are a combination of pure unit-linked products and traditional with-profit products. The accumulated capital of such contracts is typically split into a unit-linked part and a traditional mathematical reserve calculated with a guaranteed interest rate. These types of products may sometimes include sophisticated financial strategies and automatic or discretionary switching mechanisms from one component to the other one.

Moreover **new investment strategies** are being developed and marketed to consumers, with non-guaranteed products typically including a higher proportion of investments in equities and fewer investments in bonds relative to total investment assets. The underlying assets are also frequently invested either in mutual funds or internal funds managed by the insurers themselves. Similarly, the proportion of alternative investment products, e.g. in infrastructure, forestry and alternative credit, is generally larger in non-guaranteed products. Finally, in some Member States it has also been observed a trend towards the inclusion of biometric risks coverage such as death, disability, critical illness and sometimes health in life insurance products.

From insurance undertakings' perspective, life insurance products with low or no guarantees offer the advantage of **reducing the insurer's liability resulting from contractual guarantees**. From the consumers' point of view, some consumers, especially those with a higher risk appetite, might prefer a product with low guarantees since such products frequently offer more investment choices as well as the chance of a better return in exchange of a higher risk.

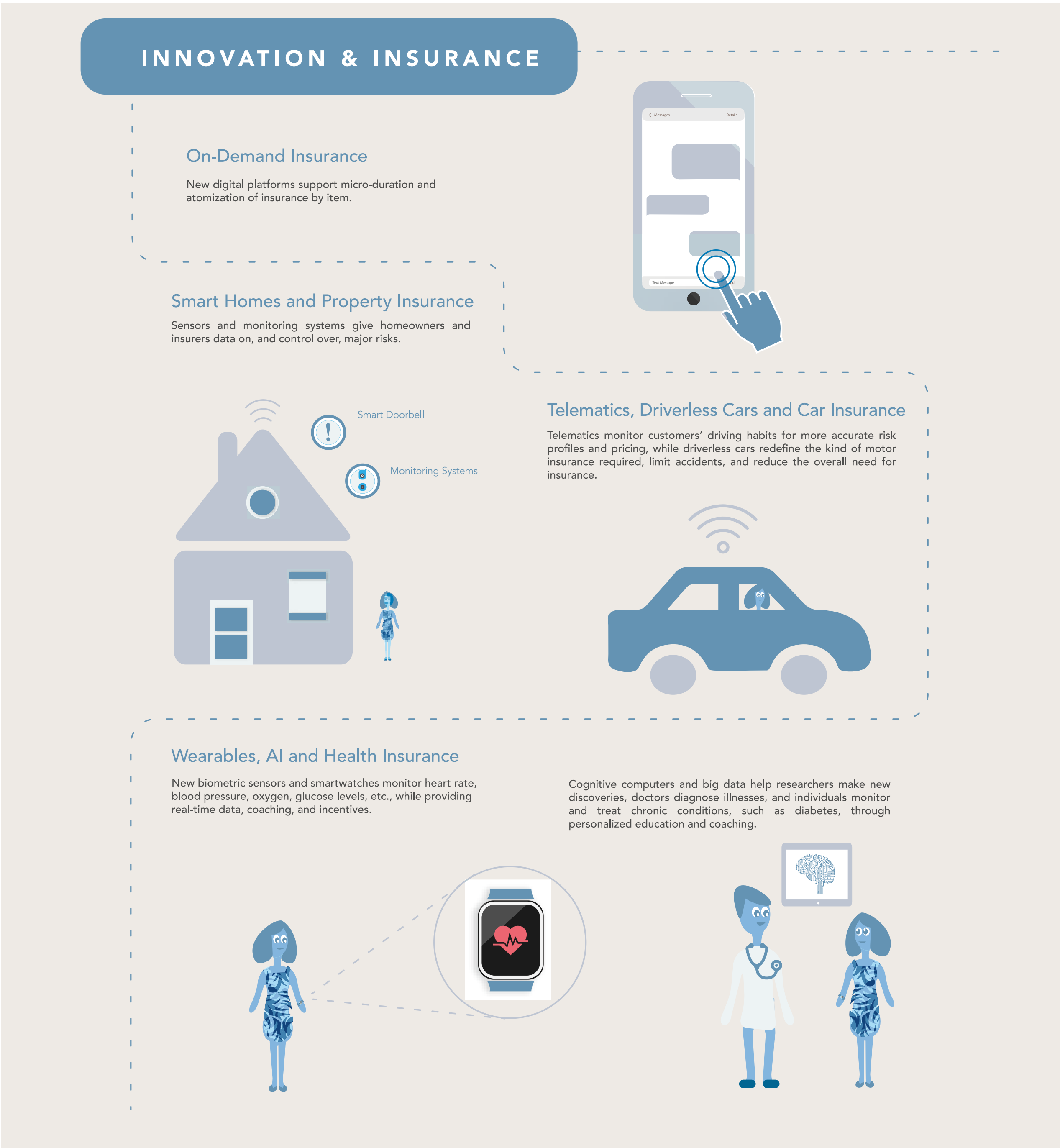
However, since **a major drop in the stock market may lead to a significant reduction in the customer's savings** in unit-linked life insurance products, contrary to the downside protection offered by a traditional contract, there is the danger that customers who do not have the adequate financial capabilities to understand the risks end up buying products that carry more risk than they wished to take on. This can be exacerbated by the complexity of some of the investment options offered. Situations of unmitigated conflicts of interest which led to poor outcomes for consumers have also been reported in a number of Member States in recent years, although the new governance requirements introduced by the IDD are expected to mitigate some of these risks.

2.3. THE USE OF TELEMATICS IN INSURANCE

The **Internet of Things (IoT),** i.e. the interconnection via the Internet of devices such as mobile phones, connected cars, health wearable devices or smart homes, is becoming a prominent part of our daily lives. Many businesses, including insurance undertakings, are therefore trying to determine how these developments can be used in their day-to-day activities as well as to create deeper relationships with their customers.

In insurance, the use of telematics is commonly associated with **usage-based insurance (UBI)**, i.e. insurance products measuring consumer's behaviour and environment to perform risk assessments and price discount rewards. For example, in motor insurance the use of telematics (via a black box installed in the car, or an app in the mobile phone) can track the number of kilometres driven, the average speed, acceleration, geolocation etc. and price insurance policies with this information.

Figure 9 Telematics in insurance



Source: Institute of International Finance. Innovation in Technology: How technology is changing the industry; Institute of International Finance; September 2016 https://www.iif.com/system/files/32370132_insurance_innovation_report_2016.pdf

In **wearable devices** tracking variations in blood pressure, glucose levels, number of steps walked, calories consumption, places visited etc. can also be used to perform risk assessments and price health or life insurance. This is also the case with the information provided by smoke, flood, energy consumption or security sensors installed in smart homes.

However **telematics are much more than only UBI.** The data collected by telematics devices can be used to personalise products and services, improve the client's user experience ("UX") and increase their level of engagement. For example telematics can be used to provide road assistance services, theft notifications, stolen vehicle recovery, warning of potentially dangerous driving behaviours, real time coaching, raise awareness of possible health risks, provide incentives to drive safer etc. Telematics devices may also help expedite claims handling and reduce fraud by providing accurate information about the accident dynamics (e.g. geolocation and speed).

Motor insurance is the line of business that has seen a greater penetration of telematics to date, having a strong presence in Italy (circa 19% of total MTPL policies in 2016) followed by the UK. As **cars become increasingly connected** with more powerful navigation systems and new sensors embedded into them, the penetration of policies based on the time spent driving — "pay as you drive" policies — or adapted to the driving habits — "pay how you drive" policies are also expected to increase.[12]

UBI products could also come with some dangers that regulators have to be aware of and closely monitor. Linked to the Big Data phenomenon (greater availability and capacity to process data which is not only comprised of telematics data), more detailed information about risk may involve "**anti-selection" - in competitive markets high-risk groups could suffer as they do not get any coverage at all anymore or it becomes extremely expensive**. This can be particularly sensitive from an "ethical" / fair treatment perspective where information is being used to price risks that do not reflect the behaviour or choices of the individual, or in the case of compulsory insurance.

In contrast, other segments of the population could face better access conditions; young inexperienced drivers installing telematics devices in their vehicles reportedly often pay lower premiums.[13] Moreover other risks that could arise from telematics for consumers include the **reduced comparability of (individualised) policies and prices**, or also privacy-related issues such consumer's consent and awareness of the use of their personal data.

2.4. PEER-TO-PEER INSURANCE

The Czech Republic, France, Germany, Italy, Norway, the Netherlands, and the UK have seen the recent emergence in their respective jurisdictions of so-called peer-to-peer (P2P) insurance models. While their differences from traditional undertakings such as mutual insurers is not always evident (some consider them as "micro-mutual insurance"), in essence P2P is generally commercialised as a risk sharing network where a **group of individuals with mutual interests or similar risk profiles pool their "premiums" together to insure against a risk**. The size of the group depends on the type of insurance and the expected benefits to be generated.

P2P insurance firms group together consumers with similar specialised insurance needs and obtain an attractive price/product for them by pooling their funds together and using the power of collective bargaining. Moreover, P2P insurance models also try to **foster lower-risk, responsible behaviours amongst the members of the group** through transparency, social emulation and economic incentives.

Indeed P2P insurance firms typically redistribute **surplus funds amongst the members of the pool at the end of the year**. They also promote transparency in its operations by pooling premium funds with groups of acquaintances; members usually know who is in the group, who is filing a claim, and how much money is in the pool.

By pooling together small groups of people with mutual interests and redistributing amongst them the non-used funds at the end of the year, P2P insurance aims to **mitigate the conflict / moral hazard** that could potentially arise between a traditional insurer and a policyholder when an insurer keeps the premiums that it doesn't pay out in claims.

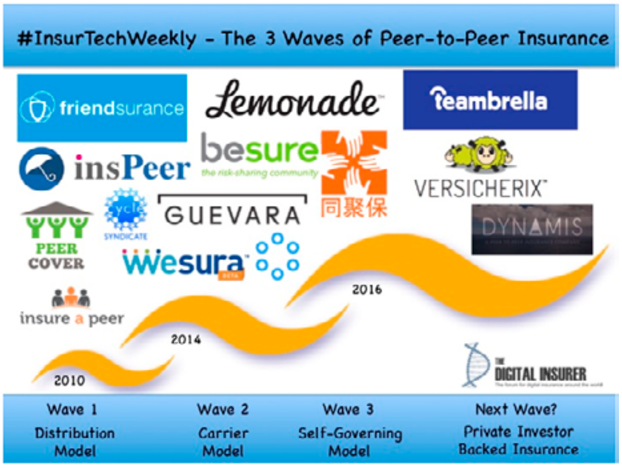
In most peer-to-peer models premiums from the members of the pool are collected in advance in order to create an **ex-ante protection pool**. However there are also some P2P models where funds are called only

(12) Deloitte surveyed around 15,000 customers from Austria, Belgium, France, Germany, Ireland, Italy, Poland, the Netherlands, Spain, Switzerland and the United Kingdom. Based on that survey, Deloitte estimates that by 2020 the market share for UBI products in motor insurance issued in these eleven countries could reach 17 per cent which represents a market in excess of €15bn. https://www2.deloitte.com/content/dam/Deloitte/be/Documents/finance/European-Motor-Insurance-Study_2nd-edition_November-2016.pdf

(13) According to a study published by the British insurance intermediary association BIBA, the accident rate for young drivers installing telematics devices in their car reduces from 1 in 5 drivers to 1 in 16: https://www.biba.org.uk/press-releases/biba-research-reveals-750000-live-telematics-based-policies/

after the claim occurs. Moreover, depending on the level of intermediation, there are also different types of P2P insurance models, as can be observed in figure 10.

Figure 10 Peer-to-peer insurance models



Source: The Digital Insurer[14]

In Europe, P2P insurance can only be **provided either directly through a licensed insurance undertaking or through a broker/intermediary in cooperation with a licensed insurance undertaking** (i.e. the first two "waves" in the graphic above). Currently peer-to-peer insurance in Europe cannot operate as a decentralised two-sided platform like other peer-to-peer models in other sectors of the economy.[15]

During the EIOPA InsurTech Roundtable held in April 2017, some participants suggested that regulatory authorities should **assess the adequacy of the current insurance rules** in relation to the legal status of a peer group of individuals or the "money pool" created from the contributions of a group of individuals. The definition of 'insurance' was also discussed; is P2P insurance – i.e. the constitution by a peer group of a "money pool", dedicated to paying their claims up to its original amount – really insurance? Some participants suggested that there was a case for developing specific regulation for P2P insurance.[16]

[14] Introducing the third wave of peer-to-peer insurance, the Digital Insurer, https://www.the-digital-insurer.com/blog/insurtech-teambrella-and-the-third-wave-of-peer-to-peer-insurance/

[15] For example digital platforms that have recently been created in the apartment rentals business.

[16] EIOPA InsurTech Roundtable, April 2017, [Link]

2.5. OTHER FINANCIAL INNOVATIONS

The topic of distributed ledger technology / **blockchain** has attracted a lot of attention in the specialised media but there are still very few examples of its practical use in insurance. One of this few examples is the new travel delay and cancellation policy "fizzy" started to be marketed by AXA in 2017, which offers automatic compensation to policyholders whose flights are delayed with the use of the Ethereum blockchain.[17]

With some few exceptions, the use of blockchain in insurance is still at an experimental phase; some major insurance players have group up together in the **B3i initiative** to explore the potential use of distributed ledger technology in the insurance sector. The French insurance industry association FFA is also working on a "proof of concept" with its members. Moreover, the UK NCA is also investigating this new technology and has published a discussion paper on this topic where it analyses possible use cases of blockchain in areas such as the reinsurance markets, regulatory reporting, recordkeeping and auditability or the mitigation of financial crime.[18]

Also with the objective of reducing operational costs, Danish insurers are reportedly shifting towards implementing **automated claims handling systems** for minor claims such as windshield damages, where payments are transferred automatically, without ever being checked by a claims clerk. Also in Norway, insurers are reportedly working towards automating the claims handling process in a large proportion of damages so that they are settled or concluded within an hour. **Artificial intelligence** technology is also reportedly being used by Zurich insurance or the start-up Lemonade to process personal injury claims.[19]

Moreover, in respond to insurer's desire to assess risk more accurately and rate accordingly the use of **geo-location** technology in the provision of flood cover, complementing the information traditionally provide by postcodes, is more and more common in Member States such as Ireland and Spain.[20] In the former Member State insurers are progressively moving

[17] AXA goes blockchain with fizzy, September 2017, https://www.axa.com/en/newsroom/news/axa-goes-blockchain-with-fizzy

[18] Discussion Paper on distributed ledger technology, UK Financial Conduct Authority, April 2017, https://www.fca.org.uk/publication/discussion/dp17-03.pdf

[19] Zurich Insurance starts using robots to decide personal injury claims, Reuters, 18 May 2017, https://www.reuters.com/article/zurich-ins-group-claims/zurich-insurance-starts-using-robots-to-decide-personal-injury-claims-idUSL2N1IK268

[20] Further information about the use of geo-location in insurance please consult pages 27 and 28 of last year's EIOPA Fifth Consumer Trends report: https://eiopa.europa.eu/Publications/Reports/06.0._EIOPA-BoS-16-239%20-%20EIOPA%20Fifth%20Consumer%20Trends%20report%20-%20Clean%20after%20BoS.pdf

towards paperless processes, which have evolved from just emailing documents to providing a **platform** where all the consumer's insurance documents are stored electronically and accessible to consumers online.

In Malta and the Netherlands it has also been reported an increasing interest of market participants on **robo-advisors**. An increasing demand for **cyber insurance policies** has also been reported in the German and Slovak markets. Also in Slovakia, some life and health insurance products now offer the service "**Diagnose.me**", which allows consumers to get a second medical opinion online.

The use of **QR codes** in the Czech Republic and Poland to facilitate payments is another example of the use of the increasing use of digital technologies in insurance. In the case of Poland, the QR Code with information about the vehicle and the vehicle owner is incorporated directly into the vehicle registration card. The Czech and Slovak markets have also recently starting using **biometric signatures** as an acceptable alternative to the traditional "paper" signature.

In Portugal and Romania, motor insurance is reportedly being sold through machines similar to ATMs known as "**payment kiosk**" or "payment points", which, as any other distribution channel, shall comply with the applicable insurance distribution legislation. This is also the case of **comparison websites**, which are also reportedly increasing in Portugal. The German insurance intermediaries association BVK recently won a court case against a popular comparison website in Germany.

In the life insurance sector, in Member States such as Sweden insurance undertakings are increasingly taking into consideration **environmental and sustainability aspects** in their long-term investments. Also in the area of investments, Danish insurance undertakings increasingly invest in **alternative asset classes** such as private equity, infrastructure, forests or hedge funds. In Finland, life insurance undertakings are actively **cooperating with health care companies** and health and wellbeing device and service providers including InsurTech start-ups.

Finally, the development of **precision medicine,** i.e. the customization of healthcare according to the genetic and epigenetic characteristics of individuals, which includes analysis of lifestyle and environment, could potentially have a considerable impact on the health and life insurance sector in the future; it would allow the possibility to perform more accurate risks assessment, which on the one hand could enable improved medical treatments, but on the other hand it could have access / exclusion implications for high-risk consumers.

The use of genetics data in insurance is allowed in several Member States under certain circumstances (e.g. explicit consent of the policyholder, or the consumer having done genetic tests himself and is obliged to reveal the results or the insurance contract is above certain financial thresholds). It should also be noted that some Member States have signed and ratified the International Convention of Human Rights and Biomedicine which restricts the use of **predictive genetic tests**.([21]) Moreover it should also be noted that nowadays consumers could potentially make insurance choices themselves in view of such data to the disadvantage of insurance undertakings.

2.6. NCA INITIATIVES TO FOSTER FINANCIAL INNOVATION

As described above these lines, digitalisation in the insurance sector is rapidly accelerating. This has triggered a strong focus on this area not only amongst stakeholders but also amongst several NCAs. Indeed, as the nature of insurance business changes due to technological innovation, **regulators also need to adapt** their resources and activities to these developments.

In addition to exploring the benefits and risks arising from financial innovations and ways to address them, some regulators also have sought to foster innovation. It is argued that in an increasingly globalised and digital economy, innovation is a key competitive factor. Various initiatives have thereby arisen, guided by supervisors' overarching roles for **safeguarding financial stability and protecting consumers**. Key supervisory principles such as technological neutrality, proportionality, market integrity and consistency from an activity-based and channel-based perspective shall also be respected at all times.

To date so-called **Innovation Hubs** (also referred to as InsurTech portals or InsurTech Laboratories) have been the most widespread initiative across Member States, including Austria, Belgium, Denmark, Finland, Norway, Lichtenstein, Lithuania, the Netherlands and the UK. The approach essentially consists of a single point of contact for InsurTech-related issues, where financial regulators typically offer bespoke assistance to firms not accustomed to dealing with financial regulations and/or which have doubts about how certain financial regulations would apply to their activities.

The NCAs of the UK and the Netherlands also have established what is known as **regulatory sandboxes**. Such a sandbox is comprised of a set of rules that

([21]) Convention for the protection of Human Rights and Dignity of the Human Being with regard to the Application of Biology and Medicine: Convention on Human Rights and Biomedicine, http://www.coe.int/en/web/conventions/full-list/-/conventions/treaty/164/signatures?p_auth=3AeWcIJF allows innovators to test their products/business models in a live environment without following some or all legal requirements, subject to predefined restrictions which are applied proportionally (e.g. limitations on number of clients, risk exposure; time-limited testing; set of predefined exemptions; testing under regulator's supervision). If, after sandbox testing, the firm wants to offer its services to the wider market, it shall comply with existing regulatory frameworks applicable to that type of activity.

Finally some Member States are exploring the option of public-private partnerships to foster financial innovation in their financial markets. For instance this is the case in Belgium, where the Belgian government is supporting the B-Hive [22] **start-up accelerator** where incumbents and start-ups exchange resources, know-how and experiences and cooperate in the funding and development of innovative solutions.

In order to support the increasing focus on financial innovation activities, NCAs are equipping themselves with dedicated **FinTech / InsurTech Task Forces** for gathering knowledge and expertise across the different teams within the Authority. The NCAs of France, Germany, Italy, Iceland, Ireland, Romania and Poland are examples of NCAs which have set up such FinTech/ InsurTech-dedicated teams. EIOPA has also recently created its own InsurTech Task Force, which will be responsible for the upcoming work of the Authority in areas such as Big Data or cyber risk.

More broadly, some NCAs are accompanying the above initiatives with a comprehensive **communication strategy** aiming to promote their respective jurisdictions as an attractive hub for financial innovation. [23] Other authorities have reached cooperation agreements with 3rd country supervisory authorities to exchange information on emerging innovation trends, potential joint innovation projects, and regulatory issues pertaining to innovative financial services.[24] Finally, some authorities have also recently established Fintech stakeholder groups,[25] and others are actively sharing their views in InsurTech conferences and publications as means of promoting reflection and discussion about the topic.

[22] https://b-hive.eu/brussels

[23] For example, the Netherlands has appointed a "Fintech Ambassador", and the UK a "Special Envoy for FinTech". Other Authorities have organised events on the topic such as the Monetary Authority of Singapore's 2016 "Fintech Festival" [Link].

[24] For example, the joint agreement reached between ACPR and the Monetary Authority of Singapore on 27 March 2017 [Link].

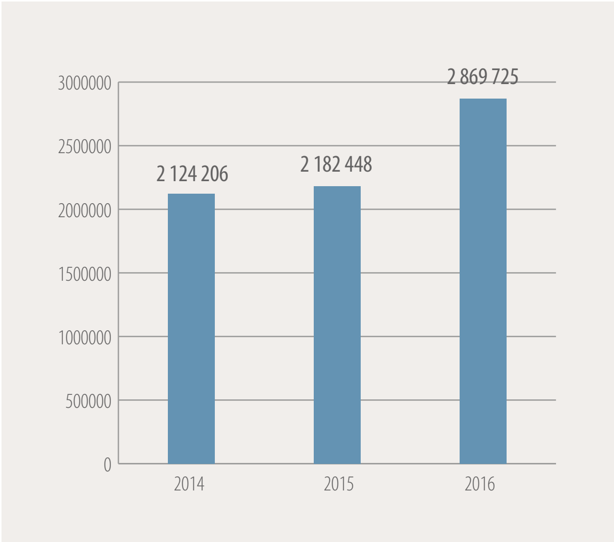
[25] For example, Bafin's Fintech Council created on 22 March 2017 [Link].

3. Consumer complaints

The methodology of the Consumer Trends report includes the collection of aggregated complaints data on an annual basis. The analysis of consumer complaints can help **identify possible consumer protection issues** arising in the market, and vice-versa.

In 2016 **the number of consumer complaints in the insurance sector has considerably increased (+31%)** compared to the previous year, as it can be observed in the following figure:

Figure 11 Evolution of insurance complaints in the EEA [26]



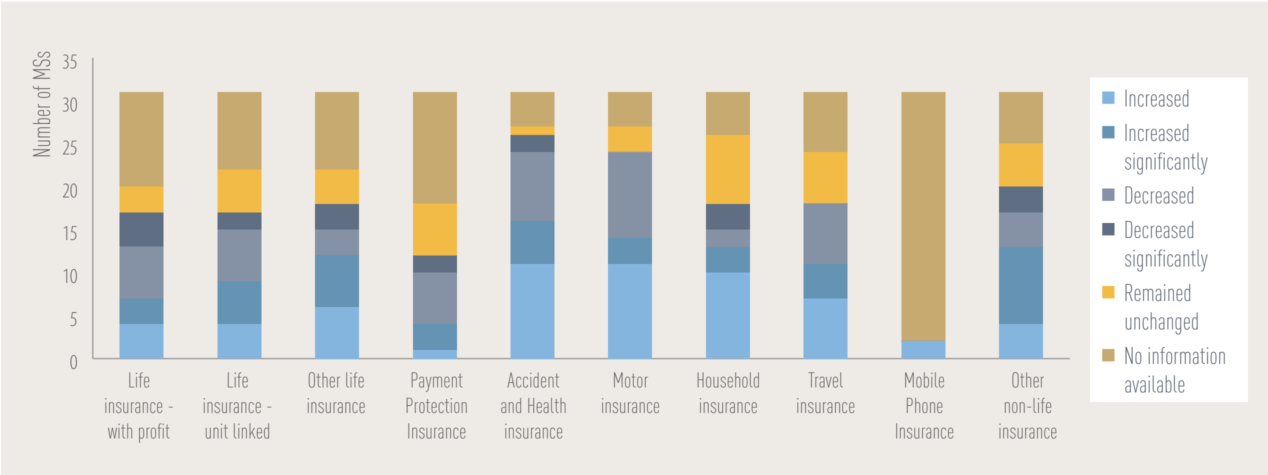
Source: EIOPA Committee on Consumer Protection and Financial Innovation

It is important to note that **the graphic above includes complaints that are upheld (justified) as well as those which may not be substantiated**. It could also be the case that some consumers unsatisfied with their insurance policy do not formally lodge a complaint. Many consumers only lodge a complaint in the case the insured event manifest and do not receive a satisfactory response to their claim. It can also be useful to put into perspective the number of complaints with the number of contracts; based on the data from 15 Member States, [27] in 2016 there were roughly 3 complaints per 1000 insurance contracts (1 complaint per 1000 contracts in 2015).

[26] Does not include complaints data from CY, FI and NL. In the case of FI insurance undertakings have been developing their record keeping of complaints and the data is not comparable from year to year.

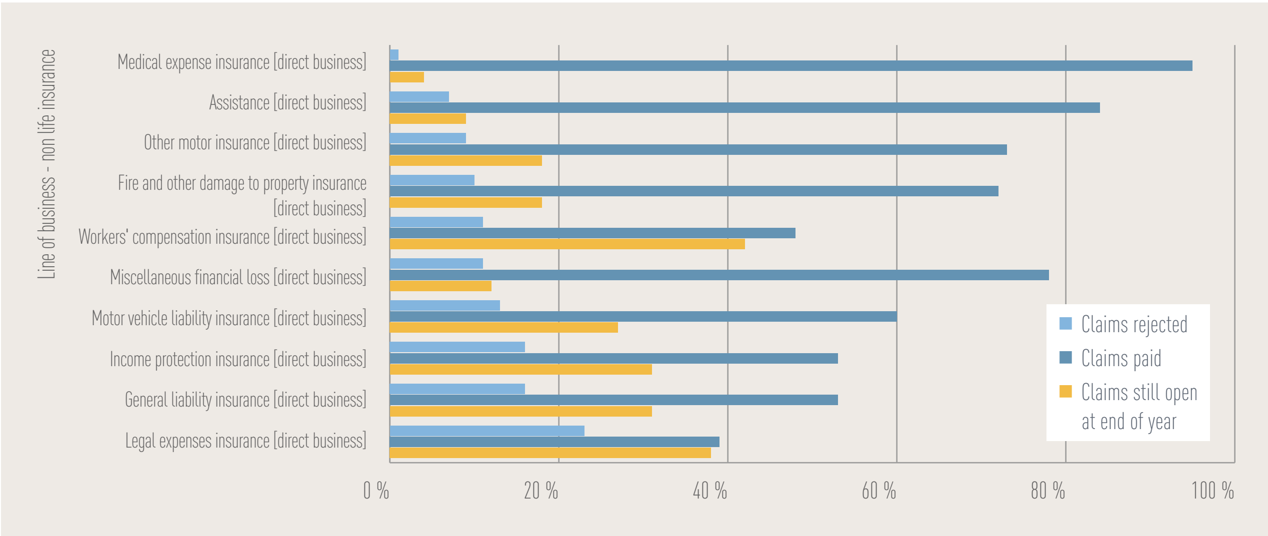
[27] Data from BG, HR, CZ, HU, IS, IE, LV, LI, LT, MT, NO, PL, PT, RO and SI. These are the Member States that provided data to EIOPA both on complaints and on number of contracts for 2015 and 2016.

Figure 12 Insurance complaints, 2016 YoY growth, NCA survey



Source: EIOPA Committee on Consumer Protection and Financial Innovation

Figure 13 Processing of non-life insurance claims reported during the year 2016



Source: EIOPA Solvency II Database

Based on the data provided to EIOPA, **the increase in the total number of complaints has been strong both regarding life and non-life insurance products**. However, while most of the Member States experienced an increase in the number of non-life insurance complaints[28], life insurance complaints declined in almost as many MSs as in those were they increased;[29] the high upsurge in the number of life insurance complaints was mainly triggered by strong increases experienced in a small number of Member States.

With the exception of PPI, all of the non-life insurance product categories experienced a year-on-year increase in the number of complaints. **The increase for the "other non-life insurance" category was particularly significant**, both in total number of complaints and in number of Members States. This product category includes a wide array of products (depending on the Member State) such as legal expenses insurance, mobile phone insurance, extended warranties, professional indemnity insurance, third party liability insurance, sea vessels liability etc.

[28] Nonlife insurance complaints increased in 16 MSs (BE, BG, FR, HR, CZ, EE, IE, LT, LU, NO, PL, PT, SK, SL, UK and IS), decreased in 7 (AT, DK, HU, LV, ES, SE and LI), remaining broadly unchanged for the rest (DE, HL, IT, MT, NL and RO). There is no information available for CY and FI

[29] Life insurance complaints increased in 13 Member States (AT, BE, BG, HR, IE, LU, NL, NO, PL, PT, RO, SK and IS), decreased in 14 (CZ, DK, EE, DE, FR, HE, HU, IT, LV, LT, MT, ES, SE and UK) remaining broadly unchanged for the rest (LI and SI). There is no information available for CY and FI.

Some of the products included in the non-life insurance product category are often sold through **cross-selling practices**, i.e. as an ancillary to another primary product or service (e.g. mobile phone insurance sold with smart phones, or legal expenses insurance together with other insurance products such as motor insurance). Furthermore some of the conduct of business provisions in the European insurance legislation does not apply to some of "small insurances".[30]

In 2016 the **proportion of claims rejected** for lines of business such as legal expenses insurance or general liability insurance was higher compared to other types of lines of business. The rejection of claims (justified or not) or long claims processing times are traditionally one of the main triggers of consumer complaints. On the contrary the great majority of the medical expenses insurance claims in 2016 were upheld, and at relatively high speed, since very few claims remained open at the end of the year.

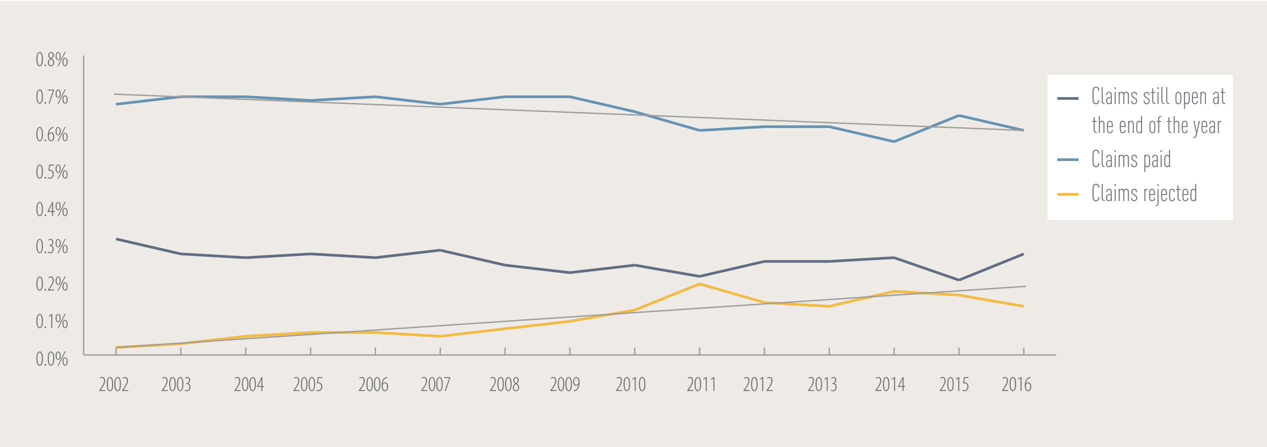
However health insurance complaints have also increased in several Member States, which could indicate that some consumers were not satisfied by the compensation received. One Member State also reported that the increase in the number of complaints was mainly motivated by **premium increases** in their health insurance policies, and another Member State referred to the growth of the health insurance market in recent years.

Motor insurance complaints have also increased when analysed at European level, although they have decreased in several Member States. The main cause of complaints in **motor insurance is often reported to be claims-related**; the graphic below shows the evolution of the processing of motor vehicle liability insurance claims in the EEA since 2012.

As it can be observed in figure 14, there seems to be a slight trend towards a higher proportion of claims not being accepted. This could be due to several reasons, such as a **more strict definition and/or interpretation of the terms and conditions** of the insurance policies by insurance undertakings. From a consumer protection perspective, it is paramount that the terms and conditions are transparently and accurately explained to consumers at the point of sale. Moreover it should be noted that the graphic is based only on the number of claims and not on the value of the claims.

As far as life insurance complaints are concerned, it is noteworthy that **with-profits life insurance complaints decreased in more Member States than the other two types of life insurance products**. A possible explanation for this behaviour could be that the market is shifting towards products with lower guarantees, although higher sales should not necessarily lead to consumer complaints if consumers' rights are respected. Moreover the trend on the number of complaints is not reflected in the value of surrenders (including cancellation of policies as well contracts arriving to maturity) of life insurance policies in 2016.

Figure 14 Processing of motor vehicle liability insurance claims in the EEA [31]

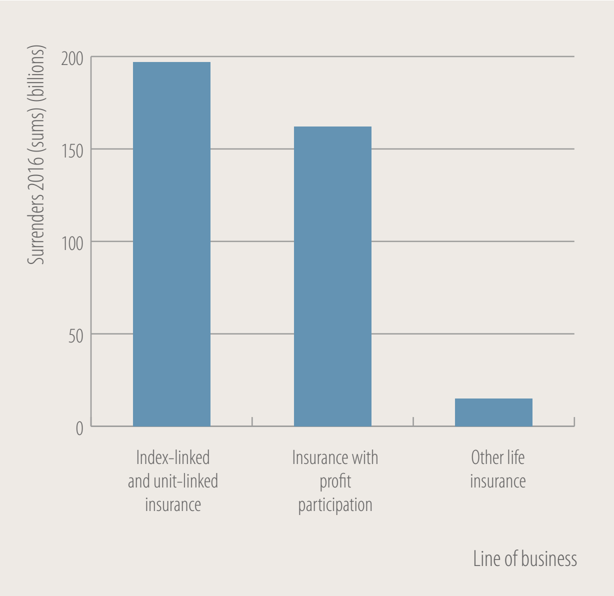


Source: EIOPA Solvency II Database

[30] See Article 1 (3) of the Insurance Distribution Directive [Link]

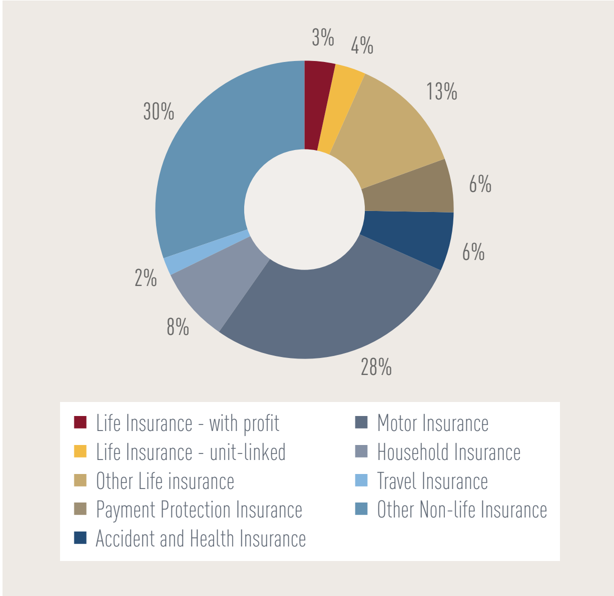
[31] It only takes into account the claims reported in each year, i.e. not the outcome of the claims still open at the beginning of the year or the reopen claims during the year.

Figure 15 Value of surrendered policies in the EEA for selected life insurance lines of business in 2016



Source: EIOPA Solvency II Database

Figure 16 Distribution of insurance complaints per product category in the EEA in 2016 ([32])



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The fact that the value of surrenders of "other life insurance" is much smaller than the other two life insurance lines of business is probably **linked to the GWP of each line of business** (see figure 2) as well as a greater number of with profit and unit-linked policies arriving to maturity in 2016. However, the difference between the surrender value of unit-linked and with-profit policies is not aligned with the reported on-going practice in the market of encouraging customers to cancel / switch their guaranteed policies (e.g. with-profit) to policies with low or no guarantees (e.g. index and unit-linked). A deeper analysis over time of this data at national and insurance undertaking level together with other indicators could provide further insights.

Specifically in 2016, and similar to previous years, **the great majority (80%) of consumer complaints in the insurance sector are related to non-life insurance products**, as it can be observed in the figure 16.

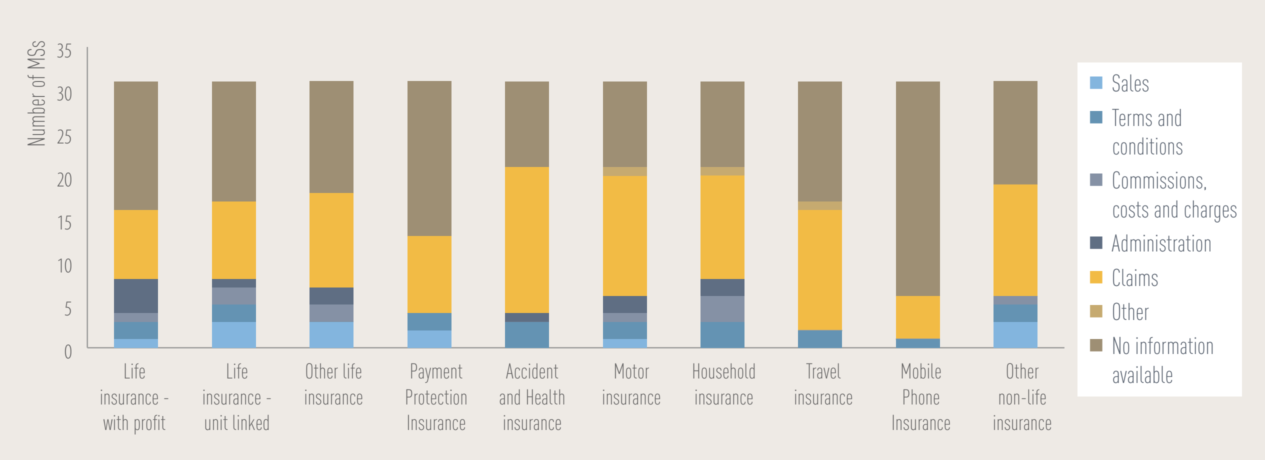
Non-life insurance complaints accumulated 80% of the total number of complaints; the product categories "other non-life insurance" and motor insurance accumulated more than half of the total number of complaints (30% and 28% respectively), followed by "other-life insurance" (13%) and household insurance (8%). This is related to factors such the **greater number of non-life insurance contracts**, which at the same time commonly have a shorter maturity and a greater claims frequency.([33])

Indeed, **claims-related issues are the main cause of** complaints in insurance across the different product categories, as can be observed in figure 17; such complaints are typically related to claims handling issues such as delays, refusal of claims, insufficient compensation etc. Mis-selling /advice related issues is the main cause of complaints in some MSs for some life insurance products. For more niche products such as mobile phone insurance there is little complaints information available at NCAs.

([32]) Does not include complaints data from FI,NL and FR. In the case of FI insurance undertakings reported the complaints data based on their current internal classifications which rendered their comparison impossible.

([33]) By claims frequency for this report is the number of claims occurred in a given period

Figure 17 Main cause of complaints per product category in 2016, NCA survey



Source: EIOPA Committee on Consumer Protection and Financial Innovation

4. NCA consumer protection activities

Different types of consumer protection activities are regularly performed by NCAs in their respective jurisdictions in order to safeguard the interest of consumers. Some of these activities aim to **supervise that the distribution of insurance products complies with the applicable legislation** (e.g. via on-site inspections or in-depth thematic reviews about a concrete topic or resolution of complaints), which may lead to the imposition of administrative or pecuniary sanctions in case of non-compliance.

Other consumer protection activities seek to foster the financial literacy of consumers (e.g. publication of financial booklets), and others consist in updating or developing the regulatory framework (e.g. new legislative acts, guidelines, opinions etc.). In 2016 the **25 NCAs that participated in EIOPA's survey reported 65 consumer protection activities addressing one or multiple products and/or topics**. [34]

Somewhat half of the reported activities directly or indirectly aimed to **ensure that consumers receive adequate information about the insurance product they purchase**. These activities seek to prevent some of the situations seen in the previous section where consumers misunderstood / were not aware of the characteristics and terms and conditions of the insurance product they had purchased.

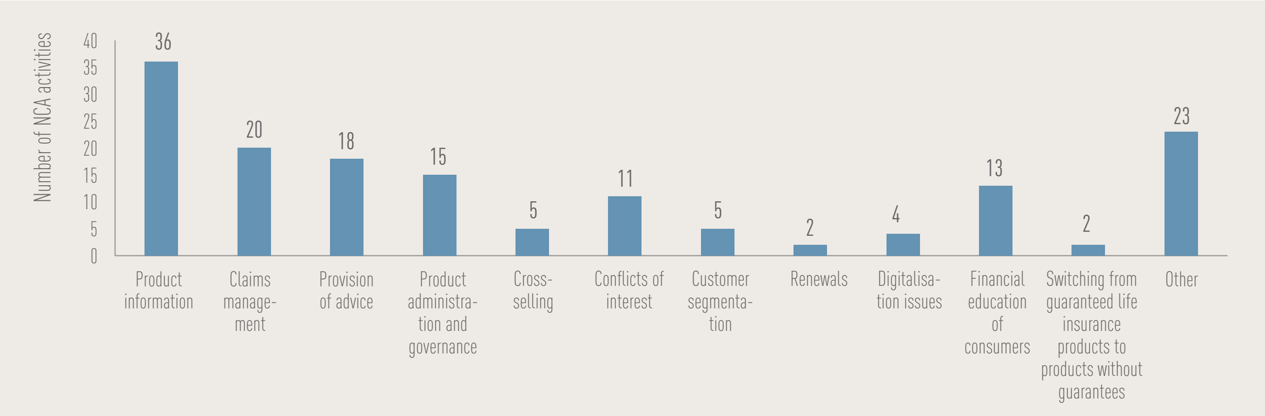
Claims management issues is also a common topic addressed by consumer protection activities in the insurance sector, bearing in mind that this is the main cause of consumer complaints. **Ensuring that consumers receive high-quality advice** is also important to ensure good consumer outcomes, particularly as regards complex products which might be difficult to understand for an average consumer.

Figure 19 shows that **despite the fact that consumer complaints have decreased in several Member States, NCAs continue to closely monitor the life insurance sector**. Indeed consumer complaints are not the only risk indicator that NCAs use to monitor the markets. Moreover the deep transformation that the sector is experiencing in recent years requires NCAs to be especially vigilant.

Within the non-life insurance sector, motor insurance is the product category that is subject to the most oversight by NCAs. However it should be borne in mind that **NCA activities are often cross-sectoral and do not address exclusively one product** (e.g. complaints handling guidelines or financial education initiatives). The following section contains some examples (i.e. it is not an exhaustive list) of consumer protection activities undertaken by NCAs in 2016.

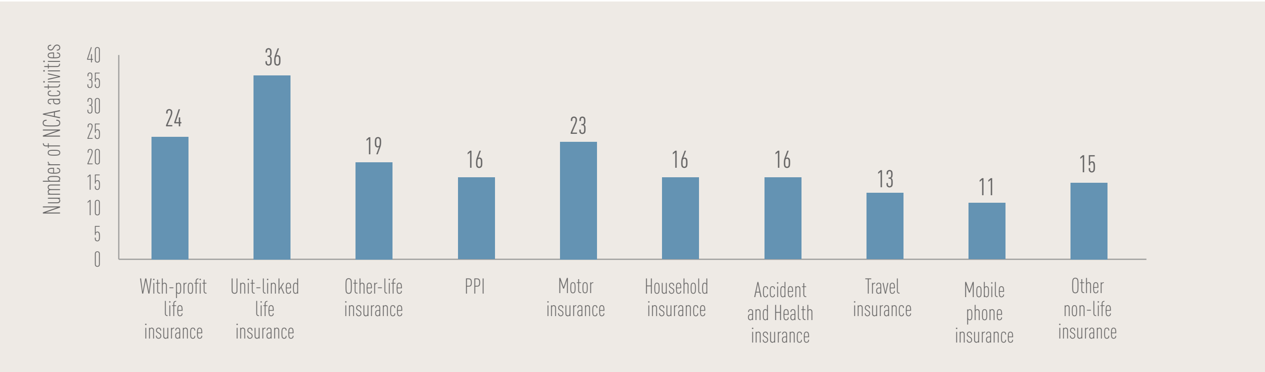
[34] NCAs reported the most relevant activities undertaken during 2016 but this does not represent an exhaustive list of all the consumer protection activities undertaken by the NCAs that participated in the survey. Some of the activities reported were confidential so they have not been included in the report.

Figure 18 Topics addressed by NCA's consumer protection activities in 2016



Source: EIOPA Committee on Consumer Protection and Financial Innovation

Figure 19 Targeted products by NCA's consumer protection activities in 2016



Source: EIOPA Committee on Consumer Protection and Financial Innovation

4.1. NON-LIFE INSURANCE

The Irish NCA launched a thematic review to analyse the **settlement of private motor insurance damage claims (excluding personal and bodily injury).** In general, firms had adequate claims management systems and procedures, however, some issues were identified such as poor communication with claimants and delays in settling and paying the claims.[35]

Also in the area of motor insurance, the Spanish and Italian NCAs requested insurance undertakings in their respective jurisdictions to **adequately justify the claim settlement offers** or the refusal of to pay compensations, namely by mentioning the facts on which the decision is based (e.g. vehicle examinations, witnesses, black box results, legal medical examinations, etc.).

In 2016 the Czech NCA supervised the **selling of ancillary products and services (e.g. road assistance services) with MTPL insurance**. While in most cases consumers were allowed to opt-out voluntarily of these services, some potentially problematic cases were identified where the pre-contractual information provided to the consumer about these services were not appropriate and needed to be enhanced.

Since the **generalisation of complementary health insurance for all salaried workers** in France in 2013, the target market shrunk and the competition amongst health insurance professionals increased. The marketing channel predominantly used in this sector - door-to-door and phone selling - may sometimes lead to consumer detriment, especially for vulnerable consumers. The French NCA is closely monitoring the developments in the market and has started a series of dedicated on-site inspections regarding insurance undertakings and intermediaries' selling practices of health insurance. [36]

[35] Thematic Inspection of Motor Insurance Claims Damage, Central Bank of Ireland, February 2017 [Link]

[36] La Revue de l'Autorité de contrôle prudentiel et de résolution, page 15, ACPR, January 2017, [Link]

Figure 20 Example of financial education initiative

Source: Slovenian Insurance Supervision Agency [37]

In Slovenia the NCA published a **household insurance brochure** with the aim of encourage the awareness and a better understanding of these types of products by the Slovenian population. The brochure provides information about the purpose of household insurance, key information that consumers need to pay attention when concluding the contract, common rights and obligations of the contracting parties etc.

In Romania in 2016, the Association for Insurance Promotion (APPA) organized in 3 national campaigns (2 on road safety and a third on financial education) in 2016. The first activity brought into **debate a multitude of risks affecting drivers**, from alcohol consumption and tiredness to using the mobile phone, while the second one focused on road dangers during the cold season. The household insurance campaign addressed among other issues some safety tips in case of an earthquake.

While the number of Payment Protection insurance (PPI) complaints is relatively low in Lithuania, last year the NCA **supervised the selling practices of PPI products in view of the rapid growth of this market.** The review concluded that consumers receive adequate information about the characteristic of the insurance product, coverage and terms and condition. However consumers are not offered the possibility to choose a different policy other than the one proposed by the lender, which may impact the rates and fees applied.

The Slovak NCA is also discussing how to strengthen consumer protection in the **sale of PPI products** with the national banking and insurance trade associations. In Slovakia, PPI products are currently sold by banking institutions through group insurance contracts, which commonly provide lower levels of consumer protection than individual insurance contracts.

In 2016 Italian NCA started to **publish a list on its website with the names of the companies ranked by the number complaints received**. This initiative aims to enhance market transparency, providing information to the public about the quality of services offered by the undertakings and at the same time incentivise insurance undertakings to enhance the customer care.[38] The list has already prompted the attention of the board of directors and top management of firms, stimulating intervention on the root causes of complaints.

In view of the increasing penetration of digital technologies in the insurance sector, several NCAs are increasing their activities in this area. This is the case of the Dutch NCA, which has started a thematic work to assess how undertakings' **duty of care is impacted by digital and (semi) automated services**, and also what does it mean for supervisory authorities (e.g. is there is a need or not to supervise algorithms or influential third-parties such as software developers?).

Also in the area of digitalisation, the French NCA has recently issued a **recommendation on the use of social media for marketing purposes in the financial sector. [39]** Going forward, the Hungarian NCA is also going to pay special attention to ensuring that **customer's data qualifying as insurance secrets** are treated as such, preventing, among other things, transfers of such data to unauthorised third parties. [40]

In 2016, the UK NCA also published its assessment of the **use of Big Data in retail non-life insurance**, where it concluded that Big Data is producing a range of benefits for consumers by transforming

[37] Household insurance brochure, Slovenian Insurance Supervision Agency, December 2016, https://www.a-zn.si/wp-content/uploads/L4_AZN_brosura_Premozenjsko_zavarovanje_FINAL.pdf

[38] https://www.ivass.it/pubblicazioni-e-statistiche/statistiche/reportistica-reclami/index.html

[39] Recommendation on the use of social media for marketing purposes, ACPR - Banque de France, November 2016, [Link]

[40] Financial Consumer Protection report, Hungarian National Bank, March 2017, [Link]

how consumers deal with firms, encouraging more innovation in products and services and streamlining parts of the customer journey. However, it also found some concerns regarding the impact that enhanced risks segmentation could have for consumers with higher risk profiles, and also regarding the use of non-risk based price optimisation practices.[41]

4.2. LIFE INSURANCE

Last year the Austrian NCA reviewed how insurance undertakings were implementing the new legal provisions introduced in 2015 aiming to enhance the **information and transparency requirements of life insurance products (e.g. advertisement with regard to guarantees**). The review concluded that the new requirements were generally fulfilled, and consumers were receiving higher quality information.

In Italy, the NCA has carried out a thematic review on **dormant policies.[42]** In Italy the rights arising from life insurance policies are barred after 10 years, when the sums are assigned to a public Dormant Accounts Fund. There is also a private service offered by the Italian trade association ANIA to help locate (upon request) potential dormant policies. In order to reduce the number of consumers losing their acquired rights, the NCAs has formally proposed to the Government granting insurers access to residency registers and make a periodic consultation of such registers mandatory.

The Norwegian NCA published a circular summarising the main findings of its **assessment of the underlying investments in unit-linked life insurance products** conducted last year. The NCA concluded that Norwegian firms do not offer complicated underlying investments in their unit-linked products compared to other Member States, although found some areas of improvements as regards the information provided to customers, including regarding the need to inform them when the insurance undertaking receives kickbacks from management companies.[43]

The new Insurance Act that entered into force in Poland in January 2016 has introduced a **maximum surrender fee of 4% of the withdrawal amount in unit-linked life insurance contracts**. The Polish NCA has also issued a recommendation (in the form of "comply-or-explain") introducing new transparency requirements in the sale of unit-linked life insurance products such as the need to inform consumers about benefits received in connection with the placement of funds in a given fund, including **"kick-back" bonuses**.

In the Czech Republic in mid-2016 the NCA launched a thematic project to raise awareness and assess the level of readiness of insurance undertakings selling unit-linked life insurance product to implement the upcoming requirements of the **PRIIPS Regulation.** Due to the postponement of the application date of the Regulation the Czech NCA has also postponed its activities in this regard.

In the Netherlands, **new binding standards for professional competence of financial advisors** were introduced in 2016.[44] The Estonian NCA also published new guidelines / soft laws aiming to enhance the quality standards of the contractual information that consumer receive when concluding life and non-life insurance contracts.[45]

The Hungarian NCA introduced the **"Ethical Concept"** initiative for life insurance in order to enhance the consumer protection standards in the sector. The initiative resulted in an improvement of the sales practices of life insurance products; for example, it has been observed that some of the new life insurance products now count with a more transparent cost structure, and also the cost levels are lower due to the maximized TKM (Total Cost Indicator) levels.

[41] Feedback Statement, Call for Inputs on Big Data in retail general insurance, Financial Conduct Authority, September 2016 [Link]

[42] IVASS Report on dormant policies, August 2017 (https://www.ivass.it/consumatori/azioni-tutela/indagini-tematiche/documenti/2017/Report_investigation_dormant_life.pdf?language_id=3). Dormant policies are policies not claimed by the beneficiaries of a deceased insured person (often due to unawareness of the existence of such policy), or savings policies which, upon maturity, were not claimed for various reasons.

[43] Circular on the underlying investments in unit linked life insurance products, Finanstilsynet, March 2017 [Link]

[44] Professional competence standards for financial advisors, Financial Supervisory Authority (AFM), [Link]

[45] Guidelines on information requirements of insurance contracts, Estonian Financial Supervision Authority, November 2015 [Link]

5. Stakeholder interviews

Maria Aranzazu del Valle

Secretary General of UNESPA and Chair of EIOPA's Insurance and Reinsurance Stakeholder Group

Maria Aranzazu del Valle is the Chair of EIOPA's Insurance and Reinsurance Stakeholder Group (IRSG). She is the Secretary General of the Spanish Insurance Association (UNESPA) since 1996. She is also an active member of other insurance industry associations including the Federation of Interamerican Insurance Undertakings (FIDES), the Global Federation of Insurers Associations (GFIA) and Insurance Europe.

What are in your opinion the most important developments that are taking place in the insurance sector?

Firstly, consumers are becoming more and more demanding. At the same time, risks are changing. For example, as a result of the increasing digitalization of our society new challenges are emerging such as cyber risks. Technological developments like autonomous vehicles, drones or robots also present important changes for the sector. Other developments linked to our society as a whole are also relevant such as ageing population, climate change or terrorism, just to name some. The insurance industry is constantly adapting to this new reality.

What do today's consumers demand and how is the industry adapting to these new demands?

Consumers' needs are more than ever at the core of the insurance business. Insurers should face nowadays an environment where clients are very demanding: they ask for very specific services and expect very fast responses. Besides that, mobile devices and social media are the new communication channels between the industry and its customers, something that is specially the case for the millennials.

However, in spite of all these changes, traditional clients deserve and demand traditional treatment as well. Therefore, insurers should handle both business models at the same time. Only those players that are able to adapt will continue to be relevant on the long run.

The interest rates continue to be at historic lows and, at the same time, people increasingly live longer. How are long-term investors such as life insurance undertakings adapting to this situation?

On the regulatory side, there have been positive developments, for instance regarding the treatment of infrastructures in Solvency II. However, Europe's insurers hold the view that more has to be done if long-term products are to remain attractive for customers to buy and companies to offer. The industry should maintain its role as a long-term provider of (pension) products and, in turn, as a long-term investor.

Many customers appear to still want and value simple long-term products that offer guarantees and stable returns. Insurers are therefore trying to find modern ways to offer these guarantees, profit sharing and smoothing products.

In the case of Spain, most of products sold in 2016 (93%) were guaranteed products, both with-profit and guaranteed fixed interest rate products. Barely a 7% of total life premiums and technical provisions in 2016 corresponded to Unit-Linked products, where the risk is borne by the policyholder. It is clear that the use of one of the measures of the LTG package (Matching adjustment) is allowing Spanish insurance undertakings to keep on providing long term guaranteed life insurance products.

Cyber risks represent a threat or an opportunity for the insurance sector?

From the regulatory point of view, cyber risk could be a threat as it is relatively new insured phenomenon in most of Europe. In fact, market maturity differs greatly from one Member State to another.

This could make it difficult to devise an approach at European level to contribute to the aim of developing Europe's cyber insurance market, especially in the field of standards and harmonization. Policymakers may not properly understand the way cyber insurance works and this could result in an unwanted action at EU level, such as imposing compulsory insurance for cyber risks in an effort to increase awareness and protect businesses. Compulsory measures may back-fire, so one must think very carefully before implementing them.

From the business angle we are facing an opportunity in cyber risks, as long as a precondition prevails: insurers should have access to the data gathered by the competent authorities as a result of a cyber incident under the requirements set by the GDPR and NIS Directive. If this criteria is met, the insurance industry will be able to underwrite cyber risks while gaining better knowledge of the prevention and being able to promote prevention and mitigation measures.

In your opinion, which is the main challenge and the opportunity for the industry and consumers arising from digitalisation?

The IRSG recently contributed to the European Commission's Fintech consultation on this issue.

Regarding its potential benefits, IRSG members agreed that the development of technology applied to insurance can bring increased efficiency and reduced costs to the benefit of consumers. For example: sensor technologies, such as health monitoring devices and vehicle black-boxes allow a much deeper profiling of the customer, thus allowing an individual approach towards the risk. Such tailored insurance policies and more personalised premiums can reduce the cost for low risk policy holders that abide to proper behaviour (i.e. careful driving) and lifestyle (i.e. healthy diet and exercising). Such preventive actions improve both the span and the quality of life of the policyholder, while reducing the cost of claims for insurers.

The IRSG noted certain range of risks and concerns too. These risks need to be monitored and any gaps in regulation addressed. As an example, InsurTech could lead to lower protection for consumers if it is not regulated and supervised properly. Likewise, possible discrimination of privacy-minded consumers, unwilling to give private information, must be prevented.

In 2018 PRIIPS, IDD and the GDPR will start to be applied. How will these new legislative acts affect the insurance sector?

It is too soon to assess the impact of these projects as the markets are still waiting to know the national implementation measures.

In any case, the aim of the PRIIPs Regulation to enhance consumer protection and comparability of PRIIPs is very much welcome by all stakeholders. For example, in the future, retail investors in the EU will receive an information document containing the key features of the PRIIPs in the form of a Key Information Document (KID). Nevertheless, some examples of duplicative requirements can be found, including duplication of pre-contractual information between the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Solvency II Directive, and disclosure of costs and charges between the PRIIPs Regulation and Insurance Distribution Directive (IDD).

In practice, this means that consumers risk receiving twice the same type of information, but in a different wording and format. This will only confuse consumers and move them away from the possibility to take informed financial decisions according to their demands and needs, in spite of the fact that this was the initial objective of the PRIIPs Regulation. The provision of high-quality rather than high-quantity information is a basic principle of consumer protection. The disclosure of too much information is counterproductive and has the effect of limiting consumers' ability to make appropriate decisions that satisfy their needs when comparing and purchasing products.

Concerning the GDPR, it will also enter into force next year so maybe it is premature to analyse its impact. To strike the balance between innovation and consumer protection will be key anyway.

What do you think should be the role of insurance supervisory and regulatory authorities in today's digital economy?

InsurTech is something that begun as a hype but it is gradually becoming a reality. InsurTech is still very much in development with very little data or real experience on which to draw conclusions at this stage. While it is too early to consider new regulation at this stage, steps can be taken to encourage innovation while ensuring that strong consumer protection is maintained. In addition to this, ongoing monitoring is needed to identify evidence of material new risks, gaps in regulation or potential barriers created by regulation.

Similar to the IRSG, I fully support the Commission's three core principles on this area: technology-neutrality, so that the same rules are applied to traditionally-sold products and services as those sold digitally and so ensure innovation, suitable customer protection and a level-playing field. Second, proportionality so that the rules are suitable for different business models, size and activities of all regulated entities. However, it is important to note that providing proportionality does not mean compromising consumer protection. Third, improve integrity to ensure transparency, privacy and security for consumers.

Christian van der Bosch

Co-Founder and Managing Director at Liimex [46]

In September 2016 Christian van der Bosch co-founded Liimex, a B2B insurance broker based in Hamburg, Germany. The value proposition of this InsurTech start-up turns around the digitalisation of the brokerage business, allowing its customers to conveniently access all their insurances in one same user-friendly platform online. It pro-actively manages its client accounts through the automation and digitalisation of communications and processes.

Why did you decide to enter the insurance business?

From our previous jobs in the private equity sector, my partners and I found that the German insurance distribution market was not at all digitalised and clearly lacking customer centricity. We basically saw an opportunity to innovate in the sector and we went for it.

Issues such as access to funding or insolvency laws are often cited as obstacles for start-ups. What were the biggest obstacles that you faced when starting up your business?

With the low interest rate environment, there is a lot of money flowing into venture capital. We were lucky to attract some of the smartest investors in the market that share our vision so that funding was not a big issue for us.

Insolvency laws put founders and managers of start-ups indeed at risk. Most founders don't know that they have a personal liability risk. But there is a simple solution to it: directors and officers liability insurance (D&O insurance). For us, being an insurance broker, we have good insurance coverage which hopefully we never need to use.

Our biggest challenge was building the right team. We are looking for highly qualified and experienced staff that has the same passion to drive innovation and change. So we had to invest time and resources in building the right team, from software developers to insurance professionals, taking into account that the workforce available in Hamburg is not as large as the one that may exist in other big European capitals.

And how about insurance legislation; was it an obstacle for a start-up like Liimex?

So far, it was not really an issue. We have to comply with the insurance distribution legislation applicable in Germany and we do not find any specific provisions particularly problematic. We are aware that the Insurance Distribution Directive will introduce new requirements but here again it should be achievable from a compliance perspective. My personal view is that there is a little too much paper work that is meant to protect the customer but which not always serves its purpose. Apart from that it's Ok from a distribution perspective.

The General Data Protection Regulation will also start to be applied in May 2018. What are your views about it?

This is indeed an issue for any business. It costs us a lot of money, for lawyers and own working hours, in order to be able to comply with data privacy provisions, which are particularly strict in Germany. This is even more complicated when you have to work with providers from other countries, where the data protection rules are different. It would be helpful if more standard agreements and practical procedures would exist on a European level that help simplifying and streamlining this process. The EU Model Contracts are a good starting point. But it's paramount that any such agreement or regulation is easily understandable and practical.

Is InsurTech hype or reality? What will be the impact of new technologies in the insurance sector?

InsurTech is here to stay. I do not think that all incumbents will be completely replaced by new players, but the latter will gain significant market share and there will also be increasing cooperation between incumbents and InsurTech start-ups as we are already seeing nowadays. I also expect to see further consolidation in the sector since not all firms will be able to afford the high investment levels in new technologies required in order to remain competitive.

[46] https://www.liimex.com/de

The digitalisation of the insurance sector will also have an impact on employment; on the one hand, we will see job cuts of certain administrative and repetitive tasks, e.g. in distribution and claims management, while on the other hand the demand for highly skilled workers such as software developers will increase. Moreover, new insurance products such as new on-demand / just-in-time insurances and IoT-based solutions ([47]) will gain popularity. A general theme will be that customers will require the same simple and convenient processes that they are accustomed to in other areas.

What stages of the insurance value chain are most affected by digitalisation to date and in which ones do digital technologies have a greater potential?

The sales and distribution part of the insurance value chain is the one being most impacted today, among other things because it is the easiest one to attack. But in general, all parts of the value chain will be affected in the future. Claims management is another area which is already seeing a lot of change.

While we will see distribution moving into digital channels, human interactions will not disappear completely. Moreover, I also believe that insurance providers will increasingly specialise in certain parts of the value chain and rely on business relationships and outsourcing agreements for the other ones.

Will large technological/internet companies such as Google or Amazon enter the insurance business?

Both companies possess a lot of information about individual customers which could potentially be used to perform risks assessments or design insurance policies. Amazon already sells extended guarantees as an add-on to some of the goods sold through its website. However, when looking at Google you need to take into account that insurance companies are also their customers. The insurance industry spends some real money for advertising on Google's search engine. As of today, ad revenue should be significantly more profitable compared to own distribution efforts that would put these ad revenues at risk.

What can regulators do to encourage financial innovation in the insurance sector?

Regulatory authorities should be open to new ideas and be in close dialogue with innovative firms. Areas for controlled experimenting such as sandboxes can be interesting, although fair competition should be preserved and they should be open to all types of firms regardless of their size as long as all players meet on a level playing field. A flexible approach is therefore needed.

Generally, some level of regulation is needed given our industry offers such as a vital service to society. Yet in order to attract entrepreneurial talent and find the best possible solutions, we also must refrain from overregulation. Insurance is about taking risk. We should not try to eliminate risk, because it would also eliminate opportunities. What we need is controlled risk taking. In essence regulations need to be fit for purpose and really achieve the purpose for which they were established.

([47]) See point 2.5 below for further information

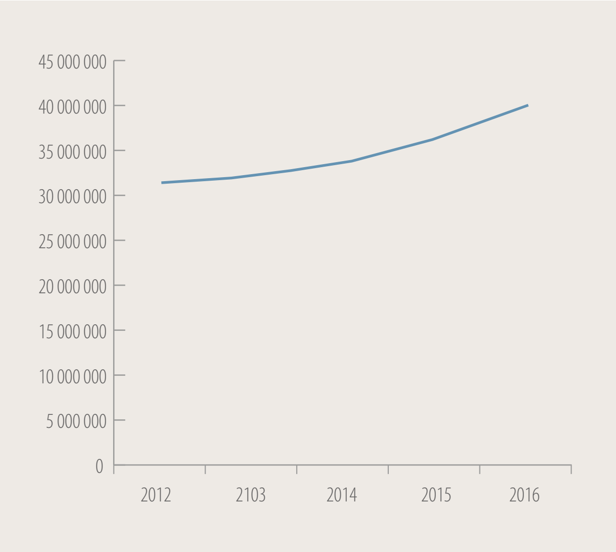
PENSIONS SECTOR

1. Market growth

1.1. OCCUPATIONAL PENSIONS

The recovery of the European economy and labour markets, together with the continuation of the effects of the reforms introduced in the national pension legislations of several Member States in recent years, have led to an increase in the number of active members during 2016. This information is represented in figure 21.

Figure 21 Occupational pension active members - 24 Member States [48]



Source: EIOPA Financial Stability statistics [49]

In the UK, the membership profile of schemes has undergone huge expansion since the start of Auto Enrolment in 2012. The vast majority of the 7.3 million new active members have joined DC occupational pension schemes. **DC memberships have consequently overtaken that of DB, which is now largely a closed book of business in run off**. The majority of new members have joined multi-employer DC schemes – master trusts and group personal pensions. However there remains a long 'tail' of micro occupational DC schemes.

The number of active members also continued to grow in Italy in 2016, to a great extent as a result of the collective agreement reached between employers' associations and trade unions establishing the **mandatory enrolment of workers in the construction sector** (though with low mandatory contributions). In total there were over 3.5 million occupational pension active members in Italy in 2016.

Since 2006 employers in Norway (+1%) are also obliged (by law) to enrol their employees in an occupational pension scheme, which is currently mainly done in DC schemes. Finansportalen, the **comparison website** run by the Norwegian Consumer Council (a government agency), has recently expanded its services and now also compares prices and characteristics of private pension products.

In Bulgaria the number of occupational pension active members increased 7% during 2016, but **their popularity is still limited compared to other saving products**. This is also the case in Hungary, were there is only one occupational pension provider in which the number of active members remained stable last year.

In Ireland, overall **DB scheme membership increased 1% in 2016**, but the increase is entirely attributable to increased membership in public sector unfunded DB schemes. The membership of private sector DB schemes has declined. As far as DC membership is concerned, it experienced a year-on-year increase of 6% due to the fact that new occupational pensions are DC.

In Spain, the occupational pensions sector has remained stable in recent years. the number of active members has only moderately increased (+4%) in 2016, mainly

[48] AT, BE, BG, DE, DK, ES, FI, HE, HR, HU, IE, IS, IT, LI, LU, LV, NL, NO, PL, PT, RO, SI, SK and UK. It is worthwhile noting that one single reporting date, as well as - at times - incomplete data sets, may lead to different data or information reported in other EIOPA reports and databases, which generally have different scopes, but might, to a certain extent, cover similar areas.

[49] EIOPA Financial Stability report statistics, https://eiopa.europa.eu/financial-stability-crisis-prevention/financial-stability/statistics

because **social partners are not considering pensions as a priority in the new collective agreements** that are being signed after the financial crisis.

Austria reported a slight increase (+1%) in the number of occupational pension active members. Moreover there is also an increasing **market concentration** in the Austrian occupational pensions sector, with a growing number of multi-sponsor pension funds (mergers and acquisitions of single-sponsor pension funds).

In Finland and in Poland the number of active members decreased in 2016. In the former case the reason for the decrease is that most occupational pension plans were **closed to new members in the 90's** and therefore the number of active members is gradually decreasing. In the case of Poland, the number of occupational pension funds (Polish IORPs) decreased from 4 to 3, with one small pension fund being liquidated.

The steady slight increase in the number of active members in Lichtenstein is consistent with the **economic growth** in the country's economy.

In Sweden embedded guarantees in traditional DC occupational pension insurance have considerably decreased in the past few years; the **guaranteed return has decreased** from up to 6% in the early 2000, to money-back (0%) in 2010, to guarantees of 85% of paid premiums or less in 2017.

1.2. PERSONAL PENSIONS

In Bulgaria the number of active members of pillar 1 bis, where the membership is mandatory, and in voluntary personal pensions increased in 2016 (+2% overall). These increases reflect new individuals entering the labour market for the first time on the one hand, **increased disposable income of households,** and the worsening of the conditions for some alternative investment products like bank deposits on the other hand.

In Latvia the number of active members has increased, driven by an **active communication campaign by pension providers** promoting citizens' awareness of the importance of taking action to ensure sufficient pension benefits in retirement.

The greater awareness amongst the population about the need to save for retirement together with a **reduction of the unemployment rate** in Slovakia could explain the increase in the number of active members (+5%).

The current **tax treatment of personal pensions** does not appear to make them an attractive investment option in Slovenia, which partly explains why the number of individual members has "stagnated".

In Ireland the 6% increase in personal pensions reflects the increase in the number of new **DC Personal Retirement Savings Accounts (PRSAs)**, following legislation in 2003; these have become the standard pension option for those who are not members of occupational pension schemes.

In Italy membership in personal pensions also continued to increase during 2016, due to widespread distribution and sales networks. The growth is driven both by individual members joining the open pension funds (that host both collective and individual memberships) and by the personal pension plans realised through life insurance contracts (commonly known as "**PIPs**"); PIPs increased by 10.3% last year.

In Hungary, while the number of active members increased by 4%, the number of new members has been progressively declining in the last years, due perhaps to a combination of demographic, social and economic reasons; the **number of young people entering into the labour market is also decreasing**.

The existing personal pensions legislation in Norway came into effect in 2008, but it appears that unattractive **tax-regulation** limited its impact. However, a new regulation came into force on 1 November 2017 which could lead to higher growth rate in the number of active members than the current one (+1% increase in 2016).

The first **life cycle fund** automatically changing the client's investment strategy as they approach retirement was introduced in Slovakia in 2016. In the fourth quarter of 2016 the first DC personal pension fund which operates exclusively as an **index fund** was registered in Estonia.

In the Czech Republic the number of active members slightly decreased (-3%) in 2016. This trend was mainly caused by a decline in the DC with guarantees scheme (supplementary pension insurance) as this system is closed for new members since 2013. However the DC scheme (supplementary pensions savings) increased by approximately 47% for the same period. Besides other innovations, a new distribution channel - **bancassurance** - has recently been introduced and started to distribute personal pension products, enabling customers to conclude pension contracts in approximately 250 local branches.

The UK Government announced the introduction of the **Lifetime Individual Savings Account (LISA)** in the March 2016. While technically it is not a personal pension, it is a retirement saving vehicle intended to help people under age 40 to save or invest flexibly for the long-term throughout their lives, for two purposes: (i) to provide a deposit for a first home; or (ii) to provide capital or income to fund retirement.

2. Financial innovation

As it was the case in the insurance section of this report, the pensions section also includes a dedicated part about financial innovation. In this case the topics of robo-advisors, life-cycle funds and mobile phone applications were selected to be highlighted in this year's report. While the topics of life-cycle funds and mobile phone applications were chosen in view of the findings of last year's Consumer Trends report, the case of robo-advisors responds to the need to closely monitor this development recognised in the Joint Committee of ESA's recent review of the topic.

2.1. ROBO-ADVISORS

The provision of advice without, or with very little, human intervention and where providers rely instead on computer-based algorithms and/or decision/trees, can **help members and policyholders to make more informed decisions when planning for retirement**. Although it might have some implications in terms of costs, such tools may complement the advice provided by professional advisors or by social partners in the context of occupational pensions.

Within the Joint Committee of the ESAs, EIOPA reviewed the topic of automation in financial advice last year. [50] One of the main benefits identified was the potentially **lower costs of automated advice tools [51]** compared to traditional face-to-face advice, which could therefore **contribute to make advice more affordable**. Individuals could also benefit from access to a wider range of products and services.

As far as the risks are concerned, issues identified included individuals potentially being exposed to unsuitable decisions as a result of lack of information about the process or limited opportunities to seek clarifications. Other risks include possible **errors and/or functional limitations in the design of the algorithms** that underpin the automated advice tools.

It is important to note that **hybrid models** (combining automated advice with an element of human advice) are reportedly more common than fully automated ones. Moreover, on occasions the boundaries between automated advice and the simple provision of information can be blurred and raise a number of issues from a regulatory compliance perspective.

It is still early days for the deployment of this technology in the European pensions sector; out of the 25 NCAs that participated in EIOPA's survey, **only the ones from the UK, Spain, Netherlands and France have observed the (still relatively small) use of robo-advisors in their respective pension markets**, often in connection with general financial planning solutions which include pensions. Robo advice is generally provided in the pre-contractual or the accumulation stage, but can also be provided in the decumulation phase or when transitioning between the two stages.

In its study "Fintech and Pensions",[52] the OECD concluded that the value proposition of robo-advisors predominantly consists of the **possibility of investing smartly, while making investments more affordable and accessible by relying on user-friendly digital platforms, algorithms and primarily low-cost index investment.** They offer the possibility to open different types of accounts, from simple brokerage accounts to tax-sheltered accounts, the latter more common for retirement savings.

According to the OECD, most robo-advisors **predominantly offer low-cost passive investment**, namely in Exchange Traded Funds (ETFs). Regarding the recommendations provided by robo-advisors, as a minimum they should take into account the investment goal (risk profile) and time horizon in order to define a recommended portfolio with the right level of risk, but other individual characteristics may also be taken into account by more complex algorithms.

At national level, to **support the development of technology solutions** the UK NCA has established an Advice Unit (part of Project Innovate), which has a specific remit to support firms developing automated advice models which seek to deliver lower cost advice to consumers.

[50] Report on automation in financial advice, Joint Committee of the ESAs, December 2016 [Link]

[51] Some of the respondents to the public consultation highlighted that automated advice tools may also require considerable initial investments as well as high maintenance costs.

[52] Fintech and Pensions, OECD, 2017 [report to be published later this year]

2.2. LIFE-CYCLE FUNDS

In life-cycle funds the investment **risk of a policyholder's portfolio is progressively reduced as they approach the retirement age.** Consequently, the risk is higher in the early savings phase, when retirement is far in the future. This increases the chances of achieving a higher return, eventually leading to higher pension payments. As the time of retirement draws closer, the pension plan will gradually reduce the risk in order to increase the predictability of the future pension income.

There are different types of life-cycle funds: they commonly move the assets automatically three or four times during the accumulation phase, depending on the age of the policyholder and the risk that they decide to assume. However, others may just move the assets to less riskier portfolios only once or twice just before the policyholder enters retirement.

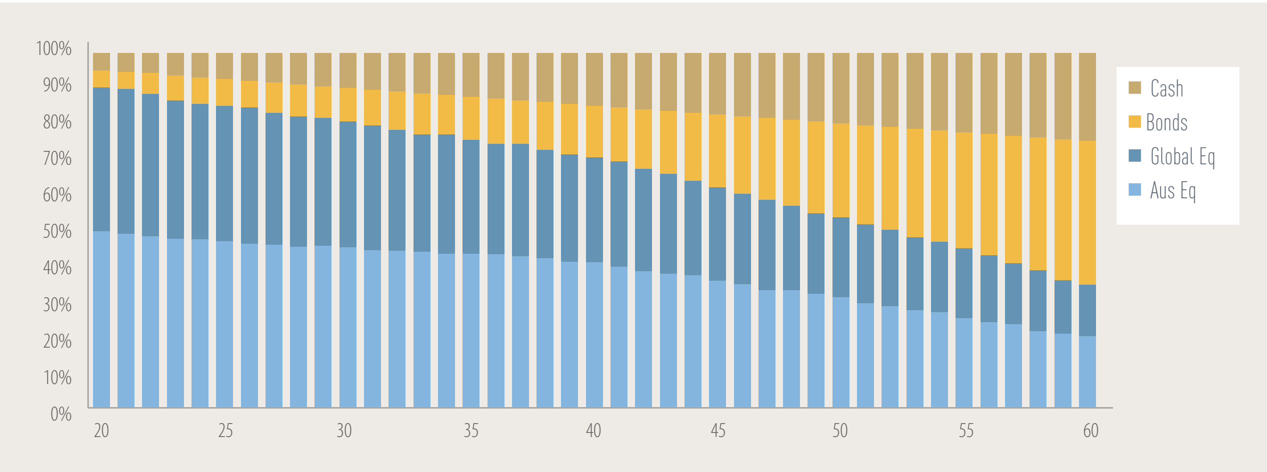
Traditionally, life-cycle funds have been geared towards de-risking in anticipation of the pension fund being used to buy an annuity. However, the liberalisation of the pay-out phase introduced in some Member States in recent years has had an impact on the life style strategies offered, as the liberalisation removes the fixed assumptions on which the de-risking strategy is based. Providers offering life styling funds in these Member States are reportedly reviewing and re-defining their lifestyle offering with innovative and sometimes more complex solutions in the light of these changes.

On the one hand, life-cycle funds are convenient for policyholder since their functioning is relatively simple and they **do not need to monitor and react to changes of risks in the markets**. On the other hand, if only the risk related to age in a long-term perspective is taken into account, an individual may be exposed to increased risks as the investment strategy may not adapt to other investment risks (such as short-term sharp fluctuations in the markets) as these develop over the life of the product. However, given that retirement is far in the future, it is expected that return fluctuations will even out over time, such that market risk should not be a major issue.

Life cycle funds exist in most Members States, namely in occupational DC schemes and personal pensions, although **they have only recently started to be available in some Member States** (e.g. in Austria since 2012 or Czech Republic since 2013). In Members States such as Estonia the first life-cycle fund was registered in 2016, while in other Member States like the UK recent reforms introduced into the pensions sector have revived the interest on these types of funds.

There are many **particularities amongst the life-cycle funds in different jurisdictions**. In the Netherlands, occupational DC pension plans are required by law to adhere to a life cycle principle, although there is no such obligation for third pillar pension plans. In other Member States, such as Belgium or Norway, life-cycle funds are more common in personal pensions, while in Member States such as Ireland or Spain they are used indistinctly in both pension pillars.

Figure 22 Example of life cycle fund asset allocation



Source: Schroders [53]

[53] http://www.schroders.com/en/au/institutions/insights/white-papers/life-cycle-funds1/

In Croatia there is a **proxy life-cycle model** in mandatory 1st pillar bis pensions ([54]) since 2014; members are obliged to select a mandatory pension fund of a specific category defined by an age category, and they will be automatically transferred from one age-defined category into the next one as the policyholder reaches the age thresholds for each category. In Poland a "safety-slider" was recently introduced, in which, ten years before the retirement age, savings are gradually transferred from pension funds into a system of notional accounts (ZUS) (1st pillar social security), where the notional accounts are indexed to the Member State's GDP growth.

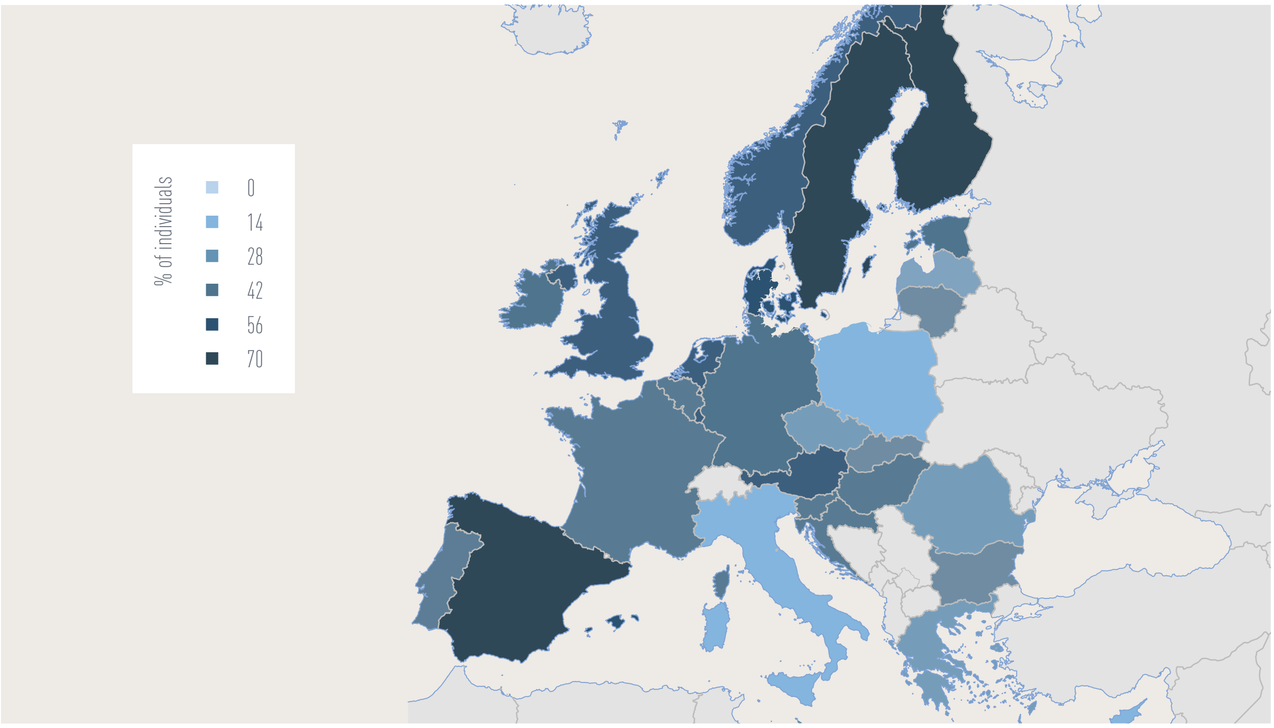
In France, "Popular Retirement Savings Plans" (PERPs) offer policyholders the option to choose a euro-linked contract or a **unit-linked/multi-funds contract**. In the latter case, policyholders can have their assets increasingly secured as they approach retirement, if they choose a specific type of guided management ("gestion à l'horizon"). Moreover, legislation that entered into force in France last year requires DC plan sponsors to use "life cycle products" as the default option.

In the UK **the majority of assets in default funds are invested to support life cycle strategies**, with this approach being used by around 90% of larger schemes that have a default fund. This is the case of the National Employment Savings Trust (NEST), the DC occupational pension plan set up by the UK government to support employers meet their auto enrolment duties and which counts over 2 million members.

2.3. MOBILE PHONE APPLICATIONS ("APPS") IN PENSIONS

In view of the **increasing penetration of digital technologies in the day-to-day life of European citizens**, pension providers are starting to develop digital solutions to meet their members and beneficiaries' new and evolving expectations and demands. Smart phones represent one of the key drivers of digitalisation, although their level of penetration and usage differs between Member States, as it can be observed in figure 23.

Figure 23 Percentage of individuals (aged 16-74) accessing the internet through mobile phones in 2016



Source: European Commission, Digital Scoreboard ([55])

([54]) Funded schemes based on individual accounts typically financed by contributions diverted from PAYG schemes created in several Central and Eastern European Member States and they are inspired on the recommendations of the World Bank.

([55]) European Commission, Digital Scoreboard [Link]

The level of penetration of mobile technology in the pensions sector is reportedly low compared to the banking sector, where the use of mobile phone applications to check bank accounts, make transfers or even payments is relatively common. Some argue that this is partly due to **legacy issues linked to Defined Benefit schemes, where there is little need for engagement** since the outcome is pre-determined in advance. It is also argued that many individuals only actively start planning for retirement after the age of 50, where this segment of the population is less digital-friendly than millennials.[56]

EIOPA's report on "Good Practices on Communication Tools and Channels in occupational pensions"[57] acknowledged that currently the most used communication channel remains paper (i.e. physical mail). However, the report also concluded that there is a clear **trend towards the use of digital communications** such as email, websites, online platforms / dashboards or mobile phone applications.

Mobile phone applications in the pensions sector differ between the different providers in scope and range of services offered. They generally **offer policyholders the possibility to access information about their pension balances from anywhere and at any time in a user-friendly manner**. They may also include information about the total contributions made, scheme details or time remaining until retirement.

Indeed mobile phone applications are not only a consultation tool but they may **also be used for communication and engagement purposes**. This is the case of Aviva's Shape My Future app in the UK, which helps its customers visualise what their retirement lifestyle will be like, based on their current savings levels, and interact in the social media.

In Ireland, in addition to providing information about pension balances and contributions, the "My Pension App for iPad"[58] also includes a **pension calculator / forecasting tool and targets.** This can help scheme members understand how investment returns may accumulate over time, and what a particular savings rate means for the final pension. Similar services are also offered by mobile phone applications available in the Spanish market, which also reportedly include information about tax benefits when saving for retirement.

In most Member States where the use of mobile phone applications has been reported (including Norway, Denmark and the Netherlands), these are mainly offered **by life insurance companies** (i.e. not IORPs). In Croatia there is a mobile phone application available for the members of the mandatory 1st pillar bis pension fund.

[56] Your pension on your smartphone, Financial Times, 21 September 2016 [Link]

[57] Report on Good Practices on Communication Tools and Channels for communicating to occupational pension scheme members, EIOPA, 2016, [Link]

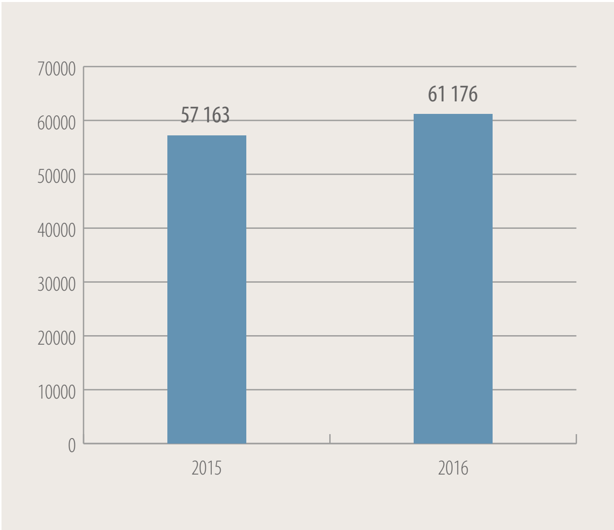
[58] http://www.irishlifecorporatebusiness.ie/empower_app_newsletter

3. Consumer complaints

The analysis of complaints in the pension sector also helps NCAs identify possible consumer protection issues that may arise in their jurisdiction. Based on the complaints data provided by 25 NCAs in the last two years, the **pensions sector (including both occupational and personal pension complaints) experienced a year-on-year increase of +7% in the total number of complaints in 2016**.

Given that the total number of complaints is, to a great extent, influenced by the data from the larger pensions markets,[59] it is useful to analyse the number of complaints on a Member State basis; the **number of complaints increased in 13 out of the 25 Member States** that provided pension complaints data to EIOPA for 2015 and 2016.

Figure 24 Evolution of complaints in the EEA [60]



Source: EIOPA Committee on Consumer Protection and Financial Innovation

[59] The UK pensions sector accounts for 93% of the total number of complaints reported to EIOPA by 25 NCAs. This does not mean that the UK pensions market is more problematic than in other jurisdictions, but is rather influenced by the size the market as well as by the type of complaints data provided to EIOPA; while most NCAs have provided complaints data received by the NCA, the UK have provided complaints data received by insurance undertakings, which commonly are significantly greater in number. The UK complaints data does not capture complaints relating to IORPs or other institutions providing occupational pensions other than insurance undertakings.

[60] Does not include data from CY, HE, IS, FR, LU and NO.

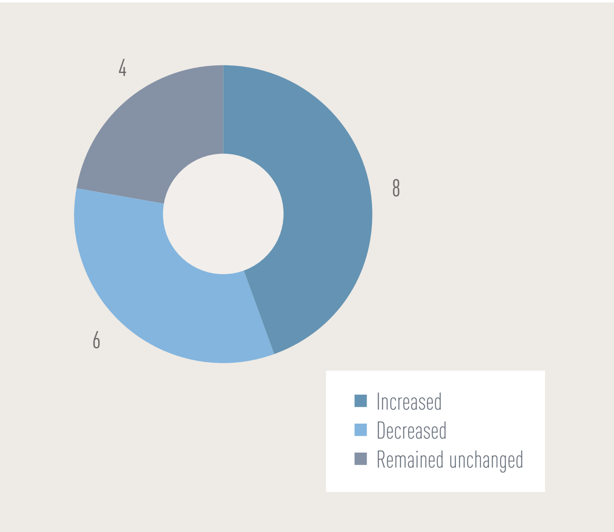
3.1. OCCUPATIONAL PENSIONS

Some of these Member States were able to further breakdown this data to differentiate between personal and occupational pension complaints, which is the information that is shown in the figures underneath. [61] The charts show the **year-on-year evolution of personal and occupational pension complaints in the different Member States**.

As far as the motives behind the complaints, in **some jurisdictions the number of pension complaints is too low to draw conclusions for the whole sector based on them**. This is for instance the case of Finland, where the number of occupational pension complaints decreased from 24 to 15 between 2015 and 2016, or Austria where the complaints lodged before the Austrian NCA passed from 3 to 12 during the same period.

In some Member States **individuals complained about not receiving the benefit that they expected to receive from their DC occupational pension plans**. In other Member States legislative changes triggered some benefit-related benefits e.g. the reduction of the guaranteed interest rate in one Member State or new legislation restricting the possibility to withdraw benefits from most pension plans until retirement in another Member State.

Figure 25 Occupational pension complaints, YoY growth per number of Member States [62]



Source: EIOPA Committee on Consumer Protection and Financial Innovation

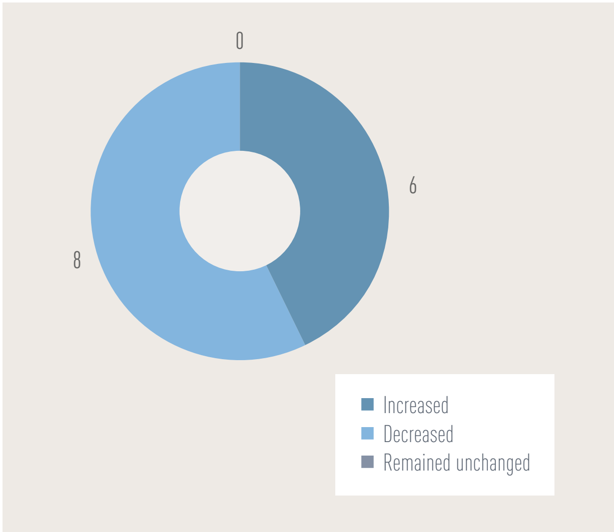
3.2. PERSONAL PENSIONS

During 2016, the number of personal pension complaints increased in 6 Member States and decreased in 8 other Member States (see figure 26).

Once again **the number of complaints is too small to identify trends** in the markets in several jurisdictions. For example between 2015 and 2016 in the Czech Republic the number of personal pension complaints increased from 23 to 33, in Lithuania from 3 to 5, and in Estonia they decreased from 4 to 3.

In some Member States the most common personal pension complaint related to **sales and arranging**; for example, in one Member State individuals complained that they had been provided misleading information to switch from guaranteed products to products without or with lower guarantees. Complaints about transfers (for example the calculation or payment of transfer values), was a common cause of personal pension complaints in another Member State. Moreover, complaints about the frequency and amount of pay out of inheritance pensions from supplementary pension insurance where the most common type of complaints in another Member State.

Figure 26 Personal pension complaints, YoY growth per number of Member States [63]



Source: EIOPA Committee on Consumer Protection and Financial Innovation

[61] In case this breakdown between occupational and personal pensions was not provided, the complaints data is included in the occupational pensions graphic.

[62] Complaints increased in AT, BE, DE, IE, LV, NL, SL and SE. Complaints decreased in DK, FI, IT, SK, ES and PT. Remained unchanged in HR, LI, MT and PL

[63] Complaints increased in CZ, HU, LI, LT, MT and UK. Complaints decreased in BG, DK, EE, DE, IT, PL, RO and ES.

4. NCA consumer protection activities

One of the main priorities of NCAs during 2016 was to **ensure that consumers were provided with adequate and transparent information about their pension plans, products or providers**. This can be observed in figure 27, which shows that 22 out of the 53 consumer protection activities reported by the 28 NCAs addressed this topic (some activities addressed several themes at the same time).

The fact that information and transparency issues is the most common theme in NCA's activities **could partly be explained by the fact that in several Member States individuals increasingly build up pension rights on DC pension plans** where the individual bears the investment risk and the costs. This means that the final benefits are uncertain and there is a risk that individuals receive lower than expected pension income when they retire.

Moreover, **good governance and administration of the pension plan is also a key determinant of good member outcomes;** plan members will depend on the performance of the plan operators. Certainly, good member outcomes can also be promoted by improving the financial literacy skills of members and beneficiaries , as well as by ensuring that the latter receive high-quality advice during the selling and arranging of pension plans, products or providers.

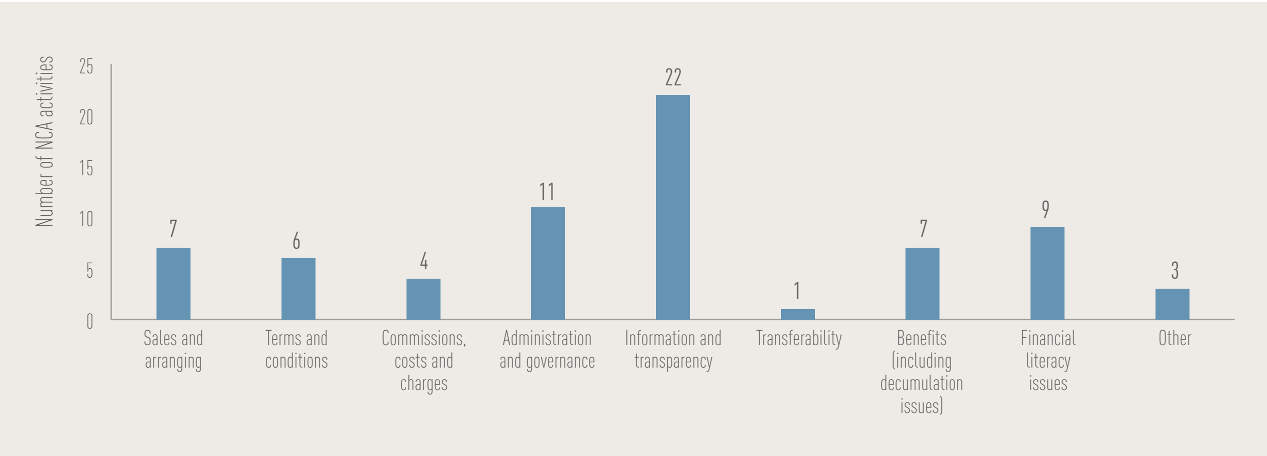
4.1. OCCUPATIONAL PENSIONS

During 2016 several NCAs focused their consumer protection activities in enhancing the information and transparency requirements of occupational pension plans. This was the case of the Belgian NCA, which has published a draft **Communication outlining its expectations and recommendations on the information to be provided to members and beneficiaries of occupational pension DC plans** in the pension scheme rules, the benefit statement, etc. After a public consultation, the final Communication will be published during 2017.

In the area of pension transfers (both occupational and personal pensions), the Danish NCA is currently assessing the viability of the **pension industry's job change agreement** following the changes introduced to the social security legislation in recent years**.** While on the one hand the transfer of accumulated capital remains viable, on the other hand the transfer of insurance coverage is no longer a clear option since the coverage of sickness and accident insurance varies increasingly from company to company.

In Ireland the NCA submitted to the Ministry of Social Protection a draft proposal for the reform and simplification of the supplementary funded pension system in Ireland. Furthermore, the Irish NCA published a series of **codes of governance for trustees of DC schemes**, aiming to assist trustees by setting out the authorities' views of good practices in areas such as member communications, risk management and value for money.[64]

Figure 27 Topics addressed by NCA consumer protection activities in the pensions sector



Source: EIOPA Committee on Consumer Protection and Financial Innovation

[64] Codes of governance for DC schemes, Central Bank of Ireland, [Link]

Last year the UK NCA commissioned a study of the trustee landscape in the UK. Among other things, the study found that trustees in larger pension funds in general are better equipped, or that trustees administrating the pension fund often **rely heavily on third party advisors and rarely disagree with them**. Whilst it does not seek to impose new governance standards, the UK NCA will seek to raise the standards and levels of trustee competence by providing more targeted education initiatives and tools coupled with closer market surveillance.[65]

Since December 2016, current and former employees and self-employed individuals in Belgium can consult their vested pension rights in second pillar occupational pensions in the new **pension tracking system "DB2P".[66]** This database is fed by declarations of the occupational pension institutions, and the Belgian NCA supervises the institutions to ensure they disclose correct and complete information in time.

In Italy as of 1 June 2017, before joining a pension plan, prospective members need to complete a **mandatory self-assessment questionnaire.** This questionnaire shall be used by the distributor to make a recommendation on which investment option best suits the prospective member's needs and characteristics. Nonetheless, the recommendation given by the distributor should only serve as guidance and prospective members may choose to divert from it.

In the Netherlands there is an on-going political **debate about the reform of collective pension plans**, which are mandatory for most employees in the Netherlands. Two main options (or a combination of both) are being considered: (1) change from (collective) defined benefit into defined contribution with risk sharing, or (2) change from uniform contribution and accrual system to uniform contribution with decreasing accrual.

4.2. PERSONAL PENSIONS

The 2016 annual inspection plan of the Portuguese NCA focused on the **supervision of information and transparency provisions of occupational and personal pension plans**. Among other things, it reviewed the disclosure of the pension funds' financial information and investment portfolio to customers and the general public and the publication of insurance undertakings' and pension fund management companies' remuneration policies. In general terms the supervised entities complied with their disclosure requirements although in some cases the NCA recommended some improvements in the procedures.

The aggregated losses as a result of **pension scams** remain low in the UK, but the consequences for loss of trust in the pensions system are severe and therefore the UK NCA has launched a ScamSmart campaign. The campaign includes advertising, press activity and a dedicated website[67] raising awareness and giving consumers tips on how to spot the techniques used by fraudsters. The NCA also pursues active engagement with all interested stakeholders including pension advisers, to whom the NCAs has recently communicated its expectations for transfer advice.[68]

The Swedish NCA continued working on the **provision of standardised information in the transfer of pension insurance**. It is closely monitoring the level of implementation by the industry of a recommendation from Insurance Sweden, the trade association. Further progress also needs to be made with regards to the information about fees.[69]

The Danish NCA is examining the **advisory practices in connection with the switching risk profiles within a market interest product for pension savings**. The preliminary findings suggest that firms comply with the rules regarding face-to-face advice. However some of the digital / self-service solutions put in place to guide individuals to change their risk profiles could be implemented with greater care, for instance by warning consumers about the consequences of certain decisions.

Although it is still at an early stage, a pension tracking system is also being developed in the UK - the so-called "**Pension Dashboard**". It is an industry-led initiative with support from both the regulator and government helping to drive the process forward. Once finalised, in addition to an overview of all occupational and personal pension pots it may, potentially, also provide a holistic picture of all assets owned by an individual. In addition to being a useful tool for mobile workers, the Pension Dashboard could also help close the pension gap by showing people clearly how much they need to save for retirement.[70]

[65] Trustee Landscape Qualitative Research, prepared by OMB Research for the UK Pensions Regulator, July 2016 [Link]

[66] Belgian pensions tracking system DB2P [Link]

[67] Scamsmart website [Link]

[68] Advising on pension transfers – our expectations, Financial Conduct Authority, January 2017 [Link]

[69] Consumer protection on the financial market, Finansinspektionen, May 2017 [Link]

[70] The Pensions Dashboard Prototype, Association of British Insurers [Link]

5. Stakeholder interview

Matti Leppälä

Secretary General of PensionsEurope and Chair of EIOPA's Occupational Pensions Stakeholder Group

Matti Leppälä Chairs the Occupational Pensions Stakeholder Group (OPSG), EIOPA's consultative body on pension matters. Since 2011 he is also the Secretary General of PensionsEurope, the European occupational pensions trade association, which represents 24 European national associations of pension funds and other IORPs. PensionsEurope's members cover pensions of more than 100 million Europeans and € 4 trillion of assets.

What are in your opinion de main developments taking place in the pension markets nowadays?

There are many relevant developments currently taking place. Leaving aside legislative developments, the recovery of the European economy has been reflected on an increase of the investment returns of pension funds all over Europe, with some excellent returns in Member States. Of course the ageing population and the persistent low interest rates environment continues to put pressure to the assets and liabilities of pension funds, which is reflected in the trend from DB to DC that has being on-going already for several years.

Pension funds are also looking for innovative solutions and are increasingly diversifying their investment strategies and searching for yield in alternative investments such as infrastructure or private equity. Finally the decumulation phase is debated in several Member States, hopefully introducing more flexibility in the pay-out options offered to members and beneficiaries.

What role do environmental, social and governance (ESG) factors play in pension fund's investment strategy?

Pension funds' primary objective is to provide a retirement income to its members and beneficiaries. However pension funds recognise that as long-term investors, a key consideration must be to look both at the returns on their investments and any associated factors. While social returns are not a substitute for financial returns, many pension funds have publicly expressed their ambition to generate e.g. social returns and are increasingly taking ESG factors into consideration when defining their investment policy.

What are your views about the use of life-cycle funds as an investment option for saving for retirement?

Life cycle funds indeed represent an important investment option especially if it is the default option. If choice is given, most people opt for the default option. However, I believe that they should not be a matter of choice and not obligatory as they commonly follow a conservative investment strategy that, at least in present investment environment, will likely result in low levels of retirement income at maturity.

Is Fintech hype or reality in the pensions sector?

Fintech is a reality. For example in Portugal APFIPP, the industry association, is promoting the implementation of a platform for the distribution of investment funds (UCITS) and also open pension funds (3rd Pillar), based on the blockchain technology. A proof of concept has already been concluded successfully. If implemented, this new platform will allow open pension funds to be subscribed by a larger number of investors, at significantly lower cost.

At European level, one of the declared objectives of the new proposal for a pan-European Personal Pension Product (PEPP) is to allow the distribution of personal pension products through digital / online channels. Moreover, the provision of information to members and beneficiaries through digital means is also at the heart of the European Tracking Service (ETS) initiative sponsored by the European Commission.

What will be in your opinion the most important challenges and opportunities arising from Fintech for pension funds and members and beneficiaries?

In terms of challenges it will be interesting to see how small pension funds manage to cope with increasing investment in digital technologies. This could potentially lead to some consolidation in the sector. However at the same time FinTech could be an opportunity for small IORPs, since new technologies could reduce their operational costs and allow them to continue offering good pension outcomes for the members and beneficiaries.

As far as the benefits for individuals are concerned, I would highlight the opportunity for them to access to a wider variety of retirement options at reduced costs. Fintech solutions could also help members and beneficiaries to get access to better quality information (provided that the technological solutions are correctly defined).

The IORP II Directive will start to be applied as of January 2019; how do you think it will impact the occupational pensions sector?

The IORP II will introduce new investment requirements which will result in higher quality risk management practices for the benefit of pension funds and their member and beneficiaries. Moreover the communication between the pension fund and its members and beneficiaries will also improve. At PensionsEurope we support that the new information requirements are based on key principles allowing them to be adapted to the specificities of the pension sector of each country, since this will lead to better communications. This has also been the opinion of the OPSG. Finally, I would also highlight the new rules for cross-border activities, which will bring greater clarity and transparency on the way these activities need to be conducted.

In view of all the developments taking place in the pensions sector, what do you think should be the role of regulatory authorities going forward?

I believe now it is important to have a period of legislative calm in IORP regulation and focus on the implementation of the new pieces of legislation that have recently been adopted. It is also important to ensure that the principles of subsidiarity and proportionality are adequately applied when dealing with pension funds. Regarding the latter I fully support the extension by the European Commissions of the exemption for pension funds from the clearing obligation under EMIR, and hope that a permanent solution is found for this issue. Finally, regarding financial innovations, regulators should try to be innovative and find new ways to help people save more for retirement, setting the grounds that enable financial innovations to take place but at the same time do not intervene too much and allow competition in the markets to take place.

Annex I - Methodology

INPUT FROM NCAS

The trends methodology was adopted in 2012([71]) and revised in 2013 ([72]) in order to produce more robust Consumer Trends Reports. It includes the collection of consumer trends information from NCAs on a number on quantitative and qualitative metrics.

As far as the qualitative information is concerned, NCAs were requested to fill-in two surveys, one on Top 3 consumer issues and thematic work and the other one specifically about financial innovations. Each survey had to be completed twice, one for the insurance sector and another one for the pensions sector.

In the first survey NCAs were asked to report on their main consumer protection activities undertaken during the previous year. In the financial innovations survey NCAs had to identify the 3 most relevant financial innovations in their respective jurisdictions. This survey also included specific questions about concrete topics, such as the use of telematics in insurance or robo-advisor in pensions.

Regarding the quantitative data, for the insurance sector NCAs provided data on GWP and contracts sold for a series of product categories. In addition, they also provided complaints data, which is useful source for identifying possible consumer protection issues arising in the markets. When it comes to the pensions sector, NCAs were asked to provide data on active members, as well as on pension complaints.

Generally speaking, the submissions about the insurance sector were more complete than the submissions about the pensions sectors. This could be partly explained because this is the sixth year that insurance data is collected, while on the other hand it is only the third time for pension-specific data.

Finally, during the past years EIOPA has also conducted 15 country visits ([73]) to NCAs to discuss consumer trends data gathering as well as how consumer protection activities are carried out in their respective jurisdictions.

INPUT FROM STAKEHOLDERS

This year for the first time the report includes interviews to individual stakeholders. Moreover, in accordance with the revised methodology to explore options for new data sources for producing the report, EIOPA asked the Insurance and Reinsurance Stakeholder Group (IRSG) ([74]) and the Occupational Pensions Stakeholder Group (OPSG) ([75]) to provide input for the 6th Consumer Trends Report.

In addition, EIOPA gathered input from Insurance Europe, PensionsEurope and BIPAR. In previous years BEUC and Better Finance also provided input, but this year they only did it through their respective representatives in the IRSG and the OPSG. Finally, EIOPA also regularly meets with stakeholders to discuss concrete insurance and pensions issues, including the Consumer Trends report.([76])

SOLVENCY II DATA

The new Solvency II reporting framework resumed in 2016. It represents the most comprehensive database about the European insurance sector to date. Among other features, it collects harmonised premiums, claims and costs data from insurance undertakings on a line of business basis, which has been used in the present report.

Given its prudential nature, Solvency II's lines of business are risk categories and not product categories (see Annex III for further information). In practice this means that, for example, part of the premiums collected through motor insurance policies can be distributed through different lines of business such as "motor third party liability", "assistance" or "legal expenses". It also captures the premiums gathered from retail individual consumers as well as from corporate clients. The data is analysed for "growth direct business", i.e. gross of reinsurance since the reinsurance information is not immediately relevant from a consumer protection information.

Moreover, it is the first year that insurance undertakings have to report their financial statements under this new comprehensive reporting framework; while data quality checks are regularly performed by NCAs and EIOPA to the data submitted by insurance

([71]) EIOPA, Consumer Trends Methodology, November 2012, https://eiopa.europa.eu/Publications/Reports/2012-11_Methodology_on_collecting_consumer_trends.pdf

([72]) EIOPA, Review of Consumer Trends Methodology, October 2013, https://eiopa.europa.eu/Publications/Reports/Review-of-Consumer-Trends-Methodology_approved_by_27112013_BoS_with_appendixes.pdf

([73]) AT, BE, HR, DK, FI, DE, LT, NE, PT, RO, SI, ES, FR, HU, and PL

([74]) Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, IRSG, 2017, [Link]

([75]) Feedback statement to EIOPA Questionnaire on the Consumer Trends Report, OPSG, 2017, [Link]

([76]) EIOPA Staff Meetings with External Stakeholders, https://eiopa.europa.eu/Publications/Meetings/EIOPA%20Staff%20Meetings%20-%20January%20-%20June%202017.pdf undertakings, the quality of the data as well as the value that can be extracted from it (e.g. evolution of the indicators over time) will surely improve over the years and therefore the data of this first year must be interpreted cautiously.

PRIVATE AND PUBLIC PUBLICATIONS

EIOPA has complemented the information received from NCAs and stakeholders with a series of private and public publications, articles in the media and research papers, which are accordingly referred in the footnotes of the report. These sources have provided valuable information about certain trends in the insurance and pension sectors, their motives as well as possible ways to overcome some of the consumer protection issues arising from them.

HOW THE INFORMATION IS PROCESSED TO PRODUCE THE REPORT

EIOPA gathers a large variety of quantitative and qualitative data from a wide variety of sources, with the objective to understand as good as possible the developments that are taking place in the European insurance and pensions sectors. However, the present report has a supervisory nature and therefore the input received by NCAs is prioritized over the others.

The input gathered from stakeholders and from public and private publications is nevertheless very valuable, particularly in the case of stakeholders since they are the ones directly affected by the development in the markets. This allows EIOPA to have a complementary perspective to the input provided by NCAs. In addition, in the case of those NCAs that were not able to provide input, EIOPA may like this be able to obtain information about the developments in those Member States.

Given that the input collected is quite extensive, it is not possible to incorporate all the information gathered into the report. In cooperation with NCAs members of the Consumer Trends workstream and the Committee on Consumer Protection and Financial Innovation (CCPFI), EIOPA does a selection of the most relevant information taking into account the availability, relevance, geography and nature of the information provided.

The availability of data (e.g. a reduced number of NCAs were not able to provide any input to EIOPA), the comparability of data (e.g. some NCAs reported complaints data lodged before the Authority, while the majority of NCAs used complaints data reported by insurance undertakings, which are significantly higher in number), or the differences in resources (e.g. industry organisations commonly count with more resources than consumer organisations, and also some NCAs have more internal resources than others), are some of the limitations to the present methodology.

EIOPA is aware of these limitations and tries to approach them from a balanced perspective. For example, in order to address issues such as the limited comparability of data provided from different Member States, inconsistencies between different years, or incomplete submissions, the quantitative information on GWP, Active Members or complaints is complemented with qualitative questions asking NCAs to indicate, on a best-effort basis, if the number of complaints and sales had increased significantly, increased, remained unchanged, decreased, or decreased significantly.

Overall the information gathered, both of quantitative and qualitative nature, is quite extensive and from a wide variety of sources, allowing EIOPA to confidently identify consumer trends in the European insurance and pension markets.

Figure 28 Number of NCAs that participated in each survey

Survey	Number
Insurance - Complaints	31
Insurance - Financial Innovations	30
Insurance - Top 3 issues and thematic work	25
Insurance - Sales	28
Pensions - Complaints	26
Pensions- Financial Innovations	26
Pensions - Top 3 issues and thematic work	27
Pensions - Active Members	24

Source: EIOPA Committee on Consumer Protection and Financial Innovation

Annex II - List of National Competent Authorities (NCAs)

Austria	AT	Financial Markets Authority (FMA)
Belgium	BE	Financial Services and Markets Authority (FSMA)
Bulgaria	BG	Financial Supervision Commission
Croatia	HR	Croatian Financial Services Supervisory Authority (HANFA)
Cyprus	CY	Ministry of Finance Insurance Companies Control Service (ICCS) Ministry of Labour, Welfare and Social Insurance Registar of Occupational Retirement Benefit Funds
Czech Republic	CZ	Czech National Bank
Denmark	DK	Financial Supervisory Authority (Danish FSA)
Estonia	EE	Estonian Financial Supervision Authority
Finland	FI	Finnish Financial Supervisory Authority (FIN-FSA)
France	FR	Autorité de Contrôle Prudentiel et Resolution (ACPR)
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	HE	Bank of Greece Hellenic Ministry of Labour, Social Security and Social Solidarity
Hungary	HU	Central Bank of Hungary
Iceland	IS	Financial Supervisory Authority (FME)
Ireland	IE	Central Bank of Ireland Pensions Authority
Italy	IT	Instituto per la Vigilanza sulle assicurazioni (IVASS) Commissione di Vigilanza sui Fondi Pensione (COVIP)
Latvia	LV	Financial Capital Market Commission
Liechtenstein	LI	Financial Market Authority (FMA)
Lithuania	LT	Bank of Lithuania
Luxembourg	LU	Commissariat aux Assurances
Malta	MT	Malta Financial Services Authority
Netherlands	NL	Financial Supervisory Authority (AFM)
Norway	NO	Financial Supervisory Authority of Norway
Poland	PL	Financial Supervision Authority (KNF)
Portugal	PT	Insurance and Pension Funds Supervisory Authority (ASF)
Romania	RO	Financial Supervisory Authority (ASF)
Slovakia	SK	National Bank of Slovakia
Slovenia	SI	Insurance Supervision Agency
Spain	ES	Ministry of Economy - Directorate General of Insurance and Pension Funds
Sweden	SE	Finansinspektionen (FI)
United Kingdom	UK	Financial Conduct Authority (FCA) The Pensions Regulator

Annex III - Pensions definition and scope

The Consumer Trends Report covers both occupational and personal pension plans and products **under the direct supervision of EIOPA Members**.[77]

However, EIOPA Members were invited to provide, on a best effort basis, data on every type of **privately managed pension plans, pension products and/or pension providers registered in their respective jurisdictions**, including all investment products having a clear objective of retirement provision according to i.a. national social and labour law (SLL) and/or fiscal legislation and excluding the "first pillar" pensions managed by the State or public entities (**1st pillar-bis pensions in CEE countries are also included**). Therefore, all non-public pension plans/products could be in principle included, irrespective of whether they are occupational or personal. Plans/products that are defined in the legislation but are not actually offered yet to the public (and/or have not collected yet any member) should also be included. "Pure" annuities (i.e. that are not linked to an accumulation phase) are not considered pensions for the purpose of this exercise.

This last approach would align the scope of this exercise, with the exception of those pension schemes which are not under the direct supervision of EIOPA's Members, with the one of **EIOPA's Pensions Database**,[78] being the definitions included therein relevant for the present report.

Finally, it is worth noting that due to differences in objective, scope, coverage and reporting period or timing of the data received by EIOPA, information reported in the different EIOPA reports may differ.

[77] This would mean that pension plans such as the so-called book reserves and PAYG schemes are out of scope

[78] Guide for Compilation and Methodology of EIOPA's Pension Database: https://eiopa.europa.eu/Publications/Reports/EIOPA-OPC-14-058_Database_of_pension_plans_product_in_EEA-guide_for_compilation.pdf

Annex IV - Solvency II Lines of Business

Non-life lines of business	Definition [79]
(1) Medical expense insurance	Medical expense insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in the line of business 3.
(2) Income protection insurance	Income protection insurance obligations where the underlying business is not pursued on a similar technical basis to that of life insurance, other than obligations included in the line of business 3.
(3) Workers' compensation insurance	Health insurance obligations which relate to accidents at work, industrial injury and occupational diseases and where the underlying business is not pursued on a similar technical basis to that of life insurance.
(4) Motor vehicle liability insurance	Insurance obligations which cover all liabilities arising out of the use of motor vehicles operating on land (including carrier's liability).
(5) Other motor insurance	Insurance obligations which cover all damage to or loss of land vehicles (including railway rolling stock).
(7) Fire and other damage to property insurance	Insurance obligations which cover all damage to or loss of property other than those included in the lines of business 5 and 6 due to fire, explosion, natural forces including storm, hail or frost, nuclear energy, land subsidence and any event such as theft.
(8) General liability insurance	Insurance obligations which cover all liabilities other than those in the lines of business 4 and 6.
(10) Legal expenses insurance	Insurance obligations which cover legal expenses and cost of litigation.
(11) Assistance	Insurance obligations which cover assistance for persons who get into difficulties while travelling, while away from home or while away from their habitual residence.
(12) Miscellaneous financial loss	Insurance obligations which cover employment risk, insufficiency of income, bad weather, loss of benefit, continuing general expenses, unforeseen trading expenses, loss of market value, loss of rent or revenue, indirect trading losses other than those mentioned above, other financial loss (non-trading) as well as any other risk of non-life insurance not covered by the lines of business 1 to 11.

Life insurance lines of business	Definition
(29) Health insurance	Health insurance obligations where the underlying business is pursued on a similar technical basis to that of life insurance, other than those included in line of business 33
(30) Insurance with profit participation	Insurance obligations with profit participation other than obligations included in line of business 33 and 34.
(31) Index-linked and unit-linked insurance	Insurance obligations with index-linked and unit-linked benefits other than those included in lines of business 33 and 34.
(32) Other life insurance	Other life insurance obligations other than obligations included in lines of business 29 to 31, 33 and 34.

[79] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), pages 227 and 228, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2015:012:FULL&from=EN

Annex V - List of abbreviations

ADR	Alternative Dispute Resolution
AM	Active Members
DB	Defined Benefit
DC	Defined Contribution
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
ESA	European Supervisory Authority
FIN-NET	Financial dispute resolution network of national out-of-court complaint schemes in the European Economic Area
IAIS	International Association of Insurance Supervisor
IBIPS	Insurance Based Investment Products
IDD	Insurance Distribution Directive
IORP	Institutions for Occupational Retirement Provision
IRSG	Insurance and Reinsurance Stakeholder Group
ITS	Implementing Technical Standard
GWP	Gross Written Premiums
KID	Key Information Document
NCA	National Competent Authority
OECD	Organisation for Economic Co-operation and Development
OPSG	Occupational Pensions Stakeholder Group
PID	Product Information Document
PEPP	Pan European personal pension products
PRIIPS	Packaged Retail and Insurance-based Investment products
RTS	Regulatory Technical Standard
UBI	Usage-based insurance

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