IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice on Bancassurance

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While consumers can shop around for mortgage-related products, bancassurance can act as a one-stop-shop. Credit protection insurance (CPI) and payment protection insurance (PPI) provide various benefits, protecting consumers who take out mortgages and credits and their heirs from unexpected events that may lead to loss of income and other unforeseen consequences. CPI/PPI protect consumers against biometric and work-related risks and can partly or wholly pay off loans in case of unfortunate events, such as death, unemployment, or work incapacity. As such, CPI/PPI represents a significant help in protecting consumers' assets and maintaining their living standards in case of loss of income or other unexpected events. On a more general level, CPI/PPI can act as collateral and enable access to credit, leading to financial stability by protecting consumers against financial hardships due to death, unemployment, or inability to work.

Although CPI/PPI can have their advantages when the demands and needs test confirms such appropriateness, the consumers' interest is to have free choice about the insurance coverage and the distributor, including to shop around with other distributors than banks. This freedom of choice does not always seem adequately guaranteed under the rules of the MCD applying to cross-selling practices. The IRSG is aware that the banks' selling of CPI/PPI embeds some usual risks of selling like unmitigated conflicts of interest, aggressive sales techniques, pressure, over-selling, and unreasonable commissions, which continue to raise issues concerning customer protection in some markets in Europe. Therefore, constant monitoring and timely neutralization of these risks are necessary for the interests of consumers and the insurance market, including competent authorities when they assess the benefit to customers of the tying practices.

Nonetheless, the IRSG believes that the current regulatory framework is very robust. In addition to the unfair commercial practices directive and the mortgage credit directive, the insurance distribution directive (IDD) includes the sales of CPI/PPI by banks in its scope. The IDD strict rules ensure a very high level of consumer protection and have many safeguards designed to avoid mis-selling risks, for example:

- Before being offered insurance products, consumers are asked to undertake a "demands and needs" test so that the offer is consistent with their real expectations and needs.
- IDD requires insurance distributors to act in the best interests of their customers.
- There are solid rules in place on remuneration and preventing or managing risks of conflicts of interest.
- The minimum harmonisation approach allows national authorities to further put in place additional requirements, as they see fit for the needs of the national markets.

Therefore, the IRSG believes that the focus should be on implementing and enforcing the current rules to guarantee a level playing field and fair competition between all distribution channels, rather than developing and imposing new ones at the EU level. Moreover, the IDD has been applying in most Member States for only three years, one of them being 2020, where trends have been characterised mainly by the pandemic. Thus, it is too early to have a clear picture of the impact of IDD.