



## WARNING

### **EIOPA warns insurers and insurance intermediaries to tackle high commissions for travel insurance products**

Travel insurance products are important for consumers, offering security and peace of mind during travel and on holiday, so it is crucial that this market is served by sustainable and consumer-focused business models that take into account consumers' needs when developing and testing products – including from a value for money perspective.

EIOPA's recent thematic review on consumer protection issues in travel insurance identified problematic business models with remuneration structures based on extremely high commission levels and business models that combine high commission with extremely low claims ratios, offering poor value for money to consumers.

The review identified cases of insurance intermediaries taking disproportionately high commissions from insurance undertakings across all distribution channels. For example, at the extreme, the maximum commission reported was 94%. This means, in this case, that, out of a €100 premium, €94 are used to pay commission. Some respondents also reported that further development of online platforms will heighten these problems, with a lack of proportionality between the commissions paid and services provided by intermediaries.

The review also identified cases of very low claims ratios (the percentage of the premium paid by consumers that is paid out as claims). For example, at the extreme, the minimum claims ratio was around 1%. This means that, out of a €100 premium, €1 is being paid back for claims.

While these are examples of extremes, the review also identified other instances of high commissions and of low claims ratios. The average commission level was 24% and the average claims ratio 40%.

EIOPA considers that such business models are not consistent with fundamental regulatory principles set out in Directive (EU) 2016/97 of the European Parliament and of the Council of 14 December 2016 on insurance distribution (IDD), such as always acting in the best interests of the customer and obligations on product oversight and governance, which aim to ensure financial products and services are compatible with the needs, characteristics and objectives of the customers belonging to the target market, so as to ensure good consumer outcomes including from a value perspective.

EIOPA also identified other issues with travel insurance products offering health coverage, but excluding pre-existing conditions, for instance where these are sold without performing any medical pre-screening, including by self-assessment.

EIOPA considers that, in some cases, practices were not consistent with the fundamental regulatory principles set out in the IDD, including the consideration of the demands and needs of the customer and providing the customer with objective information about the insurance product.

### **EIOPA expects all market participants to fully comply with the IDD**

Notwithstanding that insurance undertakings remain free to set premiums or prices, they should nevertheless assess their product offering and approval processes, including their identification of target markets, to ensure that their products offer fair value to customers and are fully capable of meeting the needs of their customers.

Insurance undertakings and insurance intermediaries should assess their distribution agreements to ensure that they are able to always act honestly, fairly and professionally in accordance with the best interests of their customers.

In addition, even when travel insurance is sold by unregistered ancillary insurance intermediaries such as travel agencies, tour operators, platform operators and other entities exempted from the application of the IDD, the insurance undertakings or insurance intermediaries who are responsible for those unregistered intermediaries, must ensure compliance with regulatory requirements under the IDD, including on always acting in the best interests of their customers, avoiding conflicts of interest related to remuneration and on offering products that take into account the demands and needs of the customer.

### **Intensified supervisory scrutiny**

EIOPA and NCAs are committed to ensuring better outcomes for consumers in this market, including by monitoring how effectively consumers' needs are taken into account in product development and testing and during distribution.

In this regard, insurance manufacturers and intermediaries should be aware that EIOPA and NCAs will intensify their risk-based supervision of insurance undertakings and insurance intermediaries, notably in the national markets where risks are identified, including monitoring the market for ancillary insurance products.

NCAs will, where it is necessary, exercise their supervisory powers, including investigatory powers and powers to impose sanctions for failures to comply with the conduct of business requirements set out in the IDD, including:

- The duty to act in the best interest of customers and to not pay or receive remuneration that conflicts with this duty;
- The requirement to not enter into arrangements by way of remuneration, sales targets or otherwise that could provide incentives for the recommendation of a particular insurance product to a customer; and

- The obligation to maintain, operate and review an approval process for each insurance product, specifying an identified target market and assessing all relevant risks to that target market.

Where risks have been identified and other supervisory measures are not successful, taking into account the principle of proportionality and in line with national law, NCAs will exercise their powers to impose administrative sanctions and other measures such as:

- Requiring the insurance distributor to cease the conduct and to desist from a repetition of that conduct.
- As measure of last resort, in the case of an insurance or ancillary insurance intermediary, withdrawal from the national register.

NCAs will share with EIOPA supervisory measures taken to address the business models highlighted by the review.

## **Annex I**

### **Legal framework for design and distribution of insurance products**

- According to Article 17(1) of the IDD, insurance distributors (including registered ancillary insurance intermediaries) should always act honestly, fairly and professionally in accordance with the best interests of their customers.
- In particular, insurance distributors should not be remunerated in a way that conflicts with their duty to act in accordance with the best interests of their customers. Insurance distributors should have no arrangements by way of remuneration that could provide an incentive to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product which would better meet the customer's needs. (Article 17(3) of the IDD).
- According to Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors (Delegated Regulation on POG), manufacturers shall maintain, operate and review a product approval process (Article 4 thereof) and consider the overall value of their products along the entire product lifecycle in order to provide good consumer outcomes and prevent consumer detriment. In particular, the product should provide the intended value identified in the product approval process.
- Additionally, Article 8(4) of the Delegated Regulation on POG states that manufacturers (in this case insurers) should monitor that insurance distributors act in accordance with the objectives of the manufacturer's product approval process. In particular, they should verify on a regular basis that the insurance products are distributed on the identified target market.
- Even where travel insurance is sold through an ancillary insurance intermediary who is exempted from the scope of the IDD, the insurer or insurance intermediary must ensure certain basic conduct of business requirements (e.g. consideration of the demands and needs of the customer) are complied with (Article 1(4) of the IDD).
- Finally, Article 1(5) of the IDD provides that competent authorities should monitor the market, including the market for ancillary insurance products which are marketed, distributed or sold in, or from, their Member State, and EIOPA may facilitate and coordinate such monitoring.