



2020 CONSUMER TRENDS REPORT

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European Insurance and
Occupational Pensions Authority

PDF	ISBN 978-92-9473-284-2	ISSN 2467-3714	doi:10.2854/143157	EI-AB-20-001-EN-N
Print	ISBN 978-92-9473-283-5		doi:10.2854/50572	EI-AB-20-001-EN-C

Luxembourg: Publications Office of the European Union, 2021

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**2020
CONSUMER
TRENDS REPORT**

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EXECUTIVE SUMMARY

Given the impact of COVID-19 on the economy and on the insurance and occupational pension sectors, this year's report focuses on the pandemic, to provide an initial and preliminary overview on the impact on the sectors, responses and the challenges which emerged. This includes taking stock as to how EIOPA's measures have been implemented and their impact. The report only focuses on observations from Q1 and Q2 2020; hence, overall conclusions on the COVID-19 crisis cannot be drawn.

Because of the extrinsic nature of the current crisis, this year's evolutions in consumer behaviours are mostly dictated by external factors which include:

- › Forced changes in consumers' habits impacting consumers' insurance needs;
- › A deterioration of consumers' disposable income and changes in employers' cash-flows; and
- › Market shocks and the continued and prolonged low-interest rate environment.

Despite initial concerns, insurers, insurance intermediaries and pension funds have worked hard to guarantee business continuity. When operational disruptions emerged, they have been isolated and not material. Evidence from consumer interviews also confirms that business continuity has been ensured rendering the process of buying products, submitting claims and complaints or asking information as 'normal' as possible.

The sudden shift towards digital channels has crystallised some benefits of financial innovation / digitalisation both for insurers and intermediaries as well as for consumers. However, in particular for more vulnerable and less digitally savvy consumers, intermediaries have also played a key role, being a first point of contact for consumers to seek guidance on their insurance coverage. Given the increased digitalisation, risks relating to increased fraud both against insurance undertakings, pension funds and against consumers, members and beneficiaries have also emerged.

Looking at growth trends, at the end of Q2 2020 a majority of Member States in the EEA reported a decrease in life insurance GWP:

- › The decrease has been led by a -24.2% drop in insurance with profit participation;
- › Unit-linked insurance slightly grew, remaining the largest single line of business;
- › Considering the heterogeneous nature of the other-life insurance line of business, trends have been dictated by different factors with mortgage life insurance decreasing in several Member States, while term life insurance reported an increase.

Amidst the crisis concerns with regard to unit-linked contracts continued to persist:

- › The sharp fall in asset prices observed in March, which was accompanied by redemptions from some investment funds and a deterioration in financial market liquidity, raised some initial concerns.

- Moreover, as consumers may start to surrender their policies early, existing structural problems such as a mismatch between actual and expected returns because of the features (e.g., high risk, complex fee structure) of some unit-linked products may surface. Expected lower returns and market volatility can also further exacerbate existing problems, heightening the impact that high costs can have.

Looking at non-life insurance, the sector grew by 3.3% in the first half of 2020. Growth trends were more heterogeneous and diverse across Europe.

Amidst the crisis accident and health insurance products appear to have continued to offer valuable cover to consumers, reporting the second highest claims ratios and with no major decreases / increases in total claims incurred. In several Member States, COVID-19 related treatments were covered and/or several initiatives, including good-will payments, have been put in place to ensure that accident and health insurance products continue to offer value to consumers. Accident and health insurance is the product for which most good-will actions have also been reported.

The fire and other damage to property line of business increased in 26 Member States — in 4 of them by more than 15%. Given changes in working habits and travel restrictions, at the on-set of the crisis, concerns arose with consumers possibly breaching contractual obligations and losing coverage. However, insurers showing forbearance towards consumers have been observed, albeit not in a consistent manner.

Trends in income protection insurance have varied significantly across Member States. The unknown nature of COVID-19, in particular in relation to its long-term implications, may also lead to some changes in product design (e.g., insurers introducing exclusions or putting in place screening procedures to avoid 'silent risks').

The miscellaneous financial loss is the line of business which experienced the highest increase in claims ratios, more than doubling in several Member States. This could be due to the fact that travel cancellation claims are covered under this line of business. It could also relate to the fact that some business interruption claims may also fall under this line of business and insurers may have provisioned for expected future claims.

Concerns with regard to travel insurance products also exist. EIOPA in the past highlighted the utility of these products whilst raising concerns on the value some products bring to consumers and on some problematic business models. The COVID-19 crisis surfaced concerns both in relation to inconsistent consumer outcomes with regard to travel insurance products and in relation to problematic business models.

Exclusions and lack of clarity in terms and conditions have raised particular challenges. On one hand, exclusions relate to the fact that pandemics raise specific difficulties from an insurance perspective; on the other hand, increasing pressure has been put on the sector to pay out claims even though the risk may have not been originally foreseen.

To this extent at the on-set of the crisis EIOPA clearly outlined the risks of imposing retroactive coverage. EIOPA also highlighted measures to be taken to limit possible consumer detriment, though it is not clear that these have been consistently adopted, raising concerns as to whether consumer detriment has thereby materialized. The diversity in situations across the EEA highlights the potential for significantly different outcomes for consumers purportedly buying in a single market:

- The COVID-19 crisis highlighted a heterogeneous landscape in relation to the treatment of pandemics, with differences ranging across markets, products and undertakings. While pandemics may be rightly excluded from certain products, the patchy landscape raises concerns of possible consumer detriment.
- Mixed messages from insurers and industry associations on coverage / non-coverage have been observed.
- Issues in relation to lack of clarity in terms and conditions also continue to persist and in some instances court interventions have been required / may be required.
- While some insurers / industry associations provided clear guidance, in a few instances, concerns emerged with regard to the timeliness and effectiveness of communications on exclusions.
- Issues relating to changes in coverage for in force contracts or at renewal also emerged.
- To face possible risks, some products have also been withdrawn from the market raising concerns about under-insurance.

Because of the pandemic, consumers have been asked to and/or may have voluntarily changed their habits and behaviours, impacting their insurance needs and the utility which products they currently have may offer. This may have resulted in risk levels shifting or decreasing. This change may have also resulted in an increase in risk levels, with prudential impact.

Initial evidence, to be interpreted cautiously given the changes in patterns and the long-term perspective needed, shows that changes to the risk profile of some products have materialized in the shorter term. For example, claims ratios dropped in the first semester of 2020 for some lines of business, which at least in the initial phase of the crisis, have been most impacted – motor vehicle liability and other motor insurance, assistance and workers' compensation insurance. To address these changes in risk level, initiatives have been observed to ensure that products continue meeting the target markets' needs, objectives and characteristics. However, close monitoring in the future is required, and, as EIOPA explained in its statement on this issue, the full picture will only be possible once the full cycle of both the pandemic and of impacted products has concluded.

While trends and issues may still only be partially visible, the COVID-19 crisis has already had and it is expected to have an impact on the pension sector. Beyond issues relating to business continuity and possible illiquidity, risks observed also relate to:

- Lower pensions' contributions because of savers not being able to contribute, and because of business shrinking and unemployment;
- Lower accumulation for defined contributions schemes because of market shocks and the low yield environment; and
- Risks in the decumulation phase:
 - Where defined benefits schemes fail to absorb the shock, benefit cuts may materialize leading to significant detriment for beneficiaries; and
 - Members and savers may opt for specific types of benefit payments such as lump-sums or may opt to access their pension funds early raising concerns given consumers may not plan properly for their elderly age.

Even though complaints data should be interpreted carefully because it is too early to draw conclusions and COVID-19 related complaints account for a small portion of total complaints, complaints related to 'denied payments because of the exclusions' are most prevalent, accounting for almost 40% of total COVID-19 related complaints. Pension complaints are too low to draw conclusions but it is worth highlighting that a few complaints relating to business continuity have emerged.

Finally, it is worth highlighting that, to alleviate the impact of the COVID-19 outbreak on the insurance and pension sectors, whilst ensuring fair treatment of consumers, NCAs performed several consumer protection-related activities and/or have taken specific measures. The pension and insurance sectors have also been and continue being sensitive to the impact of the COVID-19 crisis on consumers, members, and beneficiaries and put in place a number of initiatives.

Looking at 2019 trends, it is worth highlighting that key concerns reported in the 2019 Consumer Trends Report continue to persist:

- Issues reported in relation to unit-linked products are varied and range from product design to distribution.
- With commission rates for the other life insurance line of business remaining high at the EEA level, having increased in 20 Member States and being above the EEA Member States average (18.8%) in 14 of them, concerns with mortgage life insurance continue to persist.
- Conduct risks relating to inadequate claims handling practices continue to persist across a number of Member States, with claims management being the second most common top 3 issue reported by NCAs. Claims related complaints account for over 50% of total complaints reported by NCAs.
- It is worth highlighting that issues with discriminatory practices in pricing appear to be an increasing problem which merits further attention in the future.

Looking ahead, as the crisis continues to unfold and investments losses impact profitability, concerns of possible future conduct risks – e.g., stronger shift towards products with no guarantees and/or hybrid products with complex fee structures, pressures on sales and increased cross-selling – exist.

Considering the need to ensure a holistic approach, insurance undertakings and pension funds may also aim at absorbing possible revenue losses, whilst ensuring customer-centricity, by shifting towards more efficient business models to face possible increased pressure on profitability and solvency, leveraging on the digital advances to lower costs and to better engage with consumers.

Moreover, as it is estimated that electronic transactions and other digital developments made during the pandemic will remain, there may be a need to review legislation to facilitate digitalisation, whilst ensuring that concerns relating financial exclusion are adequately addressed and mitigated.

Risks emerged in relation to exclusions may require further work to promote product and contract simplicity; however, a careful balance between simplicity and avoiding too much standardization, with the aim of ensuring that target markets find the coverage they need, should be drawn.

INTRODUCTION

Article 9 of EIOPA's founding regulation requires the Authority to 'collect, analyse and report on consumer trends' ⁽¹⁾. As per the working definition devised by EIOPA, consumer trends are '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'.

One of the report's key objectives 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 Member States. Moreover, by highlighting the non-confidential activities reported by national competent authorities (NCAs) for their respective jurisdictions, EIOPA also encourages a common supervisory culture among its Members through the promotion of exchanges of information between competent authorities ⁽²⁾.

Given the impact of COVID-19 on the economy and on the insurance and occupational pensions sectors, this year's report focuses on COVID-19 from a conduct and consumer perspective. This should allow an initial and preliminary overview on the impact on the sector, responses and the challenges which emerged, aiding EIOPA in providing an overall steer for future areas of supervisory and regulatory focus. This includes taking stock as to how EIOPA's measures from a consumer protection and conduct perspective have been implemented and their impact on the market, as far as this can be done.

As a result, the report provides a description of the main market developments, key trends and issues in the first semester of 2020, with a main focus on COVID-19:

- The market development section gives an overview of major trends and product specific issues. This is based on an analysis of quantitative data from EIOPA's Solvency II database, including an analysis of relevant retail risk indicators ⁽³⁾, complaints, inputs from stakeholders and evidence gathered via a series of structured consumer interviews (Annex VII);
- The market development section is followed by a focus on key issues affecting the insurance and/or pensions sectors and an analysis of the limited data available on COVID-19 related complaints submitted to national authorities responsible for complaints handling or to insurance undertakings and pension funds;
- Finally, the report provides an overview of NCAs' consumer protection activities and industry-led initiatives put in place to ensure the fair treatment of consumers amidst the crisis.

Considering that, to date, Consumer Trends Reports have focused on trends, issues and risks emerged the previous year, where full data is available, Annex I also highlights trends and key issues for 2019.

As in past years, it is worth highlighting that not all trends identified and potential risks outlined in this report have been observed in all Member States. In some, they may not exist; in others, they may be only at an incipient stage. The fact that one Mem-

ber State is not mentioned does not necessarily mean that such a trend and/or potential risk does not exist in that Member State or that the relevant NCA has not undertaken any activities in that field.

References to Member States for trends identified in Solvency II reporting are from a home perspective; hence, they reflect the business of undertakings authorised by the relevant home NCA but not necessarily business written in that Member State.

Finally, for this year's trends, **the report only focus on observations from Q1 and Q2 2020; hence, overall conclusions on the COVID-19 crisis and its impact on the insurance sector from a consumer protection and conduct perspective cannot be drawn.** The initial phase of the pandemic has been followed by a period of easing of measures and then a second epidemiological wave accompanied by new restrictions. **Key issues highlighted are thereby merely a 'status update' on the situation for the first semester of 2020.**

There is a possibility that further risks could emerge as the crisis evolves as well as the possibility that the materialisation of the potential risks presented might not be as severe as expected. For example:

- While some issues with regard to changes in risk levels and product utility are highlighted in the Report, these should not be interpreted negatively. In fact, the claims ratio analysis and consumers' perception of changes in their insurance needs are a reflection of the situation for the reference period.

However, in line with EIOPA's Statement ⁽⁴⁾ several insurance product manufacturers may have taken action since then or will take action to address this issue; hence, some of the concerns highlighted may already be mitigated.

- On the contrary, even though – and despite concerns with these products as highlighted in last year's Consumer Trends Report ⁽⁵⁾ – specific issues with regard to mortgage life and credit protection products have not yet emerged, once payment holidays and 'employment protection schemes' end, specific issues may materialize.

Finally, for some trends for which immediate actions may have been required – i.e., communication on business continuity plans or on exclusions – specific conclusions can be drawn and have been included in this report.

EIOPA follows an agreed upon **methodology** ⁽⁶⁾ **for producing Consumer Trends Reports on an annual basis** (see Annex II for further details). Adjustments to the methodology and the focus of the Report are agreed upon by the Committee on Consumer Protection and Financial Innovations (CCPFI) on a yearly basis reflecting on lessons learnt from the previous and specific areas of focus. The methodology, however, has certain limitations that are more relevant for this year. **With regard to concrete data on the impact of COVID-19, some NCAs were not in a position to provide all the inputs requested by EIOPA.** Furthermore, **Solvency II data** (see Box 2 in Annex II) **must be interpreted with caution in particular given this year is the first time quarterly data is used.** **Information collected through informal consumer interviews** (see Annex VII) **must also be interpreted with caution**, taking into account the number of interviews carried out.

1. MARKET OVERVIEW AND TRENDS

1.1. GENERAL OVERVIEW

1.1.1. MARKET OVERVIEW

The COVID-19 crisis has had and continues having a significant societal, economic and financial impact across Europe, which in turn is having direct and indirect effects on the insurance sector – for insurance undertakings, insurance intermediaries but also for consumers.

While it is still difficult to determine the full impact of the crisis, and consumer trends emerging thereof, a number of issues have been observed across the sector and others may be observed in the near future.

Because of the extrinsic nature of the current crisis, this year's evolutions in consumer behaviours and in the insurance and pensions markets are dictated by external factors which include:

- 'Forced' changes in consumers' habits impacting consumers' insurance needs;
- A deterioration of consumers' disposable income and employers' liquidity; and
- Market shocks and the continued and prolonged low-interest rate environment with a direct impact on insurers' profitability and on pension funds.

These factors are influencing relevant trends, which are worth highlighting beyond specific issues relating to business continuity and operational resilience and a fraud related risks.

In face of a decrease in consumers' disposable income, measures have been put in place by Governments and by individual insurance undertakings to stop or defer premium payments, in particular for life-insurance products. Pension contributions have also been delayed in some

instances and members have given the option to delay / stop contributions as the emergency situation continues.

Examples of measures include in IT, in addition to measures put in place by the Government and the NCA (see Section 4.1.), several insurance undertakings offered suspensions of premium payments, extension of cover and premium deferral plans, particularly in those areas which have been most affected by the crisis.

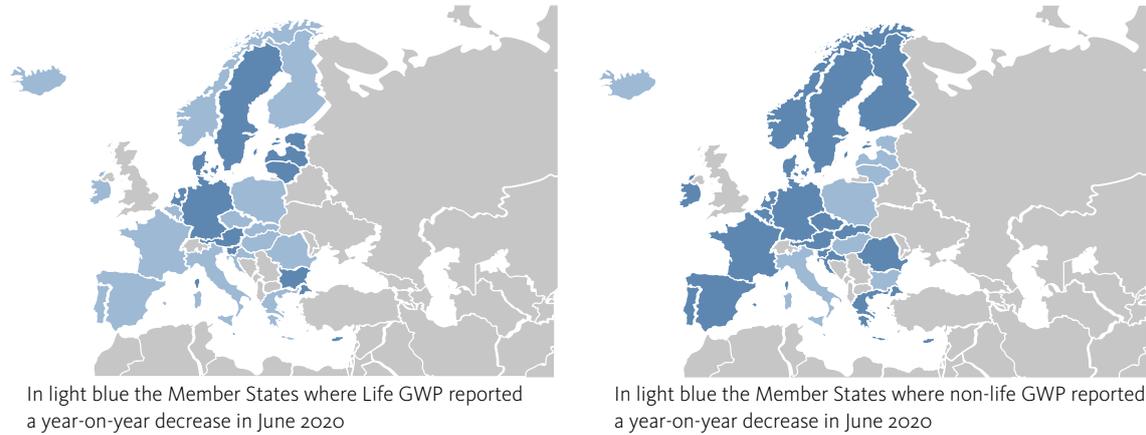
These measures have resulted in a general decrease in premiums across the European Economic Area (EEA). In the first half 2020, life insurance gross written premiums (GWP) experienced a year-on-year decrease of -11.4% (?) while total non-life insurance GWP grew 3.3%.

Important decreases in total life insurance GWP can be observed in those Member States where lockdown measures have been more stringent with the 2018-2020 compound annual growth rate (CAGR) having dropped significantly (in FR -11.5%, in IT -5.4%, in ES -14.1%), while in other Member States such as SE (17.4%)⁽⁸⁾ life insurance GWP reported a growth. Non-life insurance GWP increased in 22 Member States.

Trends in premiums for different quarters show more clearly the possible impact lock-down measures had on premium growth:

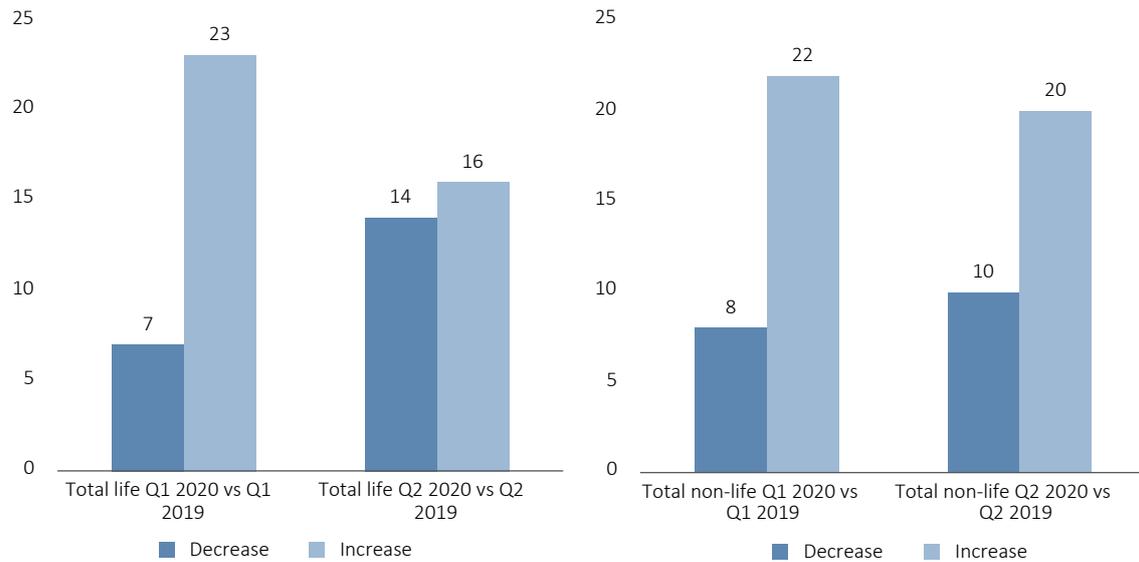
- Between Q1 and Q2 2020, life insurance GWP dropped in all Member States (-21.6% at EEA level);
- The year-on-year decrease was stronger in Q2, with total life insurance GWP having dropped -21% between Q2 2020 and Q2 2019 vs. -2% between Q1 2020 and Q1 2019;
- After having increased between Q4 2019 and Q1 2020, non-life insurance business dropped -37% in Q2 2020.

Figure 1 – Total year-on-year (YoY) GWP growth in different Member States, life insurance (on the left) and non-life insurance (on the right) – First semester 2020 ⁽⁹⁾



Source: EIOPA Solvency II database.

Figure 2 – GWP growth in Q1 2019 vs Q1 2020 and Q2 2019 vs. Q2 2020 by number of Member States – Life insurance (on the left) and non-life insurance (on the right)



Source: EIOPA Solvency II database.

Given that consumers have had to change habits and behaviours, first in the lock-down phase and then in ‘learning to live with the pandemic’, their insurance needs may have shifted (see also Section 2.2.).

The crisis has also highlighted the need to increase contract clarity and reduce product complexity, whilst reinforcing financial education initiatives. In fact, issues around lack of clarity with regard to exclusion and a mismatch between customer expectations and coverage emerged (see also Section 2.1.). This may lead to product and contract simplification and standardization, increas-

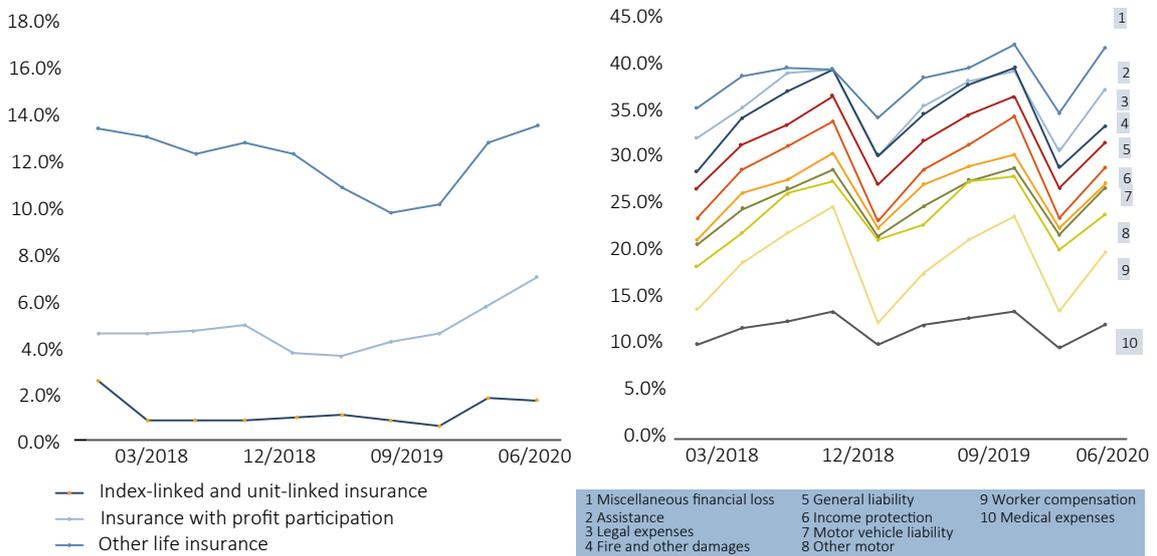
ing comparability and consumers’ understanding, whilst raising concerns on whether simpler and more standardized products meet the needs of specific target markets – requiring a careful balancing between these two objectives and closer supervisory attention.

Finally, as the crisis continues to unfold and investments losses impact profitability for insurance undertakings, concerns of possible future conduct risks – e.g., stronger increased shift towards products with no guarantees and/or hybrid products with complex fee structures, pressures on sales and increased cross-selling – exist.

Considering the need to ensure a holistic approach, insurance undertakings may also aim at ‘absorbing’ revenue losses by shifting towards more efficient business models to meet solvency requirements. In doing so, insurance undertakings may leverage on the digital advances in product design (e.g., more price accuracy) and claims management brought along by the crisis (see Section 1.1.2.) to lower costs.

As claims management expenses may have increased given the sudden shift towards remote assessment and considering investments in digital technologies will need to be absorbed, at present expense ratios do not show major fluctuations and remain high for a number of lines of business. However, if efficiency gains are achieved in the future due to a shift towards more digital business models, lower expense ratios may allow insurers to continue pursuing customer-centric business models despite the increased pressure on profitability.

Figure 3 – Expense ratios for selected life insurance (on the left) and non-life insurance (on the right) lines of business



Source: EIOPA Solvency II database.

1.1.2. BUSINESS CONTINUITY, OPERATIONAL RESILIENCE AND DIGITALISATION

Given the sudden impact of the crisis affecting the entire value chain, at the inception of the crisis, concerns in relation operational risks and disruptions emerged. EIOPA, both in its statement on actions to mitigate the impact of COVID-19 on the sector ⁽¹⁰⁾ and in its statement calling for action for insurers and intermediaries to mitigate the impact of COVID-19 on consumers ⁽¹¹⁾, highlighted the importance of ensuring business continuity and the continued fair treatment of consumers.

Insurers and insurance intermediaries have strived to guarantee business continuity. Leveraging on digital solutions and on hybrid model mixing in person interactions and digital communication, in most markets, insurance undertakings and insurance intermediaries have transferred staff to work from home. When operational disruptions emerged, they have been isolated and not material.

Moreover, the few operational disruptions observed appear to have been due to extrinsic factors rather than to the (lack of) contingency plans put in place by insurance undertakings and intermediaries. For example, in SE some

delays in health insurance claims handling have been observed; however, this was due to the strained situation in the healthcare sector leading to difficulties in receiving necessary documentation.

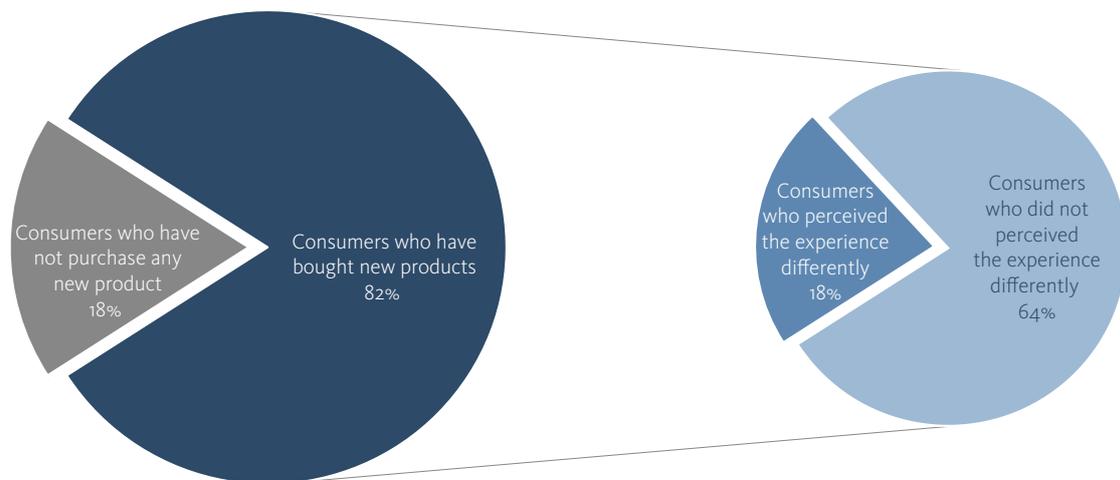
In some Member States insurance has been declared an essential service and this has contributed to business continuity, even though this may have not always facilitated insurers' and intermediaries' operations. For example:

- In ES, the fact insurance has been declared an essential service enabled insurers to continue to provide assistance;
- In IE, where insurance has also been declared an essential service, intermediaries could access their premises which allowed them to process paperwork when needed;
- On the contrary, in RO, where insurance has not been declared essential, the most vulnerable and less digitally savvy consumers may have faced difficulties.

Evidence from consumer interviews also confirms that, overall, insurance undertakings and intermediaries have guaranteed business continuity rendering the process of buying insurance, submitting claims and complaints as 'normal' as possible (Figure 4).

I changed motor insurance... Same procedure, it all went smoothly via the online chat. I had no contact in person. But overall, I am very satisfied ...

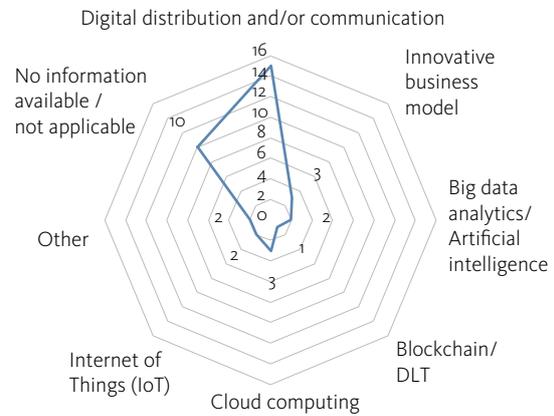
Figure 4 – Consumers experience when buying insurance during the COVID-19 crisis



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

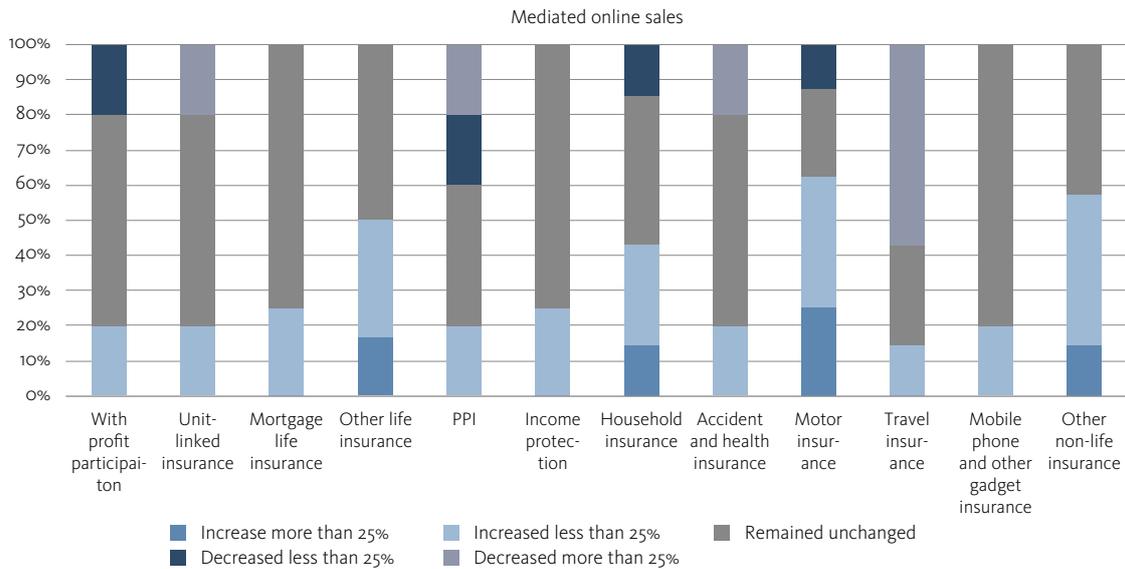
Online channels have generally facilitated timely information sharing and the process of buying insurance. In 15 Member States the most prevalent 'innovation' has been the increase in digital distribution and digital communication (Figure 5); in fact, for those Member States for which information is available, online direct sales and/or mediated sales have either remained stable – despite the general decrease in sales – or have increased (Figure 6).

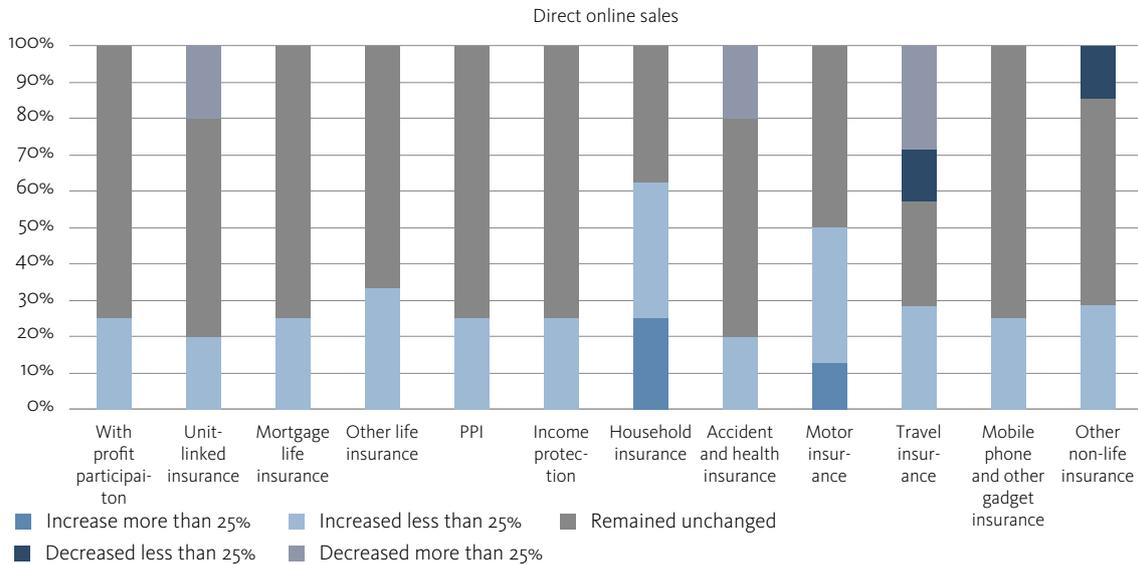
Figure 5 – Most observed financial innovations by number of Member States – NCAs' surveys



Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

Figure 6 – Digital sales trends by products – NCAs' survey





Source: Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

I had to file a claim ...There were written exchanges by email, and over the phone, and a few mails for the supporting documents...a specific email box was set up when the postal services started to slow down.

Digitalisation has been essential in ensuring business continuity and maintaining access to insurance for consumers (online sales and distribution, other policy servicing activities). Different tools have been deployed, for example:

- Information reported from stakeholders shows that most interactions with customers have been carried out digitally and policy servicing activities have been carried out via phone, email, chat and other social media channels;
- In several Member States, such as BG and IT, most insurance undertakings and intermediaries have implemented new methods to sell products remotely – payment and communication methods, including mobile apps, chat boxes – and to handle claims – online consultations and other online tools such video-appraisals, digital signatures, etc.;
- In some Member States market-wide initiatives have been put in place, with the digital distribution of green cards (CZ) and the setting of an online alternative dispute resolution mechanism (HR);
- In other Member States, such as IT and ES, telemedicine became more present and widespread.

Overall, the COVID-19 crisis has crystallised the benefits of financial innovation / digitalisation both for insurers

and intermediaries as well as for consumers. In fact, financial innovation / digitalisation have mostly enabled insurance undertakings and insurance intermediaries to be resilient and ensure business continuity. However, it is also noteworthy that:

- On one hand, in many Member States delays in claims handling have not been observed also because NCAs and Governments have extended deadlines for submitting claims (see Section 4.1);
- On the other hand, in particular for more vulnerable and less digitally savvy consumers, in those instances where they have been able to continue offering services intermediaries have also played a key role being a first point of contact for consumers to seek guidance on their insurance coverage.

Hence, while financial innovations have been essential in assisting in delivering better consumer outcomes, some risks – such as lack of adequate advice, inaccurate claims assessments, increased cyber risk etc. – may have emerged because of the sudden shift towards financial innovations and digital channels as a result of the COVID-19 outbreak. In Member States where a significant portion of the population lacks digital skills or access to digital means it may have been difficult for consumers to seek advice, buy coverage or submits claims.

Amongst some of the few issues encountered and reported by stakeholders, it is worth highlighting that it may have been challenging to comply with paper-based requirements. As it is estimated that electronic transactions and other digital ‘advancements’ made during the pandemic will remain, there may be a need to adequately review legislation to facilitate digital transactions, whilst ensuring that concerns relating financial exclusion are adequately addressed and mitigated.

1.1.3. INCREASE IN FRAUD RELATED RISKS

With the increase in digital communication and in the use of technology, possible risks relating to increased fraud both against insurance undertakings, pensions funds and against consumers, members and beneficiaries emerged.

In fact, given the current vulnerable situation of some groups, an increase in scams related to COVID-19 has been observed in some Member States. Moreover, as consumers have made greater use of the internet and of digital transactions - frauds risks, including identity theft, have increased.

Similarly, the number of fraudulent insurance claims has increased:

- In some cases the percentage of fraudulent cases has increased because of a general decrease in claims while fraudulent cases have remained stable;
- In other Member States, frauds may have increased as a result of the economic situation:
 - For protection products relating to workplaces / employment the number of cases has increased alongside an increase in the number of atypical illnesses related claims;

- For motor products the value of vehicles / damages – given remote assessments – has often been over-estimated; and
- The number of bicycle thefts for which insurance coverage has been sought has increased.

As Government measures put in place to protect employment may slowly fade away, the volume of fraud both directed against and initiated by consumers may further increase.

EIOPA and NCAs have already developed and issued guidance warning consumers on possible risks relating to scams and frauds. Insurance undertakings are also closely monitoring fraud. However, closer attention to these aspects may be needed.

Risks related to scams, frauds, and cyber-attacks have also increased in the pension sector with members and beneficiaries becoming more subject to scams and frauds and funds being more exposed to cyber-attacks.

EIOPA also recommended NCAs to expect IORPs to carefully consider the increased exposure to fraud, other criminal activities ⁽¹²⁾, and cyber-security. Several NCAs have warned IORPs about these risks which in turn warned members.

Figure 7 – EIOPA's Guidance to consumers during the COVID-19 crisis – warning against frauds



Source: EIOPA

1.2. LIFE INSURANCE SECTOR

1.2.1. MARKET OVERVIEW

At the end of Q2 2020, a majority of Member States in the EEA reported a decrease in life insurance GWP (Figure 8). The decrease, probably due to the COVID-19 situation, has been mainly led by a -24.2% decrease in insurance with profit participation and by a -16.3% decrease in other life insurance. In 2020 unit-linked insurance experienced a small growth, remaining the largest single line of business.

At the Member State level, different life insurance lines of business experienced different trends, despite a general decreasing trend. For example, in HR, the -17.8% ⁽³⁾ decrease in total life insurance GWP has been mainly led by a drop in index-linked and unit-linked insurance business (-34.7%) ⁽⁴⁾. In HR, lapses and surrenders for unit-linked insurance have reportedly increased over the first semester of 2020.

In BG, possibly due to the market turmoil at the onset of the crisis, surrenders for with profit participation decreased while surrenders for unit-linked products

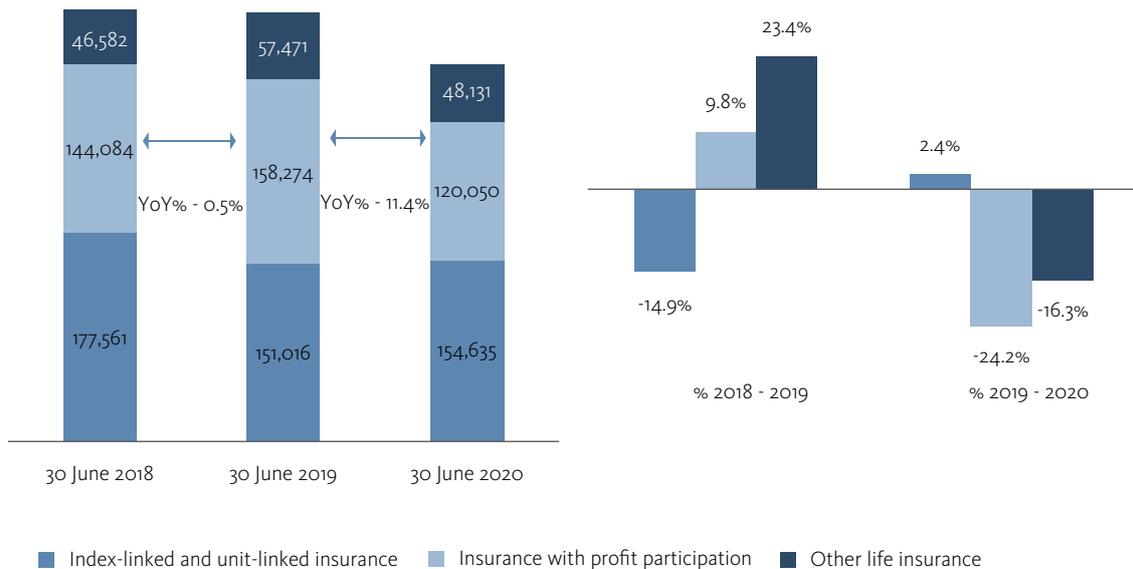
increased. Moreover, a shift from index-linked and unit-linked products (-34.1%) towards with profit participation products (33.3%) has been observed.

Some Member States reported short periods of 'abnormal' surrenders in unit-linked business. For example:

- In FI, in March there was a sudden and brief increase in surrenders, after which the situation has gone back to normal;
- In PL, an increase in surrenders for unit-linked products has been observed for some insurance undertakings at the on-set of the crisis but this has stabilized. This is mainly due to consumer behaviours and future uncertainty for consumers;
- Similarly, in DE an increase in surrenders was observed, but in May the situation has once again normalized.

Alongside a brief but sudden increase in lapses and surrenders, intermediaries have noticed an increase in queries from consumers 'anxious' to know how to act in this special market situation – also in line with guidance provided by EIOPA – to which they responded by helping them in understanding market fluctuations and advising them on their policy.

Figure 8 — EEA life insurance GWP in € million for selected lines of business (on the left) and YoY growth (on the right) — First semester 2020



Source: EIOPA Solvency II database.

On year-on-year basis, in Q2 2020, insurance with-profit participation GWP decreased in several Member States, including PT (-73.7%), BE (-11.1%), IT (-16.6%), FR (-40.5%) and NO (-29.3%) ⁽¹⁵⁾ following the increase reported at the end of 2018.

- In ES, where insurance with profit participation GWP already experienced a decrease (-37.7%), an increase in surrenders is expected in the coming months alongside an expected decrease in new business.
- In FR, in line with the continued trend and shift towards products with less guarantees, insurance with profit participation business begun dropping before the COVID-19 crisis with cumulative contributions dropping -35% between January and April 2020, while unit-linked business increased 19% over the same period, reporting a year-on-year GWP growth of 8.7% at the end of Q2 2020.

Trends for unit-linked products are more varied across Member States. In fact, the index-linked and unit-linked line of business grew in several Member States including GR (25.8%), LT (11.2%), and IT (6.0%), while decreasing significantly in PL (-22.3%) ⁽¹⁶⁾ and RO (-23.8%) ⁽¹⁷⁾. Growth trends are influenced by different factors. For example, in IT, because of COVID-19, after a significant increase in the first 2 months of the year (80%), premiums dropped in March.

Even though unit-linked overall did not decrease, in Q2 2020, 26 Member States reported a decrease in Q2 GWP compared to Q2 2019.

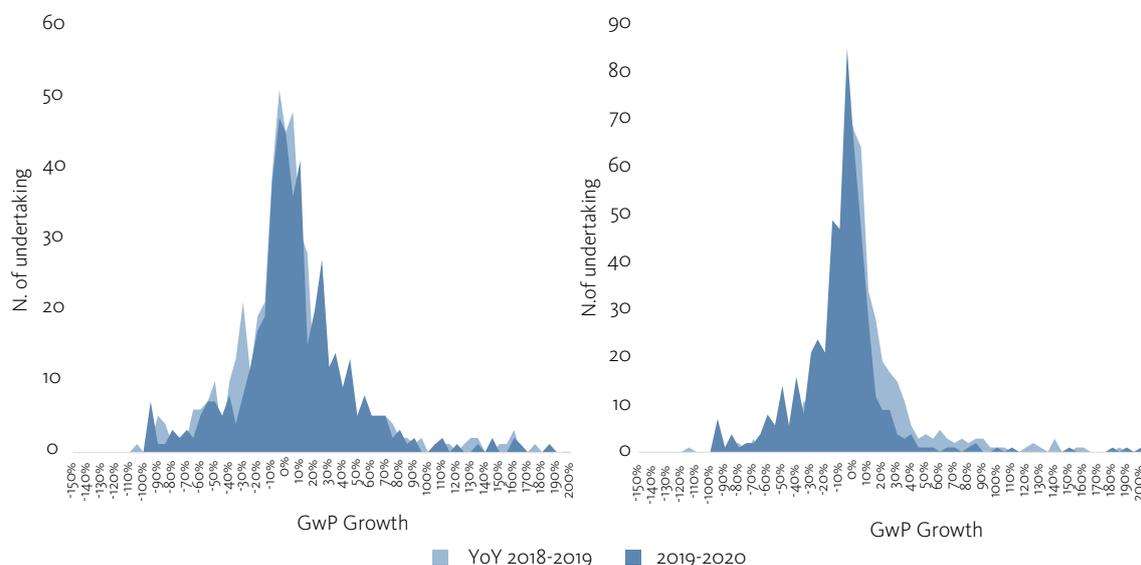
While an undertaking level analysis more clearly outlines the diverging trends between the index-linked and unit-linked insurance and the insurance with profit participation lines of business, given a general 'decreasing trend' in the first semester of 2020, trends appear more homogenous than in past years. In fact, the dispersion of index-linked and unit-linked insurance and insurance with-profit participation growth are less marked than in 2019.

Following the continuous shift towards products with less or no guarantees, the index-linked and unit-linked line of business represents over 20% of total life GWP in 22 Member States and more than 50% of total life GWP in 9 Member States.

Finally, considering the heterogeneous nature of the other-life insurance line of business, trends have been dictated by different factors:

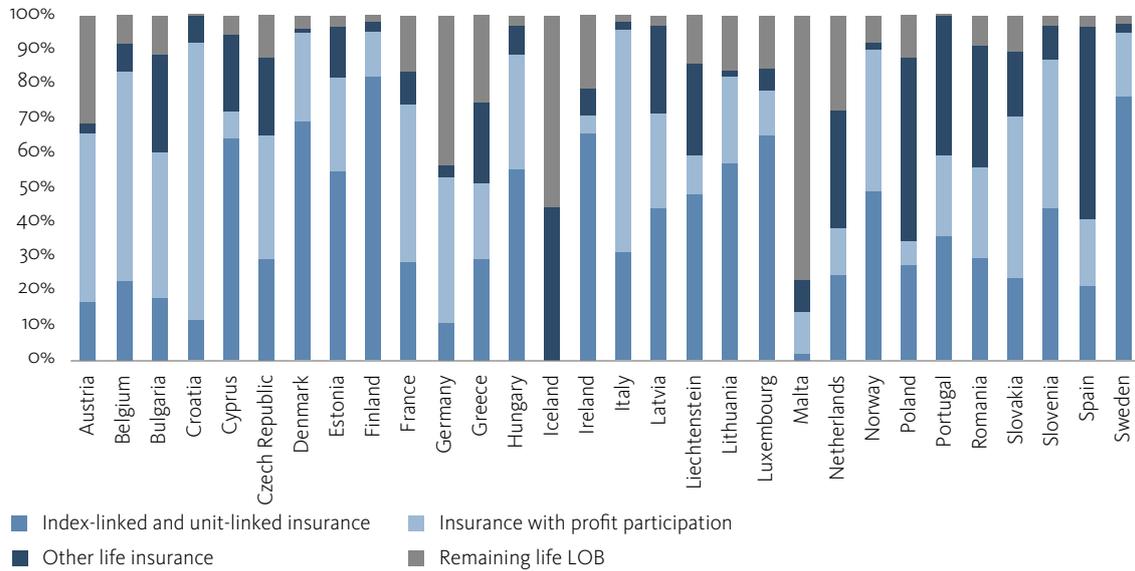
- In FR, GWP remained stable (-0.5%) even though premiums for mortgage life insurance policies dropped -40% at the beginning of the lockdown, to return back to previous levels towards the end of Q2 2020;
- In IT, GWP dropped by -9.3% as the increase in sales of traditional life insurance was strongly offset by the drop of the mortgage life insurance business;
- In RO, demand for term-life products has increased during the pandemic.

Figure 9 — Unit-linked (on the left) and with profit participation (on the right) GWP growth of all insurance undertakings in the first semester of 2020 vs first semester of 2019 and YoY at the end of 2019



Source: EIOPA Solvency II database.

Figure 10 — Selected life insurance lines of business GWP as a percentage of total life insurance GWP — First semester of 2020



Source: EIOPA Solvency II database.

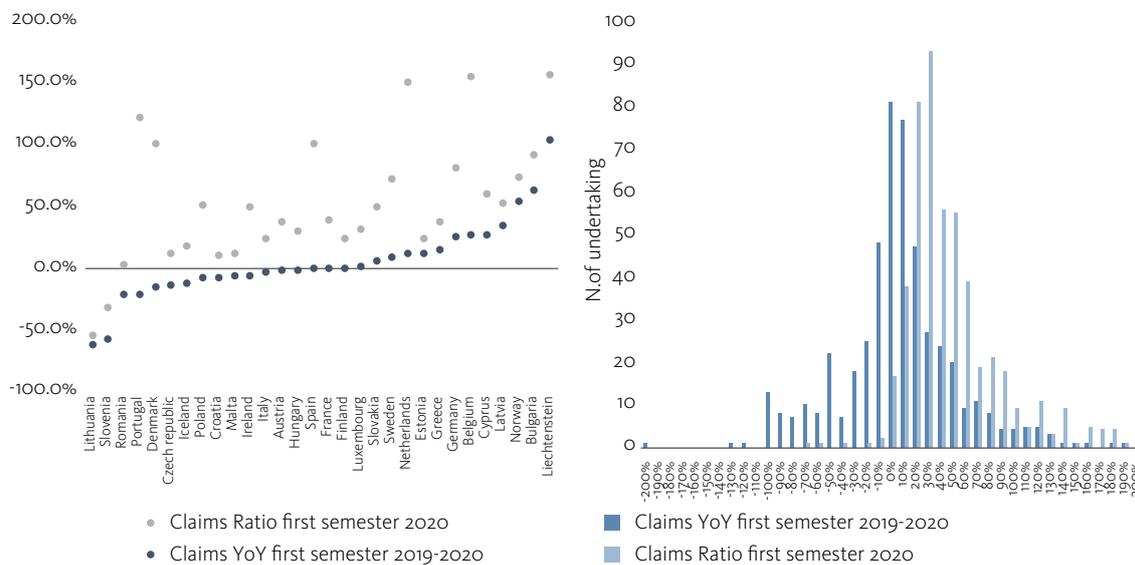
Conclusions with regard to claims for term life insurance and mortgage life policies cannot yet be drawn:

- On one hand, in several Member States consumers may have not yet triggered their coverage as mortgage payments have been suspended. Mortgage life insurance payments have also been suspended in some Member States, while in others premiums still need to be paid even though loan instalments have been stopped.

- On the other hand, for term life coverage in some instances lack of clarity with regard to exclusions exist; hence, the increase in death rates may not automatically result in increase in claims.

As shown in Figure 11, claims ratios and year-on-year growth trends with regard to total claims incurred, for this line of business vary significantly across Member States.

Figure 11 – Other life insurance claims ratios and YoY growth trends for claims incurred by Member States (on the left) and frequency distribution of all undertakings (on the right) – First semester 2020



Source: EIOPA Solvency II database.

1.2.2. POSSIBLE ENHANCED RISKS IN THE UNIT-LINKED MARKET

Complex unit-linked contracts have been identified as an area of concern by NCAs since the first annual EIOPA Consumer Trends Report. EIOPA's first full-blown thematic review also focused on issues in this market⁽¹⁸⁾.

Information reported by NCAs on the top 3 consumer protection issues amidst the COVID-19 crisis highlights continued concerns with regard to unit-linked contracts:

- Out of 44 top 3 consumer protection issues stemming out of the COVID-19 crisis, as reported by NCAs, 9 relate to life insurance while 14 others relate to both life and non-life insurance;
- Out of those issues which cover life insurance, unit-linked products are the ones for which most issues have been reported with 5 issues relating solely to unit-linked insurance and 6 others relating to unit-linked insurance amongst other products.

Reported issues range from lack of consumer understanding of product features, including costs and the fact that the market shocks risks are borne by consumers, to delays in paying out surrenders which, due to market shocks, leads to lower pay-outs.

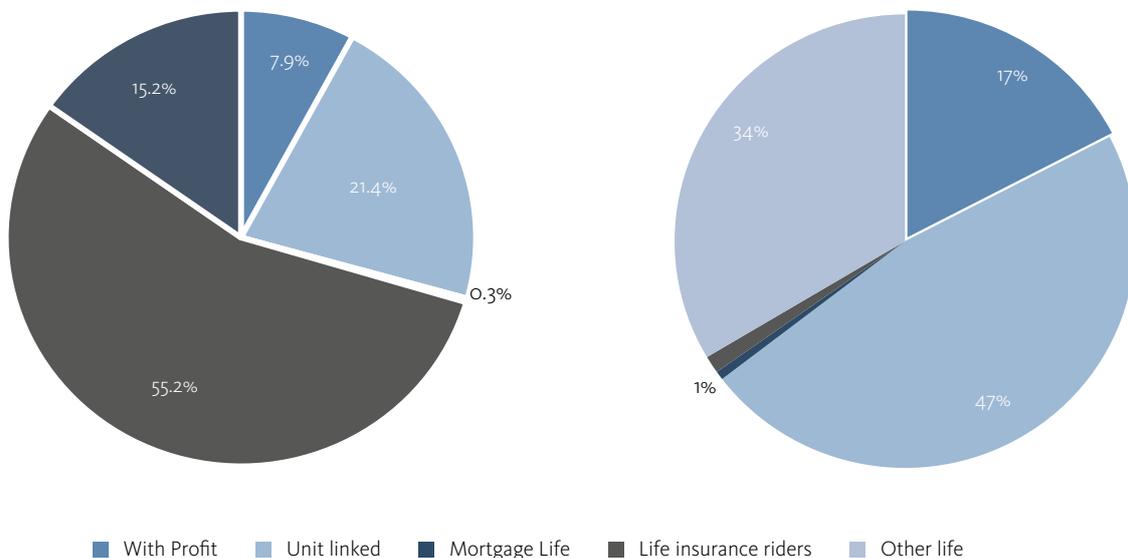
An analysis of COVID-19 related complaints, for those Member States which were able to provide this information⁽¹⁹⁾, by life insurance products, also shows possible consumer detriment with regard to unit-linked products. In fact:

- On one hand insurance riders, which are often sold with unit-linked products are the products for which most COVID-19 related complaints have been received, indicating issues with unit-linked products themselves but also with the way riders are packaged.
- On the other hand, not considering data on complaints relating to insurance riders reported by one Member State which accounts for over 99% of insurance riders related complaints, unit-linked products are the life insurance products for which most complaints have been received.

Overall lack of transparency, lack of consumer understanding, product complexity, and mis-selling remain the main problems in the unit-linked market.

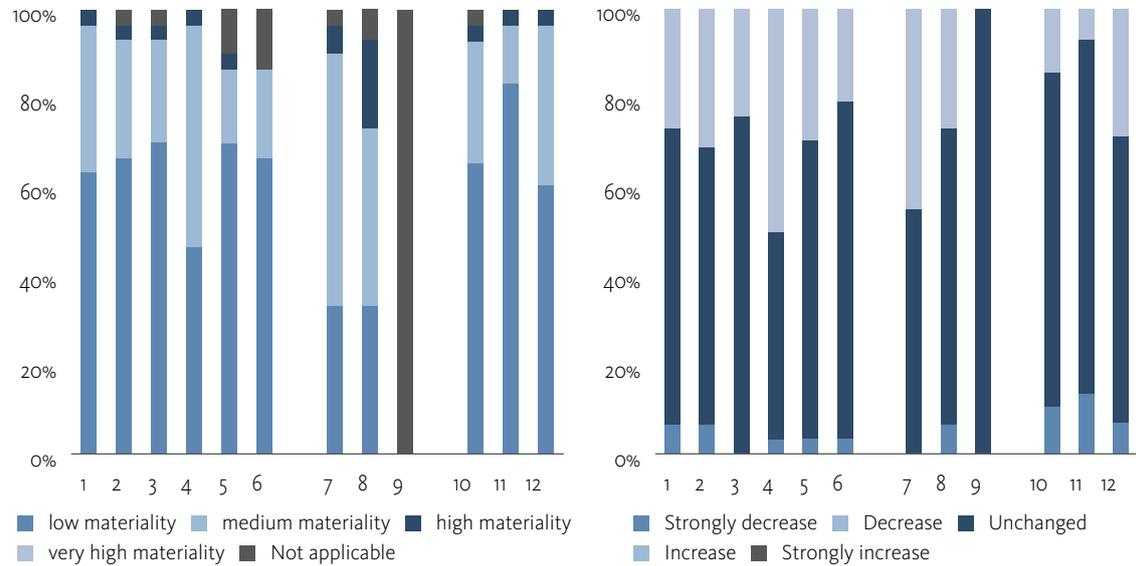
Moreover, risks in the unit-linked market might be heightened as a result of the COVID-19 crisis. The sharp fall in asset prices, observed at the onset of the COVID-19 pandemic, which was accompanied by significant redemptions from some investment funds and deterioration in financial market liquidity, raised some initial liquidity concerns in the unit-linked market.

Figure 12 — COVID-19 related complaints split by life insurance products taking into account all Member States (on the left) and not taking into account data for insurance-riders complaints reported by on Member State (on the right)



Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

Figure 13 – COVID-19 risks (on the left) and possibility of materialization of risks as the crisis continues (on the right) – by number of Member States



1 Liquidity of the asset portfolio; 2 Liquidity of investments funds; 3 Adequacy of cash holdings; 4 Lapse risk; 5 Funding conditions (i.e. high cost of debt, low maturity and high leverage); 6 Variation margins on derivatives and repurchase agreements; 7 Impact on product design (e.g. more Unit-linked, lower interest guarantees etc. and additional exclusions - pandemics, governmental measures; unsuitability of existing covers, or POG requirements, withdrawing from any markets/product lines); 8 Cyber security risk; 9 Others - If applicable, please specify in column G which impact on business model could affect insurers; 10 Conduct risks (mis-selling, unfair business practices, lack of/misleading information, etc.); 11 Disruption of services (e.g. Delays in claims payouts, services not available, etc); 12 Illiquidity of unit-linked portfolios.

Source: EIOPA - risk assessment - COVID-19 questionnaire for the insurance sector, May 2020.

Additional risks may also arise from the structural issues in the unit-linked market reported by EIOPA over the past years. For instance:

- Given the possible future economic impact of the crisis on household income, consumers may start to surrender their policies early – surfacing existing structural problems such as a mismatch between actual and expected returns because of the features (e.g., high risk, complex fee structure) of some unit-linked products and limited consumers’ understanding.
- In addition, customers might face difficulties in keeping-up with premium payments and there might be some additional costs and/or savings that cannot be further accumulated. Overall, surrenders for unit-linked products may materialize (Figure 13) and possible consumer detriment may arise as a result thereof.
- In the near future, expected lower returns and market volatility can also further exacerbate existing problems in the unit-linked market, heightening the impact that high costs can have.

Even though it needs to be interpreted with caution, evidence gathered from consumer interviews shows

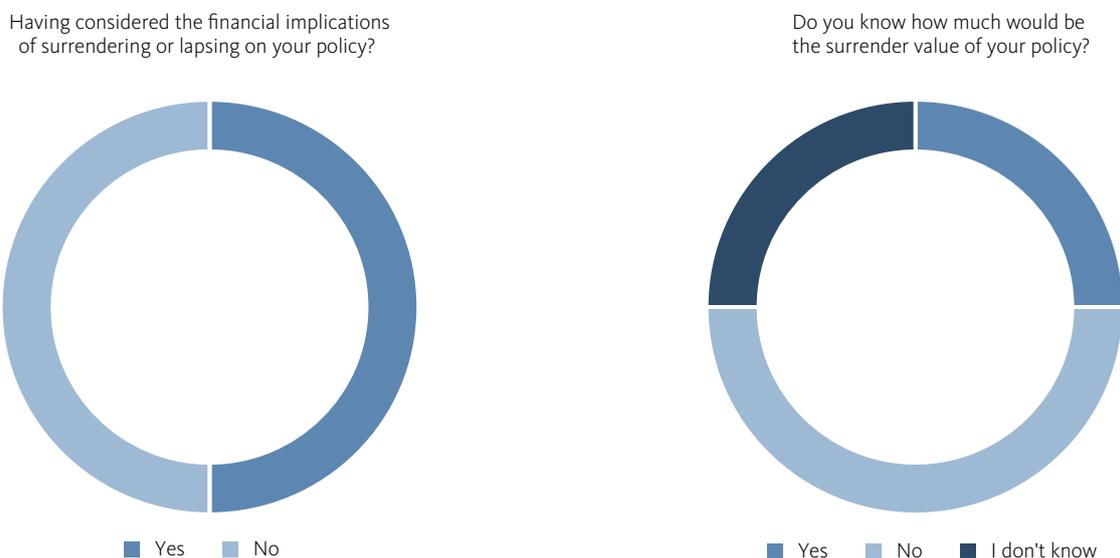
that consumers may often not understand these products and they may not be fully aware of the implications of surrendering early and the impact which costs can have on returns.

Moreover, over the past years, NCAs have reported concerns relating to conflicts of interests in the sale of unit-linked policies, leading to mis-selling, and relating to an increase in the sale of unit-linked policies to vulnerable consumer groups.

This could have important implications, as due to COVID-19, consumers may have difficulties paying and/or may need to tap into their savings to face daily expenses.

- On one hand, vulnerable consumers may be the most affected ones by this crisis and, hence, may be forced to surrender their unit-linked policies early;
- On the other hand, if unit-linked policies have been sold without a proper assessment of liquidity needs, such consumers may only keep these policies as savings and/or may have been sold policies with early withdrawal penalties which may adversely impact them.

Figure 14 – Consumers knowledge about costs returns for their unit-linked products



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

Finally, concerns with regard to illiquidity exist (Figure 13 and Box 1). In fact, illiquidity risk in unit-linked products is primarily borne by policyholders. And, overall there is very limited guidance on the disclosure and management of illiquidity risk in unit-linked products.

An analysis on how illiquidity risk in unit-linked insurance is treated in different markets, as for other issues emerging from the COVID-19 crisis, shows divergence as a result of the different legal provisions existing in different markets.

Broadly illiquidity in unit-linked products rests on policyholders:

- In 2 Member States, however, there are specific provisions which oblige insurance undertakings to pay out to policyholders regardless of the liquidity situation of the underlying assets;
- In one Member State, insurance undertakings are obliged to pay the value to policyholders as soon as the valuation of units is possible;
- In all other Member States there is no specific regulation and pay-out procedures, therefore, illiquidity related issues are regulated by policy terms and conditions, with diverging practices and legal obligations:

- In some Member States, in case of illiquidity, policyholders can transfer the value of their policy to another fund or to another provider;
- In some other Member States, while liquidity risk is not regulated, there are limited incentives/possibilities to surrender early. There are also specific requirements regulating 'cool-off' periods which give undertakings time between the request of the policyholder and the actual pay-out. Hence, these provisions limit illiquidity risk.

In terms of materialization of illiquidity risks, except from fluctuations observed between March and May 2020, in most Member States such risk is not a concern. However, it may increase in the near future if further market shocks take place and a high number of lapses and surrenders are observed.

Divergences in terms of perception / materialization of liquidity risk can also relate to the divergence in rules concerning underlying assets, with some Member States having restrictions / limitations and others having rules replicating the *prudent person* principles envisaged in the Solvency II Directive.



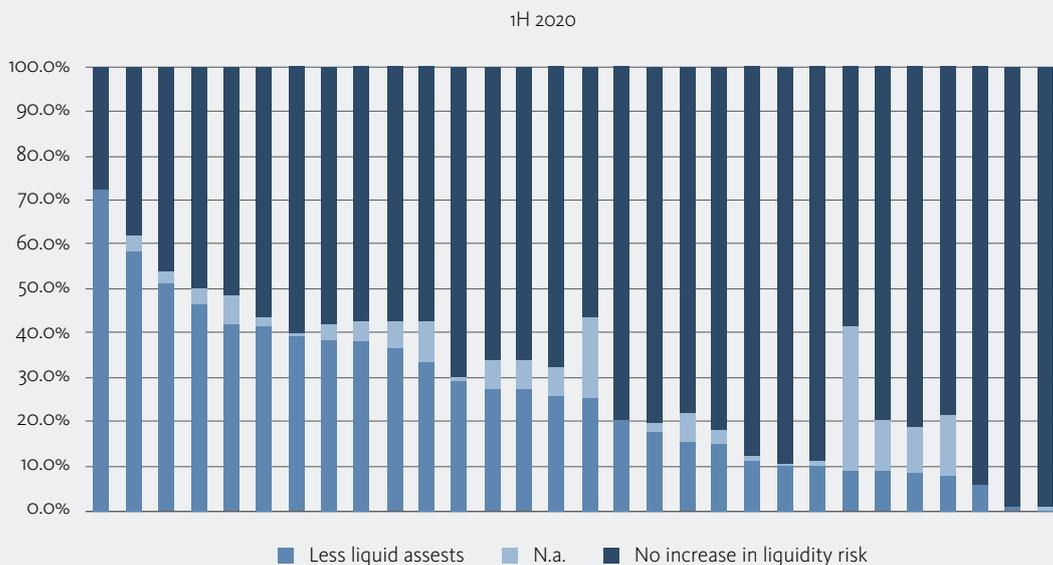
POSSIBLE ILLIQUIDITY IN THE UNIT-LINKED MARKET

The European UCITS IV Directive defines 'liquidity risk' as *"the risk that a position in the UCITS portfolio cannot be sold, liquidated or closed at limited cost in an adequately short timeframe and that the ability of the UCITS to repurchase or redeem its units at the request of any unit-holder is thereby compromised"*.

Based on this definition, some assets – backing index-linked and unit-linked contracts – for which selling, liquidation and closing in a short timeframe may have become more difficult have been identified taking into account also the asset-categorization available under Solvency II. This, considering information on redemptions, liquidations and sales of assets, is not available. In particular, it is noteworthy that:

- Real estate equity, real estate funds, and properties as underlying assets may have become more illiquid; in fact, valuation activities have stopped in some markets during the lockdown;
- Mortgages / credit and debts funds as underlyings may have become more illiquid, because of the possible risks of defaults – in particular those with lower rating which were already more difficult to sell, therefore similar criteria as for bonds have been considered;
- High-yield / riskier bonds (e.g., emerging markets government bonds or corporate bonds) may have become more illiquid because of ongoing downgrading activities – recent information shows that downgrading activities for BBB- to BB ratings have taken place / are taking place for several bonds;
- Underlying funds for which redemptions have been suspended have become illiquid;
- Underlying assets which for which no prices are quoted in active markets may be subject to a higher illiquidity risk.

Figure 15 – Percentage of assets backing index-linked and unit-linked contracts at a possible higher risk of illiquidity – by Member State, first semester 2020



Source: EIOPA Solvency II database.

Matching these with information reported under Solvency II, some asset (sub)categories may be considered entailing higher concerns with regard to liquidity risk following the COVID-19 crisis. This, however, should be interpreted with caution given that information on asset-liquidity is not available under Solvency II.

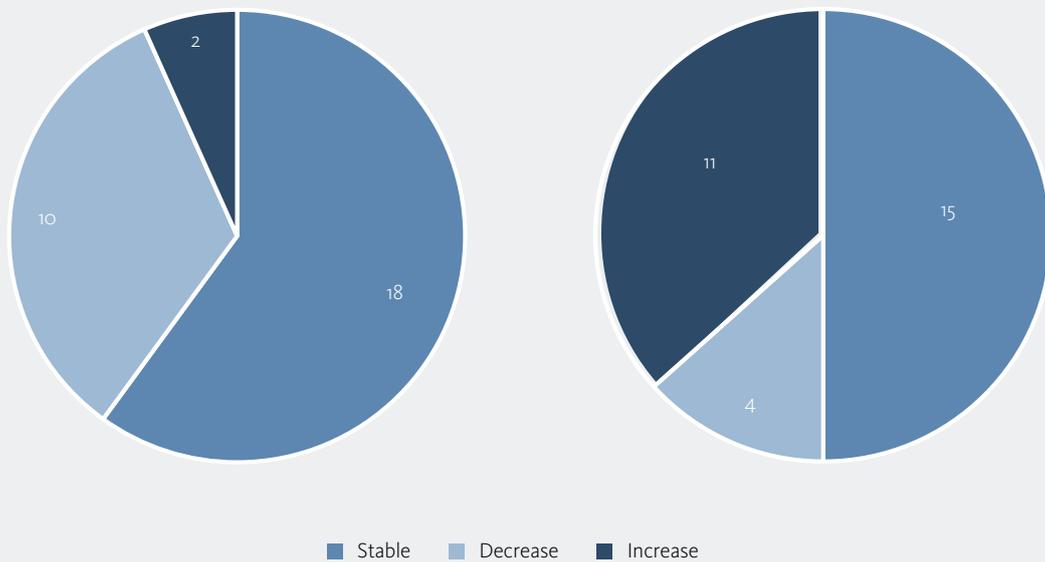
An analysis of Q1 and Q2 2020 data shows that a significant divergence can be observed across Member States. In some Member States on average insurance undertakings may hold a higher concentration of assets at higher risk of possible illiquidity, on average the share of assets at a possible higher risk of illiquidity above 10% in 23 of them and in 3 of them is above 50%.

In 7 Member States the total percentage of assets at higher liquidity risk is below 10%; however, given this is an average figure some undertakings may hold higher / lower amounts of assets at higher risk of illiquidity.

Even though trends are clearly divergent across Member States, a quarter by quarter comparison shows the impact of the crisis.

- While the percentage of assets with possible higher liquidity risks between Q4 2019 and Q1 2020 remained stable in 18 Member States and decreased in 2 Member States – showing overall stability;
- Between Q1 and Q2 2020, possibly due to downgrading activities for bonds and/or shifts in portfolios to face market shocks, the percentage of assets with possible higher liquidity risks remained stable in 15 Member States increasing, however, in other 11 of them.

Figure 16 – QonQ trends of percentage of assets at higher risk of illiquidity by number of Member States – Q1 2020 (on the left) Q2 2020 (on the right)



Source: EIOPA Solvency II database.

1.3. NON-LIFE INSURANCE

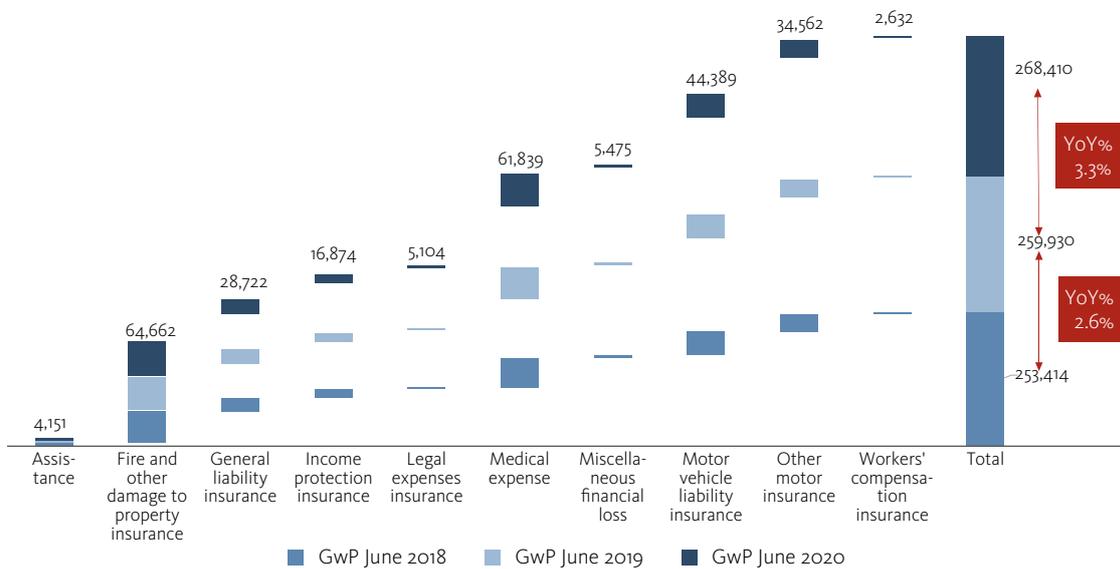
1.3.1. MARKET OVERVIEW

The EEA non-life insurance sector grew by 3.3% in the first half of 2020. Unlike in past years when growth was particularly strong in eastern European Member States,

growth trends were more heterogeneous and diverse across Europe, possibly as a consequence of the COVID-19 crisis.

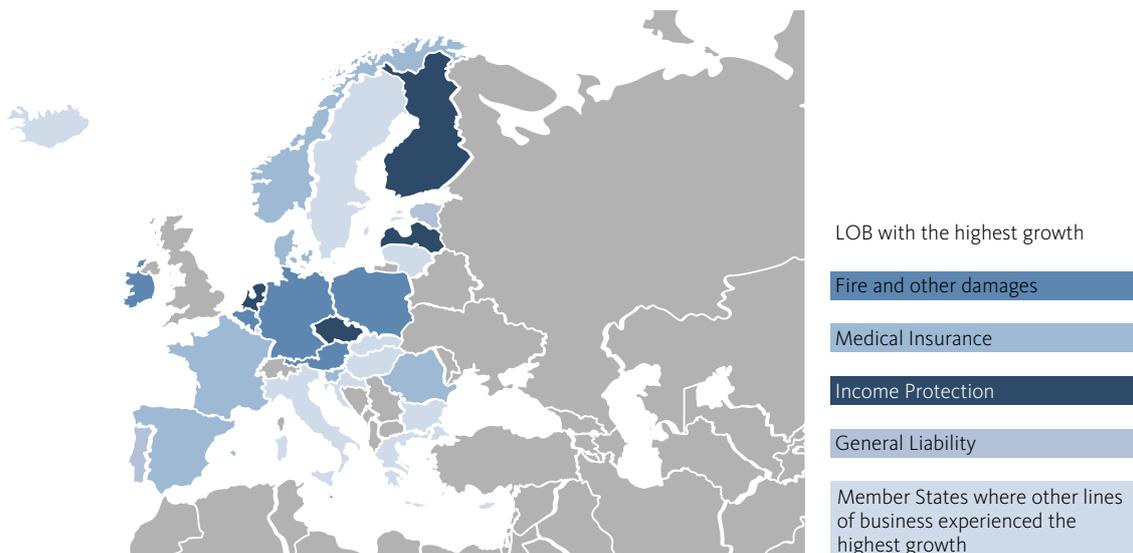
In DK, the 18.2% (20) growth was mainly led by a growth in medical expenses business. A trend which can also be observed in FI and NO and partially in SE. Conversely, across a number of markets such as FR, LT, SK the miscellaneous financial loss reported important growth trends.

Figure 17 — Non-life insurance GWP in € million for selected lines of business — First semester 2020



Source: EIOPA Solvency II database.

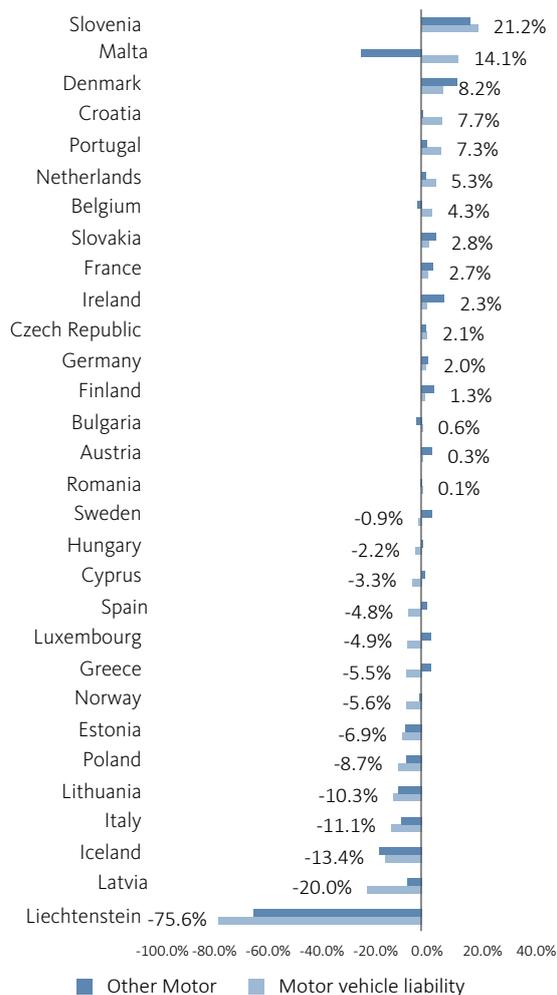
Figure 18 — Non-life insurance lines of business which led growth in different Member States — First semester 2020 (21)



Source: EIOPA Solvency II database.

Even though the motor vehicle liability line of business experienced a -4.6% decrease and other motor insurance did not report any growth – alongside a general decrease in claims motor insurance (motor vehicle liability and other motor insurance) continues to be the most prominent product in the non-life sector (Figure 17). Growth trends in motor insurance have been particularly influenced by the lock-down, which in several instances resulted in voluntary and/or mandatory premium payment suspensions and/or delays (see Section 2.2.). For example, in IT, where lock-down measures have been very stringent with limited mobility allowed, the motor vehicle liability line of business experienced a -11% decrease in GWP, with an important drop in Q2 2020 of (-17%) in comparison to the correspondent quarter in 2019.

Figure 19 – GWP Growth motor vehicle liability and other motor insurance – First semester 2020 by Member States ⁽²²⁾



Source: EIOPA Solvency II database.

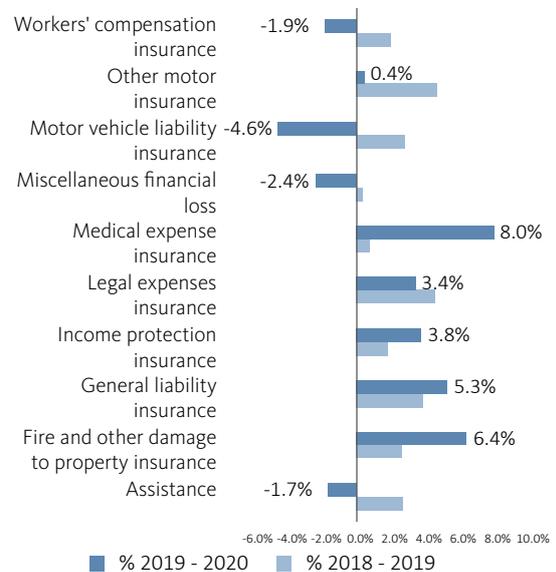
In DK and SE, on the contrary, where personal mobility has not been impacted by the COVID-19 crisis, the motor vehicle liability and other motor insurance lines of business reported respectively a year-on-year growth of 8.2% ⁽²³⁾ and 23.6% ⁽²⁴⁾.

Over the past years, innovations have characterised trends in the motor insurance sector and this is expected to continue with more tailored products being developed to adapt to changes in consumer needs (see Section 2.2.) and to facilitate the reporting of damages and submitting claims. Online sales remained stable or have increased as a result of general digitalisation trends emerging from the COVID-19 crisis (Figure 6).

Medical expense insurance continues to be the largest non-life insurance line of business and in the first semester of 2020 was the line of business which experienced the highest growth.

Over the past years, it has been highlighted that from a value-for-money perspective, accident and health insurance products fare well compared with other non-life insurance products. Amidst the crisis accident and health insurance products appear to have continued to 'offer value' to consumers, reporting the second highest claims ratios (Figure 23) and not any major decreases / increases – in comparison with other lines of business – in total claims incurred.

Figure 20 – YoY Growth by non-life insurance lines of business



Source: EIOPA Solvency II database.

In several Member States, COVID-19 related treatments were covered and/or several initiatives have been put in place to ensure that accident and health insurance products continue to offer value to consumers. For example:

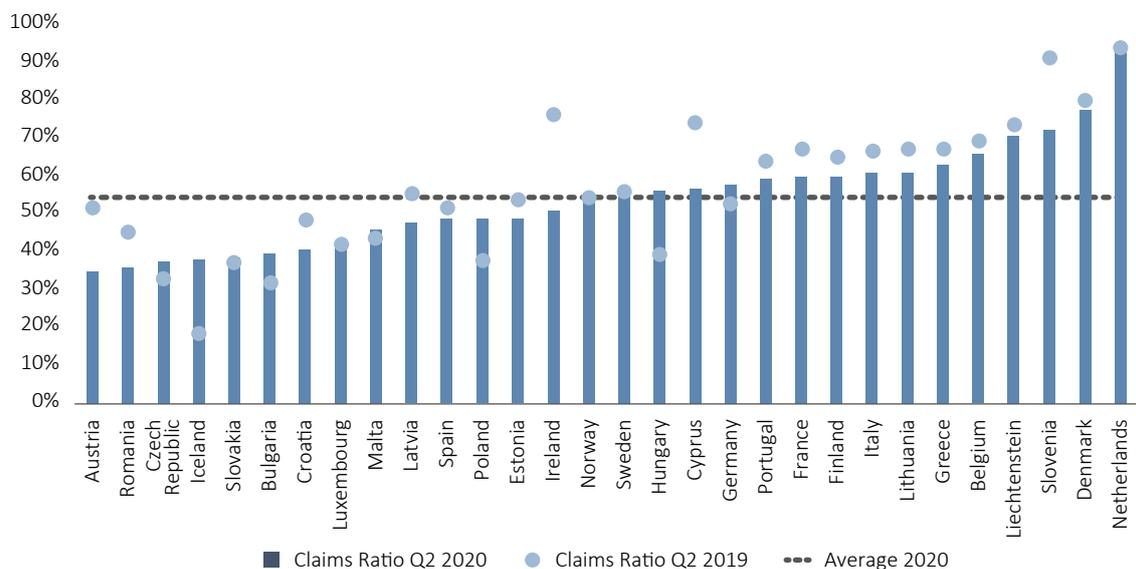
- In GR, a majority of health insurance contracts did not have pandemic related exclusions and in cases where exclusions applied, some insurers voluntary waived them. In addition, insurers covered daily allowances for COVID-19 hospitalizations, as well as expenses for COVID-19 diagnostic tests. Insurers also agreed with certain medical centres a special discount for medical examinations for those insured persons who were infected with COVID-19;
- In FR, complementary health insurance covered COVID-19 related medical expenses and accident coverage also paid for COVID-19 related incidents;
- In DK, where customers with complementary coverage may have not been able to access 'routine' medical services, the insurance association has encouraged insurers to cover online consultations;
- In IE, where the government temporarily repurposed private medical facilities for public use, health insurers compensated policyholders with approximately EUR 300 million in rebates; and
- In IT, special products have been developed, providing small lump sum compensations in case of COVID-19 related hospitalisations.

Overall, out of all the products for which goodwill / consumer friendly positions have been taken with regard to exclusions, accident and health insurance is the most frequent product.

Claims related data shows good outcomes and consistency across the EEA, in comparison with other non-life lines of business:

- At the end of Q2 2020, in comparison to Q2 2019, claims ratios for medical expense insurance remained rather stable, dropping more than 15 percentage points only in 4 Member States and increasing more than 15 percentage points only in 2 Member States;
- At the end of Q2 2020 only one Member State had claims ratios for medical expense insurance above 80% and only 6 below 40%;
- In absolute terms – in comparison with other non-life insurance lines of business – claims incurred remained stable across Member States, decreasing in 16 of them, but only in one above 50% and increasing above 50% only in 2 Member States; and
- Accident and health insurance COVID-19 related complaints represent less than 10% of total COVID-19 related complaints, this is lower than in 2018 and 2019 when accident and health insurance complaints represented 16% and 17% respectively of the total complaints at the EEA level.

Figure 21 — Claims ratio Q2 2019 and Q2 2020 for medical expense insurance by Member State



Source: EIOPA Solvency II database.

Innovations in the health insurance sector have also been accelerated as a consequence of COVID-19. The usage of telemedicine increased across the EEA and, in some Member States, apps to check COVID-19 related symptoms have been developed by health insurers. In NO, where the sale of health insurance products grew, an increase in the usage of digital health platforms has also been observed.

Nevertheless, it is worth highlighting that isolated episodes of enhanced conduct risks have been reported. In some instances, sickness allowances and cash benefits relating to accident and health insurance products have not been paid because of pandemic related exclusions.

Overall, accident and health insurance trends in the future may vary significantly with:

- Business expected to be increasing as consumers may seek additional health coverage, increasing coverage ratios;
- Insurers possibly seeking to exclude COVID-19 related developments from future coverage given the uncertainty of the future impact of the virus on the health of consumers, raising concerns from a conduct perspective.

Innovation in pricing and underwriting practices to better assess risks and/or to better tailor products to consumers' needs may also become more widespread. This would require enhanced monitoring, focusing on the balance between innovations and adequate management and mitigation of conduct risks.

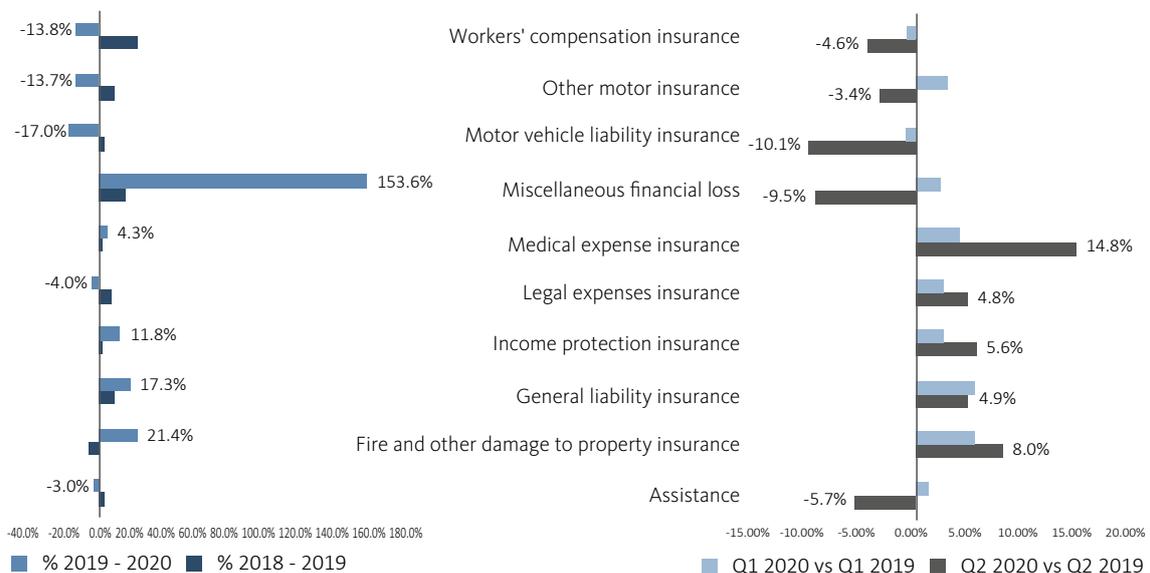
The fire and other damage to properties line of business increased in 26 Member States — in 4 of them by more than 15%. Although several products fall under the fire and other damage to property line of business (25) inputs received indicate that the increase in some Member States may be influenced by teleworking arrangements, with consumers often seeking to extend coverage to working equipment.

Given changes in working habits and travel restrictions, at the on-set of the crisis, concerns arose with consumers possibly breaching contractual obligations and losing coverage. EIOPA, in its initial guidance to the market highlighted the need to ensure flexibility (26) and a number of initiatives have been observed, albeit not consistent and homogenous trends. For example:

- In FR, the national insurance association recommended its members to disregard vacancy clauses requiring continuous occupation during lockdown measures;
- In a number of Member States, insurers have extended coverage towards professional equipment if not already covered under the employer's insurance; and
- In some instances, clauses forbidding the usage of homes for professional purposes have also been waived.

Overall, an increase in claims can be observed with the fire and other damage to property line of business being the second line of business for which claims incurred reported a year-on-year increase. In particular, claims appeared to have increased in the 'lockdown months'.

Figure 22 – Total claims incurred YoY growth for the first semester of 2020 (on the left) and Q1 2020 vs. Q1 2019 and Q2 2020 vs. Q2 2019 growth (on the right) – Selected non-life insurance lines of business



Source: EIOPA Solvency II database.

Despite the flexibility shown by some insurance undertakings, consumer detriment may have arisen earlier in the crisis. In fact, it has been reported that some insurers have not communicated clearly and in a timely fashion about whether they would be flexible with regard to changed risks for household insurance.

Trends in income protection insurance varied significantly across Member States. In fact, while a general increase in claims ratios can be observed, as consumers have lost jobs, insurers have not in all cases paid out benefits:

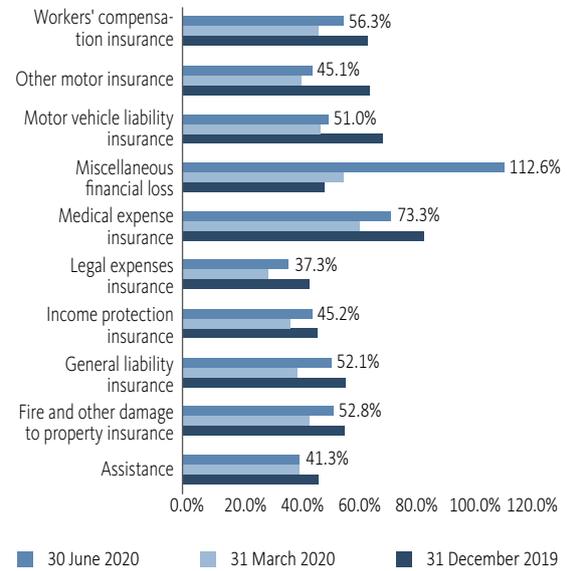
- In some instances pandemics may have been excluded; and
- In other instances consumers may have been covered by national schemes.

These have resulted in significantly differing trends being observed across Member States:

- In DE, where based on information provided by stakeholders it appears that insurers have extended the criteria for unemployment under payment protection and also offered cost-free temporary accident insurance for children of existing customers, it is worth highlighting the claims ratio remained stable.
- In RO, while overall the claims ratio remained stable for the second semester of 2020, at the on-set of the crisis with consumers starting to trigger coverage, some insurers have introduced exclusions.

The unknown nature of the COVID-19 virus, in particular in relation to its long-term health implications, may also lead to insurers opting not to insure consumers who have been affected by COVID-19 or to insurers to put in place screening procedures to avoid risks relating to silent risk.

Figure 23 — Claims ratios for selected non-life insurance lines of business — First semester 2020



Source: EIOPA Solvency II database.

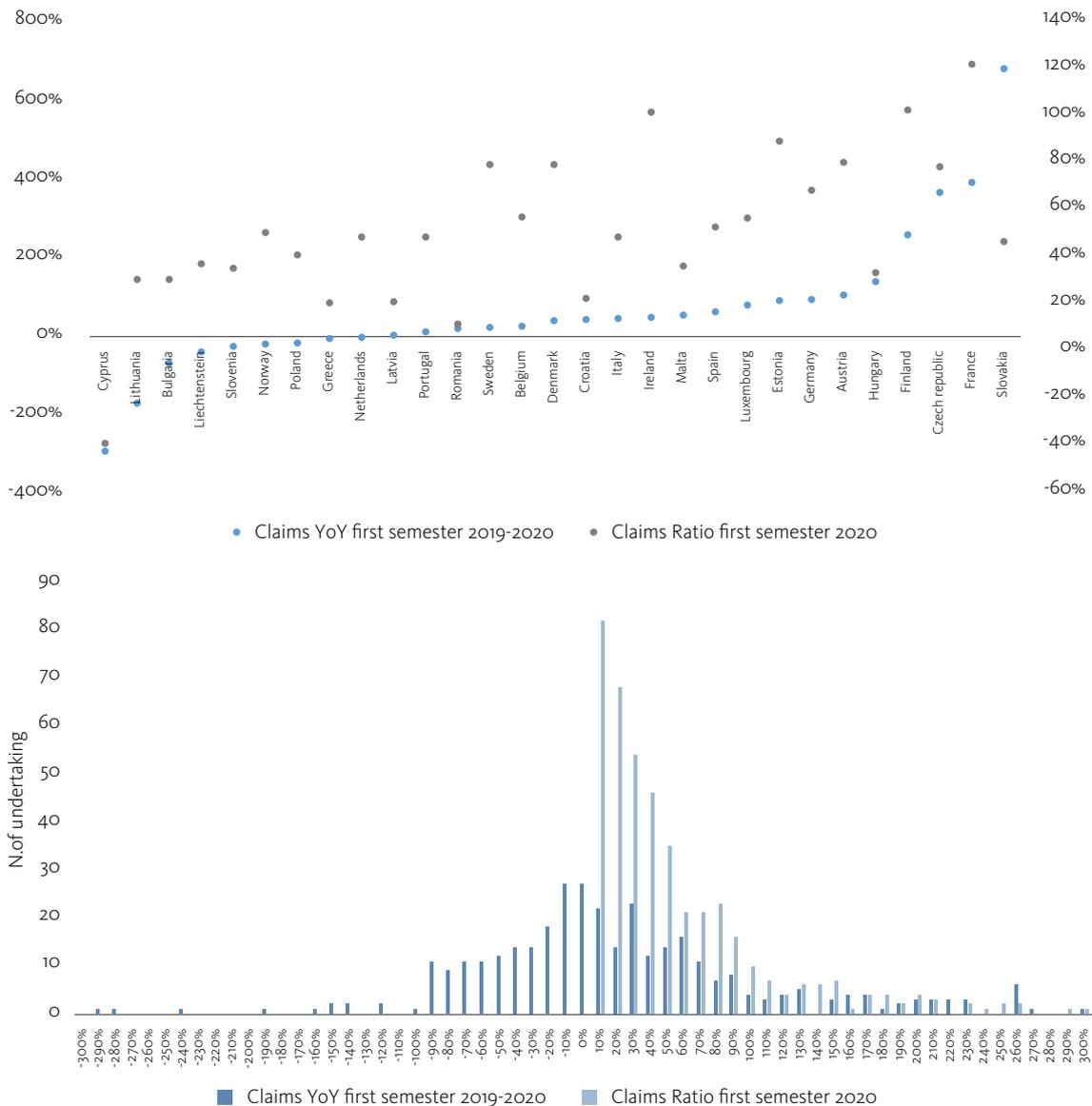
The general liability line of business experienced both an increase in GWP terms and in claims ratios. This could be due to the fact that several liability related aspects such as people being infected with COVID-19 at the premises of a business may fall under this line of business.

The miscellaneous financial loss is the line of business which experienced the highest increase in claims ratios, more than doubling in several Member States. This could be due to the fact that several 'cancellations' and travel related aspects are covered under this line of business. It could also relate to the fact that some business interruptions claims may also fall under this line of business and insurers may have provisioned for expected future claims.

Trends in the miscellaneous financial loss line of business are also varied. For example, it doubled in several Member States but also dropped significantly in others possibly because of exclusions raising concerns about consistent outcomes.

Trends may have been influenced by whether pandemics are covered and/or whether insurance undertakings have taken consumer friendly positions. In fact, while it is difficult to draw conclusions given that the miscellaneous financial loss covers several products, it is worth highlighting that in Member States where good-will actions on travel and/or business interruption have been reported increase in claims ratios have been observed.

Figure 24 – Miscellaneous financial loss claims ratios and YoY growth trends for claims incurred by Member States (on the left) and frequency distribution of all undertakings (on the right) – First semester 2020



Source: EIOPA Solvency II database.

1.3.2. TRAVEL INSURANCE: CONTINUED CONCERNS

Travel insurance products have been subject of specific attention at the on-set of crisis and continue to be subject of specific attention as the crisis continues. EIOPA, in its warning on travel insurance (27), highlighted the utility of these products whilst raising significant concerns on the value some products bring to consumers.

While the issues that emerged are different in nature, the COVID-19 crisis also surfaced inconsistent consumer outcomes with regard to travel insurance products which are both:

- The products for which the highest amount of COVID-19 top 3 consumer protection issues have been reported by NCAs; and
- The products for which the highest amount of COVID-19 top 3 consumer protection positive initiatives have also been highlighted by NCAs.

Issues reported by NCAs are varied in nature; however, they continue highlighting specific issues relating to the value and utility these products offer. They also continue highlighting problematic business models in the travel insurance sector:

- Some NCAs reported they have noticed that some travel insurers 'have stated' COVID-19 related can-

cellations and/or expenses are not covered, even though this was not clearly excluded for contracts in being. This heightens the concerns which emerged from EIOPA's Thematic Review in relation to the overall low value some products offered and some problematic business models.

- Several NCAs reported that, even though cancelled trips were refunded or vouchers were given according to national law, travel insurers have not refunded the premiums. This raises concerns as to problematic business models and the overall utility some of these products offer, in fact, due to the lack of travel risk does not subsist. Having said this it is also important to differentiate between products covering multiple aspects (e.g., luggage loss, medical expense and travel interruption) and products covering solely or mainly travel cancellation as changes in risk levels are different for each type of coverage.
- Some NCAs reported an increase in travel insurance related claims which are 'delayed' and/or rejected. This, coupled with inputs received, data emerging from COVID-19 related complaints, and information captured via consumer interviews indicates possible issues with contract complexity and/or mismatch between consumer expectations, further highlighting low value for money issues, because of high number of exclusions, have been already identified as a problem in travel products.

Figure 25 – COVID-19 top 3 consumer protection issues (on the left) and COVID-19 top 3 positive initiatives (on the right)



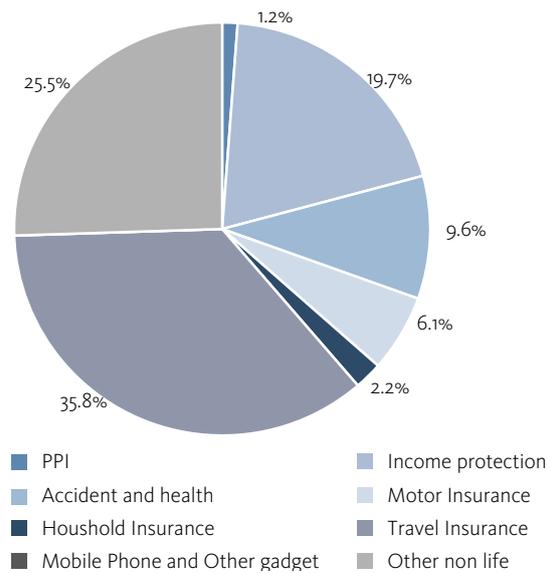
Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

Initiatives reported are also varied in nature and range from:

- The development of 'pay-as-you-travel' annual travel insurance policies for which a basis premium is paid and then it is adjusted based on the number of trips taken;
- The extension of policy coverage beyond the originally covered period when consumers have been stranded abroad;
- The waiving exclusions to allow people to travel, especially in the summer months.

Travel insurance is also the product for which most COVID-19 related complaints have been reported. ⁽²⁸⁾

Figure 26 – COVID-19 related complaints split by non-life insurance products



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

An analysis of claims ratios and claims related trends shows potential concerns. While claims ratios for the assistance line of business have increased, being below 40% in Q2 2020 in 14 Member States vs. 21 Member States in 2019, this could be due to a sudden decrease in premiums collected – i.e., consumer not buying travel products or premium refunds – rather than a drop in pay outs. In fact, an analysis of total claims incurred, which indicates the amount paid out in claims or provisioned for expected claims without factoring in premium trends, shows that they decreased in 16 Member States.

For 6 out of the 9 Member States which also reported insurers having modified their travel insurance products and/or stated COVID-19 pandemics are excluded – i.e., not paying claims stemming out of the pandemic or paying only claims for products sold before the exclusion was introduced – both claims ratios and total claims incurred in the first semester of 2020 decreased in comparison with the first semester of 2019. This should be interpreted bearing in mind that travel insurance claims may also fall under other lines of business: in fact, many insurers have extended medical coverage for people stranded abroad and/or affected by COVID-19 and this would more clearly emerge under medical expense claims rather than assistance.

Finally, it is worth highlighting that as a result of the impact of the pandemic and/or issues emerging thereof, including reputational risks, in several Member States insurers have stopped selling travel insurance which may lead to future under-insurance / consumers not being able to obtain the coverage they may need.

2. KEY CONSUMER ISSUES EMERGING FROM THE COVID-19 CRISIS

2.1. EXCLUSIONS

Given the scale of the COVID-19 outbreak and impact on households and (small) businesses, issues around exclusions have been given significant prominence in the media, often raising controversial aspects and highlighting areas where possible consumer detriment may exist.

On one hand, exclusion clauses relate to the fact that pandemics raise specific difficulties from an insurance perspective: ⁽²⁹⁾

- › They are exceptional, with limited to no historic data available for actuarial and modelling purposes;
- › They are global, meaning they affect many individuals and economic sectors at the same time rendering the concept of risk-pooling 'obsolete';
- › They are infinite, meaning there is no determinable period to their continuation or end making it difficult to quantify risks from an actuarial perspective.

On the other hand, increasing pressure has been put on the sector to pay out claims even though the risk may have not been originally foreseen. To this extent in its call for action for insurers and intermediaries to mitigate the impact of COVID-19 on consumers ⁽³⁰⁾ EIOPA clearly outlined the risks and stated that:

...imposing retroactive coverage of claims not envisaged within contracts could create material solvency risks and ultimately threaten policyholder protection and market stability, aggravating the financial and economic impacts of the current health crisis.

EIOPA also highlighted measures to be taken to limit possible consumer detriment, which however, may have not been consistently adopted, raising concerns as to whether consumer detriment actually materialized. This may not

necessarily relate to the way the sector has reacted but rather to the impact of COVID-19 and to the way in which insurance contracts law is regulated in different markets.

The diversity in situations across the EEA highlights the potential for significantly different outcomes for consumers purportedly buying in a single market.

2.1.1. DIFFERENTIAL TREATMENT, MISLEADING INFORMATION, AND LACK OF CLARITY IN CONTRACTUAL INFORMATION

Even though pandemic risks can potentially affect the whole EEA and insurers operate in a single market, the COVID-19 crisis highlighted a heterogeneous landscape in relation to the treatment of pandemics, with differences ranging across markets, products and undertakings:

- › In several markets, insurers exclude pandemics from their contracts, especially in the case of business interruption insurance, as physical damage did not occur;
- › In a few markets, generally pandemics are not excluded from insurance policies; and
- › Finally, in some markets, ambiguity exists as to whether pandemics are clearly excluded.

A close look into different products shows an even more heterogeneous landscape:

- › **Travel insurance:** Not all travel insurers explicitly exclude epidemics / pandemics from the coverage of their policies. In addition, those insurers that do exclude losses due to a pandemic may still accept claims for events occurred before March 11, 2020.⁽³¹⁾ Different insurers might consider different reference dates when COVID-19 became a foreseeable event.

An additional element to be considered when assessing whether a claim would be successful or not is the travel ban / restriction announced by a government. For policies or trips booked after the announcement

of travel bans / restrictions, consumers would most probably not be able to submit their claims.

- **Business interruption:** While it was originally expected pandemics would be excluded, in some instances contracts for business interruption have turned out to be very heterogeneous, raising considerable legal uncertainty on cover.

Some policies appear to have different types of extensions or endorsements that provide coverage for business interruption without physical damage to the insured property – e.g. denial of access-type or other non-damage extensions. However, in order to trigger coverage specific requirements need to be met.

- **Income protection, health and term-life insurance:** Different approaches are being observed across different Member States with some health and income protection insurance products only providing coverage if COVID-19 was caught in certain circumstances (e.g., in the workplace).

The differential treatment of pandemics becomes even more evident when looking into different products in different Member States. For example:

- In DK, while most travel insurance policies do not exclude pandemics, income protection and accident and health insurance only cover COVID-19 related

aspects if an employee is infected at the workplace; and

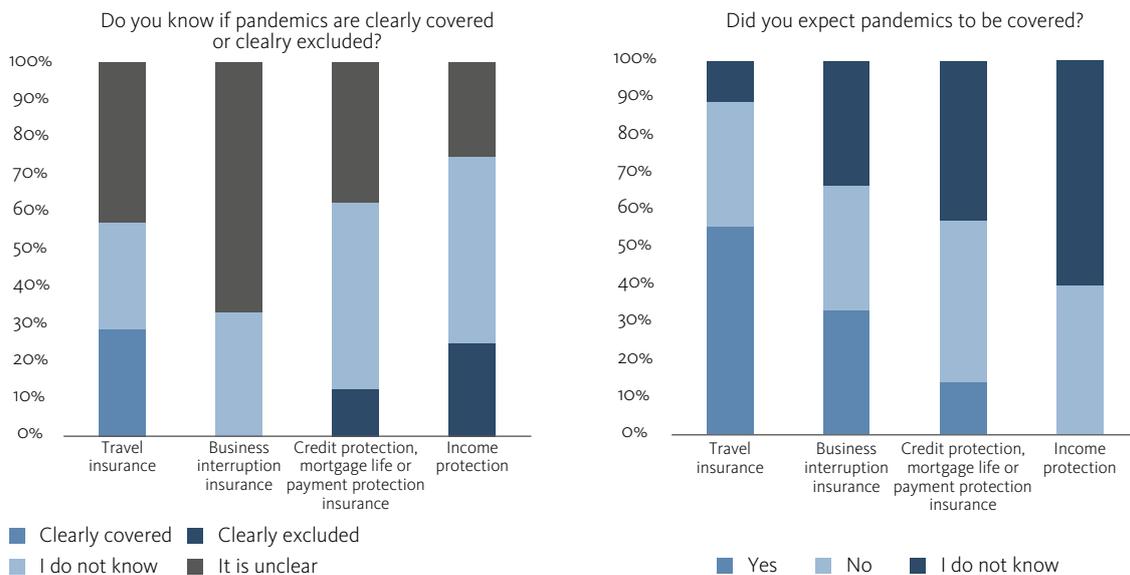
- In LT, most non-life insurance products exclude pandemics and government actions.

Consumer interviews also show a patchy landscape on what is covered and not covered but also highlight consumers are often not aware of what is covered/not covered.

I don't know if pandemics are covered by my travel insurance... for my income protection insurance, it doesn't really have to do with the pandemic itself: it will depend on how long I am off work... If I die from the coronavirus the mortgage is surely covered, I don't think they analyse the reason for the death

While pandemics may be rightly excluded from certain products, the patchy landscape raises significant concerns and consumers have faced uncertainty in relation to existing policies with a few instances of reports of consumers reaching out to their intermediary to seek clarity on coverage and intermediaries not being able to provide a clear answer.

Figure 27 – Treatment of pandemics for selected insurance products – Evidence from consumer interviews



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

Mixed messages from insurers and industry associations on coverage / non-coverage of specific risks emerging from the COVID-19 outbreak and/or by patchy and uncoordinated approaches in taking goodwill actions and pay out in claims have been observed.

Some declarations made by industry associations and insurers may have misled consumers, creating more uncertainty. In fact:

- In some instances they have not been reflective of the reality. For example, in one Member State, the industry association indicated that pandemics are excluded even though there was limited certainty as to whether pandemics are covered / not covered in different contracts.
- In other instances, some reports of misleading information being provided to consumers on the exclusion of pandemics have been observed. For example, in some Member States, a few insurers have stated that pandemics are excluded, while in reality these exclusions only related to new contracts. In another Member State, the NCA identified that some insurers declared that COVID-19 related events are not covered, even though not clearly excluded.

Moreover, while good-will gestures in many instances may have relieved consumers from the pressure caused

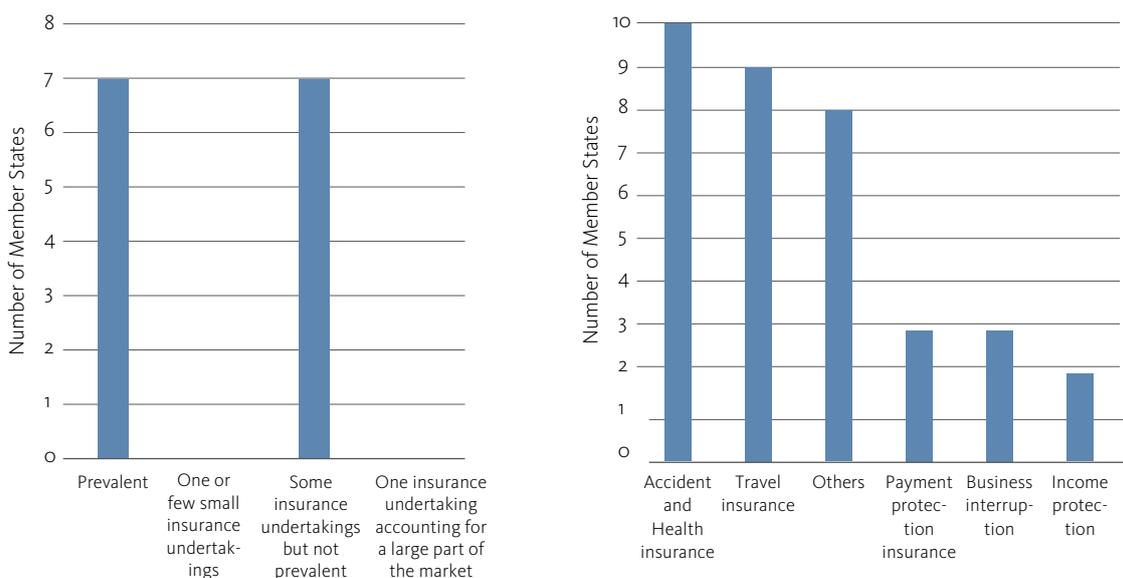
by the crisis, different approaches have been taken by different undertakings and/or for different products raises. In fact, even within specific jurisdictions, when consumer friendly positions have been taken these have generally not been prevalent and they mainly concerned only a few products – e.g., travel and accident and health insurance products (Figure 28).

Only a few examples of coordinated actions have been reported. For example in Germany, in Bavaria, insurers and the hospitality industry agreed that insurers would cover part of the lost business.

From a single market perspective, disparate consumer outcomes have emerged as:

- In some Member States, contractual law may clearly provide that unclear clauses needed to be interpreted in favour of the weaker party and/or against the party which 'caused' the lack of clarity – i.e., in both instances in favour of consumers;
- In a few Member States, insurers have been specifically asked to interpret unclear clauses in favour of consumers; and
- In other Member States, none of these measures exist.

Figure 28 – Prevalence of consumer friendly position in different Member States (on the left) and products for which consumer friendly position have been taken (on the right) – NCAs' Survey



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

The COVID-19 crisis also highlighted existing structural problems:

- The COVID-19 crisis highlighted that issues in relation to lack of clarity in terms and conditions continue to persist showing that in several instances, contracts remain complex and/or ambiguous and in some instances court interventions have been required / may be required.
- Limited oversight activities carried out by insurance undertakings on the distribution process as it emerged that for some products insurance brokers extended coverage towards pandemics but insurers were not aware.
- A mis-match between consumers' expectations and actual coverage may exist, indicating that more efforts need to be put on product oversight and governance (POG) and on assessing consumers' demands and needs. In particular, concerns with regard to the value of travel insurance products exist with the majority of interviewed consumers expecting that pandemics would have been covered.
- Product diversity, with often complex modular structures, in particular for more mainstream products may be a problem, raising questions as to whether more standardisation and simplification should be promoted. This whilst managing risks stemming out of the fact that specific target markets may not find adequate coverage for standard products.

[Did you expect pandemics to be covered?] For travels, yes, totally. It would be the least insurance companies can do

2.1.2. COMMUNICATION

The COVID-19 pandemic has put significant pressure on consumers and small businesses who have found themselves in need to consult their insurers, insurance intermediaries, and insurance policies to better understand key issues relating to their insurance needs and the impact of the pandemic on insurance coverage. In particular, with regard to exclusions consumers may have found asking themselves whether specific events emerging from the pandemic are covered or excluded and the reason for a potential exclusion.

While clearly stating the risks of retroactive coverage, EIOPA in its statement asked insurers and insurance intermediaries to provide clear and timely information on coverage and the impact of the pandemic on insurance products, being explicit in all communications and treating consumers fairly.⁽³²⁾

EIOPA also issued guidance for consumers, advising them to consult their insurer or insurance intermediary in case of need/doubt.⁽³³⁾

Some insurers / industry associations provided clear guidance. For example:

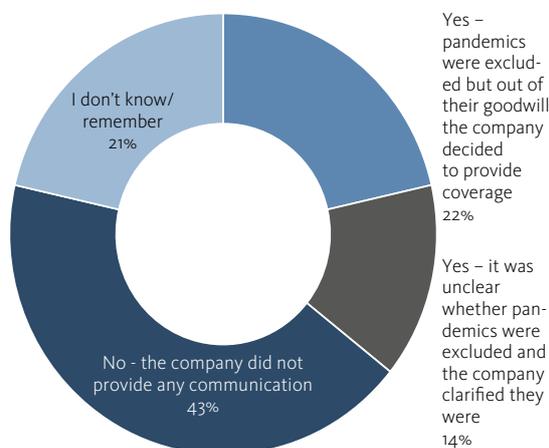
- In IT, the insurers' association issued a publication⁽³⁴⁾ which sets out the main consequences of the COVID-19 crisis for the insurance sector. This was created in cooperation with consumer associations to clearly explain how insurance products have been impacted by the crisis and measures taken.
- In DK, via their websites insurers have communicated on the impact of the pandemic on insurance products.⁽³⁵⁾

However, some concerns with regard to the timeliness and effectiveness of such communications exist. In fact, issues of delay in communications and/or lack of clarity have been reported with a few instances where intermediaries have been able to respond to their customers having been reported.

Evidence from consumer interviews also shows that consumers are generally not aware of communications made by their insurers. This does not mean they have not made such communications but questions as to their effectiveness.

Figure 29 – Consumers' perception of insurers' communication on how pandemics are treated – Evidence from consumer interviews

Regardless of whether pandemic covera/exclusion was clear has your insurance company provided you any communication - via email, advertising, post, etc. - whether issues emerging from the COVID-19 situation were covered or not?



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

2.1.3. CHANGES IN COVERAGE

Beyond issues relating to existing exclusions, lack of clarity and contractual uncertainties, issues relating to changes in coverage also emerged:

- Some NCAs reported that since the ‘pandemic declaration’, some insurers have started to explicitly exclude pandemics from new contracts and/or at renewals;
- Other NCAs reported unilateral changes in terms and conditions by insurers to existing contracts; and
- Finally, some stakeholders reported having observed changes in pre-screening questionnaires and demands and needs assessments aimed at excluding from health and life coverage possible risks relating to being infected with COVID-19.

While in most Member States where these phenomena have been observed the issue does not seem to be widespread and mainly relate to travel and business interruption insurance (Figure 30), conduct concerns exist:

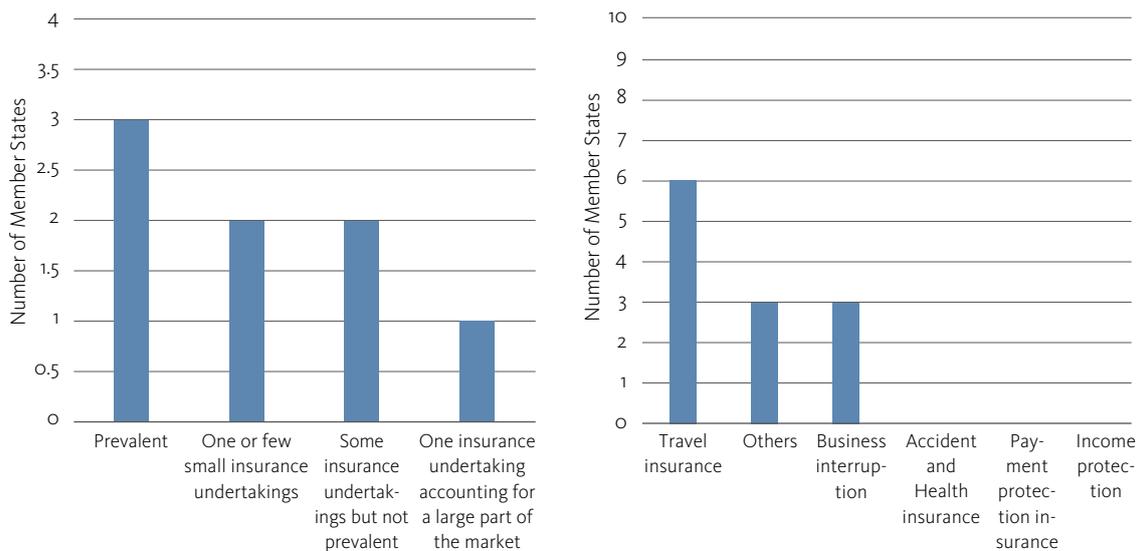
- If such changes in coverage are deemed to constitute a significant adaptation, questions on whether such

undertakings are undergoing a full POG process when making such adaptations remain open.

- If insurers change coverage retroactively, significant unfair treatment, reputational concerns and possible breach of insurance contract law may emerge.
- If insurers change coverage for contracts at renewal, questions on whether the target markets for these products are being adjusted and whether customers are being adequately informed about the change in coverage exist.

Finally, it is worth highlighting that insurers are carefully monitoring the fast-moving developments in the coronavirus outbreak, and some have temporarily stopped selling travel insurance to new customers while others have stopped covering cancellations or disruptions related to COVID-19 for new customers. This, while responding to clear solvency concerns, raises concerns about under-coverage; in fact, target markets seeking to protect from specific risks may not be able to access coverage in the future and several products may be removed from the market, impacting consumers in a time when their financial well-being and resilience has already been heavily impacted.

Figure 30 – Prevalence of changes in coverage in different Member States (on the left) and products for which changes in coverage have been observed (on the right) – NCAs’ Survey



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

2.2. CHANGES IN RISK PROFILES AND CONSUMER NEEDS

To contain the spread of the virus, consumers have been asked and/or may have voluntarily changed their habits and behaviours, impacting their insurance needs and the utility which products they currently have may offer.

Similarly, with factories closed in several Members States and smart working approaches in place, businesses insurance needs may have changed.

This may have resulted in risk levels shifting and either decreasing – raising concerns from a conduct perspective – or increasing – with prudential impact but also with an impact on possible future exclusion with consumers having to pay a higher price to obtain coverage.

While savings for insurance undertakings may be welcomed, in particular with regard to less profitable lines of business such as motor vehicle liability, possible consumer detriment may also result from the fact that products and pricing aspects, in the long term, may not adequately reflect the risk levels. As a result of these changes there may also be a mis-alignment between product coverage, risk levels and consumers’ demands and needs.

To reflect changes in risk levels and also to address possible consumer detriment a number of initiatives have been observed across Europe and EIOPA has also issued a statement setting its supervisory expectations with regard to product reviews, under POG requirements, and the COVID-19 situation, this to ensure a balanced and consistent approach.

2.2.1. PRODUCT UTILITY

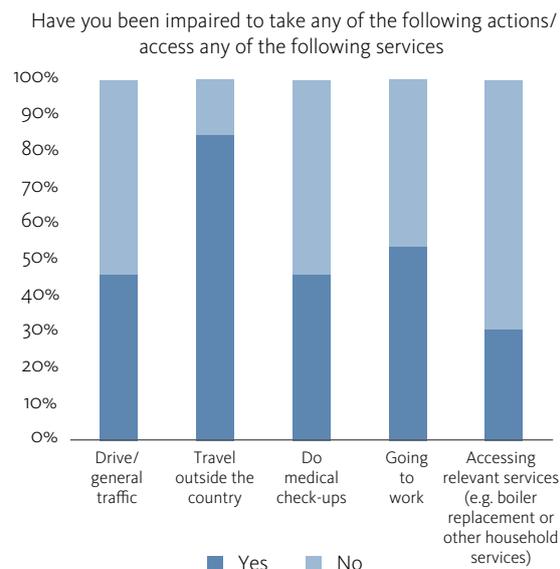
Adequate product design and product pricing based on an actual reflection of the risk profiles and consumers’ demands and needs, ensure not only that products are sustainable and viable but also that consumers are treated fairly. While it is too early to make a full assessment, as a long term perspective needs to be taken to assess the full impact of the crisis, consumers’ needs, objectives and characteristics may have shifted and changes in products’ risks profiles may have materialized.

Consumers’ interviews provide evidence, albeit limited, of the aspects of consumers’ daily lives which have been most impacted:

- They may have not been able to access relevant services and/or perform activities.

- In particular, several of the interviewed consumers reported having thought about the fact they have travel insurance but they could not travel.

Figure 31 – Consumers’ ability to perform activities and/or accessing services – Evidence from consumer interviews



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

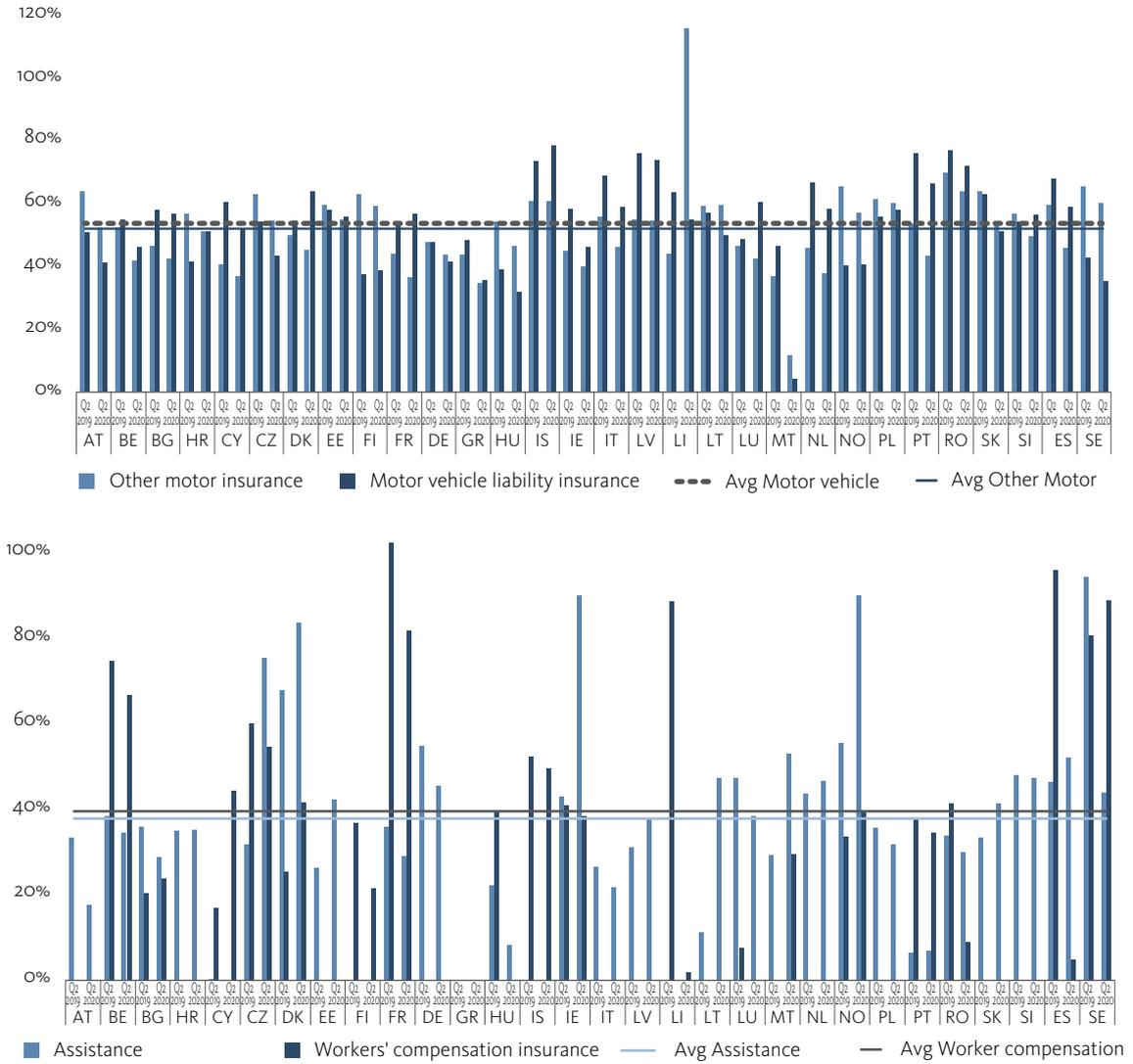
Initial evidence, to be interpreted cautiously given the changes in patterns and the long-term perspective, shows that changes to the risk profile of some products have materialized. This raises questions on fair treatment of consumers, in light of the possible decrease in claims incurred and coverage and pricing levels which reflect different levels of risk.

For example, claims ratios dropped in the first semester of 2020 for the lines of business, which at least in the initial phase of the crisis, have been most impacted – motor vehicle liability and other motor insurance, assistance and workers’ compensation insurance.

An analysis of Q2 2020 claims incurred ⁽³⁶⁾ for these lines of business shows important drops at the EEA level (Figure 22).

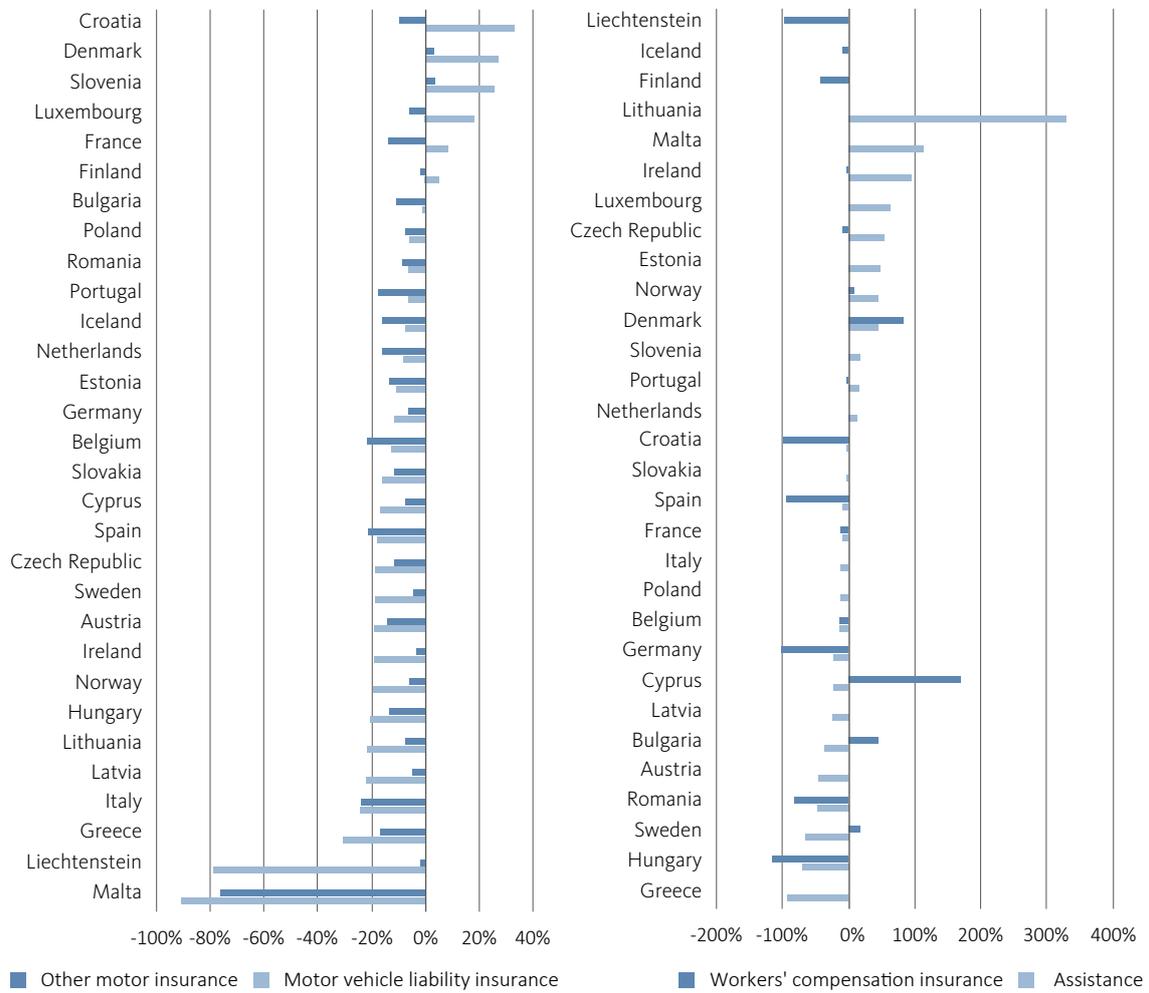
A Member State level analysis (Figure 32) shows that, while claims ratios dropped across all of these lines of business, in those Member States where lockdowns have been more stringent, the assistance, motor, other motor and lines of business generally dropped, while for workers compensation different trends can be observed.

Figure 32 – First semester 2019 and 2020 claims ratios for selected lines of business (37)



Source: EIOPA Solvency II database.

Figure 33 – First semester 2019 and 2020 claims incurred YoY growth – for motor and other motor (on the left) and workers’ compensation and assistance (on the right) ⁽³⁸⁾ ⁽³⁹⁾



Source: EIOPA Solvency II database.

An analysis of growth trends in terms of claims incurred shows that while other motor, motor vehicle liability and workers compensation have dropped in most Member States, assistance experienced varying trends possibly due to the fact that some insurers have taken good-will actions and paid some travel insurance claims.

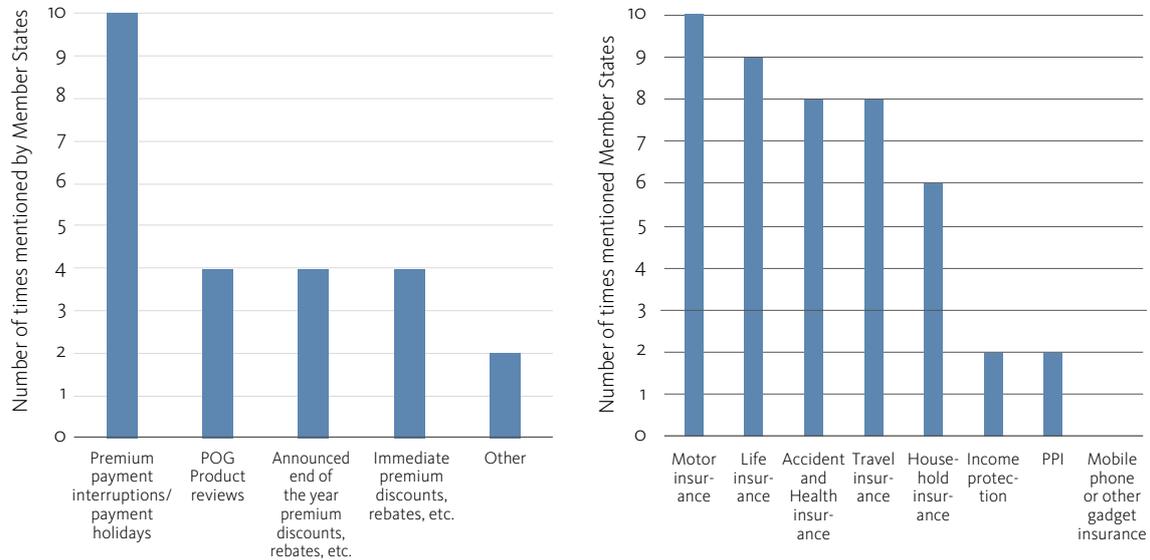
To address these changes in risk level, initiatives have been observed across Member States to take remedial measures and ensure that products continue meeting the target markets’ needs, objectives and characteristics.

However, initiatives reported to date mainly relate to premium payment interruptions in the life insurance sector

and for motor insurance. These, whilst welcomed initiatives, rather than addressing changes in risks level and changes in consumers’ objectives, needs and characteristics are aimed at alleviating the economic impact of the crisis.

While it is too early to draw conclusions as it is important that insurers wait to assess the evolution of the crisis because claims trends may vary given the re-launch of the economy and to take a medium to long term perspective, further monitoring of whether product reviews and comprehensive assessments of changes in risk levels have been carried out will be required.

Figure 34 – Types of initiatives observed (on the left) and products for which such initiatives are being taken (on the right) – NCAs' Survey



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

Despite general measures not yet being observed, possibly due to the fact that in light of EIOPA's guidance insurers may wait until the end of the year to make these assessments, it is worth noting that some initiatives aimed at taking remedial actions have been taken and/or announced:

- › In FR, for example several insurance undertakings have announced they will reimburse the premiums for several products for Q2 2020. Premiums for professional liability / risks related products are being lowered / indexed to the revenue of the firms. Prices for motor products are being adjusted based on km driven and travel policies' coverage for unused trips are being postponed to the date when the new trip will be taken.
- › In IT, several undertakings have already put in place remedial measures for a wide-range of products. In

particular, for the most affected products, undertakings have carried out product reviews and assessed the impact of the crisis, taking remedial measures when needed. They have offered, for example, discounts at renewal and extended the margin of discounts distributors can give.

- › In NL, initiatives in the motor insurance sector – i.e., devolving premiums – and in the funeral insurance sector – i.e., taking into account smaller size funerals – are being observed.

It is also noteworthy that in a number of Member States measures and/or business models were already in place to 'automatically' adapt products. For example, the tariff system of German motor insurers is characterized by a high degree of flexibility as it is linked to the risk of the policyholder/km driven.

2.2.2. CHANGES IN PRODUCT DESIGN

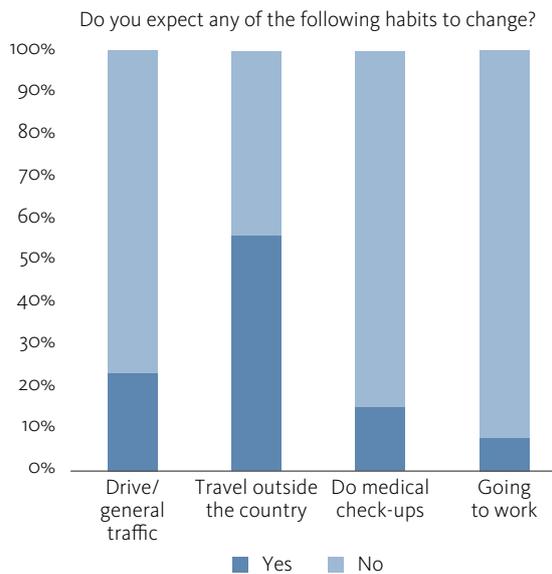
As consumers' insurance needs and objectives may continue to evolve with the crisis, the benefits of innovative business models are also becoming more evident (e.g., parametric insurance, on-demand insurance).

In fact, technology can facilitate timely product design changes (e.g., updated pricing models taking into account increased risks; quick launch of new products taking into account new / emerging risks and consumer expectations etc.). However, it appears that insurers are yet to fully explore these aspects. In fact, the most common changes in product design reported to date relate more and more to on-demand insurance and/or pay-as-you-go products. While these are welcomed initiatives as they aim at ensuring products are aligned with consumers' needs and objectives, some concerns exist.

In fact, on-demand products – as already highlighted in EIOPA's Seventh Consumer Trends Report (40) – may lead to a deterioration of the risk-pooling principle. An increase in on-demand products may also increase risks relating to consumers not being to fully able to manage their insurance needs – i.e., not fully understanding when and which coverage they need.

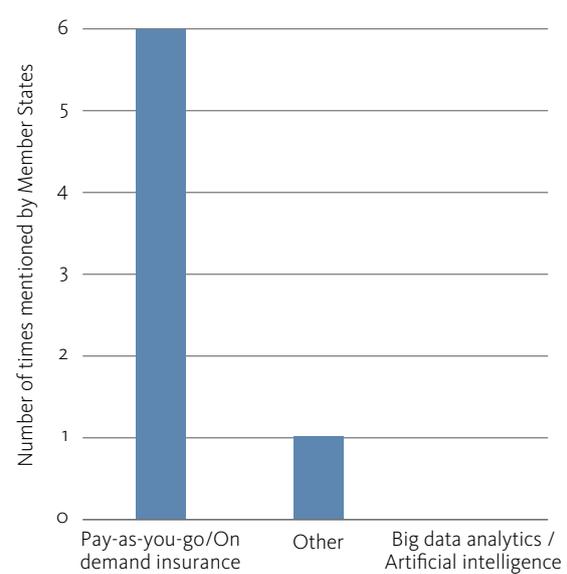
Conversely the development of a high-number of pay-as-you go products may lead to higher prices being paid by those consumers who need these products the most. Finally, it is worth highlighting that if a more individualized and 'fluctuating' approach to product development were to become the norm this may have an adverse effect on ensuring consumers have adequate coverage; hence, closer monitoring is required ensuring a careful balance between products that meet the needs and demands of specific target markets whilst preventing the risk of exclusion.

Figure 35 – Expected changes in consumers' habits – Evidence from consumer interviews



Source: EIOPA Consumer Interviews for the 2020 Consumer Trends Report.

Figure 36 – Types of initiatives observed – NCAs' Survey



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

2.3. KEY ISSUES IN THE PENSION SECTOR

Even though, given the long term nature of pension products it is difficult to see trends and specific issues which may emerge for members and beneficiaries, the COVID-19 crisis has had and it is expected to have an impact on the pension sector and on pensions' schemes, members and beneficiaries.

Beyond issues covered already for the insurance sector such as business continuity (see Section 1.1.2) and possible illiquidity because of a number of reasons such as:

- Delayed or missing contributions from employers and employees;
- Consumers tapping into their pension savings, using (limited) redemption rights;
- The potential need to cover cash margin calls on derivative hedging positions;
- Any moratorium on payments on loans and mortgages;
- Expected declines in dividend payments on IORPs' equity holdings;
- Difficulties in selling assets under current market circumstances.

A number of specific conduct risks for the pensions sector with direct impact on members and beneficiaries have

also emerged and require closer monitoring throughout the lifecycle of a pension product.

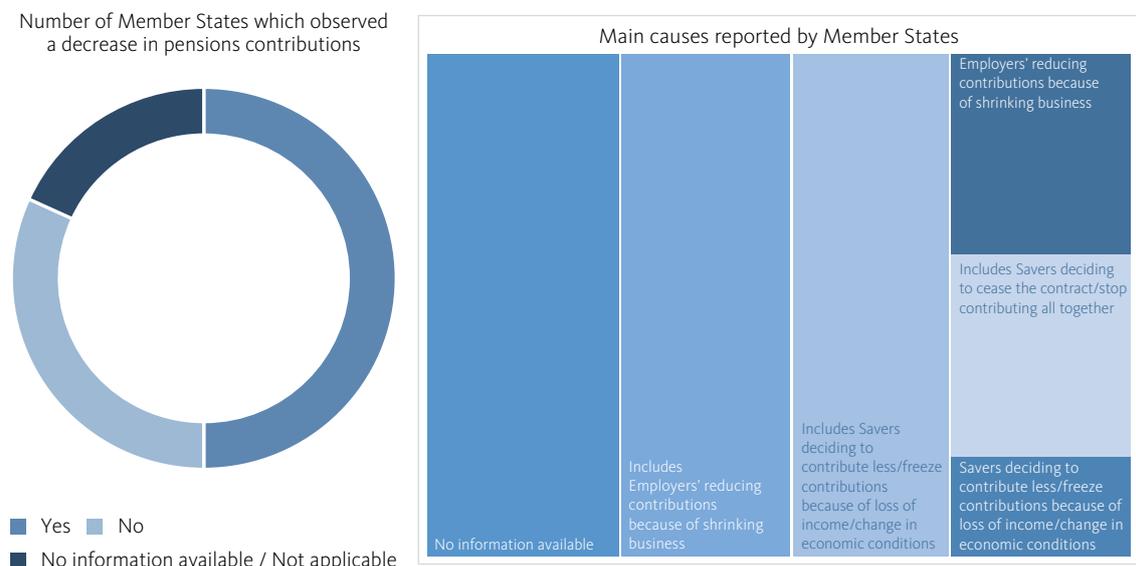
2.3.1. LOWER CONTRIBUTIONS AND KEY ISSUES IN THE ACCUMULATION PHASE

The economic crisis resulting from the COVID-19 outbreak is having a direct impact on people's personal finances, business and employment. This may have already had an impact on pensions' contributions – both personal pension products, because of savers not being able to contribute, and occupational pension schemes because of business shrinking and unemployment.

11 out of the 22 Member States which provided this information indicated that in their jurisdictions, decreases in contributions are already being observed. And, while it is too early to draw conclusions, also considering most Member States do not yet have granular information, lower contributions appear to be affecting both personal and occupational pension schemes, with:

- Employers delaying contributions in light of measures put in place in different Member States to ease the burden on businesses;
- Savers delaying payments, taking advantage of forbearance measures put in place to limit the impact of the crisis on their finances; and
- Employers' and/or savers' lower contributions because the increase in unemployment.

Figure 37 – Number of Member States where lower contributions have been observed (on the right) and causes behind observed lower contributions (on the right)



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

Trends are, however, varying across Member States:

- In those Member States where self-employed people contribute to occupational pension schemes, it is expected that they will delay contributions and / or contribute less as a result of decreases in income due to the COVID-19 crisis.
- In some Member States, such as IS, lower contributions can be observed both in occupational pension and personal pension schemes as a direct consequence of increasing unemployment rates.
- In other Member States, such as FI and BE, employers have been granted the possibility to lower / defer contributions within a fixed period of time, but after this period has elapsed, those contributions must nevertheless be paid, this may result in lower contributions in immediate future.
- Finally, in some Member States, where contributions by employers are not mandatory, increases in requests for cancellation of employers' contributions are being observed but this is not, yet, significantly affecting the pensions sector.

Such requests appear to be circumscribed to the most affected sectors; however, it is reasonable to expect that as the crisis continues this may become a more wide-spread problem.

It is also worth highlighting that in some Member States, such as BG, despite the crisis, contributions have increased in the first semester of 2020 compared to the corresponding period in 2019.

To mitigate the impact on savers and beneficiaries, initiatives have also been put in place, mostly for occupational pensions with 7 out of the 9 reported initiatives relating to occupational pensions schemes and 2 of them focusing on personal pensions.

Initiatives aimed at mitigating possible conduct risks and the impact which these lower contributions can have on consumers appear to be both Government and industry led.

Examples of government-led initiatives include:

- Measures taken by the Government in BE to:
 - Ensure that pension accrual rights and death coverage continue under temporary (the employer has an opt out possibility for pension accrual); unemployment; and

- Ensure that, relief measures put in place to favour employers and increase liquidity by allowing them to defer contributions, do not adversely affect employees and beneficiaries. If an occupational pension becomes payable before the day for the delayed contribution, without the necessary contributions having already been paid by the sponsor, the pension institution that manages pension schemes must nevertheless pay out the benefits.

- Incentives given in the NL, where an extension of the temporary emergency bridging measure (Noodmaatregel Overbrugging voor Werkbehoud) allows eligible employers to receive an allowance to pay amongst other things, pension contributions.

Industry led initiatives mainly relate to forbearance, with pension funds waiving additional costs and penalties, for missed or delayed payment of contributions.

Overall, while it is too early to draw conclusions concerns that a reduction in contributions in certain pension schemes will further lessen the adequacy of private pension savings, exist.

Risks relating to lower accruals, as highlighted in section 1.2.2., may also emerge given that the low interest rate environment is expected to persist. Given the continuous shift towards Defined Contributions (DC) schemes, which are mostly prevalent across the EEA, the low returns coupled with the impact that (high) costs can have on returns, can have an important adverse effect on members' and savers' accumulations.

The market turbulence observed at the on-set of the crisis may have also led members and savers belonging to schemes where they can choose between investment strategies and options – i.e., DC schemes – to switch and possibly take adverse decisions in light of the pro-cyclical behaviour of markets, raising concerns about whether they sought and accessed adequate advice rather than reacting too soon to markets trends. To mitigate some of the possible risks, several funds have warned members about the impact of the crisis on their pension savings and about the consequences of taking certain decisions, however, concerns exist.

Finally, in those Member States where members and savers can access projections, it is important to ensure such projections take into account the impact of the crisis and the continued expected low interest rate environment to ensure they take informed decisions and plan accordingly.

2.3.2. CHANGES IN THE DECUMULATION

Given the expected continued low interest rate environment, the market turbulence at the on-set of the crisis, and the undergoing economic crisis resulting from the COVID-19 outbreak, risks related to the decumulation phase of pension products may also emerge. Even though the possibility of risks materializing is limited (Figure 38), also due to the fact that Defined Benefit (DB) schemes are not prevalent, it may require close monitoring:

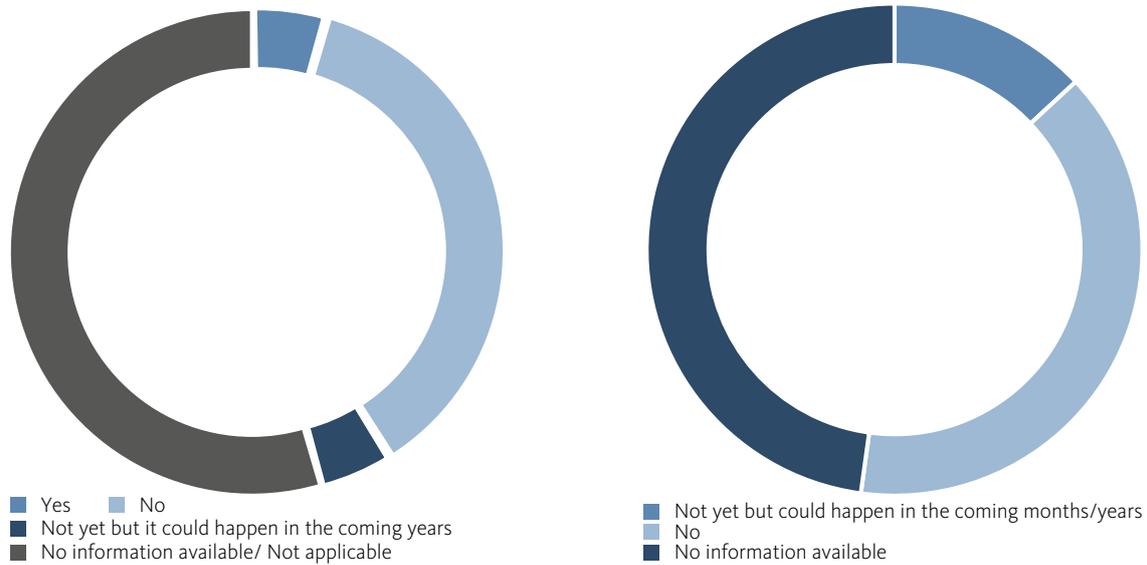
- In fact, for DB schemes, where these fail to absorb the shock, benefit cuts may materialize leading to significant detriment for beneficiaries; and
- Members and savers may opt for specific types of benefit payments such as lump-sums or may opt to access their pension funds early raising concerns giv-

en consumers may not plan properly for their elderly age.

Close monitoring, on one hand, is required as existing provisions limiting or prohibiting benefit cuts may change to ease the impact of the crisis. In fact, to date benefit cuts are mostly prohibited and/or mitigating measures exist. For example:

- In AT, employers have to close any funding gaps. Under certain restrictions, employers may discontinue, suspend or restrict current payments of contributions. If an employer is not able to fulfil obligations DB-scheme will be converted into a DC-scheme.
- Belgian legislation applicable to occupational pensions does not allow for any “reduction of benefits”, except in the event of the bankruptcy of the sponsor.

Figure 38 – Possibility of benefit cuts (on the left) and changes in the way in which members and savers are approaching retirement – by number of Member States



Source: Committee on Consumer Protection and Financial Information consumer trends questionnaires.

On the other hand, while changes in pay-out methods may not yet materialize existing risks may be heightened. In fact:

- Generally, in those Member States where this is possible, lump sum payments have always been the dominant type of benefit payment. Given the possi-

ble need to access funding quickly, risks relating to lump sum payments may be heightened.

- While in several Member States there are provisions prohibiting early withdrawals / payments as the crisis continues changes in such regimes may materialize.

3. COMPLAINTS

A high number of complaints — or a significant increase — may indicate potential consumer detriment. However, this should be carefully interpreted as it could also relate to the fact that insurance undertakings and pension funds have put in place proactive policies to make it simple and easy for consumers to complain. An analysis of the causes of complaints can assist in identifying potential issues; for example, a high number of claims-related complaints could be the result of issues in the claim management process. What firms do with complaints information is an important indicator of how consumer-centric an undertaking is in practice.

Although complaints trends can be a useful source to identify potential consumer detriment, they should be analysed jointly with other retail risk indicators. In particular complaints data relating to COVID-19 should be interpreted carefully because:

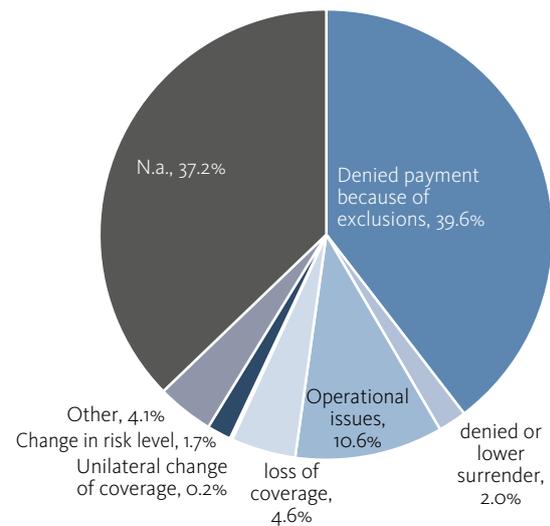
- › On one hand, consumers may complain not just because of issues with their insurance or pension products but generally because of the difficult situation; and
- › On the other hand, the situation is still rapidly evolving; hence, clearer trends and evidence of consumer detriment may emerge at a later stage.

3.1. INSURANCE COMPLAINTS

Overall, while it is early to draw conclusions based on complaints it is noteworthy that not many COVID-19 related complaints have been reported: out of the total number of complaints reported for the first semester of 2020, COVID-19 related complaints represent less than 3% of total complaints ⁽⁴¹⁾, accounting for more than 5% in only 2 Member States and more than 30% in one, where, however the total number is too low to draw meaningful conclusions.

Given the evolving situation many NCAs have not yet determined the source of complaints; however, in line with the exclusions problem highlighted above, complaints related to 'denied payments because of the exclusions' are the most prevalent cause, accounting for almost 40% of total COVID-19 related complaints. ⁽⁴²⁾

Figure 39 — COVID-19 related complaints split by cause



Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

Complaints relating to exclusions also account for more than 50% in 7 Member States out of the 12 which were able to provide data broken down by complaints cause.

Beyond complaints related to exclusions, it is also noteworthy that some complaints also arose because of difficulties in understanding premium reduction / repayment related initiatives, raising concerns as to whether remedial measures taken are being effective and consumer-friendly.

As already highlighted travel insurance is the product for which most COVID-19 related complaints have been received by NCAs, national complaints handling authorities and/or insurance undertakings. This because in retail terms travel insurance appear to be the most common product affected by the crisis in the first semester of 2020 and because of structural issues already highlighted with regard to travel insurance products and travel insurance business models.

On the life insurance side, it is noteworthy that some complaints relating to market volatility and sudden drop in value of units, delays in paying out surrenders, and 'lower value than expected' are emerging signalling that issues in the unit-linked market are already sporadically surfacing.

3.2. PENSIONS COMPLAINTS

Issues relating to the small number of pension-related complaints reported and limited comparability, which make it harder to identify trends, have been reported in the past years. These concerns are even more relevant for COVID-19 related complaints in the pensions sector.

In fact, as already highlighted in the section on insurance complaints, it is too early to draw conclusions based on complaints. In addition, for pensions' complaints data to be meaningful a long-term perspective is necessary. For example, possible issues relating to lower contributions and/or the impact of the low-interest rate environment which arise presently for a member who is currently 40, may not surface and result in a complaint for another 25 to 30 years.

Nevertheless, complaints data and qualitative information can provide a view on some of the issues which may have arisen for specific members. For example, a person who may have approached retirement during the crisis, unless adequate life-cycling investment strategies were in place, may have observed a significant drop in its accumulations possibly resulting in complaints.

In the first semester of 2020, COVID-19 related pension complaints represented less than 2%, however the total number is too low to draw any conclusions also considering that less than 20 NCAs provided this data. Qualitative information provided shows that in no Member States the products / schemes for which most complaints have been reported are DB schemes. The most frequent issues relate to the impact of the low-yield on accumulations.

It is also worth highlighting that:

- Despite the general perception that business continuity was guaranteed across the insurance and pension sectors, some members complained about administrative delays while others complained about requiring to visit a branch to carry out certain transactions but being 'incapacitated' by lock-down measures in place.
- Some members also complained to the relevant competent authority that they could not access their pension savings early despite the urgent 'need' dictated by the economic impact of the crisis. This signalled the need for better communication to members and savers and also increased financial education.

4. CONSUMER PROTECTION ACTIVITIES

4.1. NATIONAL COMPETENT AUTHORITIES' CONSUMER PROTECTION ACTIVITIES

To alleviate the impact of the COVID-19 outbreak on the insurance and pension sectors, whilst ensuring fair treatment of consumers, NCAs performed several consumer protection-related activities and/or have taken specific measures. Some activities aimed to ensure operational resilience, whilst ensuring that the distribution of insurance products complies with applicable legislation. Other sought to foster consumers' financial literacy with a specific focus on risks emerging from the crisis as well as to allow for forbearance in the conduct regulatory framework. Governments also took initiatives which impacted the insurance and pension sectors.

The different types of activities carried out are closely connected to the various risks which emerged as a result of the crisis.

4.1.1. ENHANCED MONITORING AND SUPERVISORY ACTIVITIES

Given the possible increase in conduct risks that could lead to potential consumer detriment, most NCAs have focused on:

- › Ensuring adequate and intrusive supervision, despite lock-down measures; and
- › Carrying out enhanced monitoring to assess and analyse the impact of the crisis on the sector in a holistic manner, analysing and assessing risks from both, a prudential and a conduct perspective.

Even though some of the regular supervisory activities have been interrupted because of the need to re-prioritise and/or because of safety reasons and other restrictions, NCAs promptly adjusted their working methods to ensure adequate and intrusive supervision, aimed at mitigating conduct risks:

- › Several NCAs began carrying out 'remote' on-site activities;
- › Most NCAs surveyed insurance undertakings, at differing intervals, to understand both, if any specific issues were arising and how they were ensuring business continuity and mitigating emerging conduct risks;
- › Some NCAs entered into enhanced dialogue with insurance undertakings.

In terms of activities carried out by NCAs to assess the impact of the crisis, given the possible emergence of conflicting conduct and prudential priorities, to mitigate risks from the crisis, some NCAs have enhanced cooperation between Departments and teams tasked with conduct and prudential supervision respectively. The aim of this enhanced cooperation is to ensure that risks are looked at from both perspectives and that prior to taking mitigating actions, trade-offs are assessed, balancing between conduct and prudential priorities, with the ultimate objective of ensuring consumer protection and good consumer outcomes.

Considering the sudden shift to digital channels, remote selling and remote policy-servicing activities, some NCAs have put a particular emphasis in ensuring that business continuity was assured, whilst monitoring conduct risks. For example, one NCA monitored the way sales have been conducted to ensure consumer detriment did not arise as a result of the 'improvised' new *modus operandi*.

4.1.2. ACTIVITIES FOCUSED ON SPECIFIC PRODUCTS

Given the COVID-19 crisis has impacted certain products and/or has surfaced existing structural problems in relation to other products, NCAs have carried out several product-specific activities.

Business interruption has been a clear area of focus for several NCAs. For example, one NCA analysed the terms and conditions and other contractual documentation for business interruption products and concluded that, while

for over 90% of them, pandemics are clearly excluded and for 2% they are clearly included, for 4% there is uncertainty.

In those instances, where uncertainty was identified, the NCA reminded insurance undertakings to take a holistic approach looking both at conduct and prudential aspects:

- › Of the need to process claims in good faith and in compliance with the general principle of treating customer fairly;
- › Of verifying the adequacy of the level of provisions related to contracts explicitly or possibly covering pandemics.

Health insurance has also been impacted by the crisis, in particular in those Member States where there is a lack of clarity with regard to exclusions. As a result, NCAs carried out monitoring activities:

- › One NCA analysed health insurance products in its market to understand whether coverage was clear and what actions were taken by undertakings, including whether they reviewed coverage and exclusions.
- › Another NCA reminded consumers to analyse carefully the terms and conditions to understand whether pandemics are covered and in case this was unclear to reach out to the relevant insurance intermediary and/or undertaking.

4.1.3. ACTIVITIES AIMED AT ENSURING OPERATIONAL RESILIENCE

In light of the concerns which arose at the on-set of the crisis due to the sudden shift towards remote working and/or digital means to sell products and carry out policy servicing activities, most NCAs have taken initiatives to both:

- › Alleviate the pressure on the sector allowing insurance undertakings and intermediaries to focus on ensuring the fair treatment of consumers. The most common activities to alleviate the pressure from insurance undertakings and intermediaries relate to both delays in reporting requirements as well as extended deadlines to answers to claims and complaints.
- › Monitor contingency plans put in place by insurance undertakings to guarantee business continuity. In particular, in early March many NCAs began engaging and dialoguing with undertakings to understand

their contingency plans. Other NCAs have carried out extensive monitoring activities requiring insurance undertakings to provide regular updates.

4.1.4. INITIATIVES AND ACTIVITIES AIMED AT MITIGATING THE IMPACT OF THE CRISIS ON CONSUMERS

Both at the level of NCAs and at the Government level a number of initiatives have been implemented and activities have been carried to alleviate the impact of the crisis on consumers.

Considering issues relating to exclusions and a mis-match between actual coverage and consumers' expectations, some NCAs engaged early on with the industry to understand the possible impacts and/or ensure consumer detriment is mitigated as much as possible. Some NCAs asked insurers to provide information:

- › On the approach taken with respect to the interpretation of existing policies and effects of COVID-19;
- › On insurance undertakings' assessment of how they interpreted exclusions and the impact on policyholders;
- › On whether and how insurance undertakings adequately informed distributors on how exclusions would be treated.

Other NCAs begun intensive monitoring activities to assess the communication made by insurance undertakings and intermediaries with regard to the insurability of COVID-19 and its developments.

Given that changes in coverage and exclusions have also been observed, a few NCAs also clarified that if changes were made to products in light of COVID-19, insurance product manufacturers should go through a comprehensive POG process.

NCAs also issued circulars, recommendations and other guidance to ensure insurance undertakings and intermediaries continue treating customers fairly. One NCA issued two circulars highlighting the need for clarity in communication and for flexibility to ease the impact of the crisis on consumers. Following the extension of mandatory deadlines for regular motor vehicle check-ups, it also clarified to insurers which documents would suffice for consumers to present to ensure validity of their coverage despite delayed check-up.

4.1.5. INITIATIVES AND ACTIVITIES SPECIFICALLY AIMED AT MITIGATING THE IMPACT ON THE PENSIONS SECTOR

Finally, beyond the activities reported above which, to a different extent covered both, the insurance and pensions sectors, specific activities aimed at mitigating the impact on the pensions sector have also been carried out.

Some NCAs reminded pension funds about the possibility of using positive investment results from 2019 to build up reserves to face incoming volatility. Other NCAs issued guidance for members, savers and beneficiaries explaining how pension funds work and the performance of pensions. This to ensure that ‘consumers’ understand the need to take a long-term perspective when looking at pension funds’ performance. Finally, a few NCAs also lowered or delayed the payment of levies to alleviate the pressure on pension funds.

4.2. INDUSTRY-LED INITIATIVES

Overall, it is worth highlighting that both the pensions and insurance sectors have been and continue being sensitive to the impact of the COVID-19 crisis on consumers, members, and beneficiaries. Hence, a number of industry-led initiatives have also been put in place balancing, from the sector perspective, the need for assistance, flexibility and forbearance, with ensuring the solvency of the sector taking medium to long-term perspective.

4.2.1. INSURANCE

Initiatives relating to good-will actions to pay out claims, even though pandemics were clearly excluded, delaying

and/or stopping the payment of premiums, and forbearance measures to avoid consumers are in breach of contractual obligations have been reported in previous sections.

In addition, in several markets insurance undertakings and intermediaries have increased customer support responding to consumers’ queries and guiding them through these challenging times. Insurers have also shown flexibility with regard to the documentation required to pay out claims. For example, with regard to medical and pet insurance, it may have been difficult for consumers to access doctors’ notes and vet history. As a result insurance undertakings have shown flexibility in the evidence required to support claims while still ensuring appropriate diligence in accessing individual claims.

At the European level, InsuranceEurope set up a portal ⁽⁴³⁾ providing access to various information on how insurers within the single market have activated business continuity plans.

4.2.2. PENSIONS

Pension funds have launched intensive communications campaigns to ensure that members and savers did not take decisions which may adversely impact them. Communication particularly informed about different possibilities to access funds:

- Where applicable, funds have drawn the attention to the possibility of accessing loans from the funds themselves rather than tapping onto their pensions savings;
- Funds have also ensured ongoing and open communications to explain the impact of the current market trends and allow consumers to make informed decisions.

5. STAKEHOLDER INTERVIEWS

5.1. JUAN RAMON PLA OTÁÑEZ

Juan-Ramon is the Managing Director at Corporacion de Mediadores de Seguros, Correduria de Seguros S.L., Secretary General of BIPAR, the European Federation of Insurance Intermediaries, and Vice-Chairman of the Spanish Brokers' Association (Asociacion Espanola de Corredurias de Seguros). Previously he also held the position of Secretary General of the Mediterranean Federation of Brokers. He currently is Member of the EIOPA Insurance and Reinsurance Stakeholder Group.

Although it is still early to draw conclusions, in your opinion, how did the COVID-19 crisis affect the sector in the first semester of 2020? What should we expect for the sector in this second wave?

Given current circumstances, the ongoing uncertainty and the unprecedented nature of the crisis, it is difficult to draw conclusions. Nobody expected this, thus, we could not have anticipated and get prepared for a global pandemic. This crisis cannot be compared to any other one, given its uniqueness and global nature.

The effects on our sector will only start to become 'tangible' in the coming years. We know that we have some difficult years ahead of us from all points of view. In this respect I have two wishes for our sector, first, that governments quickly find a solution for future pandemics and thus bring clarity about what is a transferrable risk and what risks need to be absorbed by society or individuals, so that everybody can plan accordingly. Secondly I wish for insurers to continue to insure insurable risks at conditions, which will allow the economy (and consumers) to recover quickly. This requires a long term vision and strength from governments, supervisors, policymakers and from insurers and reinsurers.

Digitalisation facilitated the provision of services and the sale of insurance products despite lockdowns. Do you think this will continue post-COVID-19? Do you think the IDD could provide a hindrance to this with its default paper-based approach to sharing pre-contractual information? Do you see other risks?

Indeed digitalization has played a relevant role, but in my opinion not so much in the sense of online distribution, which still does not properly address many of the clients' needs. The crisis has illustrated that the existing 'hybrid system' in the insurance sector, combining personal attention, geographical spread of 'service points' (such as intermediaries) and know how in combination with digital tools is a resilient and valuable system. Insurance is and will continue to be based on trust / personal relationship between intermediaries and consumers.

Notwithstanding the above, independently from COVID-19, digitalization is changing the insurance sector as it is changing the economy overall. Data and the right to use it, Artificial Intelligence and the question of how far mutualisation is a key characteristic of insurance are the difficult and key questions to be answered. Without answering them many people and not only vulnerable consumers may find it difficult to find insurance in the longer term.

The default paper based approach for pre-contractual information in the IDD was already 'outdated' prior to COVID-19. It could have been recognized from the start that an email or pdf has the same value as paper in this respect. I hope that flexibility will be the approach to be followed in the 'IDD II'.

EIOPA asked insurers and intermediaries to provide clear and timely information to consumers on COVID-19 and its impact on insurance products. EIOPA also asked clarity on contingency measures to ensure service continuity. Do you think this has happened and the sector was able to respond in a unified manner or not? Why?

We appreciate EIOPA called for this. BIPAR and its national associations did the same thing shortly after the COVID-19 outbreak started. I believe that in most cases our sector responded well, but not in a unified manner, because the pandemic itself did not spread in a unified way. Government measures were not uniform, even within Member States, social security, economic policy and healthcare systems are different, contract law is also not uniform.

Intermediaries have done magnificently and the sector overall could probably not have done better under the circumstances of existing rules and laws which do not foresee this kind of situations. That being said, there are individual insurers who could have done (or do) better in terms of communication.

I remain very careful here because the pandemic is not over.

Insurance distribution in many Member States is still based on trust / personal relationship between intermediaries and consumers. However, the COVID-19 crisis may have shed light on some structural conduct issues and/or may have resulted in consumer discontent because of exclusions. Do you think this may have an impact on the intermediary / consumer relationship or is this primarily a problem between insurers and consumers? What about the sector as whole?

We are not aware of any structural conduct issues in the intermediation sector because our sector overall is one of the most regulated sectors of the economy in terms of consumer protection, conduct and product development.

We have in our sector one of the best supervisory systems. Overall, the rules are applied and where this is not the case, the supervisors have the powers to intervene where there are problems.

For the last 20 years, BIPAR is asking governments to include financial and insurance risks as a compulsory section in the school curricula. This would help youth to better understand the need to protect their interests and patrimony.

The sector has not responded in a uniform manner with different initiatives at the national level, or by individual insurers and intermediaries. Why do you think this is the case? In some Member States, insurance has been declared an essential service while in others not, has this played a part in this?

The reaction of the sector is highly influenced by the national systems in place (as explained before) and by the reactions of the national governments, which are influenced by societal needs. Regarding being 'recognized' as an essential service: the impact of this recognition (or lack thereof) has been different across member states, with diverging results / consequences depending on the country. In conclusion, I believe we may take pride in the fact that insurance intermediaries continued to service policy-

holders / consumers interests throughout this crisis and I hope the COVID-19 crisis will be over as soon as possible.

5.2. PHILIP WOOLFSON AND ANGUS RODGER

Philip Woolfson is a partner in the Brussels office of Steptoe & Johnson LLP where he advises on EU insurance and reinsurance law and regulation, in particular in a cross-border context within the EU. He focuses on prudential supervision, regulation of conduct of business/distribution and product conformity, as well as compliance matters. Philip is registered as a solicitor in Scotland and is admitted as an *avocat* at the Paris and Brussels Bars.

Angus Rodger is a partner in the London office of Steptoe. He counsels on UK and EU insurance and reinsurance regulation, and has represented insurers and reinsurers in relation to contentious claims, litigation and arbitration. He is qualified as a solicitor advocate in England and a solicitor in Ireland.

Lack of clarity in terms and conditions and general contract complexity are issues which have been observed for a number of years. However, the COVID-19 crisis has spotlighted issues around contract complexity and vague terms and conditions. Why do you think that is the case despite the lessons learnt from previous outbreaks?

Part of the problem with the pandemic claims is that they presented unusual fact patterns. It is not possible to produce a policy which sets out comprehensively every conceivable loss situation and the extent to which all such losses would be covered – and even if that were possible, it would make the policy unreadably long. A balance needs to be struck between details about the situations and extent to which losses are (or are not) covered and keeping policies a manageable length, especially where the wordings are for consumers and small businesses.

For example, in relation to the pandemic, one of the questions which has arisen in one market is: where a restaurant provides take-away and eat-in food, and the Government orders that restaurants cease to provide eat-in food, how is the policy intended to respond (if at all)? Policies did not expressly address that unlikely situation, or for countless other possible (but unlikely) scenarios.

The approach which most policies take is to state succinctly the conditions which must be satisfied for coverage. In the vast majority of claims, it will be clear which side of the line the loss falls on. If an unusual situation arises which creates uncertainty, the parties can set out their positions, and if they do not reach agreement the insured can have recourse to an ombudsman or the courts. That general approach to drafting allows the policy to be succinct, readable for the insured, and economical for the insurer to prepare. In practice, even with recent BI claims, significant disagreements about coverage have only arisen in relation to a sub-set of wordings (those in which there was no requirement for property to be damaged).

That said, as with other types of contracts, unfortunately insurance policies sometimes contain terms which could be drafted more clearly. Manufacturers of new insurance products are already under a regulatory obligation (IDD product oversight and governance) to test them on potential customers to see if they understand the policy provisions, in particular to ensure that the consumer understands what in fact is covered. That is also good practice, and generally benefits insurers and insureds alike. Adverse publicity from the pandemic, and mismatches between expectations of policyholders and insurers, will incentivise insurers to review their wordings for lack of clarity.

Do you think that the fact that some products / Member States have been more affected relates to the different measures taken by national Governments or to other factors such as differing features in the national market?

It is possible that, as between different Member States, there are material differences in the terms of coverage, the number of policies sold, and/or the circumstances of the loss so as to give rise to fewer uncertainties. For example, most BI-related disputes seem to have arisen in Western Europe and it may be that in some Member States BI insurance is less prevalent than it is in, say, France, Germany or the UK.

There are significant cultural differences between Member States. For example, in some Member States consumers and small businesses may be more willing to challenge refusals to pay claims, have the benefit of a pro-consumer ombudsman service, and/or have funders and lawyers who are willing to pursue group litigation.

The willingness of regulators to initiate proceedings (test cases), or to investigate the clarity of insurance contracts, also varies. In the UK, 'test case' proceedings by

the regulator have provided a fast and cost-effective way to address uncertainties as to how BI wordings apply to pandemic-related losses. Regulators in some other Member States are achieving similar results in different ways including, for example, by issuing formal guidance to the industry.

As you mentioned, legal proceedings today mainly focus on non-damage business interruption policies; however, as the economic crisis unfolds, coverage offered by income protection and credit protection products may be triggered, do you think we should expect a similar level of uncertainty and possible lawsuits?

The longer the pandemic lasts, the more severe the economic impact will be, which in turn may lead to lost income for many insureds.

The starting point for coverage of any loss is to consider the wording of the relevant policy. This is as true for credit/income insurance as for BI insurance. However, in the former types of policy, the triggers of coverage are usually drafted fairly narrowly. For example, an income protection policy may involve triggers of being unemployed and not being paid income: these concepts are less fact-sensitive than whether an event causes 'interruption'/'interference'/'denial of access' in a BI wording.

Underwriters have commented to us that the developing economic downturn is a situation where income protection policies could have been very beneficial to customers, but that (in some jurisdictions) capacity is limited as a result of historic mis-selling scandals and regulatory interventions.

What do you think are the main lessons learned from the situation which has emerged? Can you suggest any supervisory and/or policy measures aimed at promoting simplicity?

Underwriters will be more conscious of pandemic risks when underwriting policies. It may become common to include an express exclusion of pandemic-related losses in countries where that has not previously been done.

There are likely to be initiatives to improve consumers' awareness about what is, and what is not, covered including in marketing as well as policy documentation.

As for a policy / supervisory response at the European level, it is worth highlighting that harmonisation of insur-

ance contract law has been under discussion for years and is highly controversial.

A liberal approach to contract drafting has the advantages of enabling insurers to innovate and develop new contracts and benefits, and to offer reduced pricing for more limited coverages.

Rather than promoting simplicity through standardised terminology, it would be preferable and more realistic to promote clarity of drafting. Subject to resolving any antitrust concerns with sector-wide standards, developing 'labels' to clarify what is covered / not covered (and/or optional certifications if particular types of policies contain certain features) may be a complementary, regulatory approach.

What do you think the main consequences of COVID-19 will be for the sector?

Regardless of the legal analysis, there is a perception among many consumers that insurers have failed to honour valid claims, and/or that they have sold policies to customers under false pretences. That perception will not be helpful to the industry. The situation brings into focus the role of brokers in advising customers on whether products are suitable for their needs.

For some products, premiums may be increased and/or products will be withdrawn leading to some target markets not being able to access the coverage they may need.

For some health insurance products, COVID-19 is likely to become a pre-existing condition which may trigger legislative intervention. Cover for COVID-19 may be excluded from travel policies, or sold only as an add-on.

In the longer-term, we may see an increase in class action against insurers, but probably restricted to national markets given limited cross-border competition in retail insurance in the EU. Debate will continue regarding the need for a private or public pan-European pool or other mechanism of last resort.

5.3. GERTRUDE PILS

Gertrude Pils is the second Deputy Chairwoman of PEKABE, the Austrian Federation of the Occupational Pension Fund Beneficiaries. Gertrude worked for 28 years in lead-

ership positions at the UniCredit Group where she held numerous roles such as being responsible for International Controlling and heading the Global Cross Border Business Management of UniCredit Group. Prior to UniCredit, Gertrude held managerial roles at Merkur Insurance. Gertrude graduated in Technical Mathematics (TU Graz) and studied Business Administration at the WU Vienna. Gertrude also chairs the Supervisory Board of the leading provider of mobile social and health care services in the City of Vienna. She is also a Member of EIOPA's OPSG.

Although we are still in the midst of the COVID-19 crisis, the immediate impact of COVID-19 is already visible. In your opinion, what are the effects of the crisis on the pension sector? Any consequences in the long-term?

The COVID-19 crisis has had and continues having a significant impact on consumers, citizens and workers as well as on the financial sector. While on the pension sector the impact will be more visible in the longer term, we already see negative performances. Considering the prevalence of defined contribution schemes this has a direct impact on members and beneficiaries.

In the longer run, the situation could deteriorate. The economic downturn, with possible increases in defaulted loans and bankruptcies may put pressure on the stock markets while interest rates will continue to remain low (if not negative), leading to possible stresses in the sector. Questions as to whether employers will still be able to meet their contributions also remain open.

EIOPA issued a statement on principles to mitigate the impact of COVID-19 on the occupational pension sector in Europe. Have you seen examples of good market practice (e.g. IORPs' communications) seeking to discourage members (in particular DC scheme members) to take hasty, short-term decisions that may jeopardise long-term pension outcomes?

To date, despite of unsatisfactory market performances, IORPs – at least in Austria – seem to manage their operations quite smoothly. They have well developed IT systems resulting in the fact that even though many employees are working from home, business operations and communication with members is smooth and seamless.

I cannot comment on IORPs' investment decisions as these are not disclosed to the public – this is something I believe we should reflect upon to improve transparency.

What lessons/opportunities could the pension industry learn/seize from the pandemic crisis to deliver more adequate occupational pensions in the future?

For sure, this pandemic has triggered a historical quantum leap for digitalization and we will see its effects for a number of years. The labour market and the financial sector have drastically changed and will continue changing dramatically and irreversibly. But also for consumers. Consumers, workers, and members' habits and needs have also changed.

Digitalisation will lower costs for the financial sector but also for employers who will save in office space. In this respect some risks may emerge as the value of real estate whether for work, retail and/or hospitality purposes may decrease and IORPs have invested in it.

Given market fluctuations, beneficiaries might be tempted to make decisions about their pension based on short-term events. It is crucial that before making any major decisions about their pension, they receive independent guidance or advice. In your opinion, how consumers behaved during the crisis and what are the main consumer risks resulting from it?

In Austria, which is the market I am most familiar with, contributions are mainly made directly by employers and the amount of contributions is determined by collective labour agreements; hence members have little to not say in this process.

Many consumers would prefer to have the option to withdraw their pension capital, either because they need liquidity due to the pandemic or because they are afraid of systemic risks that could lead to reductions in capital or pension. However they cannot do so. While this limits their ability to access their pension in the longer term it may also limit risks.

Overall, I believe the pandemic should be perceived as an opportunity to reform the pension sector and encourage more savings.

During COVID-19 the cases of frauds and scams have increased in both the insurance and pension sector. Scams can take many forms and can often appear to be a legitimate investment opportunity. How can beneficiaries protect themselves from these and what can the pensions sector together with the regulators /supervisors do to mitigate these risks?

Yes, unfortunately during the pandemic cybercrimes have increased. Despite a few isolated cases where pension funds and members may have been affected, I believe the financial sector has reacted well and was overall well prepared – at least in Austria. I believe a more systematic supervisory focus on cyber risks should be enacted. This should include regular assessments and 'stress test'.

Given most cybercrimes starts at the level of consumers – e.g., by them simply not recognizing fake advertisements, emails or websites – digital financial literacy should also be increased.

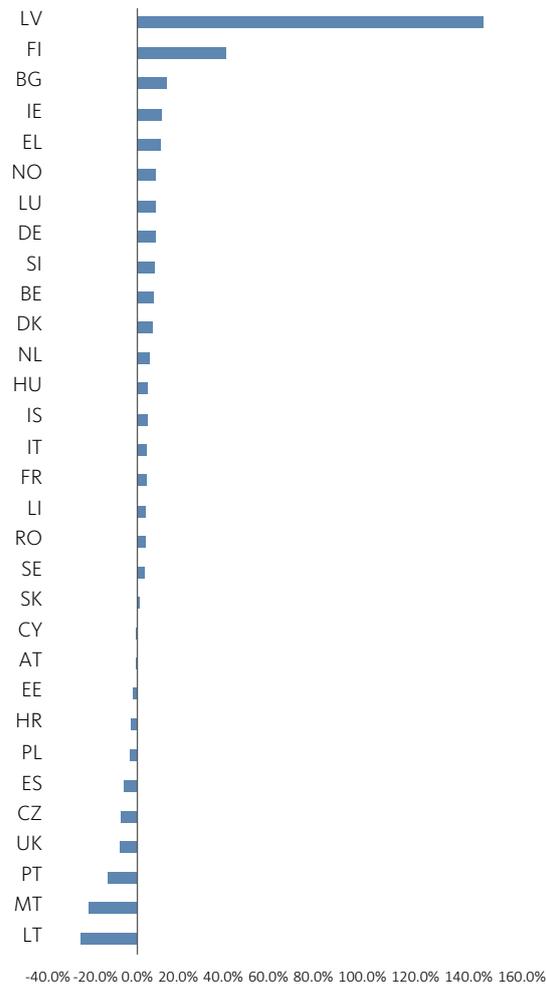
ANNEX I — 2019 RELATED TRENDS

1.1. LIFE INSURANCE SECTOR

1.1.1. MARKET OVERVIEW

At the end of 2019, a majority of Member States in the EEA reported an increase in life insurance GWP, which grew by 1.8% when compared with the end of 2018 (Figure 41).

Figure 40 — Growth in life insurance GWPs by number of Member States — 2019 ⁽⁴⁴⁾



Source: EIOPA Solvency II database.

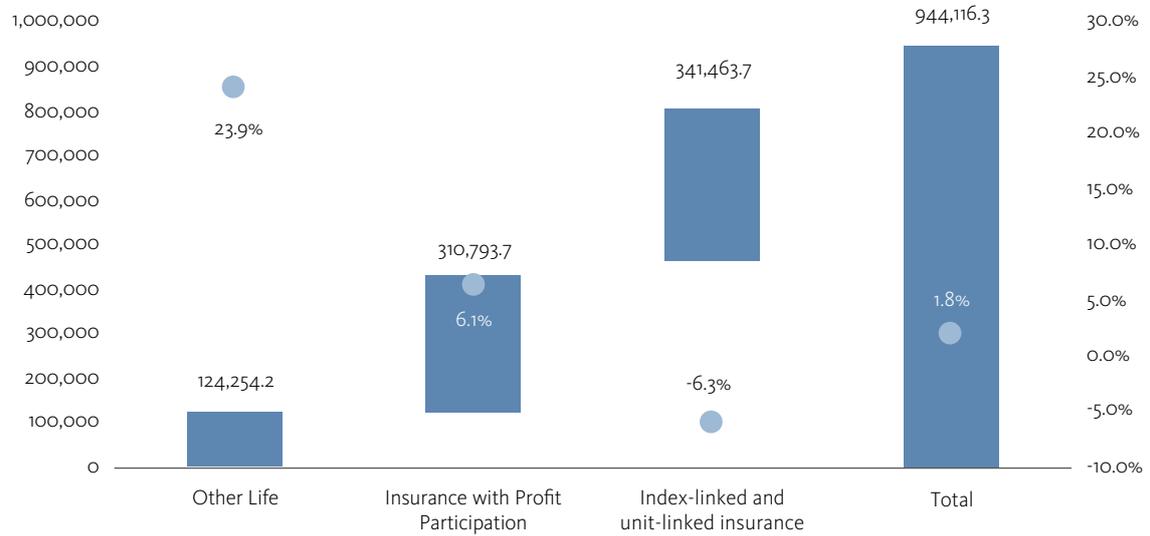
Growth has been mainly led by a 23.9% increase in other life insurance and a 6.1% increase in insurance with profit participation. Following the 42% growth in 2017, index-linked and unit-linked insurance business reported a decrease for the second consecutive year. However, index-linked and unit-linked insurance still remains the largest single line of business overall.

At the Member State level, different life insurance lines of business experienced different trends (Figure 42). For example, in IT, the demand for with profit participation products remained stable, reporting a 7.6% growth in 2019, accompanied by a growing demand – as consumers search for higher yields – for hybrid products. In FR, where hybrid products are prevalent, both lines of business grew (3.3% index-linked and unit-linked insurance and 4.3% with profit participation insurance).

In terms of number of contracts at the end of the year ⁽⁴⁶⁾ other life insurance continues still being the single largest life insurance line of business. This is because generally, under other life insurance, there are some pure risk products with significantly lower premiums. The average premium paid for other life insurance contracts is significantly lower than for with profit participation and index-linked and unit-linked insurance.

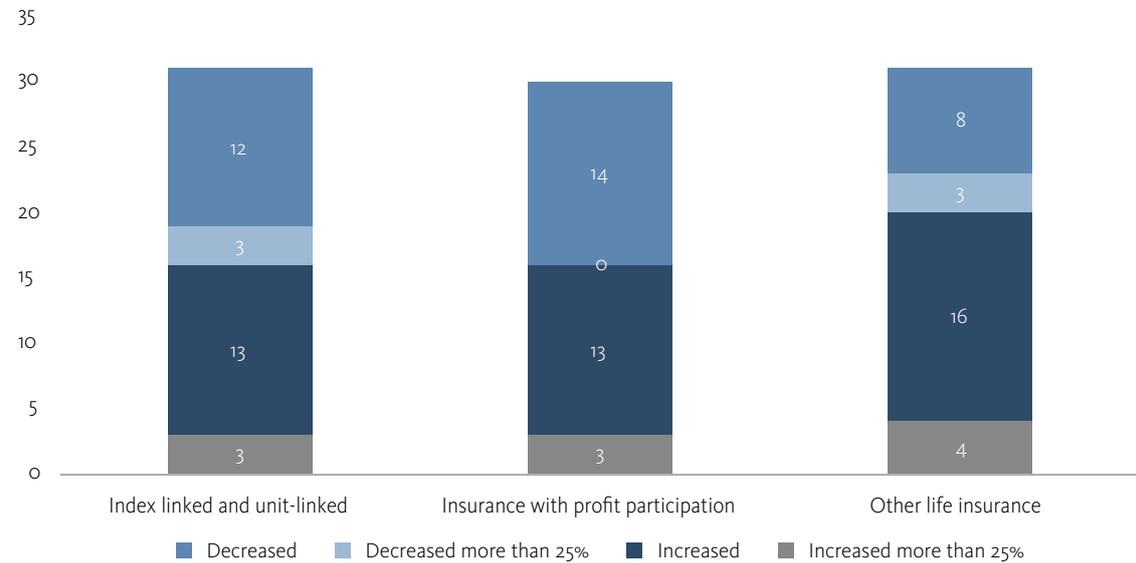
An analysis at the Member State level shows significant differences with profit participation contracts being clearly predominant in AT, BE, DE, and IT while index-linked and unit-linked contracts are prevalent in DK, EE, and LT. In most Member States the other life insurance line of business under which different types of products, including hybrids, are reported accounts for the highest shares in number of contracts terms.

Figure 41 — EEA life insurance GWPs in € million for selected lines of business (LHS) and year-on-year growth (RHS) — 2019



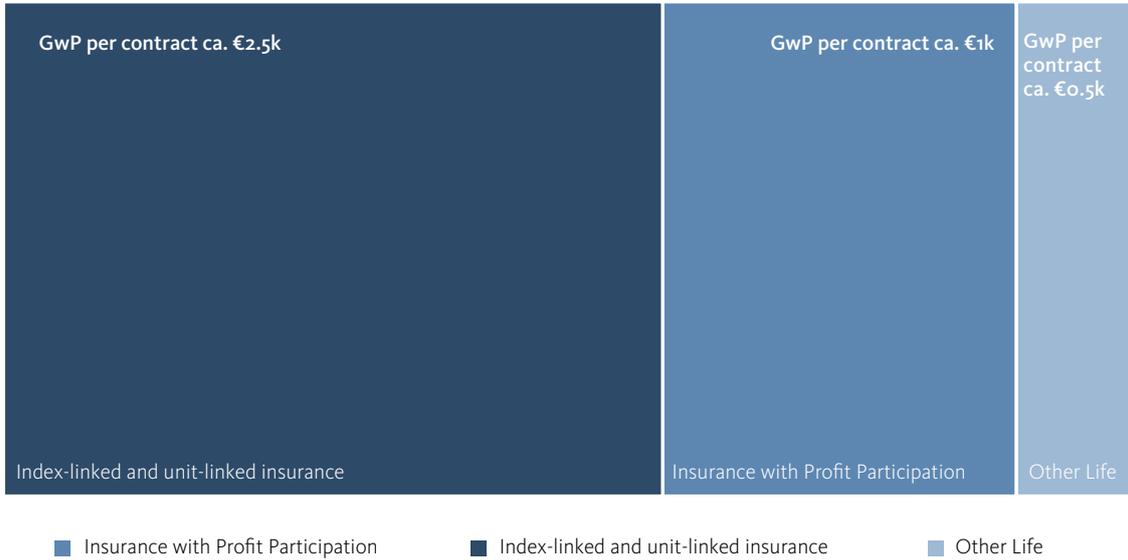
Source: EIOPA Solvency II database.

Figure 42 — Growth by number of Member States, for selected life insurance lines of business (on the left) (45)— 2019



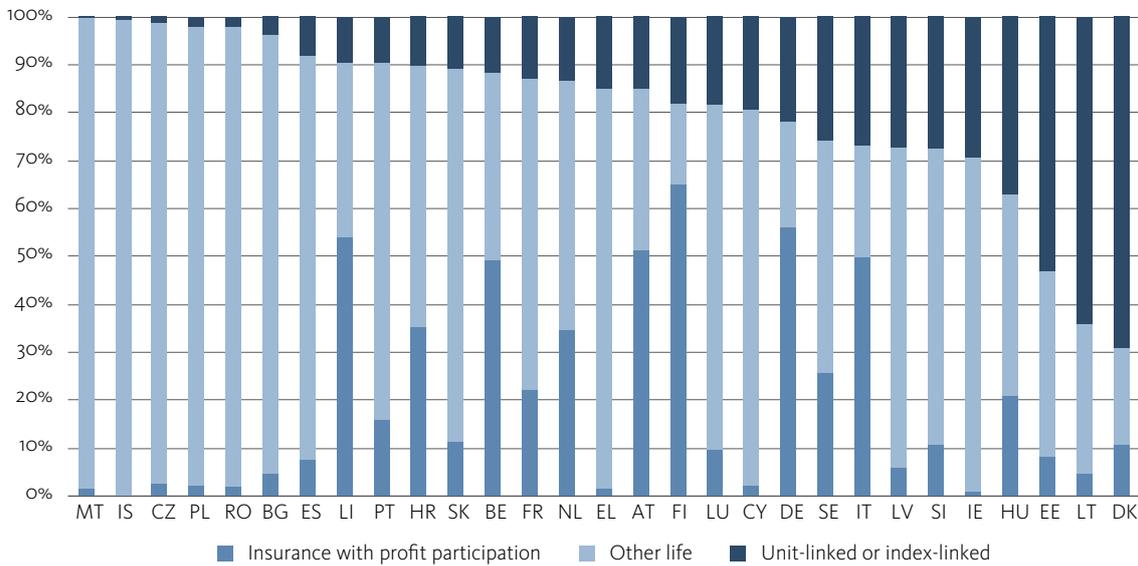
Source: EIOPA Solvency II database.

Figure 43 – Average premium for selected life insurance lines of business



Source: EIOPA Solvency II database.

Figure 44 – Life insurance contracts at the end of the year as a percentage of total life insurance contracts (47) for selected lines of business – 2019



Source: EIOPA Solvency II database.

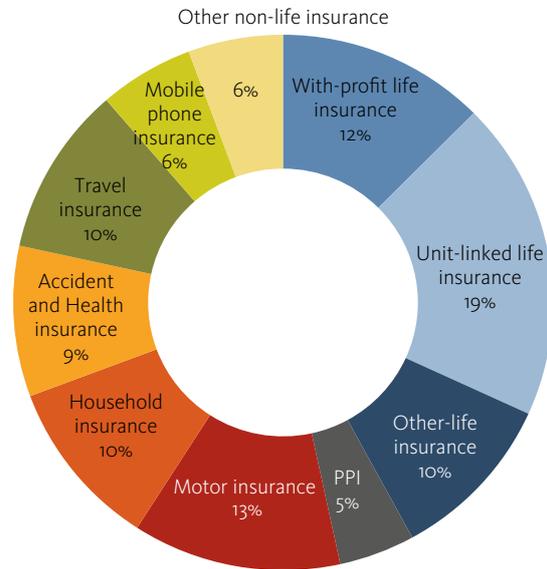
1.1.2. KEY ISSUES

Issues highlighted in the 2019 Consumer Trends Report continue to be an area of concern with risks subsisting in the unit-linked and other life/mortgage life insurance market. Out of 42 top 3 issues reported by NCAs, 17 related to unit-linked insurance.

Issues reported in relation to unit-linked products are varied and range from product design to distribution related issues.

NCAs observed an increase in cross-selling of not only insurance riders jointly with unit-linked products but also short term liability and travel coverage, increasing contract complexity. This adds onto risks stemming out of the limited oversight which insurance manufacturers have over distribution channels and/or lack of intermediaries' knowledge / understanding of complex unit-linked products, raising concerns about the quality of advice and risks of mis-selling.

Figure 45 – Top 3 consumer protection issues split by products – NCAs’ survey

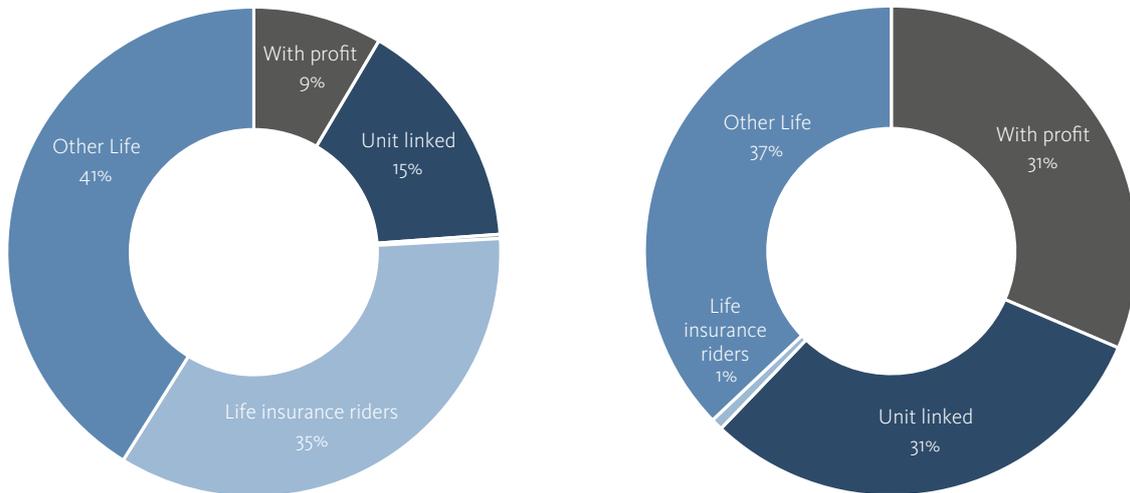


Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

An analysis of complaints data confirms concerns with unit-linked products. In 2019 taking into account all Member States which reported this data, life insurance riders-related complaints account for over 34% of total life insurance complaints and unit-linked related complaints account for over 15% of total life insurance complaints. Excluding one Member State which accounts for half of the total life insurance riders-related complaints, unit-linked insurance is the life product for which most complaints have been reported.

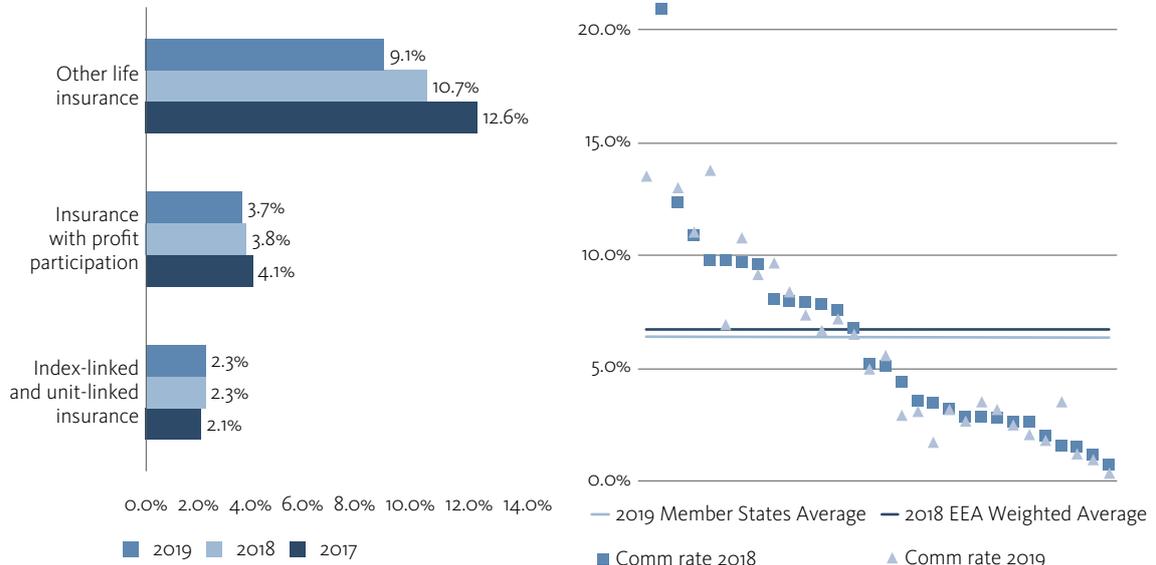
Risks stemming out of distribution activities are heightened by the level of commissions paid for index-linked and unit-linked products in some Member States. In 2019, commission rates for index-linked and unit-linked insurance, unlike for other life insurance lines of business did not report a decrease and remain significantly high in several Member States. Index-linked and unit-linked insurance commission rates increased in 13 Member States, above 2 percentage points in 3 Member States. They also remain above 10% in 6 Member States.

Figure 46 – Total life insurance complaints by products for all Member States which reported this information (on the left) and excluding one Member State which accounts for over 50% of total life insurance riders related complaints (on the right)



Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

Figure 47 – Commission rates for selected life insurance lines of business (on the left) and index-linked and unit-linked insurance commission rates by Member State (on the right)

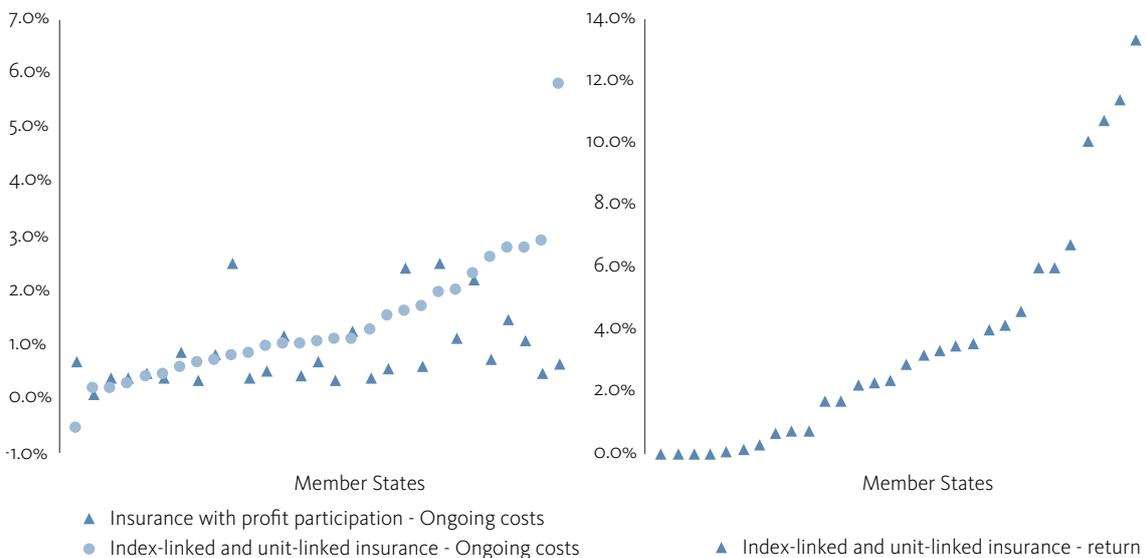


Source: EIOPA Solvency II database.

High commissions also lead to high costs for index-linked and unit-linked products which raises concerns about the impact these products can have on returns. Concerns are also heightened by the complex structure and complex and non-transparent fee-structure of both unit-linked

and hybrid products with multiple underlying options. In particular, costs, which on average are particularly high in some Member States, can impact significantly returns which are already low due to the continued low-yield environment (Figure 48).

Figure 48 – Ongoing costs (on the left) and return ratios (on the right) for assets backing index-linked and unit-linked contracts by Member States – 2019



Source: EIOPA Solvency II database.

Conflicts of interest in relation to unit-linked products, causing possible consumer detriment, not only relates to commissions paid by insurance undertakings to insurance distributors. They can also emerge because of kick-backs paid by asset-managers to insurance undertakings, which despite EIOPA’s Thematic Review and Opinion, remain a practice in several Member States leading to both insurers not investing in the best interest of their clients but also in disparate outcomes with some insurers rebating these monies to consumers and others not.

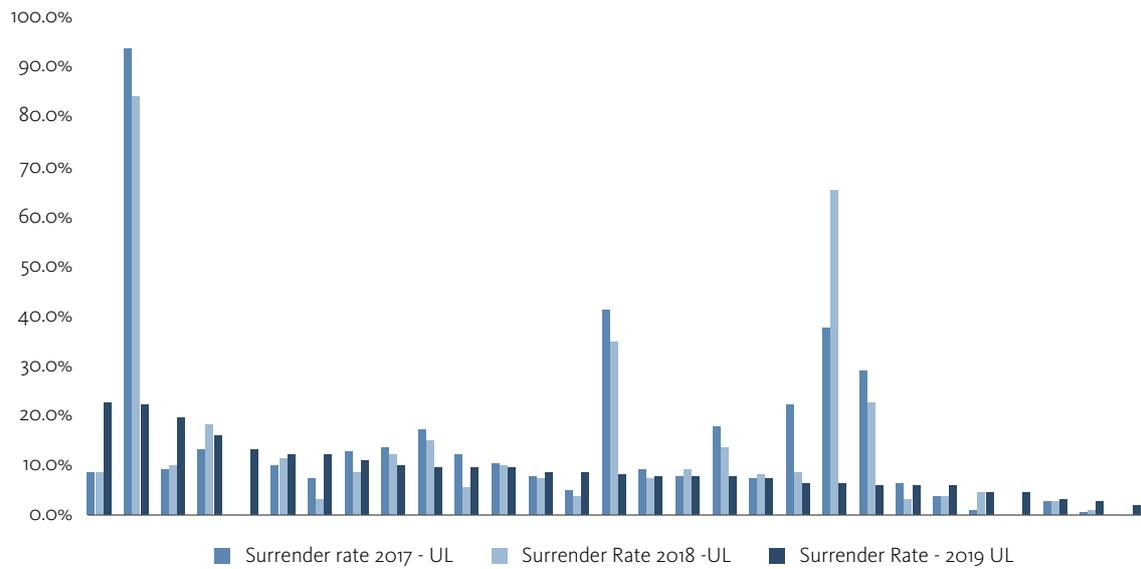
Despite ongoing concerns with unit-linked insurance, some positive developments have also been observed. Generally, better adherence to disclosure requirements for unit-linked and more broadly IBIPs has been observed in several Mem-

ber States. In some cases NCAs have also implemented more comprehensive disclosure requirements to allow consumer to understand IBIP-structures and more easily compare amongst products.

Surrender rates for unit-linked products have also dropped, with the Member States average having dropped from 14.7% in 2018 to 9.4% and the median amongst all Member States having dropped from 8.6% to 8.1%, this despite an increase in the majority of Member States (16).

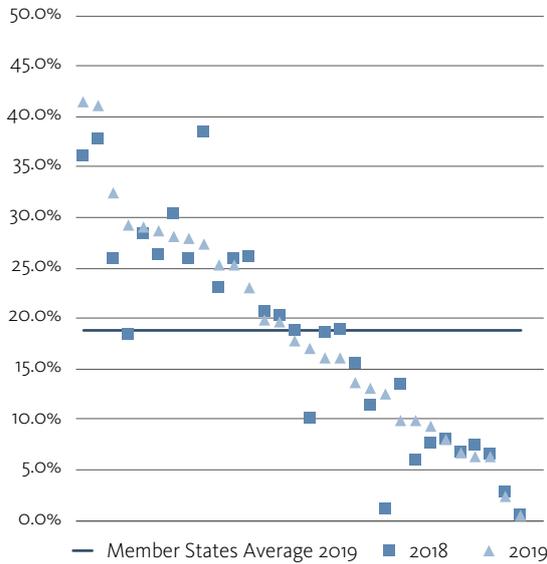
Issues relating to the cross-selling of mortgage life and other credit-life insurance policies continue to persist. Commission rates remain high at the EEA level, having increased in 20 Member States and being above the EEA Member States average (18.8%) in 14 of them.

Figure 49 – Index-linked and unit-linked insurance surrender rates by Member States – 2017-2019



Source: EIOPA Solvency II database.

Figure 50 – Other life insurance commission rates by Member State – 2018-2019



Source: EIOPA Solvency II database.

High commission rates related concerns are heightened by the conflict of interest which arise in the sale process for mortgage life and credit life insurance products given these products are mostly sold 'as a mandatory requirement' by banks, with different exclusivity agreement and/

or ownership structure, jointly with the credit product to generate revenues from commissions. For example:

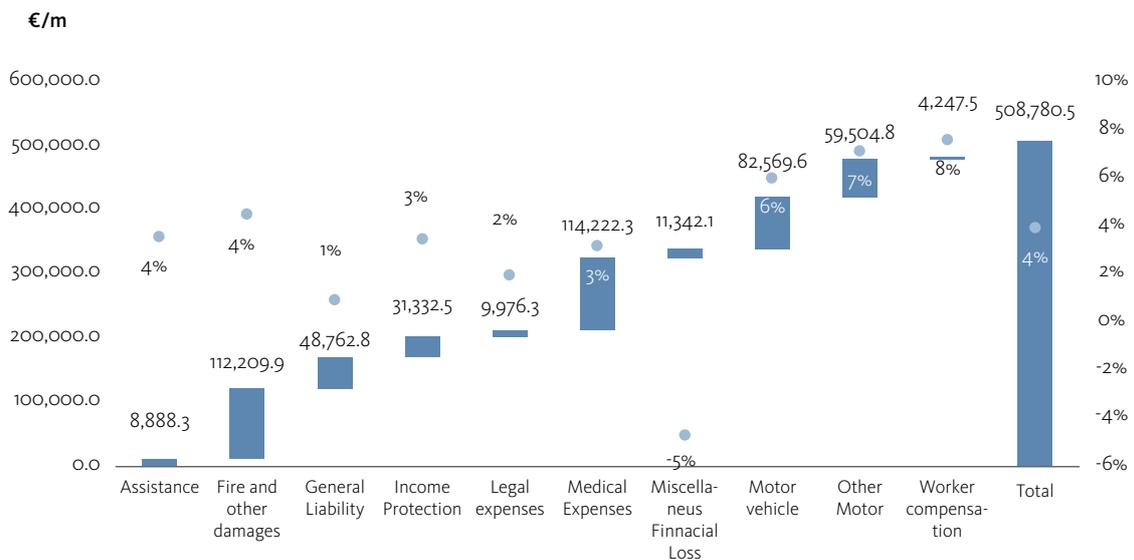
- Many NCAs reported these products being sold as mandatory;
- Other NCAs and stakeholders continued reporting 'incentives', such as lower interest rates, to buy these products;
- Finally, information shared by stakeholders shows that in many instances more than 80% of credit-life and mortgage-life contracts are held by insurers who have a close link to banks selling the mortgage and the credit product.⁽⁴⁸⁾

1.2. NON-LIFE INSURANCE SECTOR

1.2.1. MARKET OVERVIEW

The EEA non-life insurance sector grew by 4% in 2019. Growth was particularly strong in eastern European Member States. Unlike in past years, with the exception of the miscellaneous financial loss line of business which after having grown significantly over the past years reported a decrease, all other non-life insurance lines of business increased.

Figure 51 – Non-life insurance GWPs in € million (LHS) and year-on-year growth (RHS) for selected lines of business – 2019



Source: EIOPA Solvency II database.

Motor insurance (motor vehicle liability and other motor insurance lines of business) continues to be the most prominent product in the non-life sector (Figure 51), with both the motor vehicle liability and other motor insurance experiencing noteworthy growth (6% and 7% respectively). At the Member State level, like in past years, these lines of business experienced important growth in Eastern and Central Europe. For example these lines of business grew respectively 17.6% and 6% in BG, 10% and 11.9% in CZ (49) and 3.9% and 9.2% in RO (50).

In several Member States, trends in this sector follow trends in the automotive industry. For example, in FR, where new car registrations increased 1.9% GWP for both lines of business remained stable.

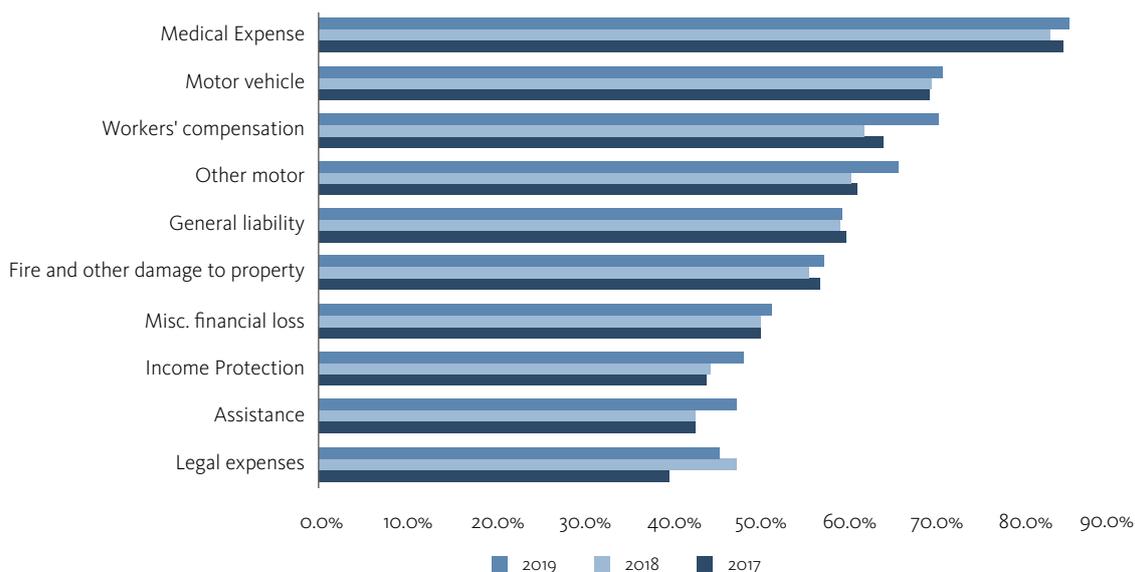
Innovations continue to characterise the trends in the motor insurance sector. In IT, where the use of black boxes is prevalent the average motor vehicle liability premium decreased, indicating that insurers may be able to more precisely price these products thanks to black boxes data. In DK, the industry is continuously involved in monitoring developments and exploring benefits of in-vehicle data. Several pilot schemes are ongoing to gather experience on how to ensure benefits from this technology are harnessed whilst guaranteeing data and consumer protection more broadly.

Medical expense insurance continues to be the single largest non-life insurance line of business and experienced 3% growth. From a value-for-money perspective, accident and health insurance products continue to fare well compared with other non-life insurance products in several Member States: the medical expense line of business has the highest claims ratio (Figure 52), which increased in 2019, and the lowest commission rates despite the slight increase, with a combined ratio of 99.7%. This could also be partially because health insurance products are generally highly regulated.

With the exception of a few Member States – i.e., in 7 Member States accident and health insurance complaints represent over 25% of total complaints – where issues around pricing, renewals, and complex product structures have been reported, good consumer outcomes for accident and health insurance products appear to be consistent across the EEA:

- In 2019, the gap in commission rates across Member States was low with only 7 Member States with commission rates above 20% (vs. 9 in 2018); and
- Overall claims ratios for this line of business are high across Member States with only 6 Member States reporting a claims ratio below 50% and only 3 of them reporting a claims ratio below 40%.

Figure 52 – Claims ratio for selected non-life insurance lines of business – 2017-2019



Source: EIOPA Solvency II database.

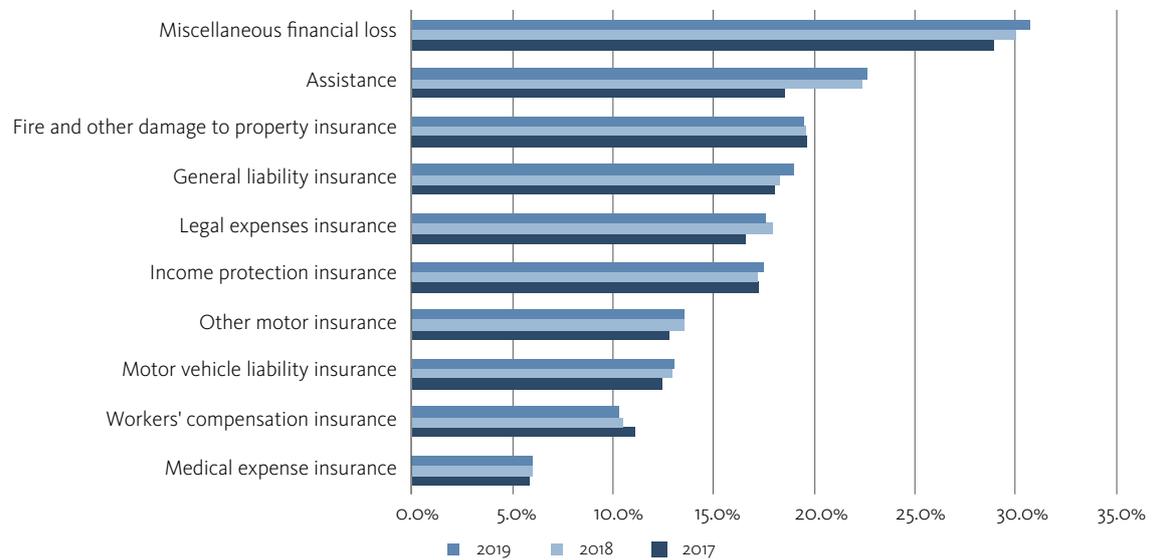
Fire and other damage to property increased in 27 Member States — in 7 of them by more than 10%. Although several products fall under the fire and other damage to property line of business (31): the increase in some Member States continues to be influenced by the low interest rate environment, which results in more consumers buying real estate.

Innovations also continue to be observed with regard to household policies, with smart homes policies and cloud-based solutions linked to security systems in some Member States.

Commission rates for the fire and other damage to property insurance line of business are the third highest at the EEA level even though the experience a small decrease.

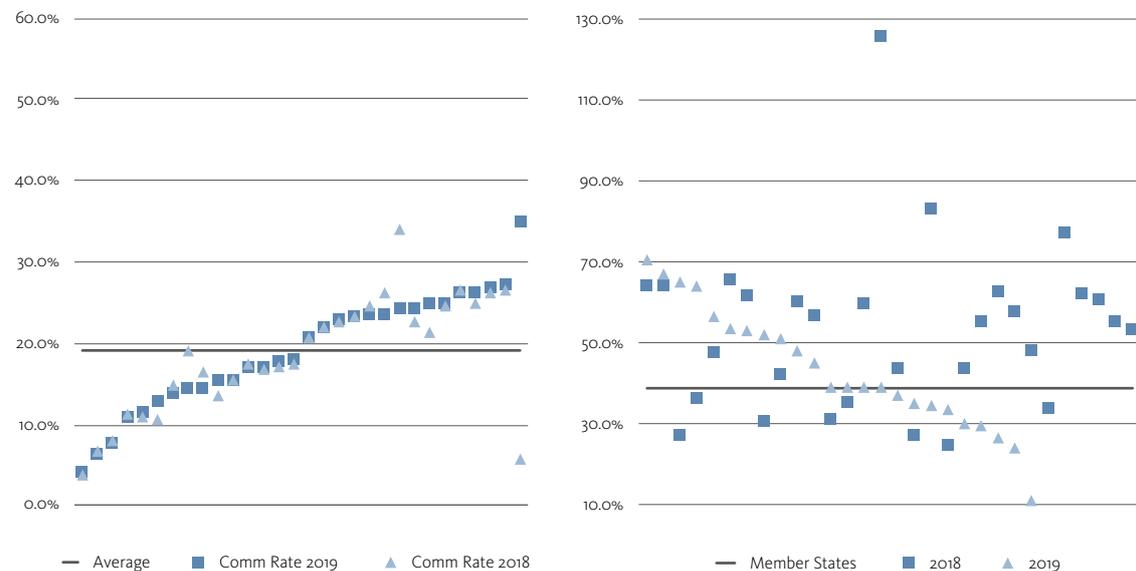
Commission rates for the fire and other damage to property line of business increased in 14 Member States and are above 20% in 15 Member States. On the other hand, claims ratios decreased in 14 Members and are below 40% in 16 Member States.

Figure 53 — Commission rates for selected non-life insurance lines of business — 2017-2019



Source: EIOPA Solvency II database.

Figure 54 – Fire and other damage to property commission rates (on the left) and claims ratios (on the right) by Member State – 2018-2019



Source: EIOPA Solvency II database.

The miscellaneous financial loss continues to have the highest commission rates followed by assistance which has also the second lowest claims ratios raising concerns

about value for money for add-on products, including travel insurance products, which follow under this line of business.

Table 1 – Retail risk indicators for selected non-life insurance lines of business

	Claims Ratio	Combined Ratio	GWP Growth	Comm Rates
Assistance	47.5%	92%	3.5%	22.6%
Fire and other damage to property	57.5%	95%	4.4%	19.5%
General liability	59.4%	96%	0.9%	18.9%
Income protection	48.2%	80%	3.4%	17.5%
Legal expenses	45.4%	88%	1.9%	17.6%
Medical expense	85.2%	100%	3.1%	6.1%
Misc. financial loss	51.5%	96%	-4.8%	30.7%
Motor vehicle	70.8%	100%	5.9%	13.1%
Other motor	65.8%	95%	7.1%	13.5%
Workers' compensation	70.3%	95%	7.5%	10.3%

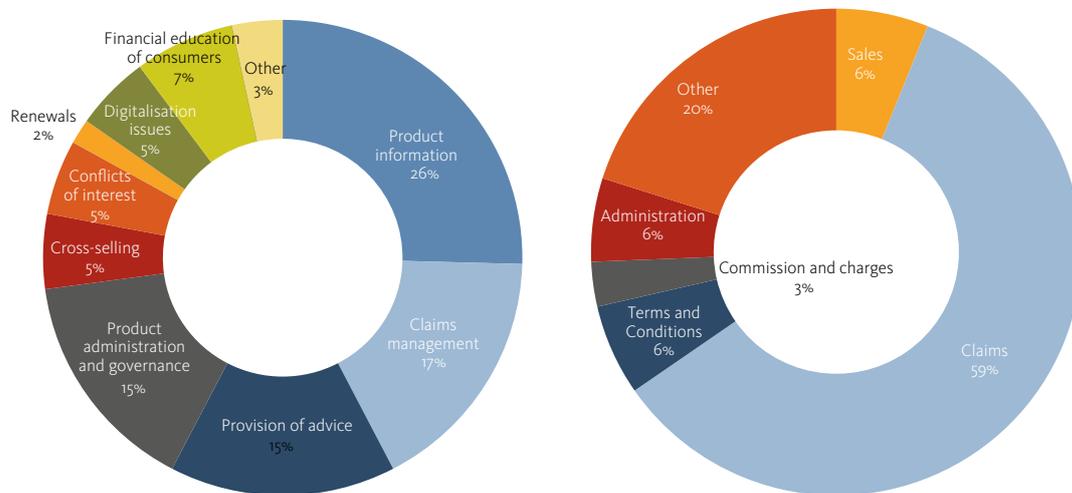
Source: EIOPA Solvency II database.

1.2.2. KEY ISSUES

A number of issues relating to non-life insurance products continue being reported by NCAs. Conduct risks

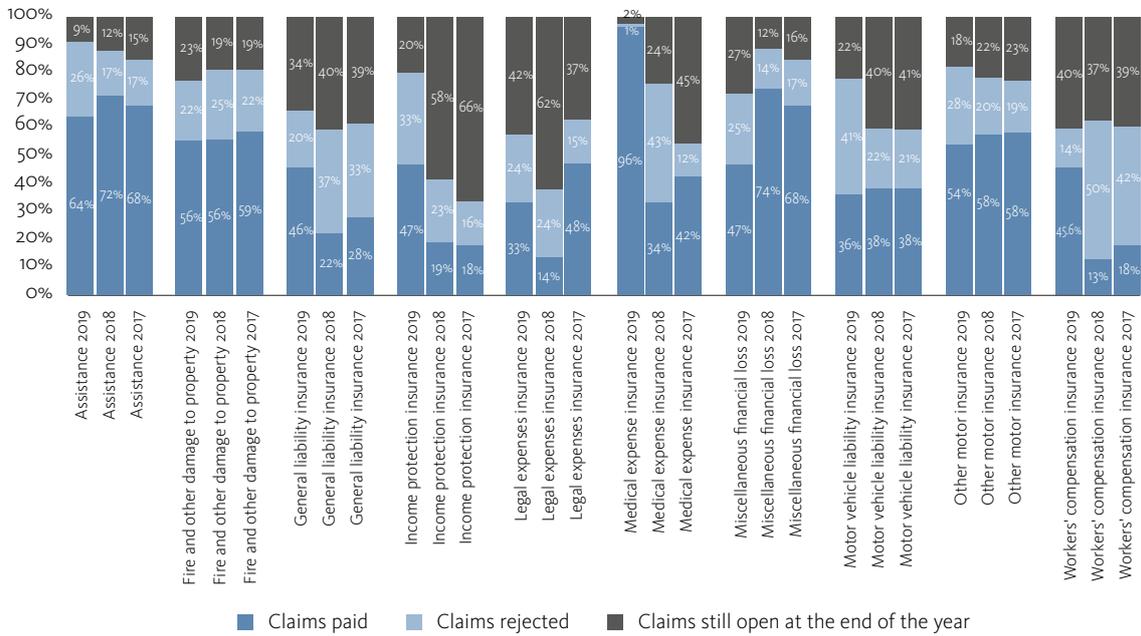
relating to inadequate claims handling practices continue to persist across a number of Member States, with claims management being the second most common top 3 issue reported by NCAs and claims related complaints account for over 50% of total complaints reported by NCAs.

Figure 55 - Top 3 consumer protection issues split by cause NCAs' survey (on the left) and complaints split by cause (on the right) – 2019



Source: Committee on Consumer Protection and Financial Innovations consumer trends questionnaires.

Figure 56 – Claims management data for selected non-life insurance lines of business – 2018-2019



Source: EIOPA Solvency II database.

An analysis of claims related information shows that at the EEA level:

- With exception of workers compensation, medical and expense and general liability, the percentage of claims rejected as percentage of total claims has increased for all other non-life insurance lines of business;
- The percentage of claims open at the end of the year has increased for the miscellaneous financial loss and workers' compensation lines of business; and
- The percentage of claims open at the end of the year remains above 20% for the fire and other damage to property, general liability, income protection, miscellaneous financial loss motor vehicle liability and workers' compensation lines of business.

Issues reported by NCAs are varied and include:

- Delays in handling and responding to claims;
- Limited motivation given to consumers when claims are rejected; and
- Outsourcing of claims handling practices with limited oversight being exercised by insurance undertakings.

Stakeholders also reported concerns with consumer detriment stemming out of inadequate claims handling practices.

Low value for money and cross-selling practices, often leading to pressure sales techniques from distributors who want to generate revenues from commissions, continue being an area of concerns for several NCAs. Issues relating to high commissions and low claims have already been highlighted and NCAs continue reporting concerns with:

- Mobile phone and other gadget insurance products are an area to which NCAs are paying particular attention; and
- NCAs are paying close attention to cross-selling practices by ancillary intermediaries. In fact:
 - The distribution of ancillary insurance products continues being characterized by 'forced sales' techniques and/or limited / lack of information given to consumers;
 - Not only target markets for these products are very broadly defined but also demands and needs assessments are not being thoroughly carried out by insurance distributors and are often a brief self-assessment. With consumers are being focused on the main good / services the

risk that exclusions are not thoroughly assessed is high.

- Conflicts of interest resulting in limited / no choice being offered in terms of different coverage and products are widespread.

Particular concerns exist with regard to over-insurance for these products and/or consumers not being aware about having coverage. An analysis of claims ratios combined with the percentage of claims rejected for the assistance and miscellaneous financial loss lines of business shows that:

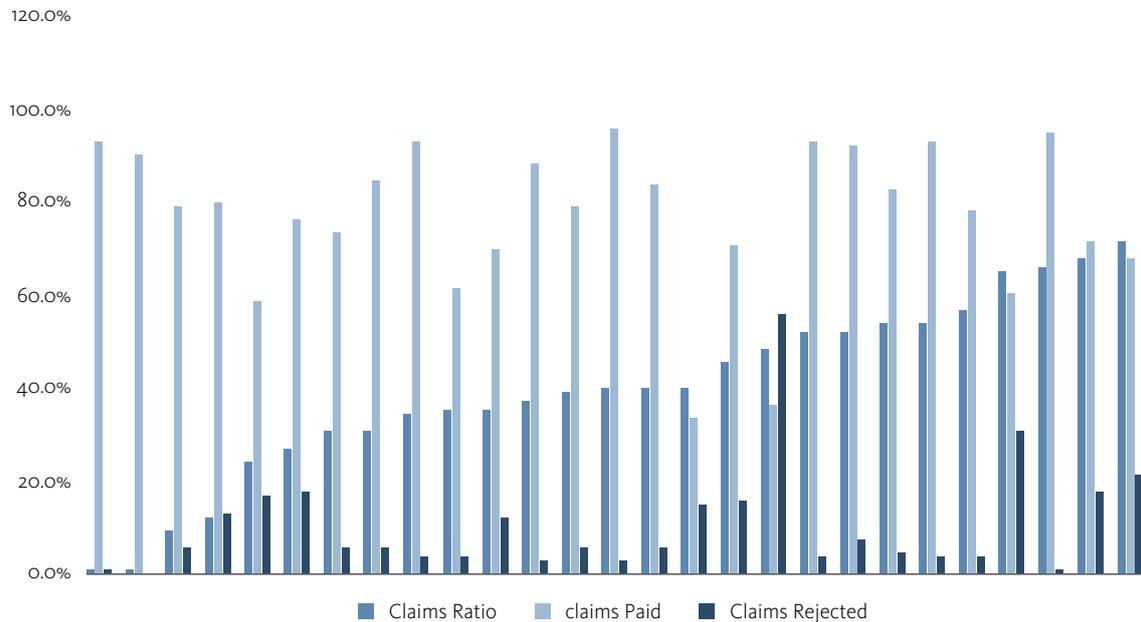
- For the assistance line of business while claims ratios are below 50% in 18 Member States, only in 2 of them the percentage of claims paid out of total claims receive is below 60% and the percentage of claims rejected is above 20% in only 1.
- For the miscellaneous financial loss line of business while claims ratios are below 50% in 21 Mem-

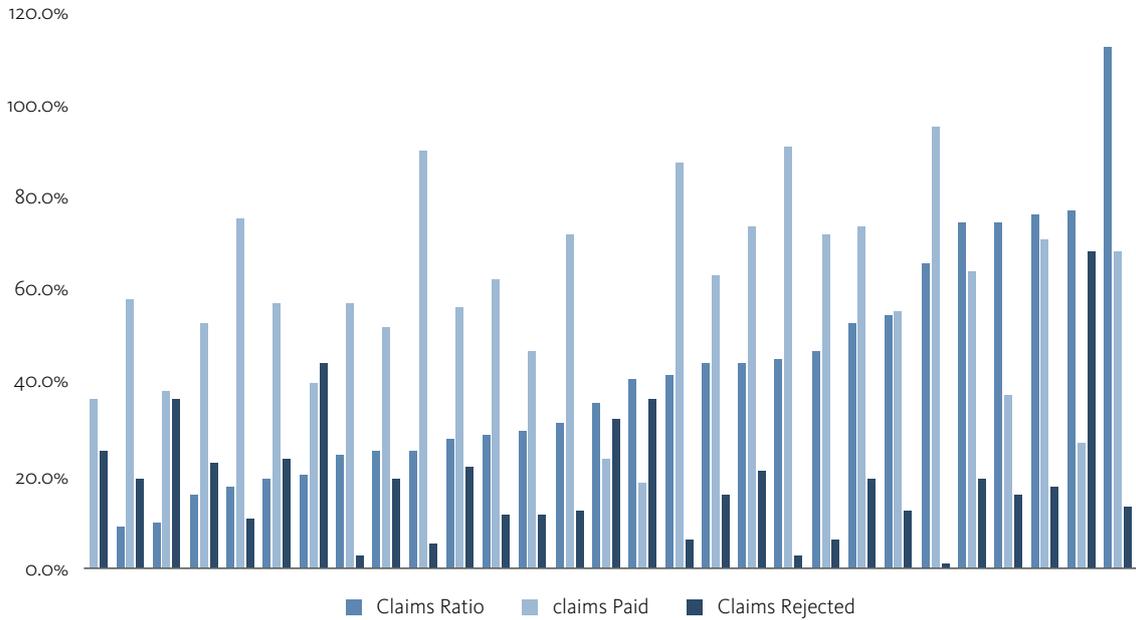
ber States and only in 12 of them the percentage of claims paid out of total claims receive is below 60% and the percentage of claims rejected is above 20% in only 9 – above 30% only in 4.

Finally, it is worth highlighting that issues with discriminatory practices in pricing appear to be an increasing problem which merits further attention in the future. In fact, NCAs and stakeholders have observed:

- Discriminatory practices at renewals with often loyal consumers paying a significantly higher price than new customers.
- Changes in coverage at renewals without adequately informing consumers, accompanied with equal/similar prices, are increasingly widespread;
- Discriminatory practices stemming out of Big Data analytics have been reported, albeit not yet being a problem across the market.

Figure 57 – Claims ratios and percentage of claims rejected and open at the end of the year for the assistance (on the left) and miscellaneous financial loss (on the right) lines of business by Member State – 2019





Source: EIOPA Solvency II database.

1.3. PENSIONS SECTOR

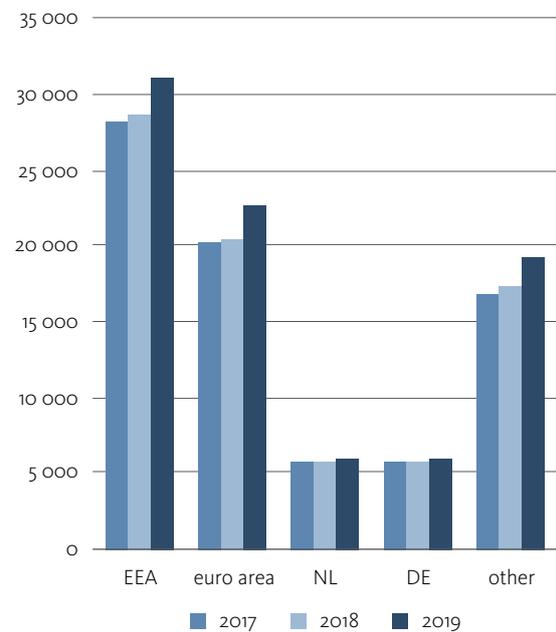
1.3.1. MARKET OVERVIEW

As in past years, a continuous stable growth in the total number of active members could be observed in 2019, with the continuous shift from defined benefit (DB) towards defined contribution (DC) schemes also remaining broadly noteworthy.

In 2019, the total population of members in occupational pension funds in the EEA increased. Overall, data provided by NCAs shows that active members continued growing (8%) in the 23 Member States for which this information is available.

However, trends and drivers behind them vary significantly among Member States, generally reflecting economic and labour market developments. Some trends are also influenced by reform of the public pension system.

Figure 58 – Active members in occupational pension schemes in 23 Member States (⁵²) – 2017-2019



Source: EIOPA financial stability statistics.

Growth trends should be interpreted taking into account the size of the occupational pension sector in each Member State. For example, in HR, where the occupational pension sector is small (i.e., just about 45,000 members), the number of total active members, which continues to increase, reported an overall growth above 10%. This is partially due to the increased awareness about these schemes.

Reforms such as the increase in the retirement age and disincentives to take early retirement (i.e. higher reduction of conversion rate) also contribute to the growth in several Member States.

In PL, in 2019 the number of savers in occupational savings plans has increased significantly following the start of the new saving auto-enrolment product (PPK) that has been made mandatory for larger employers. As this is expected to gradually spread to smaller employers and finally to the public sector in 2021, the number of savers in occupational savings plans will further increase.

In several Member States, the occupational pension sector reported minor fluctuations in terms of total numbers of active members:

- In AT, like in past years, growth (4%) seems to be driven by the fact that employers and employees are becoming more and more aware of the need to complement the Pillar I pension system.
- In BE (1.4%) the total number of members gradually increases year after year, but the ratio of the number of members across the different types of pension plans remains in general terms stable. In addition, in 2019 growth was also led by a new type of occupational pension product for self-employed people.

Like in 2017 and in 2018, in FI, the number of active members continued to contract (-14.5%), as occupational pension schemes are in 'run-off'.

Trends in personal pensions markets continue to vary significantly across the EEA and are mainly affected by tax regimes as well as by trends in Pillar I and Pillar II pensions.

In IE, for example, like in 2018, the total number of consumers who hold a private personal pension product increased by 6%. This is the effect of the legal requirement for employers to offer access to a personal pension if they do not participate in an occupational pension scheme. Personal pension schemes are also open to all citizens

and they can contribute to more than one scheme simultaneously.

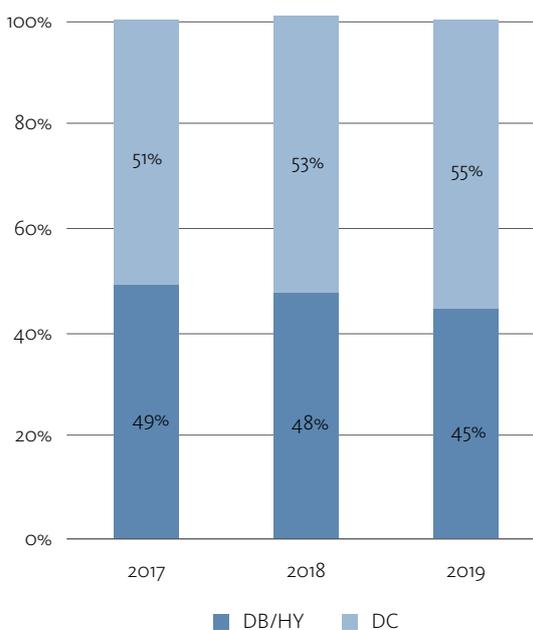
In RO, in 2019 the number of members for mandatory pension funds has increased by 2.92%. Voluntary pension fund membership has also increased by 6.13%. Employment trends have possibly influenced this increase, in fact, in 2019 unemployment was at record low and wages have increased resulting in people having more disposable income and saving more. Legal changes allowing workers to opt out of Pillar I contributions and contribute to Pillar II and III have also influenced these trends.

Like in RO, in BG membership of personal pension schemes has increased due to the macroeconomic situation with less unemployment and higher wages leading to more disposable income.

1.3.2. KEY ISSUES

Overall, the shift from DB to DC schemes in the occupational pension sector continues in several Member States. DB and hybrid schemes went from accounting for almost 50% of total active Members across the EEA in 2017 to 45% in 2019.

Figure 59 – Active Members split by DB/HY schemes and DC schemes in 23 Member States – 2017-2019



Source: EIOPA financial stability statistics.

Overall possible increased risks with regard to DC schemes have been reported in past years and include:

- Inappropriate investment risk exposure close to retirement (transition risk);
- Not saving enough for retirement (under-saving risk);
- Lack of adequate retirement income as a result of the risk of high volatility in the capital market being shifted on to consumers, inadequate contributions and/or inappropriate investment options; and
- Lack of adequate advice and risk of inadequate choice of retirement income products (e.g. irreversible choice of annuity, risk of outliving own retirement savings for cash lump sum withdrawal).

In line with a possible increase in conduct risks posed by the shift to DC schemes, it is noteworthy that DC schemes are the ones for which most top 3 issues are reported by NCAs. In 2019, NCAs reported 39 top 3 issues and 21 of them related solely to DC schemes.

Issues reported by NCAs are varied and range:

- From lack of adequate product design and lack of customer centric processes to develop DC products;
- To limited transparency around costs and investment options and lack of members and savers' understanding of these products resulting to a mis-match between expectations and actual retirement savings.

Because of the nature of DC products and the overall limited understanding of how pensions work, DC schemes

are also the products for which, in the majority of Member States, most complaints are reported. Complaints relating to DC schemes mostly concern a mis-match between beneficiaries' expectations and actual pay-outs.

Despite this shift towards DC schemes raising concerns, it is also noteworthy that it also brings some benefits, such as providing more choice — bearing in mind that choice overload can also be complex — on how to invest contributions, allowing for lifecycling. Moreover, positive developments are also reported with regard to DC schemes with 10 out of 24 positive developments reported by NCAs relating to DC schemes only and 14 others relating to both DC and DB schemes.

Positive developments reported include:

- An increase in digital and behaviourally informed communications, leading to members and beneficiaries better understanding these products;
- An increase in financial literacy programs to enable members to better understand these products;
- The introduction of legislation limiting and abolishing certain costs such as entrance fees.

Finally, in terms of issues faced by members and beneficiaries, transparency and financial literacy are the 'causes' for which most issues have been reported by NCAs and this could be the reason why 20% of total complaints reported relate to transparency and 28% to benefits – with beneficiaries expecting higher benefits because of limited transparency and limited understanding of pension products.

ANNEX II — METHODOLOGY

› Input from national competent authorities

The *Consumer Trends Report* methodology was adopted in 2012⁽⁵³⁾ and revised in 2013⁽⁵⁴⁾ to produce more robust *Consumer Trends Reports*. It includes the collection of information from NCAs on a number of quantitative and qualitative metrics.

As far as the qualitative information is concerned, this year were requested to fill in 6 surveys: three for insurance and three for pensions. 4 surveys covered the top three consumer issues, positive developments/initiatives in relation to COVID-19 and for 2019, and thematic work for 2019 and 2 covered COVID-19 focus topics.

In the first set of surveys:

- › NCAs were asked to report on the main consumer protection issues and positive initiatives observed with regard to the COVID-19 crisis;
- › NCAs were asked to also report on the main consumer protection issues, positive initiatives observed and consumer protection activities undertaken during the previous year.

In the COVID-19 focus topics, NCAs had to provide information on trends relating to lapses and surrenders, claims delayed and claims rejected, and digital online and digital mediated sales. This survey also included specific questions about concrete topics to gather inputs on specific issues stemming out of the COVID-19 crisis.

Regarding the quantitative data for the insurance sector, NCAs provided data on number of active members and savers for pensions. In addition, they also provided complaints data both with regard to COVID-19 related complaints and 2019 complaints for both sectors.

Insurance sector submissions were more complete than pension sector submissions. This could be partly because this is the tenth year that insurance data have been collected, whereas it is only the sixth time of collection for pension-specific data. Moreover, with regard to COVID-19 some trends, particular with regard to non-life insurance, may already be clearer and so inputs were received.

› Input from stakeholders

For the fourth time, the report includes interviews with individual stakeholders. Moreover, in accordance with the revised methodology to recur to more data sources, EIOPA asked the Insurance and Reinsurance Stakeholder Group (IRSG)⁽⁵⁵⁾ and the Occupational Pensions Stakeholder Group (OPSG)⁽⁵⁶⁾ to provide inputs.

In addition, EIOPA gathered inputs from other stakeholders (Insurance Europe, Pensions Europe, the European Federation of Insurance Intermediaries — BIPAR, and the European Consumer Organisation — BEUC, and the European Federation of Investors and Financial Services Users — Better Finance), which either answered directly through a questionnaire or shared their views through their representatives in the IRSG and the OPSG. EIOPA also regularly meets stakeholders to discuss concrete insurance and pensions issues.

This year EIOPA also gathered inputs from selected consulting firms (PricewaterhouseCoopers, KPMG, Deloitte, and Ernst & Young) which provided inputs on the impact of the COVID-19 crisis on sector, including on expected future trends as well as financial services employees' associations, such as the Nordic Financial Union, to also gather their perspective on the impact the crisis has had on the sector.

› Solvency II data

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

However, given its prudential nature, Solvency II's lines of business are risk categories and not product categories (see Annex V for further information), meaning that, for example, part of the premiums collected through motor insurance policies can be distributed through different lines of business. It also captures without distinction the premiums gathered from individual retail consumers as well as from corporate clients. The data are analysed for 'growth direct business', i.e. gross of reinsurance, as the

reinsurance information is not immediately relevant from a consumer protection perspective.

Although data quality checks are regularly performed by NCAs and EIOPA, the quality of the data as well as the value that can be extracted from it (e.g. trends in the indicators over time) is improving over the years. Still, in

particular when product by-product information is used, the conclusions should be interpreted cautiously.

This year particular caution should be taken when analysing trends, in fact, it is the first time that Quarterly data is used for the purpose of preparing this Report.

BOX 2



SOLVENCY II-BASED RETAIL RISK INDICATORS

The retail risk indicators are a set of indicators developed by EIOPA, with the purpose of assisting in identifying potential areas of concern. Rather than pinpointing concrete and specific risks for consumers, they assist in identifying 'issues of interest' that might warrant further analysis.

In addition to data on complaints, for this report, EIOPA relied on Solvency II data-based indicators, with the aim of making a comparable analysis across the EEA. Beyond the retail risk indicators included in EIOPA's methodology, additional ones have been used for this report, with the aim of analysing data patterns for specific risks reported by NCAs or by stakeholders or for issues that emerged from the consumers interviews.

As these indicators are based on Solvency II data, which is data mainly collected for prudential purposes, they should be interpreted cautiously, taking into account the key issues highlighted below.

Below is an overview of the indicators used in this report and potential explanations of relevant trends.

Quarterly data:

- *Quarterly GWP growth* ⁽⁵⁷⁾: see Annual Data
- *Quarterly claims ratios* ⁽⁵⁸⁾: see Annual Data
- *Quarterly claims incurred growth* ⁽⁵⁹⁾: This Indicator provided an overview of the amount of claims paid during the reporting period and/or provisions put aside by insurance undertakings. The aim is to see whether, independently from premium trends which affect claims ratios, more or less claims have been received or provision for for a specific line of business. In particular, given the COVID-19 crisis this indicator aims at capturing whether some lines of business have been particularly impacted by the COVID-19 with significant increases in claims paid and/or with significant reductions in claims indicating possible changes in risk levels.
- *Quarterly expense ratios* ⁽⁶⁰⁾: This indicator captures the total expenses incurred by insurance undertakings (e.g., distribution expenses, administrative expenses) over a given period of time as a percentage of total premium. The aim is to capture specific trends relating to undertakings' expenses which may have an impact on products and consumers.

Annual Data

- *GWP growth* ⁽⁶¹⁾: High growth could be either a sign of good consumer policies or general market trends as well as a shift in business model. It could also relate to aggressive sales practices, particularly if cou-

pled with high commissions. Finally, high sudden growth could also relate to portfolio transfers. Rapid growth can raise operational and other risks.

N.B. GWP growth analysis is based on available Solvency II data; hence, it is not possible to differentiate between one-off and ongoing premiums and between premiums generated by existing versus new contracts.

- *New contracts growth* ⁽⁶²⁾: Same as GWP growth but measured in terms of number of contracts.
- *Claims ratio* ⁽⁶³⁾: Claims ratios can help in assessing whether a product is 'good value for money' for consumers or whether the right target market has been identified. An extended period of time of low claims ratios or sharp decreases may be caused by high claim refusals or low claim payouts, indicating potential mis-selling and bad wording of contracts. A decrease, however, could also relate to positive developments or external factors; for example, a decrease in motor insurance's claims ratio could mean fewer car accidents. Variations in claims ratios could also relate to other indicators, as claims ratios are relative measures based on two values (GWP and total amount paid out in claims). Persistent low claims ratios, if relating to low payouts or high claims refusals could lead to an increase in claims-related complaints.
- *Claims management data* ⁽⁶⁴⁾: Claims management data can be a useful source of information.
 - A high percentage of claims rejected could indicate potential mis-selling or poor wording of contracts/product design. On the other hand, it could also mean that consumers may not be documenting their claims adequately or that they may submit claims for issues not covered. A low percentage of claims rejected, coupled with a low claims ratio, could also signal over-insurance.
 - A high percentage of claims still open at the end of the year can signal delays in handling claims. It could, however, also reflect claim complexity.
 - A high percentage of rejected claims or claims still open at the end of the year may lead to a high number of claims-related complaints and in the long run to a decrease in claims ratios.
- *Commission rates* ⁽⁶⁵⁾: Without adequate governance and control frameworks, high commission rates could provide incentives for distributors to sell products to consumers with the purpose of generating commissions. High commission rates, however, also need to be considered alongside other factors relating to governance structures, including what is taken into account in specific remuneration policies. Furthermore, different distribution models can lead to differences in commission rates.

N.B. Commissions have been calculated based on acquisition costs — capturing more than just commissions — they have also been calculated by using GWP as one of the variables that includes direct business. Moreover, it is also noteworthy that it is not possible to differentiate between commissions paid for new contracts and for existing contracts.

- *Combined ratio* ⁽⁶⁶⁾: A combined ratio below 100% is an indicator that the undertaking is obtaining profits. High profits may indicate products that offer poor value to consumers or may indicate high incentives for inappropriate sales or marketing behaviour.
- *Surrenders* ⁽⁶⁷⁾: A high value of surrenders could mean problems with the product, including potential mis-selling. High surrenders and high commissions could also mean potential churning problems. The indicator measures the total value of surrendered policies in year^N over the total surrenderable value in year^{N-1}.

N.B. This indicator measures only the total value surrendered in one year over the total surrenderable amount rather than the total number of policies surrendered. Hence, it should be interpreted with caution and in relative terms because, if contracts with higher value are surrendered, the ratio could be higher.

- *New contracts ratio* ⁽⁶⁸⁾: This indicator is to be read jointly with information on commission rates — a very low new contracts ratio could explain high commission rates because the variable is based on GWP.

High new contracts ratios can also explain high commission rates because of a shift in business model or significant acquisition costs.

- *Contracts 'portfolio' for other life insurance* ⁽⁶⁹⁾: As other life insurance contains different types of products, this analysis aims to give a better overview of the types of products commercialised, in particular whether group policies are sold.
- *Ongoing costs:* ⁽⁷⁰⁾ High ongoing costs can lead to a potential significant reduction in yield for unit-linked products. This indicator is based on technical provisions and aims to reflect the expected expenses in the next year, compared with the premiums of the next year and the existing best estimate of liabilities. The working hypothesis is that those insurance undertakings that have high expenses over new premiums and the best estimate may have high ongoing costs (these being asset management, administrative, etc.) leading to a potential reduction in yield of policyholders' net returns.

N.B. This indicator does not give a predication of the real expense ratio within a contract. It is an additional indicator to measure costs; however, these are not product related. Moreover, this is based on estimates reported by insurance undertakings.

- *Return ratio:* ⁽⁷¹⁾ Low or negative returns on unit-linked assets, particularly if coupled with high costs, can have a significant detrimental impact on consumers. This indicator, which is based on the sum of dividends, interest, rent, net gains and losses, unrealised gains and losses over the assets held in unit-linked and index-linked contracts from the balance sheet at the end of the previous year, aims to reflect the overall return for assets held in unit-linked or index-linked contracts.
- *N.B. This indicator does not give a predication of the return for single unit-linked contracts. It is an indicator to measure overall returns for assets held in unit-linked or index-linked contracts; however, this is not product related.*

Finally it is also important to note that Solvency II data are reported by lines of business under which multiple products fall and vice versa (i.e. a product's premium could be allocated to multiple lines of business).

➤ Publications

EIOPA complements the information received from NCAs and stakeholders with a series of publications that are referred to in the footnotes of this report. These sources have provided valuable information about certain trends in the insurance and pension sectors.

➤ How the information is processed to produce the report

As the present report has a supervisory nature, the input received by NCAs is prioritised over other sources. The input gathered from stakeholders and from publications is nevertheless very valuable, particularly in the case of stakeholders, as they are directly affected by the developments in the markets. This allows EIOPA to have a perspective complementary to the input provided by NCAs. In addition, in the case of NCAs that were not able to provide input, EIOPA can use this information to have an overview of developments in these Member States.

Table 2 — Number of NCAs that participated in each survey

Survey	Number of responses
Insurance — Complaints	26
Insurance — COVID-19 focus topics	25
Insurance — Top three issues and thematic work	19
Insurance — Top three issues COVID-19	28
Pensions — Active members	21
Pensions — Complaints	23
Pensions — COVID-19 focus topics	22
Pensions — Top three issues and thematic work	21
Pensions — Top three issues COVID-19	23

Source: EIOPA Committee on Consumer Protection and Financial Innovation.

Given that the input collected is extensive, it is not possible to incorporate all the information gathered into the report. In cooperation with NCAs and the Committee on Consumer Protection and Financial Innovation, EIOPA selects the most relevant information, taking into account its availability, relevance and nature.

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 complaint data lodged before the Authority, while the majority of NCAs used complaints data reported by insurance undertakings), or the differences in resources (e.g. industry organisations commonly have more resources than consumer organisations, and also some NCAs have more resources than others) are some of the limitations to this methodology.

EIOPA is aware of these limitations and tries to approach them with a balanced perspective. For example, in order to address issues such as the limited comparability of data provided from different Member States, the quantitative information on GWPs, 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 have increased significantly, increased, remained unchanged, decreased or decreased significantly.

Overall, information gathered is extensive and from a wide variety of sources, allowing EIOPA to confidently identify trends in the European insurance and pensions markets.

ANNEX III — LIST OF NATIONAL COMPETENT AUTHORITIES

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; Registrar of Occupational Retirement Benefit Funds
Czechia	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 Résolution (ACPR)
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	EL	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	Istituto per la Vigilanza sulle Assicurazioni (IVASS) Commissione di Vigilanza sui Fondi Pensione (COVIP)
Latvia	LV	Financial and 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 IV — PENSIONS: DEFINITION AND SCOPE

The *Consumer Trends Report* covers both occupational and personal pension plans and products **under the direct supervision of EIOPA Member States** ⁽⁷²⁾.

However, EIOPA Member States were invited to provide, on a best effort basis, data on every type of **privately managed pension plan, pension product and/or pension provider registered in their respective jurisdictions**, including all investment products having a clear objective of retirement provision according to inter alia national social and labour law (SLL) and/or fiscal legislation and excluding the 'Pillar I' pensions managed by the State or public entities (**Pillar I-bis pensions in countries in central and eastern Europe are also included**). Therefore, all non-public pension plans/products could be

included in principle, irrespective of whether they are occupational or personal. Plans/products that are defined in the legislation but are not yet actually offered to the public (and/or have not yet collected any members) 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 that are not under the direct supervision of EIOPA Member States, with that of **EIOPA's pensions database** ⁽⁷³⁾, being the definitions included therein that are relevant to the present report.

ANNEX V — SOLVENCY II LINES OF BUSINESS

Non-life lines of business	Definition ⁽⁷⁴⁾
(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.

ANNEX VI — ABBREVIATIONS

AI	artificial Intelligence
CAGR	compound Annual Growth Rate
DB	defined benefit
DC	defined contribution
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
FoE	freedom of establishment
FoS	freedom to provide services
GWP	gross written premium
IBIPS	insurance-based investment products
IDD	Insurance Distribution Directive
IRSG	Insurance and Reinsurance Stakeholder Group
GWP	gross written premium
KID	key information document
LHS	Left hand-side
MTPL	motor and third party liability
NCA	national competent authority
OPSG	Occupational Pensions Stakeholder Group
POG	product oversight and governance
PPI	payment protection insurance
PRIIPS	packaged retail and insurance-based investment products
QRT	quantitative reporting template
RHS	Right hand-side

ANNEX VII — CONSUMER INTERVIEWS

In order to get more direct evidence of consumers' experiences with insurance products and services and to gather specific inputs from consumers on the impact of the COVID-19 crisis on their insurance needs, EIOPA continued its consumer research work and carried out 50 consumer interviews in 10 Member States.

In particular, EIOPA hired two firms to carry out formal consumer interviews. The aim was to get first-hand responses from a carefully selected group of consumers and gather their experiences and feedback on issues pre-identified by EIOPA.

One firm conducted a desk research and market analysis to define criteria for a consumer sample for each Member State. The samples contain demographic criteria, including age, gender, employment status and sector of professional activity. Those were added to four scenarios, which were identified and put forward by EIOPA.

Based on those samples, the other firm identified and recruited the selected number of consumers per country and engaged with all of them through individual phone interviews. For the recruitment of respondents, the firm broke down all profile criteria to best grasp the routines and lifestyles of potential participants, as a way to target communication channels which those participants were likely to encounter.

The communication mostly went through fora, social media channels (e.g. Facebook groups, LinkedIn pages) and various multipliers (e.g. independent professionals, personal networks). The firm also worked with professional consumer recruitment panels.

The scenarios identified were the following:

- In scenario 1, all respondents needed to have at least one of the following insurance products: travel insurance, business interruption insurance, credit protection insurance, payment protection insurance, income protection insurance, mortgage life insurance.
- In scenario 2, all respondents needed to have at least one IBIP.
- In scenario 3, all respondents needed to have at least one of the following insurance products: motor insurance, travel insurance, health insurance, household insurance, workers compensation.
- In scenario 4, all respondents needed to have done at least one of the following actions during the pandemic/lockdown: submitted a claim for any kind of insurance product, submitted a complaint against the insurer for any kind of insurance product, taken out a new insurance product of any kind.

For scenario 1 and scenario 2, all respondents needed to be professionally active in one of the following, predefined sectors of work: companies & services, tourism & culture, professional activities or other.

For scenarios 1, 2, and 3 13 consumers were interviewed while for scenario 4 11 consumers. Consumers were chosen to form a realistic sample, taking into account the profession, age, gender and level of education. Moreover, the repartition between Member States was dictated by two main criteria: the impact of wave 1 of the COVID-19 crisis, balancing between heavily impacted and not so impacted Member States, population size whilst also ensuring a minimum of 3 interviews per Member State selected.

The table below provides a summary of the criteria used:

Table 3 – Characteristics of consumers to be interviewed for each scenario

Scenario 1					
Interview	Age	Gender	Traveller	Working sector	Condition
Int.1	30-50	Female		T&C	Employee
Int.2	30-50	Male	X	C&S	Self-Employee
Int.3	30-50	Female		Other	Employee
Int.4	30-50	Male	X	T&C	Self-empl.
Int.5	30-50	Male	X	Other	Employee
Int.6	Over 65	Male		C&S	Self-empl.
Int.7	Over 65	Male		Professional	Self-empl.
Int.8	30-50	Male	X	Other	Employee
Int.9	30-50	Female	X	Professional	Employee
Int.10	30-50	Female		T&C	Self-empl.
Int.11	30-50	Male		Other	Employee
Int.12	30-50	Male		T&C	Self-empl.
Int.13	30-50	Female		C&S	Employee
Scenario 2					
Interview	Age	Gender		Working sector	Condition
Int.1	30-65	Male		T&C	Self-empl.
Int.2	30-65	Male		Other	Employee
Int.3	30-65	Male		C&S	Employee
Int.4	30-65	Female		T&C	Self-empl.
Int.5	30-65	Male		Other	Employee
Int.6	30-65	Female		T&C	Self-empl.
Int.7	30-65	Female		Professional	Self-empl.
Int.8	30-65	Male		T&C	Employee
Int.9	30-65	Male		Other	Self-empl.
Int.10	30-65	Male		T&C	Employee
Int.11	30-65	Female		C&S	Employee
Int.12	30-65	Male		Other	Self-empl.
Int.13	30-65	Male		Professional	Self-empl.

Scenario 3			
Interview	Age	Gender	Working sector
Int.1	Over 18	Female	Any or non worker
Int.2	Over 18	Male	Any or non worker
Int.3	Over 18	Female	Any or non worker
Int.4	Over 18	Male	Any or non worker
Int.5	Over 18	Male	Any or non worker
Int.6	Over 18	Male	Any or non worker
Int.7	Over 18	Male	Any or non worker
Int.8	Over 18	Female	Any or non worker
Int.9	Over 18	Female	Any or non worker
Int.10	Over 18	Male	Any or non worker
Int.11	Over 18	Female	Any or non worker
Int.12	Over 18	Male	Any or non worker
Int.13	Over 18	Female	Any or non worker
Scenario 4			
Interview	Age	Gender	Working sector
Int.1	25-65	Male	Any
Int.2	25-65	Female	Any
Int.3	25-65	Male	Any
Int.4	25-65	Female	Any
Int.5	25-65	Male	Any
Int.6	25-65	Male	Any
Int.7	25-65	Female	Any
Int.8	25-65	Male	Any
Int.9	25-65	Male	Any
Int.10	25-65	Male	Any
Int.11	25-65	Male	Any

ENDNOTES

- (¹) Article 9(1)(a), Regulation 1094/2010 establishing EIOPA.
- (²) Article 29 of the EIOPA Regulation.
- (³) EIOPA, *Retail Risk Indicators Methodology Report*, November 2015.
- (⁴) EIOPA, *Supervisory expectations on Product Oversight and Governance requirements amidst the COVID-19 situation*, July 2020.
- (⁵) EIOPA, *2019 Consumer Trends Report*, December 2019.
- (⁶) EIOPA, *Methodology Report for Collecting, Analysing and Reporting on Consumer Trends*, November 2012; *Review of Consumer Trends Methodology*, October 2013.
- (⁷) Unless otherwise specified, Solvency II data growth trends do not take into account foreign exchange market (forex) fluctuations and inflation.
- (⁸) 19.9%, adjusted for the change in the SEK/EUR exchange rate.
- (⁹) As specified in footnote (7), unless otherwise specified growth trends do not take into account forex fluctuations and inflation and this figure does not take into account forex fluctuations. However, given the important fluctuations between the HUF and the EUR, it is worth highlighting that excluding forex fluctuations the Hungarian insurance market experienced a growth.
- (¹⁰) EIOPA, *Statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector*, March 2020.
- (¹¹) EIOPA, *Call to action for insurers and intermediaries to mitigate the impact of Coronavirus/COVID-19 on consumers*, April 2020.
- (¹²) EIOPA, *Statement on principles to mitigate the impact of Coronavirus/COVID-19 on the occupational pensions sector*, April 2020.
- (¹³) 17.8%, adjusted for the change in the HUK/EUR exchange rate.
- (¹⁴) 34.2% adjusted for the change in the HUK/EUR exchange rate.
- (¹⁵) -24.6% adjusted for the change in the NOK/EUR exchange rate.
- (¹⁶) -21.3% adjusted for the change in the PLN/EUR exchange rate.
- (¹⁷) -22.4% adjusted for the change in the RON/EUR exchange rate.
- (¹⁸) EIOPA, *Thematic review on monetary incentives and remuneration between providers of asset management services and insurance undertakings*, April 2017.
- (¹⁹) Only 21 Member States were able to provide data on COVID-19 related complaints, and only 11 provided data broken down by products.
- (²⁰) 18.3% adjusted for the change in the DKK/EUR exchange rate.
- (²¹) While in CZ the income protection line of business is the one which reported the highest growth, this is caused by a change in reporting by one insurance undertaking, which now reports life insurance riders under this line of business. In real terms, motor insurance is the line of business which experience the highest growth.
- (²²) As specified in footnote (7), unless otherwise specified growth trends do not take into account forex fluctuations and inflation and this figure does not take into account forex fluctuations. However, given the important fluctuations between the HUF and the EUR, it is worth highlighting that the chart does not take into account the exchange rate variation effect, which was remarkable between the HUF and the EUR, resulting in a 8% real growth for motor liability (rather than negative growth as shown in the Figure) and in an 11% real growth for other motor liability. Similarly in NO there had been a relevant appreciation of the EUR vs. NOK, therefore the real growth of motor liability would have been smaller, of only -0.7% while for other motor liability it would result in a modest growth of 4.8%
- (²³) 8.3% adjusted for the change in DKK/EUR exchange rate.
- (²⁴) 26.2% adjusted for the change in SEK/EUR exchange rate.
- (²⁵) Coverage for the premises of small and medium-sized enterprises as well as other commercial businesses also falls under this line of business.
- (²⁶) EIOPA, *Call to action for insurers and intermediaries to mitigate the impact of Coronavirus/COVID-19 on consumers*, April 2020.
- (²⁷) EIOPA identifies consumer protection issues in travel insurance and issues a warning to the travel insurance industry, October 2019.
- (²⁸) Only 21 Member States were able to provide data on COVID-19 related complaints, and only 11 provided data broken down by products.
- (²⁹) EIOPA paper on shared resilience solutions for pandemic risk, in Chapter 3 points out the main issues from an insurance perspective (data and risk modelling tools availability).
- (³⁰) EIOPA, *Call to action for insurers and intermediaries to mitigate the impact of Coronavirus/COVID-19 on consumers*, April 2020.
- (³¹) The date COVID-19 was formally declared a pandemic by the World Health Organization.
- (³²) EIOPA, *Call to action for insurers and intermediaries to mitigate the impact of Coronavirus/COVID-19 on consumers*, April 2020.
- (³³) EIOPA, *Consumer Guide: Understand your insurance coverage during Coronavirus/COVID-19 Outbreak*, April 2020.
- (³⁴) Available at https://www.forumaniaconsumatori.it/images/pdf/Informativa_Coronavirus_2020.pdf.
- (³⁵) See for example TopDanmark; AlmBrand; and Ib.
- (³⁶) This given the data refers to the date of when claims are submitted to insurance undertakings.
- (³⁷) It is important to note that given ongoing re-submission activity of data at the time of writing, data relating to NO may not experience minor changes/fluctuations.
- (³⁸) As specified in footnote (7), unless otherwise specified growth trends do not take into account forex fluctuations and inflation and this figure does not take into account forex fluctuations. However, given the important fluctuations between the HUF and the EUR, it is worth highlighting that the chart does not take into account the exchange rate variation effect, which was remarkable between the HUF and the EUR, resulting in -14.9% real growth for motor liability and in -5% real growth for other motor liability. Similarly in NO there had been a relevant appreciation of the EUR vs. NOK,

therefore the real decrease of motor liability would have been smaller, 15.1%, while for other motor insurance it would result also in a smaller decrease of -1.2%

⁽³⁹⁾ It is important to note that given ongoing re-submission activity of data at the time of writing, data relating to NO may not experience minor changes/fluctuations.

⁽⁴⁰⁾ EIOPA, *Seventh Consumer Trends Report*, December 2018.

⁽⁴¹⁾ This is based on data reported by 21 Member States.

⁽⁴²⁾ While 21 Member States were able to provide data on COVID-19 related complaints only 15 provided this data split by cause.

⁽⁴³⁾ Available at [Link].

⁽⁴⁴⁾ Data for LV is the result of a merger between three insurance undertakings rather than real growth. Real growth, excluding the effect of merger is 15.2%.

⁽⁴⁵⁾ Insurance with profit participation does not contain information from IS.

⁽⁴⁶⁾ Total life insurance contracts for this calculation only include insurance with profit participation, index-linked and unit-linked, and other life insurance contracts.

⁽⁴⁷⁾ Total life insurance contracts for this calculation include only insurance with profit participation and index-linked, unit-linked and other life insurance contracts.

⁽⁴⁸⁾ See for example, the study carried out by a consumers' association in FR [Link].

⁽⁴⁹⁾ 11% and 12.9% adjusted for the change in the CZK/EUR exchange rate.

⁽⁵⁰⁾ 5.8% and 11.2% adjusted for the change in the RON/EUR exchange rate.

⁽⁵¹⁾ Coverage for the premises of small and medium-sized enterprises as well as other commercial businesses also falls under this line of business.

⁽⁵²⁾ These Member States are AT, BE, BG, DE, DK, EL, ES, FI, HR, IE, IS, IT, LI, LU, LV, MT, NL, NO, PL, PT, RO, SI, SK.

⁽⁵³⁾ EIOPA, *Methodology Report for Collecting, Analysing and Reporting on Consumer Trends*, November 2012.

⁽⁵⁴⁾ EIOPA, *Review of Consumer Trends Methodology*, October 2013.

⁽⁵⁵⁾ EIOPA, *IRSG Feedback Statement to EIOPA 2020 Consumer Trends Report*, July 2020.

⁽⁵⁶⁾ EIOPA, *OPSG Feedback Statement to EIOPA 2020 Consumer Trends Report*, May 2020.

⁽⁵⁷⁾ In Solvency II cell notation, the formula used is as follows: $[(S.05.01.13.02 R1410^{YN} S.05.01.01.02 R1410^{YN-1}) / S.05.01.13.02 R1410^{YN-1}] \times 100$ for all lines of business between Co210 to Co240 for life insurance, $[(R0110^{YN} - R0110^{YN-1}) / R0110^{YN-1}] \times 100$ for all lines of business between Co010 and Co120 for non-life insurance.

⁽⁵⁸⁾ In Solvency II cell notation the formula used is as follows $S.05.01.13.01 (R0400/R0110) \times 100$ for each line of business between Co010 and Co120.

⁽⁵⁹⁾ In Solvency II cell notation, the formula used is as follows: $S.05.01.13.01 [(R0400^{YN} - R0400^{YN-1}) / R0400^{YN-1}] \times 100$ for all lines of business between Co010 and Co120 for non-life insurance.

⁽⁶⁰⁾ In Solvency II cell notation, the formula used is as follows: $(S.05.01.13.02 R1900/S.05.01.01.02 R1410) \times 100$ for lines of business from Co210 to Co240 for life insurance, and $(R0550/R0110) \times 100$ for each line of business between Co010 and Co120 for non-life insurance.

⁽⁶¹⁾ In Solvency II cell notation, the formula used is as follows: $[(S.05.01.01.02 R1410^{YN} S.05.01.01.02 R1410^{YN-1}) / S.05.01.01.02 R1410^{YN-1}] \times 100$ for all lines of business between Co210 to Co240 for life insurance, $[(R0110^{YN} - R0110^{YN-1}) / R0110^{YN-1}] \times 100$ for all lines of business between Co010 and Co120 for non-life insurance.

⁽⁶²⁾ In Solvency II cell notation, the formula used is as follows: $[S.14.01.01 (C0050^{YN} - C0050^{YN-1}) / C0050^{YN-1}] \times 100$ for health, with profit, unit-linked and other life insurance lines of business.

⁽⁶³⁾ In Solvency II cell notation the formula used is as follows $S.05.01.01.01 (R0310/R0210) \times 100$ for each line of business between Co010 and Co120.

⁽⁶⁴⁾ In Solvency II cell notation, the formula used is as follows: claims paid $S.20.01.01 R0170 [C0140 / (C0110 + C0140 + C0160)] \times 100$ for all non-life lines of business; claims rejected $[C0160 / (C0110 + C0140 + C0160)] \times 100$ for all non-life lines of business; claims still open at the end of the year $[C0110 / (C0110 + C0140 + C0160)] \times 100$ for all non-life lines of business.

⁽⁶⁵⁾ In Solvency II cell notation, the formula used is as follows: $(S.05.01.01.02 R2210/S.05.01.01.02 R1410) \times 100$ for lines of business from Co210 to Co240 for life insurance, and $(R0910/R0110) \times 100$ for each line of business between Co010 and Co120 for non-life insurance.

⁽⁶⁶⁾ In Solvency II cell notation, the formula used is as follows: $S.05.01.01 [S.05.01.01.01 (R0310 + R0610 + R0710 + R0810 + R0910 + R1010)R0210] \times 100$.

⁽⁶⁷⁾ In Solvency II cell notation, the formula used is as follows: $[S.05.01.01.02 year^N R2700] / [S.12.01.01.01 year^{N-1} R0300]$ for lines of business Co220 and Co230.

⁽⁶⁸⁾ In Solvency II cell notation, the formula used is as follows: $S.14.01.01.02 (C0050/C0040) \times 100$ for with profit, unit-linked and other life insurance lines of business.

⁽⁶⁹⁾ In Solvency II cell notation, the formula used is as follows: $S.14.01.01.02 C0100 > S.14.01.01.01 C0040$.

⁽⁷⁰⁾ In Solvency II cell notation, the formula used is as follows: $S.13.01 C0060 R0010 / (S.13.01 C0070 R0010 + S.12.01 C0080 R0010 + S.12.01 C0030 R0010 + S.12.01 C0040 R0030 + S.12.01 C0050 R0030)$.

⁽⁷¹⁾ In Solvency II cell notation, the formula used is as follows: $S.09.01 (C0070 + C0080 + C0090 + C0110 year^N \text{ where assets are held in index-linked and unit-linked contracts}) / S.02.01 C0010 - R0220 year^{N-1}$.

⁽⁷²⁾ This would mean that pension plans such as the 'book reserves' and pay-as-you-go schemes are out of scope.

⁽⁷³⁾ EIOPA, *Database of pension plans and products in EEA: Guide for compilation and methodology*, December 2014.

⁽⁷⁴⁾ 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.

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