2021 CONSUMER TRENDS REPORT

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European Insurance and
Occupational Pensions Authority

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2021 CONSUMER TRENDS REPORT

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EXECUTIVE SUMMARY

The insurance sector has shown resilience by continuing to smoothly serve consumers amidst the shocks caused by the lasting global pandemic. This has fast-forwarded digitalisation highlighting opportunities but also showing possible concerns.

› Continued issues relating to unit-linked (hybrid) products

The decrease (-10%) in with profit participation gross-written premium (GWP), led to an overall decrease in life insurance GWP. This is the result of the continued low for long interest rate environment which is accelerating the shift from traditional products with guarantees towards unit-linked insurance (+2%).

While this shift allows consumers to seek higher returns, a number of conduct issues continue being observed. In particular, consumers continue having limited understanding of these products and some of the products are highly complex. Moreover, a number of unit-linked products showing high costs and complex structures with high commissions further increase concerns relating to possible mis-selling and value for money.

› Fast-forwarded digitalisation bringing opportunities but also raising challenges

The acceleration in digitalisation observed at the on-set of the pandemic continued. NCAs reported an increase in innovations across the product lifecycle, with sales and distribution remaining the most digitalised stages:

- Sales through e-channels remain steadily strong in the non-life business, while they materially grew in the life business. 13 Member States reported that sales through e-channels either increased or significantly increased in the last 3 years;
- Digital transformation also impacted pricing and underwriting with undertakings allowing consumers to use digital platforms to personalise their products whilst also increasingly using price optimisation practices;
- While the risk of digital exclusion should not be under-estimated, most consumers surveyed by EIOPA as part of its consumer research, stated they prefer and appreciate digital tools which allow them to have on-demand engagement with their intermediary and their insurer;
- Issues relating to conflicts of interest and limited product choices on digital platforms, require further monitoring;
- Moreover, NCAs reported increased evidence of fraud and scams targeting both consumers and insurance undertakings.

› Consumer detriment due to poor claims handling albeit positive developments being observed thanks to digitalisation

Improvements in the claims handling process have been observed. Technological innovation appears to be the most relevant driver, leading to the automation and simplification of some parts of claims handling processes, in particular in relation to low value high frequency claims.

Nevertheless, some issues continue being reported, with 9 NCAs having highlighted claims management issues as an area of concern. In particular, NCAs reported issues relating to: lower payments than expected, long and complicated liquidation processes, a lack of adequate justification for claim refusals. This is mostly in relation to motor insurance, travel insurance and household insurance products.

› Emerging risks surfacing existing structural problems on exclusions and protection gaps

The ongoing pandemic and an increase in natural catastrophe risks surfaced problems in relation to contract complexity for some products whilst also bringing new challenges for the sector and consumers.

Following the significant increase in both claims ratios and expense ratios for business interruption and travel insurance many insurers have further introduced exclusions to certain products or have withdrawn such products from the market, widening protection gaps. This is counterbalanced by the fact that consumers in the aftermath of the pandemic have sought to buy more travel insurance products, and new products advertised as offering COVID-19 coverage have emerged.

The increase in systemic risks highlighted that issues relating to a lack of clarity in exclusions, limited consumer understanding of exclusions, and instances of unilateral changes to terms and conditions persist and go beyond travel and business interruption products. NCAs reported issues with household and health insurance and particularly high increases in the total claims rejected have been observed for the medical expense (over 25 percentage points) and fire and other damage to property lines of business (almost 30 percentage points).

› Increased use of price optimisation practices

While this trend is not yet widespread across Europe, more than 50% of NCAs observed that more and more insurance product manufacturers adjust premiums using a number of different techniques which are largely independent from the risk profile of the consumers. These are known as price optimisation practices and mostly relate to motor insurance products (59% of the cases reported) and household insurance products (29% of the cases reported).

These practices are mainly the result of high levels of market competition coupled to the emergence of new techniques enabled by modern data processing and analytics.

The major consequence stemming out of these practices is an increase in premiums for old/loyal consumers and vulnerable consumers. Instances of unlawful indirect discrimination have also been observed and this, in the longer term, could lead to an increase in financial exclusion.

› An increase in private pensions

An adequate and resilient outcome for European citizens in retirement is strictly related to a well-balanced contribution of the three pension pillars. However, not all Member States in the EU can benefit from well-developed and balanced pension sectors combining state pensions (first pillar), occupational pensions (second pillar) and personal pension products (third pillar) to ensure adequate future retirement savings. All pension sectors are subject to change, which could and should be used to serve consumers, to support an active retirement planning and to design pension solutions for the needs of the European citizens.

Because of the economic environment and policy choices in the Member States, a shift of burden from state pensions to private pension providers is observed, which often play a more significant role to provide for adequate retirement income of European citizens as a result:

- Regarding occupational pensions (IORPs) the total number of members and beneficiaries in the EEA increased, following an already established trend. The shift from defined benefit schemes to defined contribution, already identified in previous years, remains noteworthy;
- Similarly, personal pension products increased in most jurisdictions. DE, IT and ES are the largest markets in EU;
- With the only standard Pan-European Pension Product (PEPP) yet to begin commercialisation, trends in personal pensions markets vary significantly as products are heterogeneous across Member States.

› ESG trends in the pension sector

Long-term pension savings can finance the real economy and enable pension savers to participate in sustainable, long-term economic growth. Further, retirement savings can be a prime source for sustainable finance and require, due to the long-term investment perspective, the consideration of environmental risks and ESG factors.

In light of the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR) which entered in force in May 2021, market players are currently adapting their internal investment policies and disclosure documents. Moreover, they are reviewing their product offering to meet the growing interest towards sustainable assets. In most cases, the implementation of the SFDR has started as planned, although it is too early to provide a comprehensive assessment of its impact, including on so-called greenwashing.

› Looking ahead

EIOPA will continue its market monitoring activities and promote the use of consistent supervisory practices to ensure that opportunities and risks highlighted in this report are appropriately addressed. This entails analytical work in relation to greenwashing, price optimisation and exclusions for systemic risks. In addition, EIOPA's supervisory activities will remain focused on the monitoring of the application of the supervisory statement on Value for Money and the Bancassurance thematic review, in light of the persistent issues in relation to unit-linked and credit protection insurance, respectively.

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 pension markets related to the relationship between consumers and undertakings (including intermediaries) that are significant in their impact or novelty'.

The term 'trends' is understood in a broad sense. It covers for example: the evolutions in volumes of business or in the relationship between consumers and undertakings/intermediaries, the emergence of new products or services and corresponding issues or trends linked to financial innovations. EIOPA interprets trends to include developments in the nature, spread and materiality of conduct risks, on the one hand, and conduct risk mitigants, on the other. A trend can be both, one that has already been prevalent for a number of years, or one that has only recently emerged.

In order for a trend to be included in the report, it does not necessarily have to be present in all the Member States. However, they should reflect a general European trend and be recognised as well-established trends in a group of Member States.

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 actions 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).

EIOPA follows an agreed upon methodology for producing Consumer Trends Reports on an annual basis (see Annex I for further details) which has been updated in June 2021.

1 INSURANCE SECTOR

1.1. MARKET OVERVIEW AND TRENDS

1.1.1. LIFE INSURANCE SECTOR

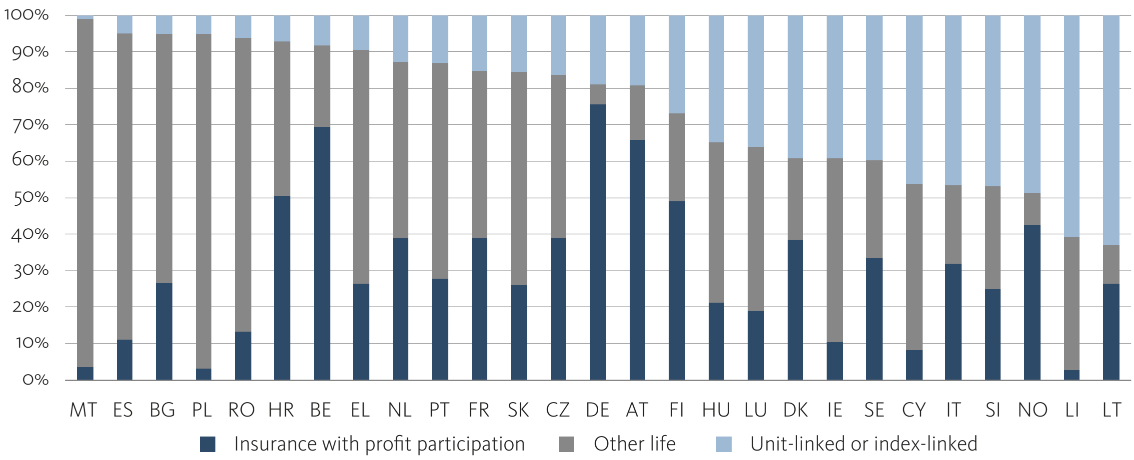
1.1.1.1. Market overview

In 2020, possibly because of the impact of COVID-19, the life insurance sector reversed the growing trends (measured in Gross Written Premiums, GWP) observed in previous years. The general decrease further enhanced the shift from products with guarantees towards unit-linked products:

- The drop in insurance with-profit participation (-10%) emerged as the major driver behind the decrease in life insurance GWP. More than two thirds of European Economic Area (EEA) Member States reduced their exposure towards this line of business and the Member States where these products are predominant saw the biggest reduction in life premium;
- Qualitative information shared by NCAs and stakeholders highlights that the growth in profit participation line of business is mostly driven by the sale of hybrid products. This is because under Solvency II, the premiums of hybrid products are split between both the unit and index-linked and profit participation lines of business;
- Index-linked and unit-linked insurance (2%) grew in most Member States – above 15% in 5 of them. This might reflect the fact that both consumers and insurers, pushed by a low for long interest rate environment are increasingly attracted by these type of products.

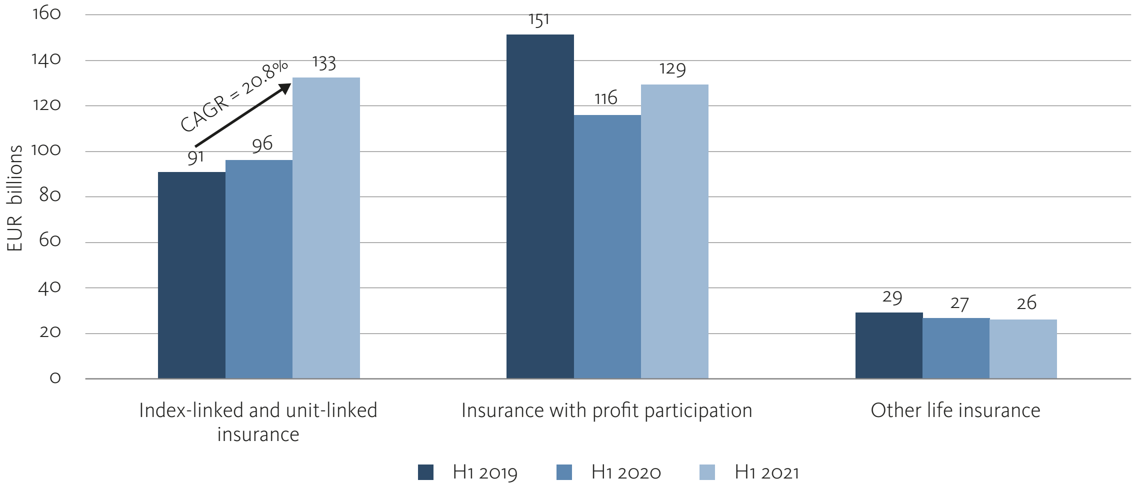
The contraction is also visible in the trend of new contracts: in all markets the number of new contracts was smaller than previous years in at least two life lines of business. Looking at contracts relating trends (Figure 1) the shift of profit participation products is even clearer. While this shift allows to seek higher returns, it also increases the risk borne by policyholders, hence it should be accompanied by adequate mitigating measures such as improved target marketing, mitigation of conflicts of interests, and enhanced and effective transparency.

Figure 1 – Percentage of new contracts by line of business, 2020 (3)



Source: Solvency II database

Figure 2 – Half year GWP (EUR billion) across selected life lines of business, H1 2019 – H1 2021



Source: Solvency II database

While the sharp fall of asset prices observed at the onset of the COVID-19 pandemic, accompanied by a deterioration in financial market liquidity, raised some initial liquidity concerns in the unit-linked market, overall it did not result in higher lapses and surrenders. Lapses/surrenders remain higher for unit-linked business (average 6.3%) than for profit participation products but no abnormal trends were observed. In fact, a number of forbearance measures have been put in place by undertakings in various markets allowing consumers to pay their premiums with delay or skip premiums without incurring penalties. Lapses and surrenders have also been contained by the actions undertaken by insurers, intermediaries and National Competent Authorities (NCAs) which have been regularly communicating with consumers to either clarify what they should expect from their cover or to advise them to refrain from exercising early surrenders which could affect the overall value of their policies.

The analysis of 2021 quarterly data reinforces the trends observed for 2020:

- Unit-linked GWP registered in H1 2021 a 37.8% growth;
- For with profit participation, although GWP is showing an increase of 11.6% in H1 2021, if compared to the pre-crisis level, a 14.5% can be observed.

1.1.1.2. Continued issues relating to unit-linked products albeit positive trends relating to sustainability

Complexity, lack of clarity in relation to costs and benefits contributed to unit-linked products emerging one more time as the 'most' concerning product for NCAs.

The poor consumers understanding of the risks included in the risk-reward profile of unit-linked products, the high costs and the complex structure, and the lack of transparency in the sale process – including in relation to inducements – are some of the issues highlighted by NCAs. In fact, 9 of the 12 issues reported by NCAs as the most concerning issues in their market for life insurance products were related to unit-linked products.

The lack of transparency combined with the increasing complexity of the unit-linked products offered in the market can result in poor consumer understanding of the risks and benefits offered by these products. Issues with disclosures, product design and generic target market definition also persist, as often the recommended holding periods reported in the disclosures[4] are not always in line with the product characteristics and with the target market definition.

Because of such issues, a number of supervisory actions have been undertaken by NCAs[5]. This topic has been identified as a priority at the European level as well: EIOPA, in April 2021, issued a Consultation on framework to address value for money risk in the European unit-linked market[6] and in November 2021 it issued a Supervisory Statement[7].

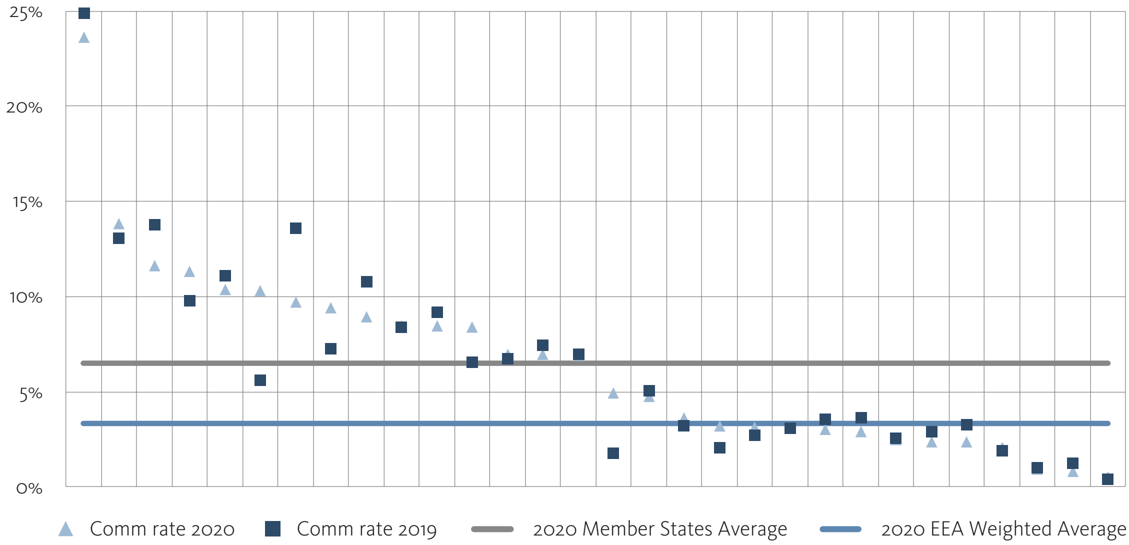
In 2020 the commission rates[8] at aggregate European level increased by 1 percentage point to 3.3%. The level of commission rates within EEA can vary significantly across Member States. 6 Member States report rates above 10% (Figure 3).

Solvency II data, albeit not directly reporting on product performance, on ongoing costs and returns of unit-linked products, shows that in the majority of Member States there is a deterioration of the value for money of these products as costs have sensitively increased.

An analysis of complaints data confirms concerns for unit-linked products as they are the products for which most complaints have been reported in the life business.

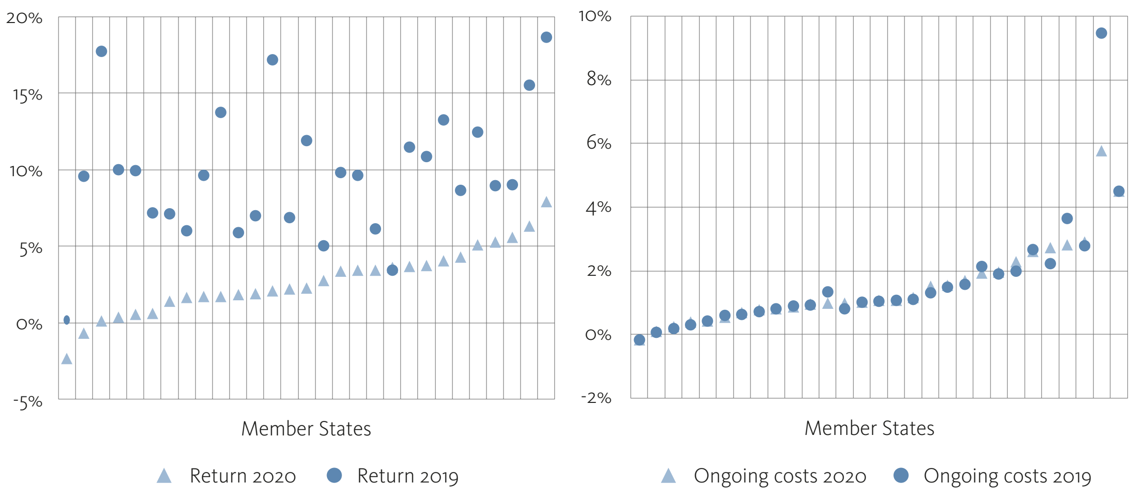
Despite ongoing concerns, some positive changes have been observed by NCAs. Insurers are actively changing the composition of unit-linked underlying funds and are offering consumers the option to invest in sustainable funds. NCAs also reported an increase in advertisement and communication from insurance undertakings in relation to the distribution of sustainable life insurance products, which albeit showing positive trends should also be closely monitored to manage and mitigate greenwashing related risks.

Figure 3 – Commission Rates by Member State for index-linked and unit-linked products, 2019-2020



Source: Solvency II database

Figure 4 – Unit- linked return (left) and ongoing costs (right) by Member State, 2019-2020



Source: Solvency II database

This trend is also related to the asset management's offer of sustainable investment products, which can be used as underlying investment option to insurance products. In this context, the recently revised European legal framework[9], which partially entered into force in March 2021, is requiring financial market participants to produce entity level disclosure and product level disclosure on sustainability aspects. As this trends develops, in addition to greenwashing it is also important that:

- As market participants comply with the new regulatory requirements, more work to assess the accuracy and the degree of sustainability of products sold is carried out;
- Consumer's sustainability preferences are taken into account within the target market definition, the demand and needs and the suitability assessments.

Overall, given the low interest rate environment, unit-linked products can be a good option for consumers and, if properly designed, adequately (target) marketed and sold, they can give access to a wide variety of investment opportunities. In particular the possibility to mix investment and protection aspects allows consumers to seek higher market returns while protecting themselves against death or other risks.

1.1.1.3. Re-emergence of issues relating to credit life insurance products

While for 2020 Consumer Trends Report, which covered Q1 and Q2 2020, no particular issues were reported in relation to credit life insurance products, possibly because of the focus on the initial trends from the crisis, an analysis of the Top 3 Consumer Protection Issues reported by NCAs shows that credit life products continue to be an area of concern. These are either enhanced concerns or newly emerged ones following the pandemic. For instance, the changes in the mortgage payment moratoria policies influenced the life insurance sector and impacted the payments related to life insurance products.

- In IT the NCA applied a series of actions on credit life/credit protection policies linked to mortgages and loans. Following intensive investigations a series of remedial actions were requested given the identified issues. These include: restyling of the products, especially in relation to commission costs and exclusion clauses with the aim of increasing the value of the product offered, a review of contractual information to improve transparency, a review of the settlement policies and a strengthening of the POG process with particular reference to the tests to be carried out to verify the value for money of products. A joint-letter[10] was issues by the banking and insurance NCAs to the financial sector requiring greater transparency and fairness in the manufacturing and sale of these products.
- In DE a trade organisation carried out a study[11], which highlighted concerns in relation to exclusions, to extreme price differences between products and to high commissions.

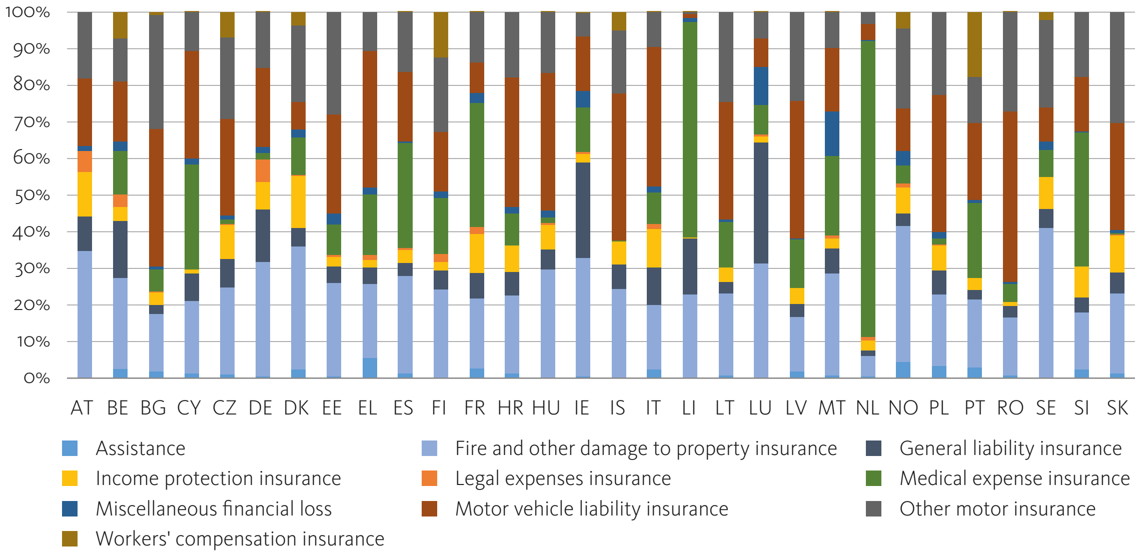
Issues on credit life insurance products are also related to the group policy nature of these products, whereby the bank, which often has other corporate arrangements with insurance manufacturers, is both the policyholder and the distributor of the policies.[12] Given the concerns relating to credit life insurance, in February 2020 EIOPA launched a thematic review on mortgage life and other credit protection insurance sold through banks. Although the thematic review has been postponed due to the Covid-19 crisis, EIOPA expects to finalise it in 2022.

1.1.2. NON-LIFE INSURANCE

1.1.2.1. Market overview

Non-life insurance premiums increased (+1.5%) in 2020, with significantly differing directions amongst lines of business (Figure 5) and Member States.

Figure 5 – Non-life insurance GWPs distribution per country per line of business, 2020



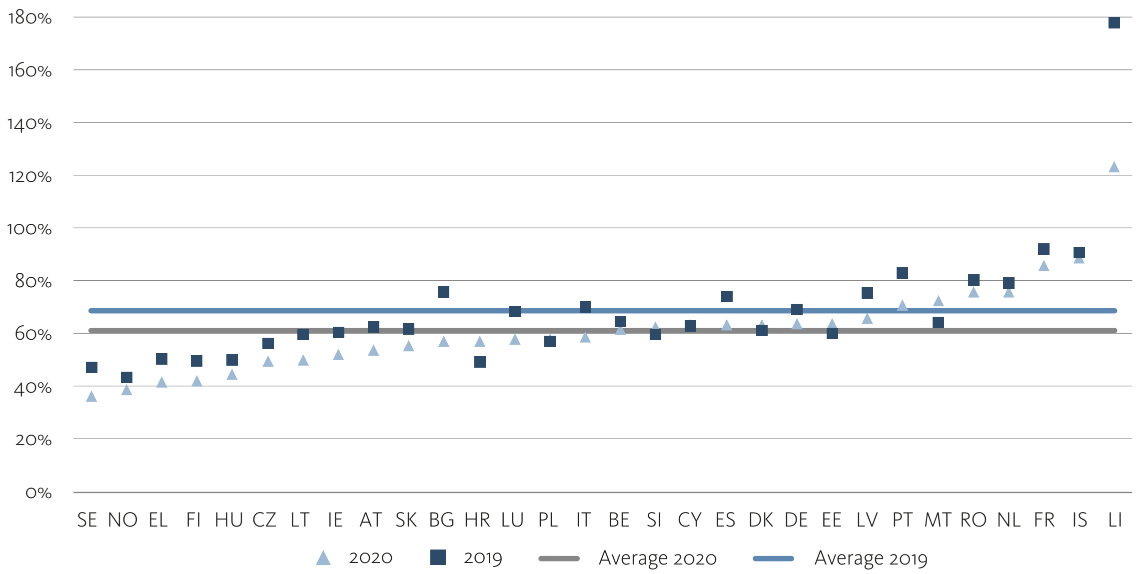
Source: Solvency II database

The fire and other damages, the medical expenses and the motor vehicle liability remain the most important lines of business in the non-life sector. Nevertheless, motor vehicle liability GWP registered a contraction of 2% in 2020, with HR being the only Member State showing a double digit growth (+14.7%).

In most Member States, the trend in this sector reflects the developments in the automotive industry, which have been significantly impacted by the pandemic, both via a shift in consumers' needs and disruptions in supply chains.

While motor vehicle liability premiums decreased with insurers having received EUR 1.3 billion less in premiums, claims incurred also significantly decreased registering a drop of EUR 5.3 billion, leading to a drop in claims ratios in most Member States (Figure 6). The claims ratio decreased for 22 members, contributing to an overall decrease in the European average from 69% to 62%. The pandemic might also highlight a need for further revision of policies, terms and target market embedded in each product, where changes in preferences and life/work modes have a more permanent nature.

Figure 6 – Claims ratio for motor vehicle insurance by Member State, 2019-2020



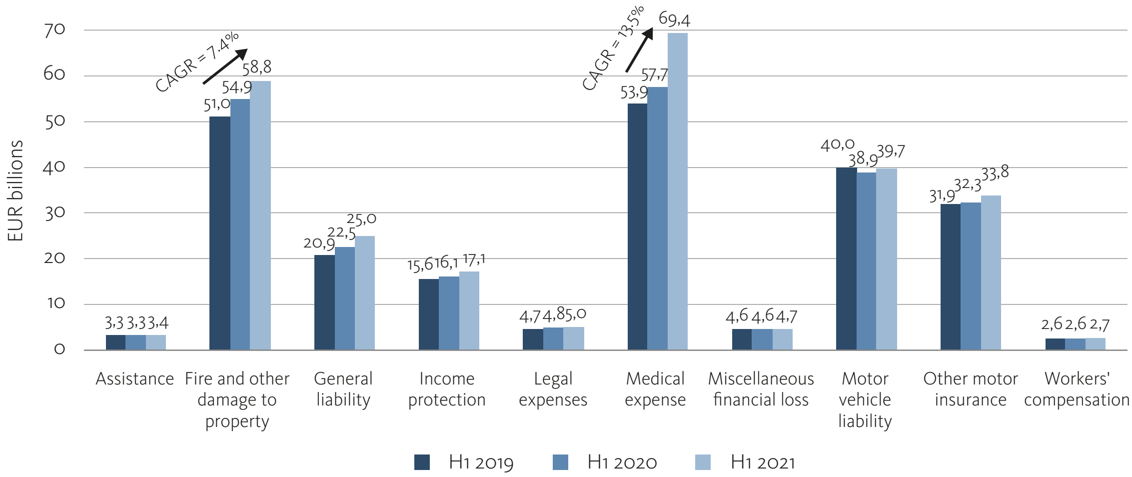
Source: Solvency II database

Despite the above, EIOPA and NCAs are closely monitoring that EIOPA's Statement issued on 8 July 2020 has been and will continue to be consistently applied with most NCAs having observed claims drops as a transitionary phenomenon.

The fire and other damage to property line of business experienced a growth in 2020 across the majority of Member States. Medical expense insurance continues to be the largest non-life line of business, representing around 26% of the total direct EEA GWP, and exhibits a moderate increase YoY at EEA level (1.6% in GWP). Moreover, medical and health insurance policies are expected to grow as the COVID-19 crisis may have triggered a higher degree of awareness on the importance of having these types of coverages.

By looking at the quarterly distribution of GWP (Figure 7), the patterns presented are reinforced as the GWP growth rate between June 2021 and June 2020 was 7.1% for fire and other damages and 20.3% for medical expenses.

Figure 7 – Half year GWP (EUR billions) across selected non-life lines of business, H1 2019 – H1 2021



Source: Solvency II database

1.1.2.2. Fast-forwarded digitalisation bringing opportunities but also raising challenges

The COVID-19 crisis has fast-forwarded digitalisation in the insurance sector. While digitalisation was already significantly present in the sale and distribution process, in particular for products that are more commoditised, the pandemic fueled its development across the whole product lifecycle, including in relation to product design, product distribution, claims management, post sales services, fraud detection.

Figure 9 shows the importance of the new technologies on the insurance value chain. The sales and distribution phases have benefitted from technological developments together with post-sale services and claims management.

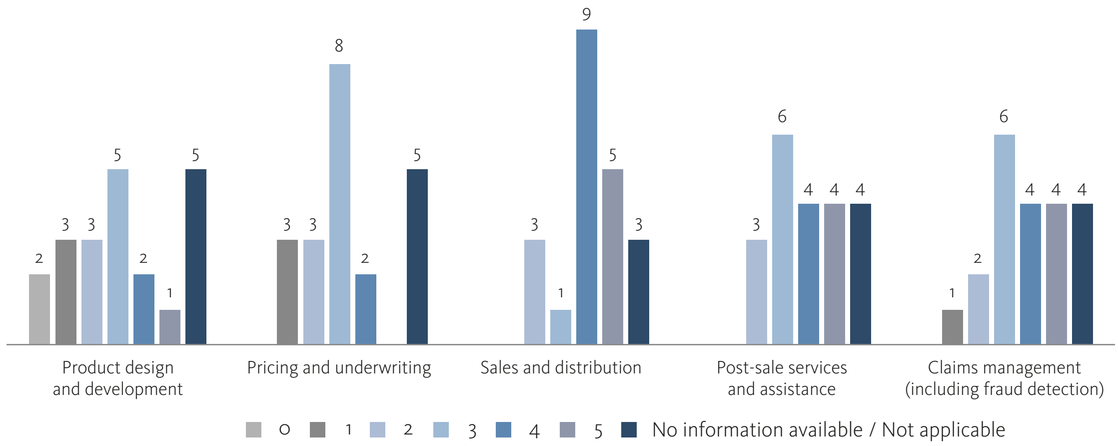
Figure 8 – Words cloud based on opportunities reported by NCAs in relation to digitalisation

Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

It is also interesting to observe how the digital transformation is impacting pricing and underwriting:

- On one hand, this gives the opportunity to consumers to use digital platforms to personalise their products – not only by allowing them to choose as-

Figure 9 – New technology: impact on value chain and business model (impact to date 0 to 5)



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

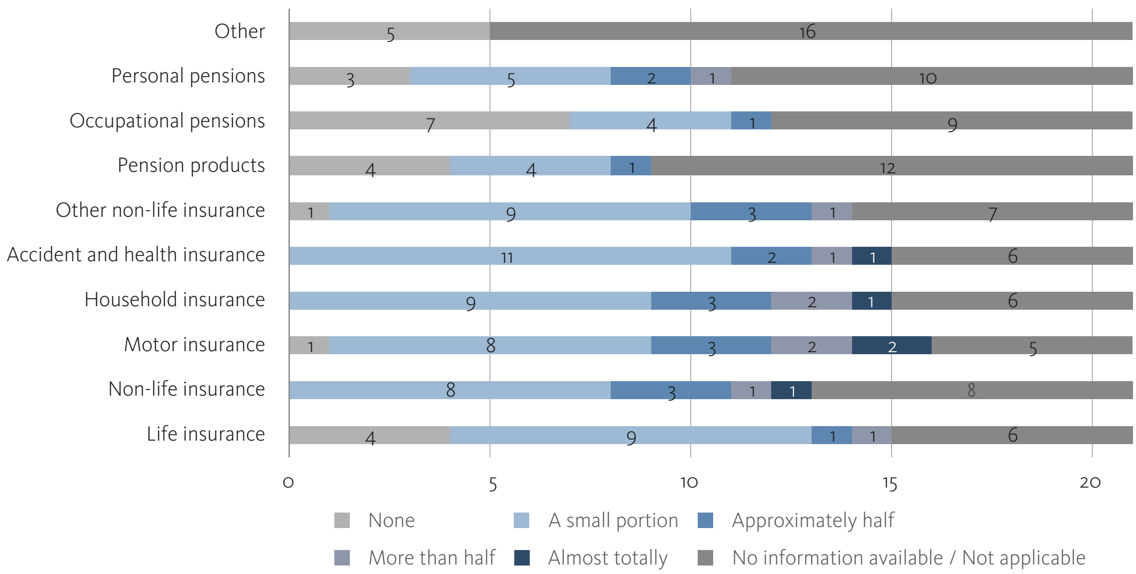
set-allocation for life insurance products but also to develop modular multi-coverage products;

- On the other, undertakings are taking advantage of the collection of personal data and consumers' behaviours to apply price optimisation practices (see paragraph 1.2.2), with underlying risks and benefits.

Although digitalisation has been brought into various stages of the value chain, the sales and distribution one remains the most prominent. Sales through e-channels are growing exponentially together with the concerns related to the poor identification of consumers' demands and needs, the personal data management, management of pre-contractual documentation and in general the compliance with the IDD requirements. Digital platforms, however, also offer opportunities to reduce costs of advice and distribution, whilst also being more appealing to certain type of consumers. Hence, if developed properly they can contribute to better consumer outcomes.

The proportion of sales via digital distribution, in terms of GWP, is generally higher for the non-life business, however, for 11 Member States the sale of life insurance is predominantly concluded via digital distribution and the evolution either increased or significantly increased in the last 3 years in 13 Member States.

Figure 10 – Digital distribution as a proportion of GWP



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

While the use of Artificial Intelligence (AI) is the technological innovation for which most NCAs have observed an increase over the last 3 years, a general increase in use of technologies has been observed, in particular:

- **Artificial intelligence** solutions are adopted to streamline processes, to develop chatbots in the claims management area - for car damage valuations they have been increasingly used in 14 Member States;
- **Internet of Things (IoT)** are used in motor insurance for claims and policy management, however they have been developing more in the prevention area i.e. lifestyle app, enhancement of loss prevention, smart homes;
- **Cloud computing** are mainly used for data management purposes;
- **Distribution ledger technology** have increased in 6 Member States and remained stable in 6 others. They can be used for the development of smart contracts. Their use is a novelty for many insurers.

BOX 1

EXAMPLES OF TECHNOLOGICAL INNOVATION

- Micro-insurances **underwritten via web or via smartphone** (IT)
- **Online plarforms** (BE) and (DE)
- Use of **Big Data and AI** (e.g. claims handling) (BE, LV)
- Testing **Distributed Ledger Technology** in non-life products (mainly travel insurances)
- **Partnerships with online shops** to cover credit risk (LI)
- Cooperation with **real estate agents** in household insurance (LI)
- Cooperation with insurers and other parties to **prevent damages** (NL)
- **Personalised pricing** based on behavioural data collection (NL)
- Almost all insurers have implemented **InsurTech solutions** (RO)
- Other non-life business: insurance of **consumer products** (SE)
- Renewal offers sent and **paid digitally** (MT)
- **Chatbots** (MT, BE)

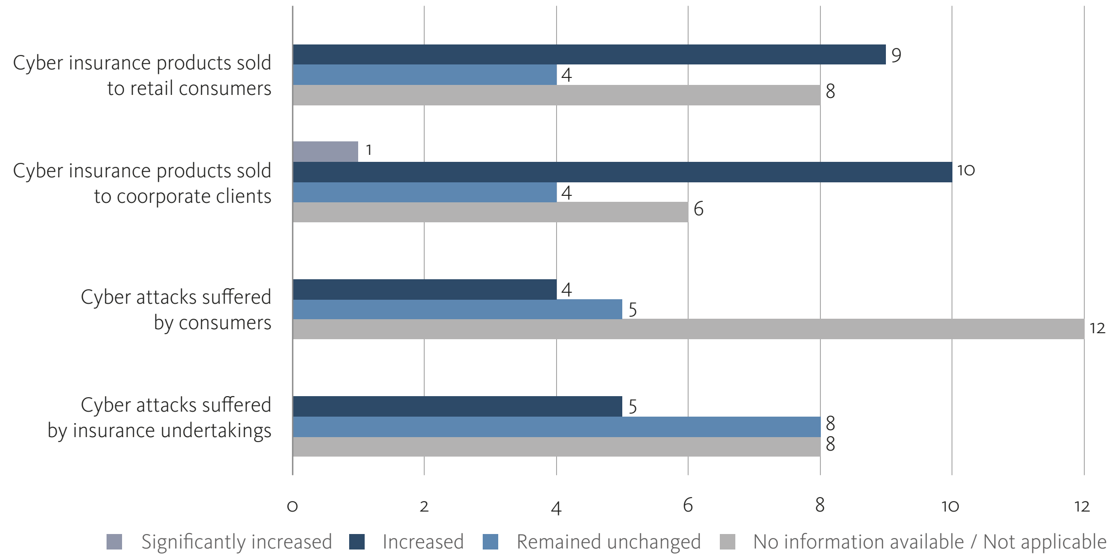
Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

In terms of opportunities it is worth highlighting that many NCAs saw increases in relation to faster processes and they believe that overall technological innovations have had most impact on: promoting faster processes, lowering operational costs and promoting efficiencies, offering a wider range of products and services and, to a lesser extent, making products more easily available which in turns promotes financial inclusion.

Despite the important opportunities, digital innovations can also increase risks for consumers. NCAs are mostly concerned with the fact that digital innovations can result in unfair treatment of consumers. Additionally, while the pandemic showed that the sector is resilient in terms of business continuity, some NCAs are also concerned with IT operational resilience related risks.

Further, NCAs continue to be concerned with conflicts of interests which can arise because of the platformization of the economy. In 2020 NCAs also reported that they found evidence of fraud and scams targeting both consumers and insurance undertakings. These cases have been heightened by the faster digitalisation caused by the pandemic, which could also be the reason behind more insurers offering cyber-risk coverage to retail consumers.

Figure 11 – Evolution in the uptake of cyber risks



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

BOX 2

BEHAVIORAL RESEARCH ON INSURANCE DISTRIBUTION AND ADVERTISING VIA DIGITAL CHANNELS

In 2021 EIOPA carried out some behavioral analyses in relation to online sales and digital advertising. In general consumers expressed positive perceptions of insurers' websites, in terms of ease of use, information layout, consumer journey, and even reliability. Consumers are generally in favor of buying online the type of insurance products that are basic, short-term or require frequent renewals (e.g. motor insurance, basic general liability) and products, which are often mandatory by law but they are reluctant to buy online insurance products that are complex, long-term and personalised, usually because the decision-making requires more research and reflection from their side, advice from professional intermediaries with financial knowledge, dealing with high values, the requirement to enter a large amount of data, a greater commitment to the provider and a permanence with the company for several years (e.g. life insurance).

At the same time, the study shows that the application of innovative technologies in the financial sector, may also bring along additional new risks for consumers such as more limited attention towards the terms and conditions or coverages.

These risks are heighted by the use of concerning practices aimed at influencing the decision-making process of consumers, such as dark patterns. Dark patterns refer to user interface design that steer, or deceive users into making decisions that they might not make if they were fully informed and offered viable alternatives.

1.1.2.3. Key issues in claims handling and positive developments brought along by digitalisation

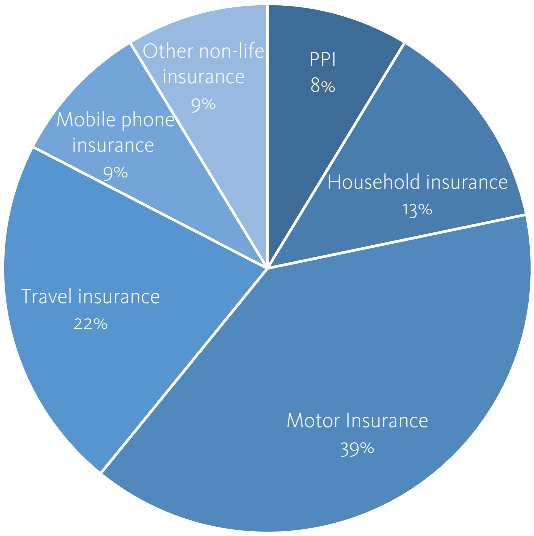
Delays in claims management, in particular with regard to MTPL products, have been reported for a number of years as an area of concern (Figure 12). The main issues reported include: lower payments than expected by consumers, long and complicated liquidation processes, lack of adequate motivation for the claim refusal, and long list of exclusions combined with transparency issues.

Out of 23 NCAs which responded to the survey, 9 identified claims management related issues being mostly related to motor insurance products. This is followed by travel insurance (5 NCAs) and household insurance (3 NCAs). This might also be a consequence that, especially MTPL, represents the core insurance business of some jurisdictions. Therefore, a higher number of issues related to claims management in these lines of business is to be expected.

The issues described above are confirmed also by consumers' feedback. In fact, while most consumers interviewed are satisfied with the way in which the claims handling process was dealt with, some dissatisfaction was expressed by consumers in relation to: motor insurance (29% of the selection), household insurance (20%) and health insurance (19%).

Complaints continue emerging on the claims handling process. Information reported by some NCAs on the products for which they observed the highest increase on complaints show that while for health insurance, the reported issues relate to the claims being lower than expected, for motor insurance issues range from claims being lower than expected to delays in the handling, the process being complicated and a lack of clarity on how/where to submit the claim.

Figure 12 – Areas of concerns in the market



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

Overall more than 50% of total complaints – both for complaints received and managed by insurance undertakings and for complaints received and/or managed by external authorities – relate to claims handling processes (see paragraph 1.3).

An analysis of the Solvency II data on claims open at the end of the year confirms the issues above (Figure 13) with the proportion of claims open at the end of 2020 being higher than in 2019 for assistance, fire and other damages to property, income protection insurance, motor vehicle liability, and worker compensation insurance.

Despite the concerns highlighted, improvements in the claims handling process can be observed. As reported by NCAs, technological innovation appears to be the most relevant driver behind the improvements reported in the claims management processes with several developments leading to the automation and simplification through the use of digital solutions.

This trend is confirmed by the consumers' survey which highlighted that 36% of the claims submitted by respondents for motor insurance have been submitted using an online platform, 32% at the insurance office or via the intermediary and 15% via phone. Consumers can upload pictures of the claims and videos to insurers' websites or dedicated platforms created for that purpose.

Technology has made the claims experience more efficient, accurate and easier to use. Since the claims experience is one of the top priorities for most insurers, it is expected to see continued advancement as insurers find innovative ways to integrate technology into their claims process. In particular, the interventions to improve the efficiency of some procedures or processes are relevant, including greater automation of information flows, the further development of web and app multichannel systems and new platforms (e.g. "chat" and "chatbot"), the simplification of post-sales processes for reporting and managing claims and for the complaints handling.

The claims submission via digital channels seems to have been made available in many countries although the level of developments appear to be heterogeneous between countries. In HU, the reporting of claims is already digital for 87% of the sector's operators, while the tracking of the claim settlement process is digital for almost 50% of the sector. Although the majority of the supervisors reported a number of benefits brought by the technological innovation, caution is also important given that some Member States reported possible concerns.

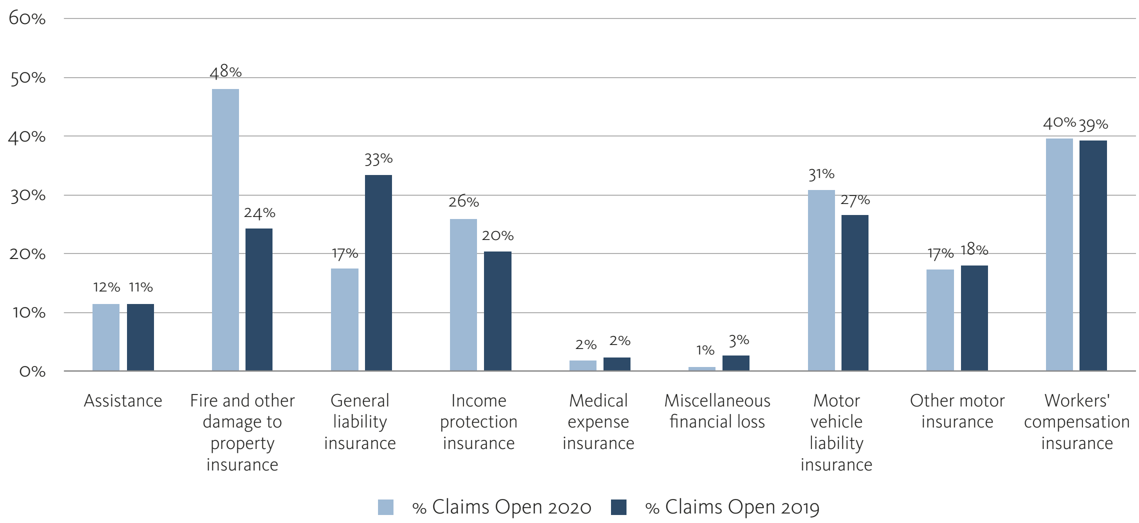
1.1.2.4. New risks surfacing existing structural problems and raising new concerns

Overall, a number of issues relating to lack of clarity in terms and conditions and exclusions as well as limited understanding of insurance products have been highlighted in the 2020 Consumer Trends Report, in particular, it was highlighted that:

"Exclusions and lack of clarity in terms and conditions have raised particular challenges" and that *"The diversity in situations across the EEA highlights the potential for significantly different outcomes for consumers purportedly buying in a single market"*.

As part of the Top 3 Issues, this year NCAs continued reporting concerns in relation to exclusions both because

Figure 13 – Claims Open across selected lines of business, 2019 - 2020



Source: Solvency II database

of limited clarity in terms and conditions and consumers' limited understanding of what is covered. In particular, NCAs reported that:

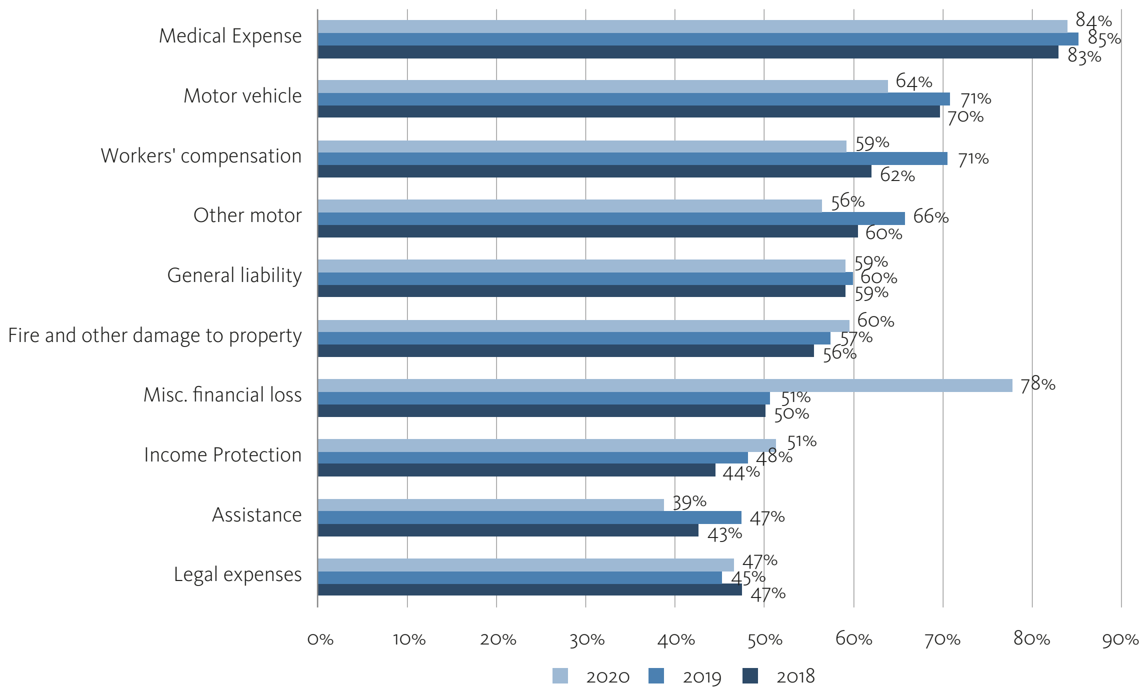
- Consumers are not adequately informed about the many exclusions and obligations mentioned in their contracts;
- Insurers at times engaged in unilateral changes to insurance contracts which may have an adverse impact on policyholders;
- Consumers' complaints increased in a number of instances because of refused claims and low payments, often in relation to lack of clarity in terms of coverage/exclusions.

At the on-set of the crisis concerns mostly related to business interruption and travel insurance as shown by the significant increase reported for the miscellaneous financial loss line of business as well as because of the significant number of activities reported by NCAs.

In fact, the **miscellaneous financial loss** line of business saw an increase in claims, with the claims ratio going to 77.8% from 50.6% in 2019. As highlighted in the 2020 Consumer Trends Report, this line of business also includes business interruption products, which were particularly relevant during the COVID-19 outbreak, especially for small businesses. As highlighted last year the higher claims ratios could have been also because of higher provisioning rather than pay-outs.

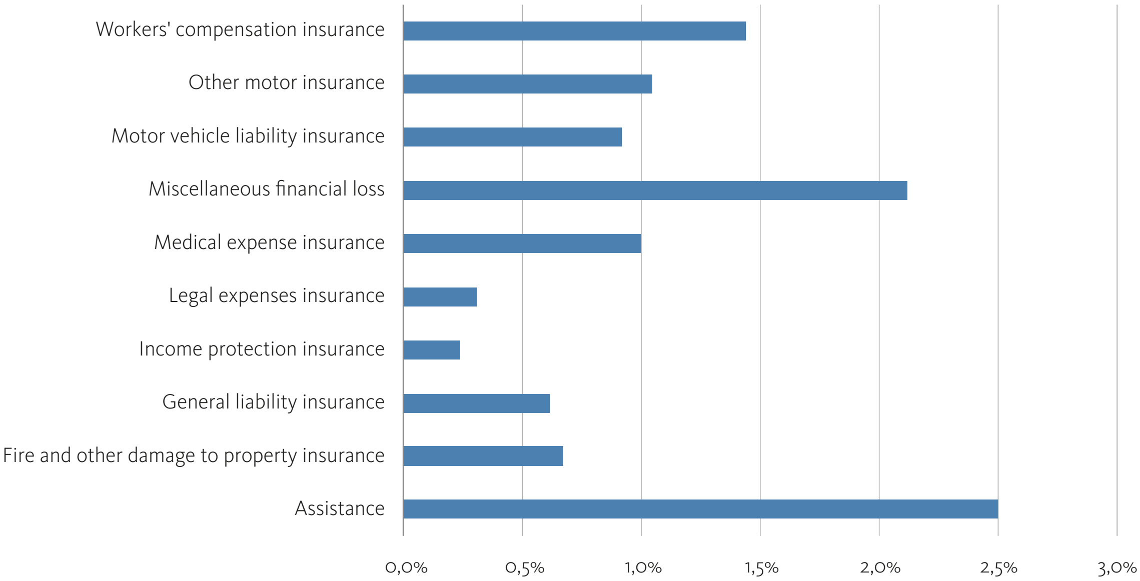
In addition to the increase in claims ratios, it can be observed that the lines of business which in 2020 have been mostly impacted in terms of claims to be paid out, in early 2020 show the largest increase in expense ratios. Assistance, which includes travel insurance amongst other products, reported an average increase of 2.5% between June 2020 and June 2021. Miscellaneous financial loss, which comprises business interruption insurance, reported an average increase of 2.1% between June 2020 and June 2021.

Figure 14 – Claims Ratio across selected line of business, 2018 - 2020



Source: Solvency II database

Figure 15 – Variation in expense ratio across selected lines of business, H1 2020 - H1 2021



Source: Solvency II database

This increase in expense ratios, which in many instances has led insurers to review products and introduce exclusions and others to withdraw certain products from the market raises concerns as it is met by an increased consumer awareness of the need to buy more insurance. A behavioral study carried out by EIOPA (see BOX 3) shows that consumers, in the aftermath of the pandemic are willing to buy more travel insurance and specifically the one providing COVID-19 coverage.

BOX 3

CONSUMER RESEARCH IN RELATION TO TRAVEL INSURANCE PRODUCTS IN LIGHT OF COVID-19

The COVID-19 outbreak brought into the spotlight issues encountered by consumers with regard to travel insurance products and the coverage provided by them. EIOPA launched in January 2021 a consumer research to assess how COVID-19 impacted the consumers' demand for travel insurance products and whether the consumer decision-making process when buying and using travel insurance has been impacted as a result of COVID-19. Findings from the research show that:

- Crisis and shocks like the COVID-19 pandemic alter consumer behaviour regarding travel insurance, increasing their willingness to purchase. The study highlighted that consumers are willing to buy more protection for COVID-19 and related events, however some consumers expressed low trust in insurance providers.

- COVID-19 is highly salient in consumers' minds and influences the way they think. Throughout the various tasks and activities of the study it has emerged that COVID-19 is central to the participants' mind-set.
- COVID-19 has an effect on consumers' perception of risks and exposure to COVID-19 leads travelers to prefer more focus on COVID-19 coverages in their travel insurance products. However, most of the participants across countries were concerned with knowing what would be covered by the insurance, expressing a desire to have risks related to the pandemic covered and information to be provided in a clear manner.

While risks relating to business interruption and travel insurance appear to be fading away – in fact, following the initial uncertainty around exclusions and actions taken by undertakings to clarify pandemics are excluded and/or paying out, the unprecedented increase in claims is starting to revert – other risks stemming out of the pandemic and out of other 'force majeure' events appear to be emerging. NCAs reported that they have been observing that new products are being developed and/or changes are being made as a result of the costs which insurers may be facing. NCAs also reported an increasing trend of claims that are, or possibly will become, uninsurable or unpayable in the near future. These claims are increasingly related to new risks that are emerging, such as coverage in the area of a pandemic (COVID) but also related to the climate change (e.g. property, home and contents insurance). In fact:

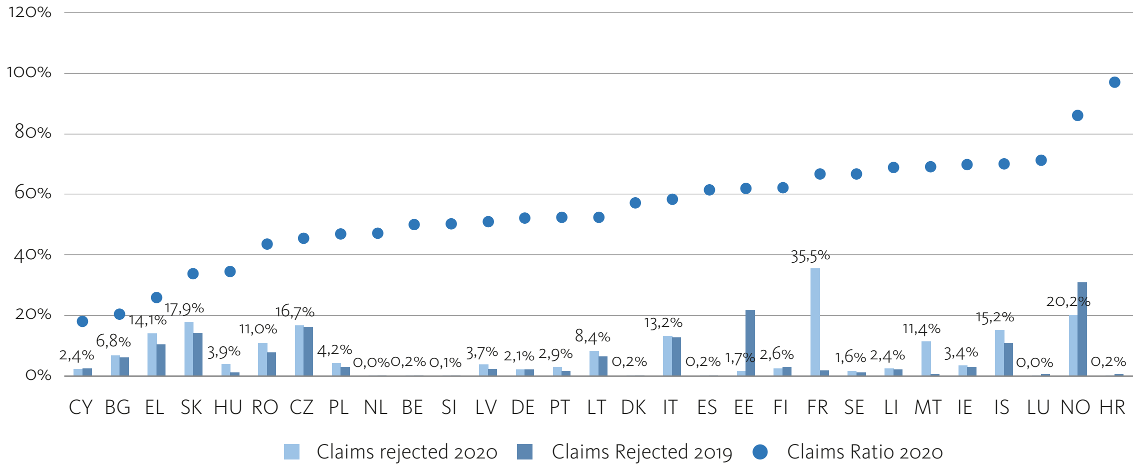
- On one hand terms and conditions are at times not clear and/or coverage for such products may be too expensive; and
- On the other hand, consumers may be insufficiently aware of the possibility of buying additional coverage.

Particular concerns exist in relation to health insurance products and household products which have both been impacted by exogenous events (the pandemic and natural catastrophes) and in relation to which consumers are often unware of the exclusions / there is often lack of clarity in relation to coverage of these events.

In fact, while the medical expenses insurance line of business, maintains its positioning as the line of business with the lowest and continuously decreasing commission rates, a retail risk indicator analysis on claims management and insights collected from stakeholders and NCAs, highlight potential consumer detriment over the past year.

- In 2020 a significant decrease in the ratio of claims paid, as a percentage of total claims, has been observed with the claims rejected having increased significantly to 26.4% from 1% in 2019 (Figure 16). This could be because of a number of issues such as COVID-19 being excluded/rejections in relation to certain treatment following consumers having contracted COVID-19 or because of telemedicine – a phenomenon which consumers were forced to use in 2020 – not being covered;
- The number of complaints relating to accident and health insurance also increased, and did so due to the failure to settle the compensation required in relation to policies in the health sector for diseases related to the outbreak of the COVID-19.

Figure 16([13]) – Claims rejected trend and claims ratio for medical insurance liability by Member State, 2019 - 2020



Source: Solvency II database

1.2. FOCUS TOPICS

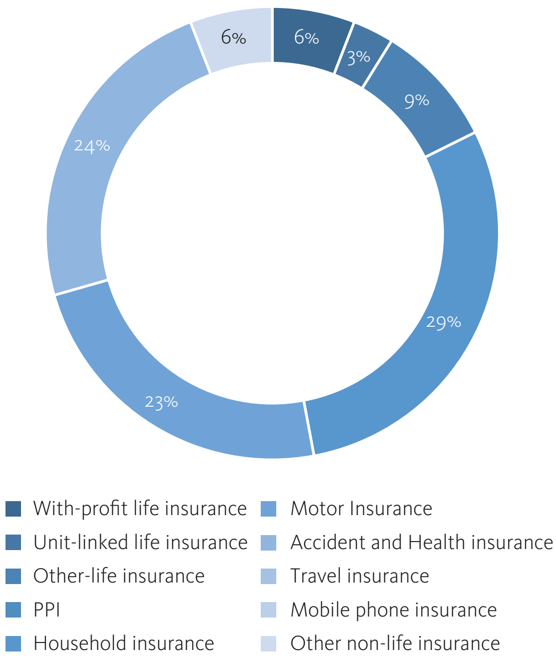
1.2.1. PREVENTATIVE VS PROTECTIVE INSURANCE

The insurance sector is shifting from its traditional role of providing coverage against an all array of risks towards an increasingly proactive and preventative approach. Some insurers now aim at providing consumers with products that promote a proactive approach to risk prevention, often leveraging on advanced technology.

The data provided by NCAs shows that the use of preventative insurance is more prominent in the non-life sector (82% of the collected evidence). In particular these practices have been observed in household insurance policies (29.4%), motor policies (23.5%) and accident and health insurance policies (23.5%). In terms of practices, discounts for home automation and security solutions (27.3%) and discounts for health advisors consultations (21.2%) are the most common ones for the time being.

The level of development of preventative insurance practices differs within the European market. For 15 out of the 23 NCAs that responded, it was not possible, or only partially possible, to identify clear evidence of the benefits provided by a preventative approach to risks. Nevertheless, given the current service offering, it is reasonable to believe that in the log-run, several benefits should be perceived in the market and on society as a whole. In general NCAs are expecting to observe a decrease in claims, enhanced value for money offering, pre-diagnosis of diseases, decrease in car accidents and in general a healthier consumer life style.

Figure 17 – Evidence of preventative insurance across products



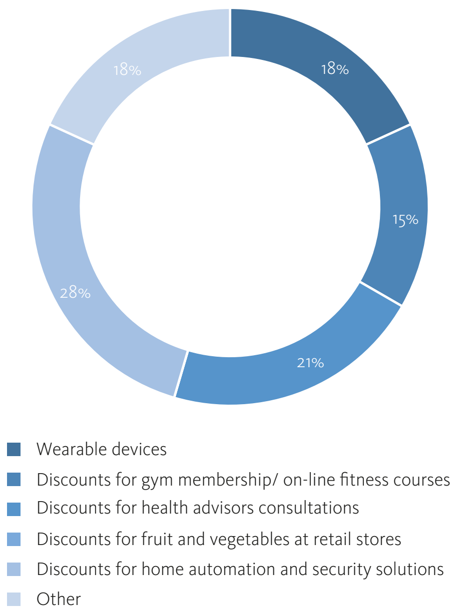
Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

The peculiarity of these product offerings that consumers will receive upfront material/economic benefits, on the contrary of what would normally happen with traditional insurance products where consumers receive a pay-out in case the covered risk materialises. It has also been observed that preventative insurance practices allow to better understand and follow consumers' needs at the different stages of their lives, ensuring an adequate product review over their lifecycle. Similarly to other types of products, it is crucial for consumers to properly understand their policies' terms and conditions in order to be able to profit from the aforementioned benefits. Another challenge that the application of these practices might raise are data and privacy issues as insurers must obtain consent and the appropriate authorisation from consumers before accessing their personal data. There might be also other reasons that are incentivising undertakings to use these practices, including the research of new sources of profit or look for a better risk segmentation.

In some countries, however, the situation is different as it appears the preventative insurance practices have been used for many years already like in DE. Many German insurers have been offering individual prevention advice on natural hazards, home automation and security solutions are becoming increasingly important while insurers have been involved in the prevention of burglaries for many years. IT is another market where a number of services unrelated to the offer of insurance products have been detected. In relation to the mobility sector, undertakings have developed specific initiatives, including the offer of additional coverage packages combining motor liability coverages with prevention and health protection services. An array of other initiatives have been observed for health coverage (e.g. metabolic assessments check-ups, home delivery of medicines, health and physical activity control through IoT devices), but also new services related to cyber risks (cyber security tracking, expert advice and intervention in case of on-line reputational damage for both physical and legal persons).

PT and SK also identified examples of preventative services across several lines of business, essentially developed after the COVID crisis, which impacted consumers' needs and risk awareness while pushing insurers to adjust their products and risk strategies. The use of wearable devices are allowing the prevention of certain diseases or anticipate their development.

Figure 18 – Example of preventative services



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

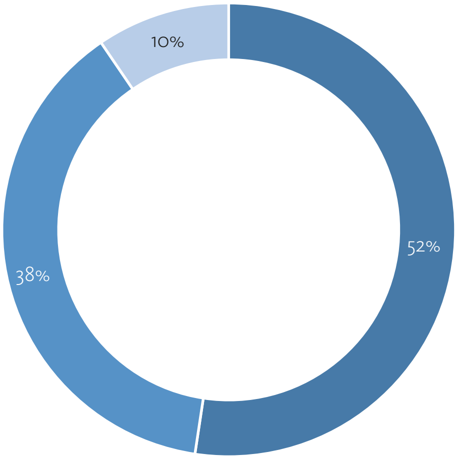
1.2.2. PRICE OPTIMISATION

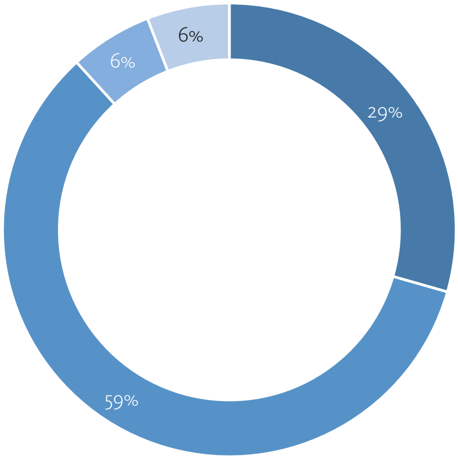
The practice of the price optimisation has been observed in the market for some years and it is growing in a number of Member States. On top of the "risk-based" actuarial tariff, and leaving aside premium adjustments to take into account re-insurance costs and other acquisition/production costs(14), some insurance firms adjust the premium to the market price and further optimise the final premium using a number of different techniques which are largely independent from the consumer's risk profile – sometimes relying on artificial intelligence.

Generally, insurance companies are allowed to use personalised products as long as these practices are aligned with relevant laws and regulations, their internal regulations, decisions and as long as they do not impact the financial stability of the company. However, there are concerns as to whether undertakings are modelling other drivers rather than the risk that will be transferred from the policyholder to the insurer. These include for example, aspects relating to socio-economic factors, consumers' inertia, and consumers' willingness to pay for certain products or services.

13 out of 24 NCAs, which responded to the questionnaire, have reported evidence of price optimisation in their market, especially in motor liability insurance (59% of the cases) and household insurance (29% of the cases).

Figure 19 – Possible causes of price optimisation across Member States (left) and most concerned products (right)

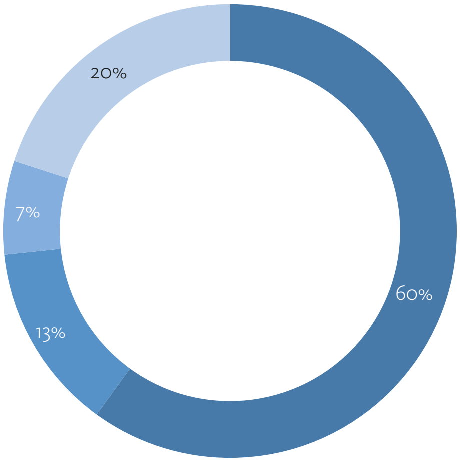


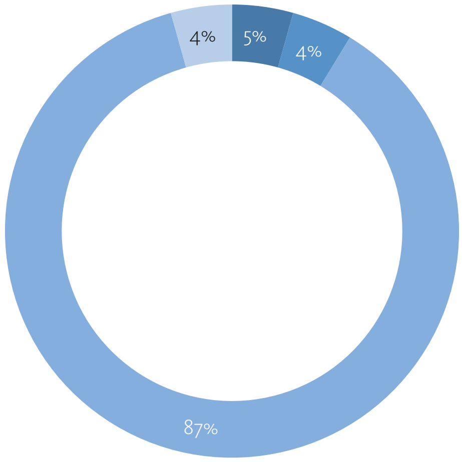


- The competition in the market is high and insurance providers are using price tactics to increase their market share
- Insurance consumers are inert and do not actively compare the market and/or prefer to stay with their existing provide (in particular vulnerable consumers like elderly or financially vulnerable policyholders)
- Other

- Household insurance
- Motor Insurance
- Accident and Health insurance
- Travel insurance

Figure 20 – Consequences of price optimisation (left) and supervisory actions (right)





- Old / loyal consumers pay higher premiums than new consumers
- Vulnerable consumers (e.g. elderly people or with low financial capability) pay higher premiums
- Non-risk based behaviour data used in price optimisation practices increases the risk of unlawful indirect discrimination
- No relevant effect because these practices do not take place in our market

- Yes, and the supervisory work is completed
- Yes, the supervisory work is ongoing
- No
- It is included in our strategic planning for the next two years

Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

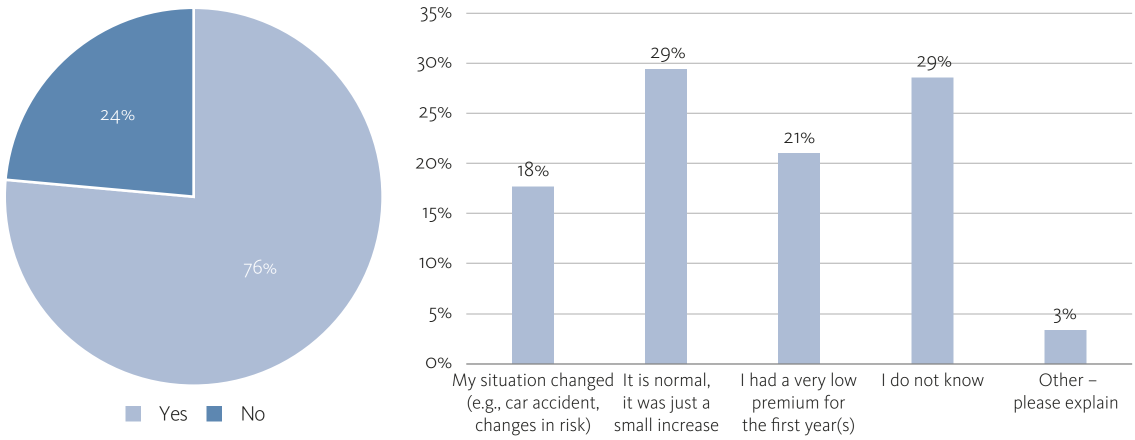
These practices are mainly the result of high market competition which pushes providers to use price tactics to increase their market share or to rely on consumers' inertia (Figure 19).

The major consequence stemming out of these practices is an increase in premiums for old/loyal consumers and vulnerable consumers as suggested by 60% and 13% of the NCAs respectively. 7% of the NCAs detected an increase in unlawful indirect discrimination risk which in the long run, could lead to an increase in financial exclusion.

The findings described above are confirmed by EIOPA's consumer research. In fact, over 76% of the consumers interviewed experienced an increase of at least one of their insurance products after one year. Only 18% of consumers linked such increases to a change in their situation which might raise some concerns from a conduct perspective. 29% replied they do not know why they were charged such increase and similarly 29% did not challenge that change in pricing (Figure 21).

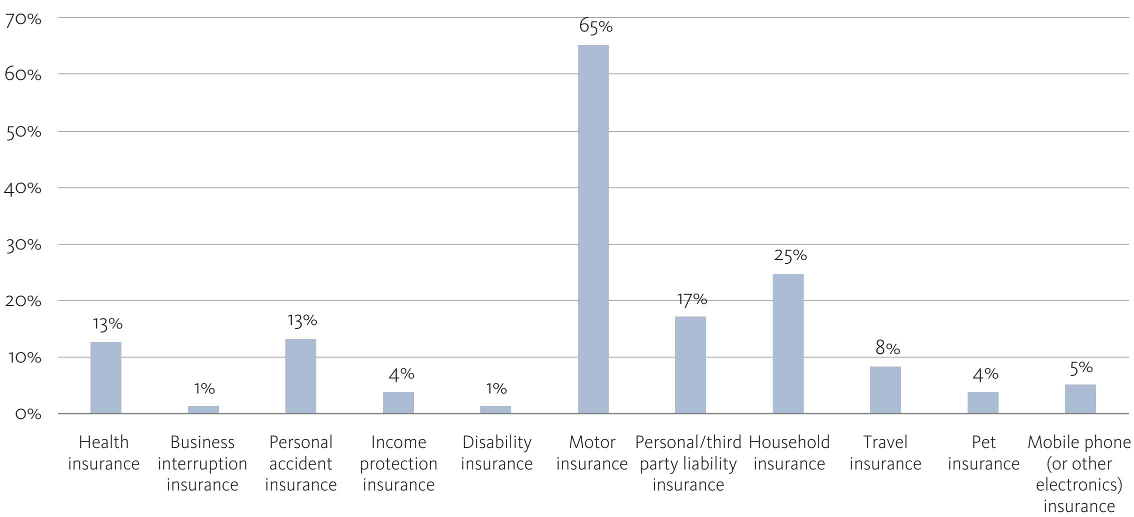
Changes in providers seem to be more likely in the motor insurance business (Figure 19), and household insurance. Consumers declared shopping around for those products because they care more about pricing rather than the nature of the cover itself (62%) and because of the easiness to compare the price and characteristics of those products (18%).

Figure 21 – Consumers experiencing a price increase after one-year (left) and reason associated to a one-year increase (right)



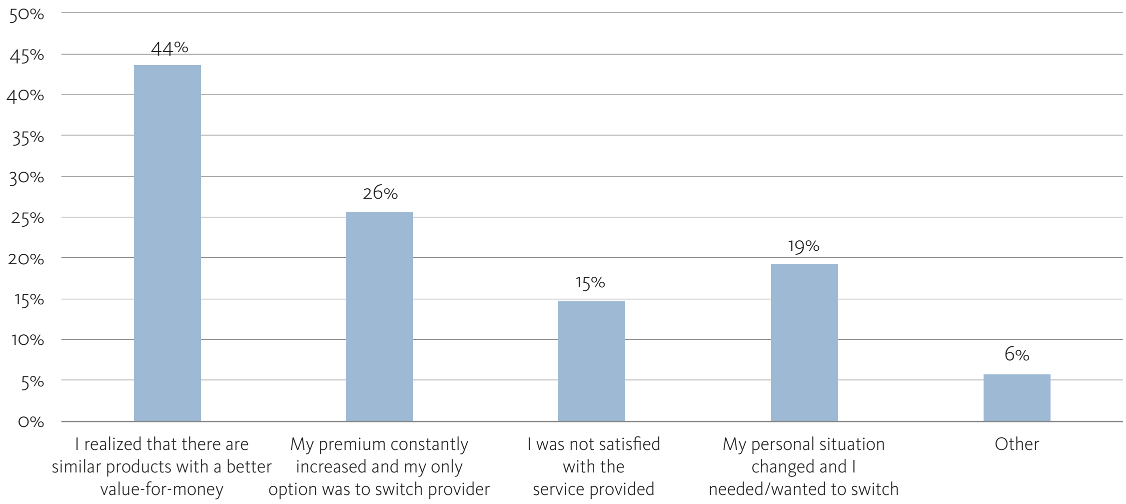
Source: Consumer Questionnaires

Figure 22 – Switching rates per insurance product type



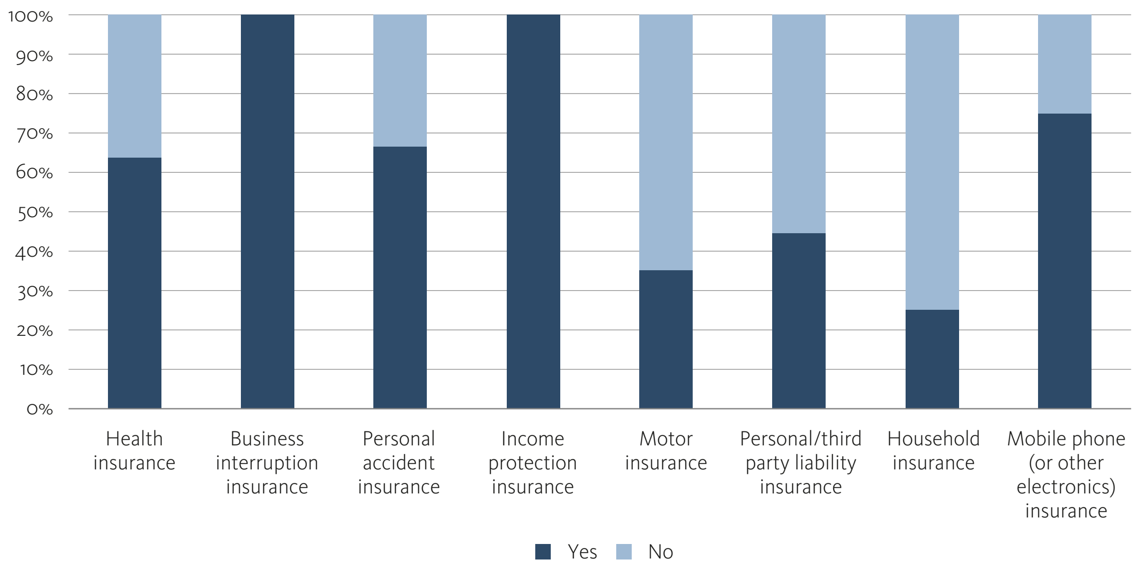
Source: Consumer Questionnaires

Figure 23 – Reasons to switch providers



Source: Consumer Questionnaires

Figure 24 – Percentage of surveyed consumers that got a lower offer after expressing their interest to cancel their contract



Source: Consumer Questionnaires

Amongst the consumers who took action and switched providers, the majority of them did it considering there were similar products available with a better value-for-money (44%), however a high number of consumers (26%) noticed a constant increase in their premium and their only option was to change providers (Figure 23). More than half of consumers use either comparison websites (27%) or insurance consultants (25%) when buying new products.

The undertakings' reactions when policyholders communicated their decision to cancel the policy are quite heterogeneous. Out of those who cancelled their insurance contract, 40% of the respondents were offered a lower price by their current provider (Figure 24). Although 43% consumers encountered no difficulties from their previous provider when cancelling their contract, 24% of them faced hard constraints.

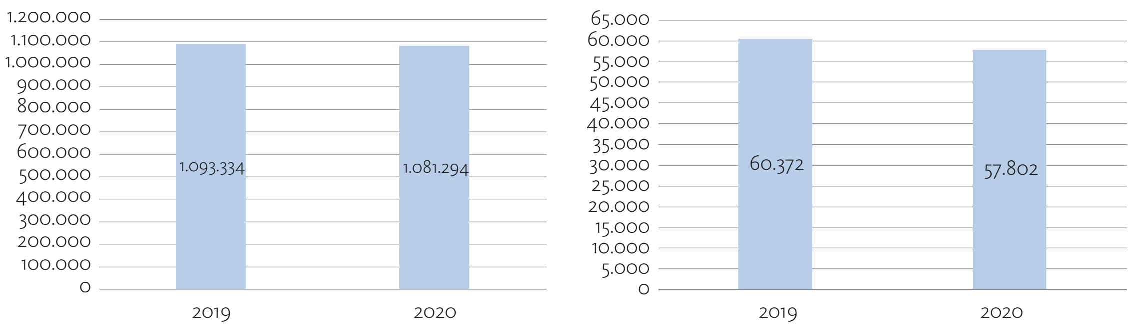
1.3. COMPLAINTS

For the 2021 Consumer Trends Report, EIOPA revised its approach towards the collection of complaints data, in particular:

- To increase data comparability it differentiated between data on complaints received and managed by insurance undertakings and data on complaints received by entities other than insurance undertakings. These in most instances include Ombudsmen, or similar alternative dispute resolution bodies, and/or NCAs which either handle complaints and/or receive complaints and take supervisory actions as needed in line with their collective consumer protection mandate;
- To collect more granular data on products by closely matching the data requested with the data available at NCAs, for those NCAs which provided data on complaints received and managed by insurance undertakings, it differentiated between complaints reported by products and complaints reported by insurance classes.

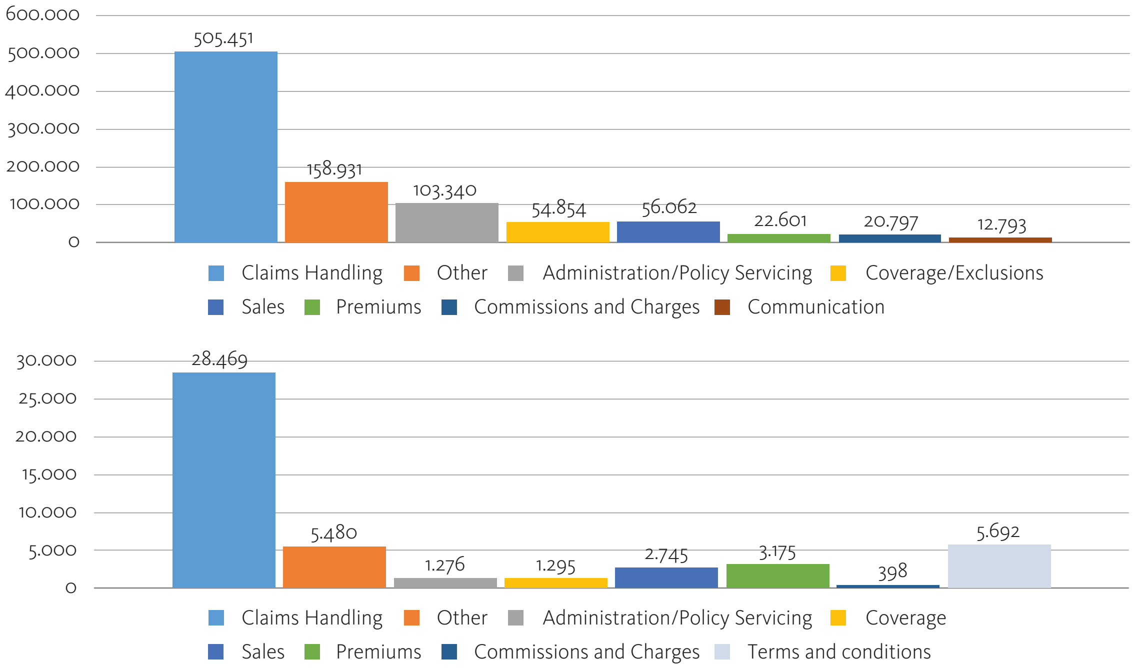
Overall, based on the data available it can be observed that despite the pandemic, possibly due to the number of forbearance measures put in place by several insurance undertakings and insurance intermediaries to ease the impact on consumers, the total number of complaints slightly decreased.

Figure 25 – Total number of complaints reported by undertakings (left) and by authorities (right)



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

Figure 26 – Breakdown of complaints by cause for both undertaking level (above) and authority level (below)



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

Like in past year, as already mentioned (paragraph 1.1.2.3) claims continue being the higher source of complaints. However, this could be relating to the fact that complaints emerge in the claim phase rather than poor claims handling practices. Sales related complaints, on the other hand, dropped.

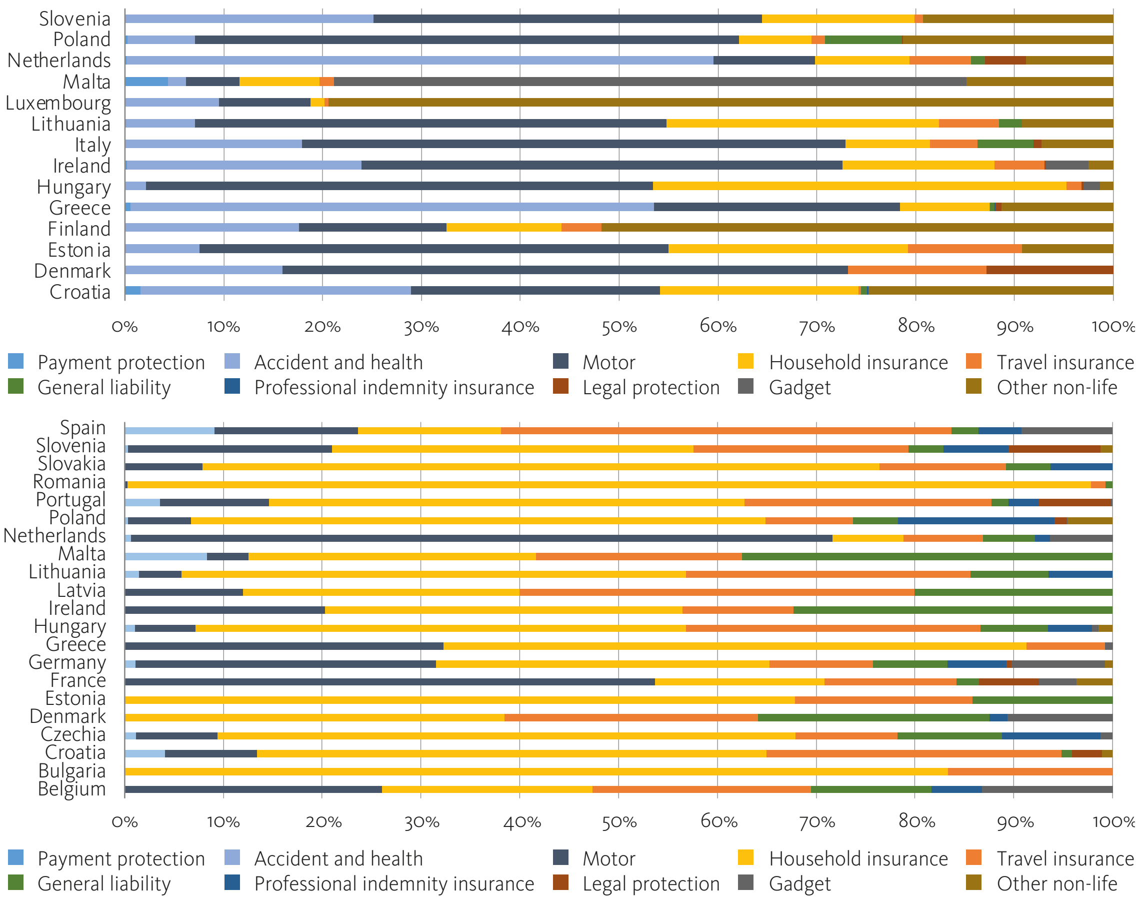
Looking at the complaints by products, motor insurance products continue to generate the highest number of complaints also because they are the most common product. Household, accident and health and travel insurance products also continue being an important source of complaints, confirming the trends presented in paragraph 1.1.2.4:

- Accident and health insurance products account for 14% of total complaints at the EEA level taking into account those Member States which reported data based on products and almost 15% (11% for health and 4% for accident) of total complaints for those Member States which reported data based on insurance classes;
- Household products represent 9% of total complaints at the EEA level taking into account the Member States which reported data based on products, and 11% of total complaints for the Member States which reported data based on insurance classes.

Interestingly, while motor insurance related complaints decreased when looking at the complaints received by external authorities, accident and health insurance remained stable and household complaints increased. While the two data sets are not comparable because they refer to different Member States, it could indicate higher complexity in the issues which arise for these two products resulting in more consumers being unsatisfied and 'appealing' complaints with an external authority.

Complaints split by product should also be interpreted taking into account the size and characteristics of the insurance market. For example, in the NL where accident and health insurance is a mandatory product the majority of complaints relate to it.

Figure 27 – Proportion of complaints by product in each Member State as reported at undertaking level (above) and at authority level (below)



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

The causes reported behind the increase in complaints by products are varied:

- Two NCAs reported having observed increases in the number of complaints for medical and travel insurance because of pandemic related exclusions;
- One NCA reported complaints related to household insurance having increased because of exclusions related aspects; and
- One other NCA reported complaints related to household insurance having increased because of the extra-time consumers spent at home and the increase in household insurance related claims.

1.4. NCAS' SUPERVISORY ACTIVITIES

NCAs' supervisory activities in 2020 were mostly aimed at verifying the selling practices adopted by undertakings including the proper identification of demands and needs, transparency of information provided to clients, professional training requirements for intermediaries. More broadly NCAs' activities looked at the implementation of the IDD, also including product oversight and governance requirements.

In 2020, 73 specific consumer protection activities addressing one or multiple products and/or topics were reported by NCAs. The majority of the conduct activities reported by NCAs are focused on monitoring cross-product issues (Figure 28) and relied on a number of different tools.

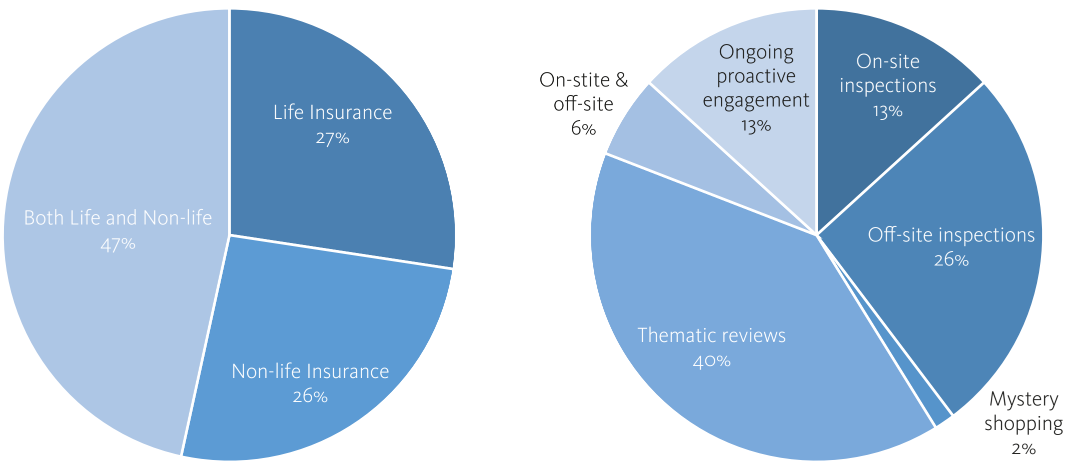
The different types of activities carried out are closely connected to the various trends, potential issues and positive developments identified by NCAs in 2020.

In the life sector the ongoing concerns with unit-linked products and with-profit participation low remunerations, pushed NCAs to carry out work in these fields. 28 supervisory activities (out of 73), concerned either or both these products.

Many NCAs continued their work of analysing insurers' implementation of the IDD and PRIIPs regulation and assessing the effectiveness of the implementation in relation to the quality of the products sold. Examples of activities relating to regulation include the on-site inspections performed by the MT NCA to assess the compliance with the product oversight and governance rules relating to target market assessment, product review and monitoring of insurance based investment products' manufacturers.

For the non-life insurance sector, the activities of the supervisors have also been driven by the consequences of the Covid-19 pandemic, with some of them identifying specific product issues for travel and health coverages. The issue investigated were diverse ranging from the access to travel insurance products for specific consumers' categories to the analysis of the newly created health insurance products and their distribution methods.

Figure 28 – Consumer protection activities (left) and supervisory tools (right)



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

In PT, the NCAs addressed a wide range of information requests to the insurance market focused on the health products. The object of the request followed the initiatives taken by insurance undertakings resulting from the pandemic outbreak, namely the mobilisation of the customer service lines, the launch of new products specifically designed to safeguard some of the medical expenses resulting from COVID-19.

In 2020 however, the majority of the NCAs' activities concerned specific topics across a range of products. Activities spanned across a number of issues to identify conduct risks that can arise throughout a product's lifecycle. As observed in previous years, disclosure-related activities continue to be the most common, with 36 of them focusing on product information solely or among other issues. However, an increase of supervisory scrutiny around e-distribution channels have been detected. Examples of work carried out include:

- In AT, the NCA performed a screening of insurance websites, branch offices with regard to unfair (aggressive and/or misleading) distribution practices;
- In IT a mystery shopping project has been performed by the NCA with the aim of integrating it among its market conduct supervisory tools and detecting ex-ante mis-selling practices for life and non-life insurance products through traditional intermediation channels and financial intermediaries respectively. The mystery shopping also included the adequacy of selling practices for MTPL policies sold via price comparison websites.

1.4.1. THE ROLE OF SUPERVISORS AS INNOVATION FACILITATORS

As society's relationship with technology and remote interaction is continuously evolving, so does the need for comfort around digital interaction models and tools. In this scenario, supervisors can go beyond their traditional role and become a source of valuable guidance for the insurance sector and foster trust in innovation in a sustainable and consumer centric manner.

Tools like regulatory sandboxes and innovation hubs can be very beneficial, but they have to be inclusive and harmonised. At the EU level the European Forum for Innovation Facilitators (EFIF) creates a valuable dialogue between supervisors, innovation facilitators and innovators, but a lot of solutions at country level have been reported. It emerged that 20 NCAs play an innovation facilitator role: 15 NCAs have innovation hubs while 5 have implemented regulatory sandboxes.

In ES a regulatory sandbox started in February 2021. In the first round, a total of 66 projects were received, of which 18 enter the sandbox. Of the 66 projects submitted, 12 related to the insurance sector and only 4 have met the sandbox access requirements relating to technological innovation, maturity and usability of the solution.

In MT the regulatory sandbox provides a regulatory environment where FinTech operators may test their innovation for a specified period of time within the financial services sector under certain prescribed conditions. Whilst the NCAs have observed interest from the insurance sector, particularly in relation to InsurTech, there are currently no insurance participants in the sandbox.

In 2020 and 2021 the innovation hubs received 2070 projects proposals and 65 (3.1%) of them were related to insurance, while the regulatory sandboxes received 118 projects, and 14 (12%) were meant for the insurance sector.

Some project examples submitted to NCAs are:

- Test of machine learning technology to insurance premium tarification, in PL;
- Product-linked innovation such as telematics prices and cyber insurance, in DE;
- Process-linked innovation such as cloud computing, DE;
- Peer 2 Peer insurance platforms, in LI;
- Regtech solution to ensure compliance with requirements in the outsourcing of intra-group key functions, in ES.

Whereas the interest and the importance of these innovation facilitators is increasingly important for the insurance sector, the level of development is still lower in comparison to the banking one.

While it is key to boost innovation, it is likewise important that the regulation on digitalisation and other/industry standard develop hand in hand. For example, in October 2020 the Spanish insurers association UNESPA, adopted the key principles of the ethical use of artificial intelligence in the industry. These principles are based on the development and recommendation issued by national and international institutions and organisations, including the work of EIOPA Expert Group on Digital Ethics.

2. PENSION SECTOR

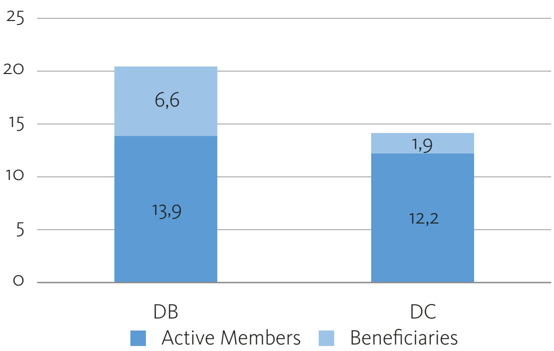
2.1. MARKET OVERVIEW AND TRENDS

An adequate and resilient outcome for European citizens in retirement is strictly related to a well-balanced contribution of the three pension pillars. However, not all Member States in the EU benefit from well-developed and balanced pension sectors combining state pensions (first pillar), occupational pensions (second pillar) and personal pension products (third pillar) to ensure adequate future retirement savings. All pension sectors are subject to change, which could and should be used to serve consumers, to support an active retirement planning and to design pension solutions for the needs of European citizens.

2.1.1. IORPS: MARKET OVERVIEW AND ISSUES

Because of the economic environment and policy choices in Member States, a shift of burden from state pensions to private pension providers is observed, which often play a more significant role to provide for adequate retirement income of European citizens. For occupational pensions (IORPs) the total number of members and beneficiaries in the EEA increased, following an already established trend. The shift from defined benefit schemes to defined contribution, already identified in previous years, remains noteworthy.

Figure 29 – Number of active members and beneficiaries by scheme in millions, 2020



Source: IORPs pension database

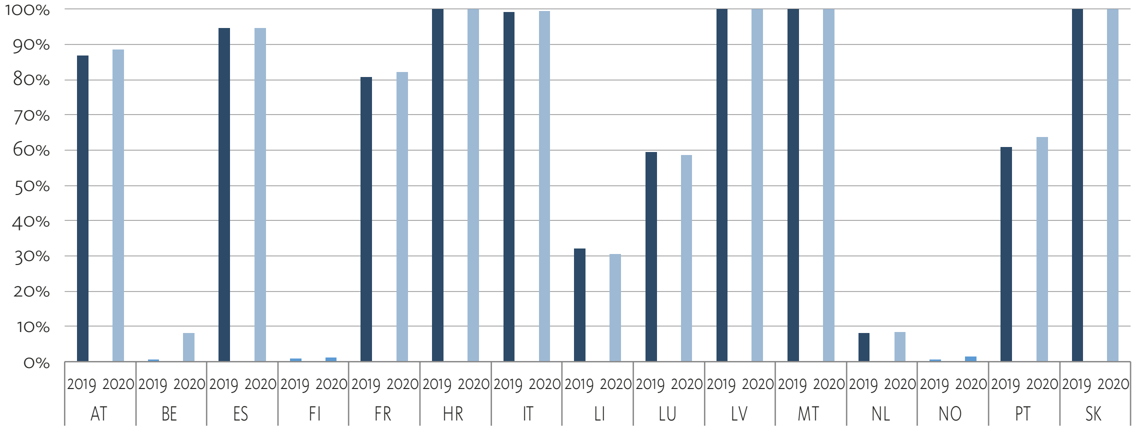
In terms of number of active members, the largest occupational pension markets in Europe are NL[15], DE and IT representing 70% of total active members and about 80% of total contributions. As of 2020, a positive expansion trend has been observed across the majority of Members States, being more remarked in IT and NL (+8%), SK (+3%), and ES where the number of active members doubled in 2019.

A number of other developments have been observed in the market, in particular:

- Government incentives have been distributed to employers due to the strain posed on the statutory pensions because of the aging demographic trends;
- An increase in the number of schemes with mandatory enrolment. For example in IT the "contractual adhesion" to pension funds consists in the mandatory enrolment of workers as part of industry-level collective bargaining agreements. In IT, however, the increase in the number of members has not translated in a proportional rise in contributions as many of these workers do not contribute to the fund (only the employer makes a small contribution).

The persistently challenging economic situation, exacerbated by the impact of the COVID-19 crisis, and political reforms further increased the move from traditional Defined Benefit schemes (BD) to Defined Contributions (DC). This shift, already identified in previous years, remains noteworthy having increased by more than 4% in terms of members, at aggregate level[16].

Figure 30[17] – Percentage of DC members over total members by market, 2019 - 2020



Source: IORPs pension database

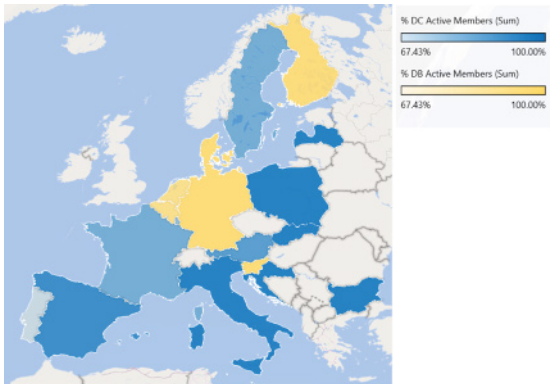
Despite the homogeneity in the trend identified, namely the expansion of the sector and the shift from DB to DC schemes, the European occupational pension landscape is heterogeneous in relation to different features and practices, such as: the DB/DC weight, the level of contribution and the market concentration/competition level. Such geographical differences are the consequence of traditional preferences, economic conditions, developments in the labour markets and policies implemented on the national pension systems.

When considering DC and DB schemes, (Figure 31):

- AT, BG, ES, FR, HR, IT, LV, PL and SK are dominated by DC schemes, having more than 80% of active members and covering 2/3 of the total contributions;
- On other hand, DB schemes are predominant in DE, FI, NL, and SI, these even though in some markets the shift towards DC schemes is ongoing;
- There are also markets where both schemes play an important role, namely in LI, LU and PT.

Overall, the Member States where the occupational pension sector is growing the most are those with a higher percentage of DC schemes. In DE, the first agreements between trade unions and employers regarding the introduction of pure DC schemes ("Reine Beitragszusage") are in a phase of negotiations, and the conclusion of the first agreement is still open.

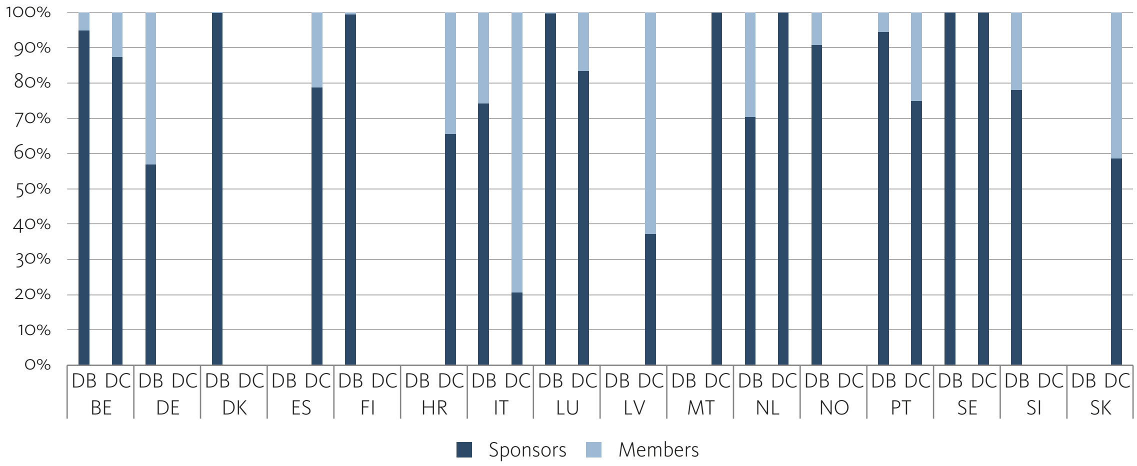
Figure 31 – Percentage of DB and DC active members by Member State, 2020



Source: IORPs pension database

In relation to the level of contributions, the split between the levels of the sponsors' contribution vis-a-vis the members' ones is different across markets. Generally the sponsors pay the highest contribution with the exception of IT, FR, LV where the member's contribution is predominant (Figure 32). The significance of the sponsor vs the members' contribution might be the reflection of structural differences in schemes and design of products possibly driven by cultural aspects and country related specificities.

Figure 32[18] – Level of contribution by sponsors and members by market, 2020



Source: IORPs pension database

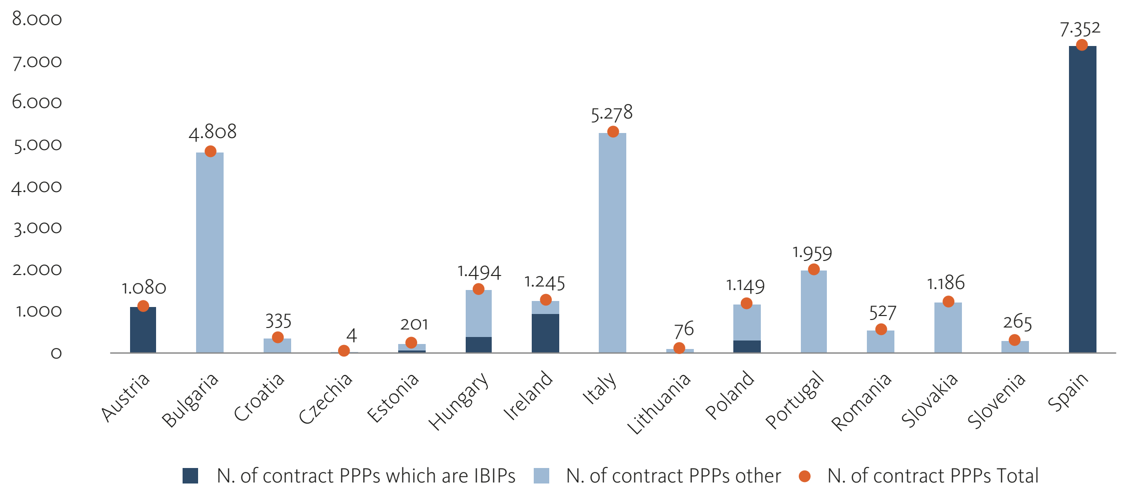
2.1.2. PERSONAL PENSION PRODUCTS (PPPS): MARKET OVERVIEW AND ISSUES

Similarly to occupational pension schemes, the number of contributors to personal pension products has increased in most jurisdictions.

Additionally, the improvements of the level of financial literacy in some markets created the right conditions for further development of personal pension products. Adjusting to budgetary pressures and pension reforms, some European Member States have encouraged private savings for retirement to safeguard high living standards in old age. Private retirement savings are often encouraged by national tax benefits or subsidies, often linked to certain characteristics of the pension scheme or product. However, due to budgetary reasons, some Member States are considering cutting back on such incentives.

Trends in personal pension markets continue to vary significantly across countries although the data available is still limited and the characteristics of the products in the markets vary. While personal pension products are commonly distributed in some markets, they may be considered as niche products in others. The diversity of practices is such that in some markets there are detailed national regulations (as PEPP is the only personal pension product that is regulated at EU level) while in other markets these products are not defined at national level as in DK and FI (Figure 33)[19].

Figure 33 – Number of Personal Pension Products Contracts by Member State in thousands, 2020



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

Despite the strong difference amongst European markets, it is possible to identify common features which are recurring at least partially across all Member States when it comes to identifying the main features of a personal pension product, namely:

- The individual membership and the voluntary basis;
- The independence from Labour Law;
- The independence from an Employment Relationship;
- The linkage to retirement objectives;
- Privately managed and funded;
- Tax advantages.

For example in DK, HR, RO, EE, LV, LT, SK and IT personal pension products are based on DC schemes and have similarities with occupational pension schemes in terms of investment options. In some countries they are distributed in the workplace.

In these markets, personal pension products usually offer more flexibility in the contribution amount and timing, they are also available to the general public and not only to employees. It can be observed though, that the cost structure is often very different.

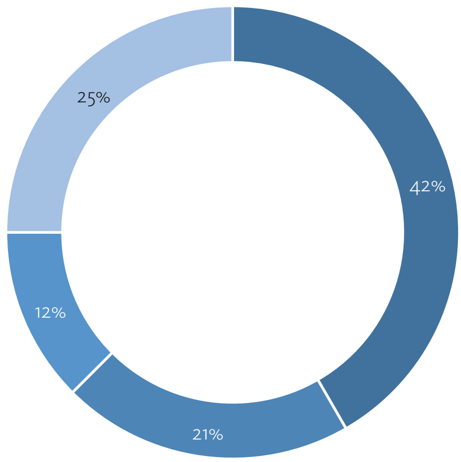
In some instances IBIPs with long-term holding period and specific target market are sold to provide retirement benefits to policyholders. These IBIPs, despite being offered by insurance undertakings, are regulated by pension specific legislation namely in DE, AT, ES, IE, LI, PL or regulated by Act on Personal Income tax (HU). Finally in IT, HR, BG, LT, CZ, PT, RO, SK, SI national regulations[20] apply and IBIPs are not sold with the aim of providing integrative pensions benefits. Given the peculiarity of the products, further details on the national practices are presented in Annex III.

2.2. FOCUS TOPICS

2.2.1. SUSTAINABILITY IN THE PENSION SECTOR

Long-term pension savings can finance the real economy and enable pension savers to participate in sustainable, long-term economic growth. Further, retirement savings can be a prime source for sustainable finance and require, due to the long-term investment perspective, the consideration of environmental risks and ESG factors. In light of the SFDR, pension funds have begun to update their internal investment policies and disclosure document. Nevertheless, the scale varies and it is early to assess its adequacy (Figure 34).

Figure 34 – Sustainability factor disclosure: "Do pension product providers have started taking into consideration the long-term impact of investment decisions on sustainability factors?"



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

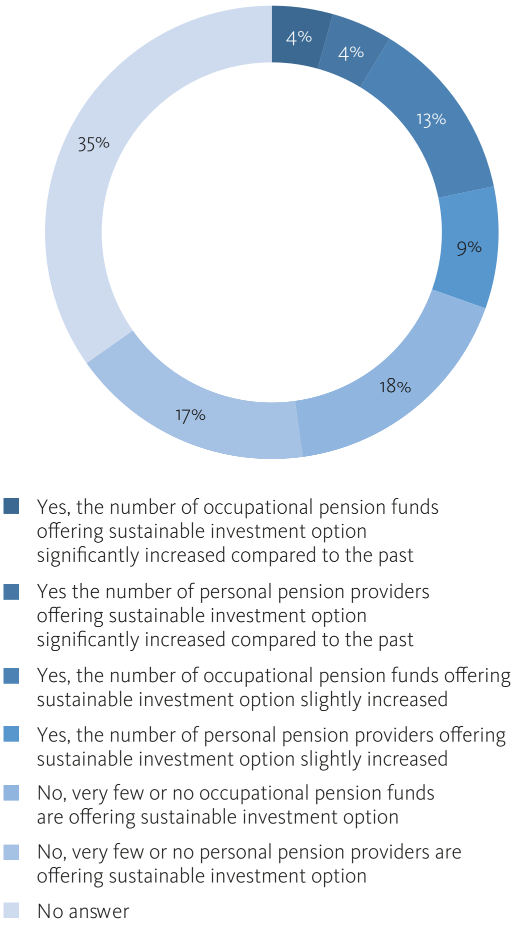
Market players are currently adapting their offer to meet the growing interest towards sustainable assets. In most cases the implementation of the SFDR directive has started as planned, although it is too early to provide a comprehensive assessment of its impact on greenwashing prevention, in particular as the SFDR Regulatory Technical Standards are not yet applicable.

There are also some divergent cases. NL does not expect major changes in the occupational pension sector as the Dutch system is designed in a way that employees cannot shop around for providers that offer sustainable investments. However, for personal pensions, the offer of pension products with a sustainability objective is likely to increase similar to other jurisdictions.

Only a few Members States observed a remarked increase of occupational pension products or personal pension products with a sustainable investment objective (DK, EE) while in others a slight increase was observed (AT, LV, LT, PT).

Most NCAs shared their intention to conduct thematic reviews to monitor the implementation and outcome of these new sustainability requirements.

Figure 35 – Trends in ESG product offerings



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

The way pension providers conduct their business is expected to be re-shaped in the near future as a consequence of the SFDR rules. The scheme design and the asset allocation are anticipated to be revised. Different expectations were reported on whether and how providers will influence invested companies through stewardship role towards more sustainable investments. Some foresee a soft engagement, i.e., more focused on periodic meetings, reports or teleconferences, while others foresee a stronger approach, through active participation or exercising of voting rights. Likewise, the engagement with consumers and beneficiaries might also change, especially for personal pension products, using sustainability as a marketing tool on a service provider level.

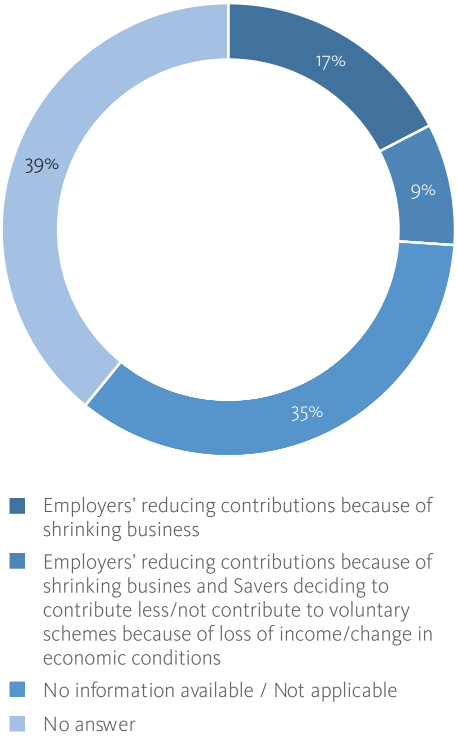
In particular in DK pension providers are committed to the green transition. Most companies have also designed specific sustainable schemes or products for consumers who are particularly focused on sustainability.

2.2.2. IMPACT OF COVID-19

The impact of COVID-19 has not been uniform across countries. Several Member States cannot conclusively say whether the COVID-19 crisis has negatively impacted pension contributions.

Nevertheless, almost one third of the national markets reported a decrease in contributions mainly due to shrinking in business (sponsor contributions) and lower personal income. The implication of lower contributions were also deemed as a concrete threat to the expected pension benefit. The impacts are foreseen to be more concerning in DB plans as interruptions in funding may have a negative impact on future benefits. However, no benefit cuts or changes in the way in which beneficiaries are opting to receive benefits payments were observed. In AT, BE, IE, NL and, RO there are specific provisions aimed at limiting the long-term consequences of a pension benefit claimed earlier. While this represents, on the one hand, an effective pension protection on the other hand it could be a source of financial strain, as consumers/beneficiaries/contributors may be needing their savings to face their loss of income (Figure 36).

Figure 36 – Drivers of lower contribution in the pension sector as a consequence of the COVID-19 crisis



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

2.3. COMPLAINTS

Like for insurance, EIOPA collected data on pensions complaints based on two datasets:

- Complaints received and managed by pension providers; and
- Those collected by authorities, some of them acting as a mediating body and/or ADR and others using complaints intelligence for their conduct supervisory work, acting under their general collective consumer protection mandate.

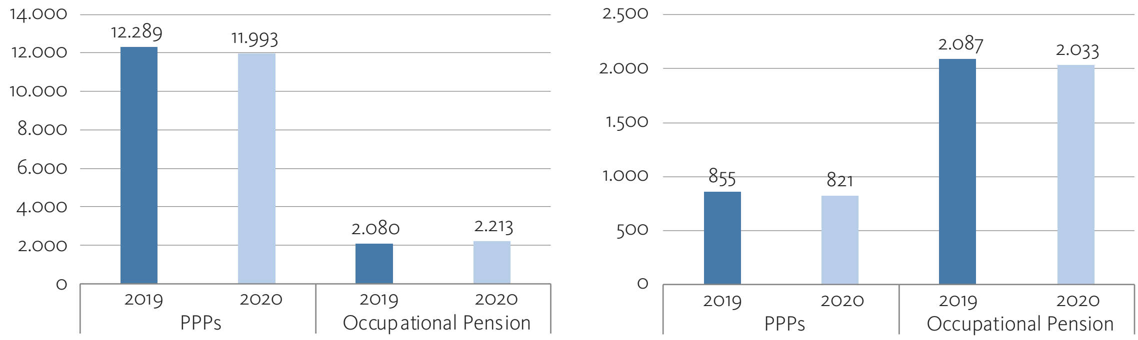
Looking at the most relevant causes of complaints in the pension sector half of the PPPs complaints were due to (i) costs and charges and (ii) administration. On the other hand, for occupational pension funds costs did not cause a relevant number of complaints while the majority of them was driven by (i) benefit recognition – and (ii) the sales and arranging provision of the product, which are both an area of concern because flagged with an increasing trend in some markets and in others as stable[21].

Finally, the complaints by type of occupational pension schemes at the level of providers and authorities are different:

- More than 2,000 complaints were reported by providers with more than half corresponding to DC schemes;
- More than 1,500 complaints were reported at authority level with DB schemes being the most frequent.

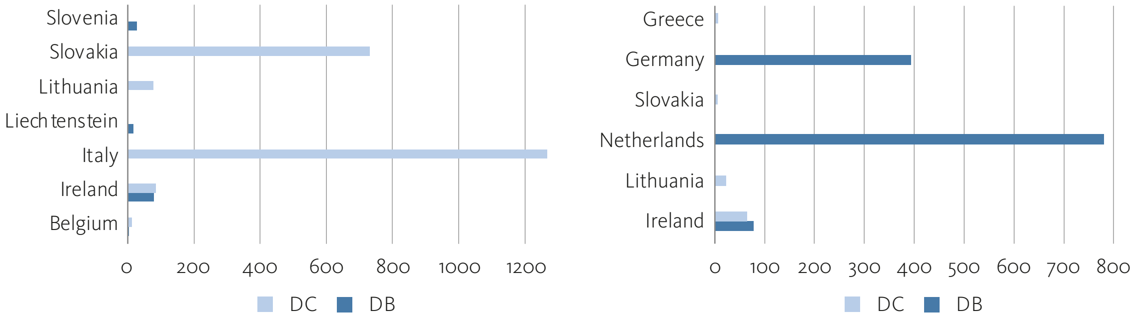
Such differences are mainly due to the different split of schemes amongst markets and the different practices used in collecting complaints, between by providers and authorities (Figure 38).

Figure 37 – Number of complaints by pension providers (left) and authorities (right) for IORPs and PPPs, 2019 - 2020



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

Figure 38 – Complaints by type of scheme by Member State, as from those collected at providers level (left)[22] and at authorities level (right)[23], 2020



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

2.4. NCAs' SUPERVISORY ACTIVITIES

In 2020, a number of consumer protection-related activities have been carried out by pension supervisors to ensure that conduct risks leading to potential detriment were identified, managed and addressed. Out of the 27 reported activities, 7 focused on personal pensions, 11 on occupational pensions and 9 activities focused on both.

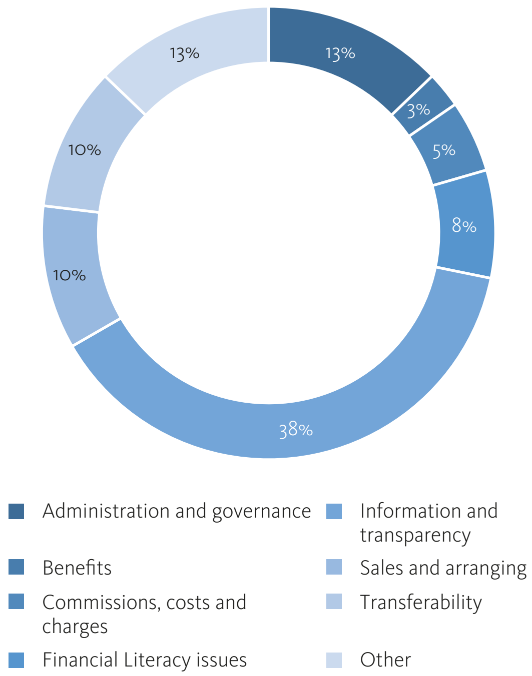
As for insurance products, information and transparency is an area in which NCAs are dedicating significant resources as almost 40% of the conduct supervisory activities focused on that, with all NCAs reporting at least one of the top three supervisory activities in this field.

Administration and governance, transferability and sales process are also within the supervisory planning activities. Many financial educational activities have been conducted with the aim of increasing awareness and knowledge about pension products and schemes.

In the scope of others, NCAs seem to be more and more vigilant regarding ESG and digital issues, reporting those as one of the targets of their activities. NCAs signaled as their focus the monitoring of the transformation process of pension providers to achieve the goals of the European Green Deal, the compliance with the recently published SFDR and the sustainability risks, for both for assets and liabilities. Similarly, digital issues are becoming a growing area of interest for supervisors. For instance, AT has already conducted a Cyber Maturity Level Assessment and Cloud Assessment in 2020.

The use of online tools and surveys, are also becoming more popular in the way supervisors perform their activities. During the COVID crisis, NCAs could not only rely on traditional supervisory tools, but, thanks to the digitalisation, NCAs were also able to leverage on data and technology to oversee increasingly digitalised markets more efficiently and effectively.

Figure 39 – Scope of the reported conduct supervisory activities, 2020



Source: Committee on Consumer Protection and Financial Innovation – NCAs' Questionnaire

With regard to supervisory activities on occupational pension schemes, NCAs carried out a range of activities. For example, the NL NCA carried out inspections for variable annuity. The findings of the inspections highlighted that product development needs to be improved. Because pension benefits are variable, insurers need to better understand the risk propensity of beneficiaries as schemes with variable benefits are not suitable for a wide target market. Communication to beneficiaries when benefits decrease should also be provided in a timely manner.

The supervisory activities on personal pension products mostly concentrated on information and transparency, some examples are:

- In BG the NCA focused its activities on the information campaigns amongst insured persons with special emphasis on their rights and on improving the overall financial literacy;
- In IT the NCA monitored the effective implementation of the updated transparency regulation issued at the end of 2020 and the digital transition.

The impact of COVID-19 has been also subject of further investigation in the pension sector. In particular, with the objective of improving its market monitoring capacity, the PT NCA has increased the information reporting of pension providers to strengthen monitoring in terms of market conduct (e.g. on complaints management, on early access to pension savings, etc.). The NCA also published a set of recommendations to pension funds providers on their relationship with participants and beneficiaries on payment of contributions and on complaints management.

The IT supervisor also monitored the resilience of pension funds and their ability to ensure members' protection via a thematic review.

3. STAKEHOLDERS INTERVIEWS

3.1. SUSANNE LINDBERG, NORDIC FINANCIAL UNION

Susanne Lindberg has been a member of the Nordic Financial Union´s Management Board since 2016 and its vice president since 2020. Susanne is the vice president of Forena, the Swedish trade union for insurance and finance, since 2013. Susanne also has a role in the Board of Forena concerning questions with occupational pension funds for the insurance sector in Sweden. She has worked in the insurance sector for over 30 years. Currently, she is also the President for the staff association in the insurance company Länsförsäkringar in Sweden.

A number of regulatory actions have been listed in the European Union Agenda in relation to sustainable finance. The Sustainable Finance Disclosure Regulation (SFDR) is one of the first regulatory actions that, together with the Taxonomy Regulation, require financial market participants to disclose specific information on sustainability. In particular, the Regulatory Technical Standards (RTS) detail the methodologies and the presentation of the sustainability-related disclosure requirements at entity and product level.

What do you think are the risks in relation to the implementation of these legal requirements in terms of consumer detriment?

EU initiatives around sustainable finance are welcomed as they contribute to improve the transparency of different sustainability-related actions in the sector. The SFDR and the Taxonomy Regulation represent the main building blocks of this policy effort. However, we have observed challenges with this legislation (the SFDR). In particular, the delay of the application of the SFDR RTS and the need for clarification of some of its provisions might impact the effectiveness of its implementation due to the tight time frames foreseen ahead.

We are concerned with the information overload that results from the amount of information consumers will receive under the SFDR and other regulations prescribing consumer disclosures. Consumers might face difficulties in understanding the reason why they are provided with this information. Additionally, in terms of the content of the disclosures, the terminology used is quite technical and some consumers might not find it easy to understand. Adequate product design and the role of the advisor, in this case is crucial to support its clients in understanding both the function of disclosure and, most importantly, its meaning. Of course, transparency is important, but it is also important to find the right balance between the quality, relevance and amount of information disclosed, that can lead to improved consumer protection. It's worth noting that part of the information included in the templates might be more relevant for the supervisors than for consumers.

It is important to mention that, in order to be prepared to deal with insurance products with a sustainability purpose, advisors and insurers' employees in general need to be given time to gain and improve their knowledge of this conceptually new topic. Some of the unions which are part of the Nordic Financial Unions have already started to work with competence development or cooperate with other stakeholders and decision-makers in the development of authorisation schemes.

Since the most granular rules of the SFDR are not yet applicable, insurance undertakings still have some time to adapt their activities, policies and products to be compliant to the new detailed rules.

What would you recommend to the sector to help them improve the implementation of the new requirements, by keeping their consumers, employees, stakeholders and society in mind?

The financial sector has a tremendous potential to advance the sustainability agenda, and with it the finance sector employees. When companies set their strategies around sustainability at the top, this has a spill-over effect to the remaining parts of the company. One possible way to ensure that employees are taken into consideration in the implementation of the SFDR is to ensure they are represented in the companies' bodies working with sustainability, including on Board of Directors level. As mentioned previously, this regulation creates a high-need for competence for employees across the financial system. The early involvement of companies' employees on the implementation of the new requirements should ensure that both employees´ views as well as the consumers and other stakeholders' needs are properly taken into account.

Moreover, it is key for undertakings in their product development process to identify groups of consumers for whose needs, characteristics and objectives the insurance product is compatible via adequate consumer testing and research and to provide advisors with the appropriate guidance on how to use the SFDR templates and address any possible dilemmas. Finally, in order to early detect possible issues, insurance undertakings should provide employees with suitable communication and reporting channels that would allow them to report problems and discrepancies safely and efficiently.

In this scenario, what you think is the role trade union and financial sector employees? Could you please provide an example of activities carried out by the trade unions?

It is important to highlight that in the Nordic countries the understanding of the sustainability topic is broad and it is well embedded into the society. The role of trade unions as shapers of public policy and social partners is therefore more prominent and a wide variety of activities are conducted. On the one hand, trade unions focus on education and certification programmes for which the interest in the sector is really high, while, on the other, they implement initiatives stemming from a wide understanding of sustainability, such as practical tools for employees to report on equality at work as a way to achieve a sustainable work environment. Organisation of public discussions, educational webinars or innovative solutions like gamification are proposed to the sector to address sustainability dilemmas. Through NFU, our member unions also participate in the EU regulation work on sustainable finance.

The role of trade unions is also important with regard to the education of the employees on sustainability. This will support them to implement the new rules in an appropriate way.

Finally, since the majority of the sector's employees are part of trade unions, the role they play in the social dialogue is key, both on national and European level.

How can trade unions support insurance undertakings in the data assurance process, in particular with the taxonomy-aligned investments?

In addition to playing a significant role in identifying material issues in the sector, the views of trade unions on the data reporting are aimed at verifying the compliance with the social safeguards. Safeguards should help define measures and processes to effectively manage risks and enhance positive impacts of the newly implemented regulation.

In particular, trade unions are one of key contact points under the OECD (Organisation for Economic Co-operation and Development) guidelines for Multinational Enterprises (MNEs) as well as facilitators of the work of European Works Councils (EWC).

It has already been observed in the market a significant increase of insurance products that promote environmental or social characteristics or have a sustainable investment objective.

What recommendation would you give to a consumer who is considering to invest part of its savings in a way that contributes to sustainability? (Shades of green, advisor role, product comparison...)

It is key to improve financial and sustainability-related education so that consumers can better understand the options available to them and can make informed decisions. Consumers should first understand their own needs and identify the level of risk they are willing to take. In addition, a supplementary challenge exists, consisting on comparing the characteristics and returns of "green" products to non-"green" ones.

For both "green" and products with social characteristics/objectives, costumer centric product design is the first step but the role of advisors is crucial, as the consumers should receive advice in accordance with their sustainability preferences. The trust consumers give to advisors is the most important factor in consumer decision-making and key for creating long-term relationships. The education of advisors is very imperative, as they should have enough time and resources to dedicate to their clients as they bear the responsibility for the good quality of advice.

The sustainability concepts included in the SFDR and in the Taxonomy are complex to understand. Guidance is needed for the insurance undertakings industry so that employees can understand how to explain the differences of the various definition included in the regulations.

The lack of financial education in the EU is a known issue. More and more supervisory initiatives have been undertaken with the aim of helping consumers understand better the characteristics of the products they are buying. The role of advisors is crucial. As of 2nd August 2022, new rules on sustainability under IDD will apply.

How should advisors help consumers identify their sustainability preferences?

How can insurers support advisors to properly understand the sustainability features of the products they provide advice on?

Insurance undertakings should develop their sustainability policy, ensure that employees understand it in order to embed it into the company's culture. Employees should be part of this change, and given enough time and resources to process and translate this orientation into the products' structure. They should also revise their product design processes to take into account ESG preferences.

The same applies to advisors. In addition, it is important to ensure advisors have enough time to listen and understand the sustainability preferences of consumers. Often that's not the case, as advisors are under time pressure and have to conduct administrative tasks within the time allocated for the meeting.

We should ensure that the sales of "green" products are based on the preferences of the consumers and not impacted by the inducement the advisor would receive. Commissions can lead to a risk of conflict of interest, but the culture and work environment, such as setting sales targets, influences even more the profit-seeking behaviour of advisors than commissions.

3.2. ERIC VELDPAUS, INDEPENDENT INSTITUTIONAL BENCHMARKING INSTITUTE

Eric Veldpaus is the co-founder of the Independent Institutional Benchmarking Institute, an organisation that provides independent benchmarking services to board members of large institutional investors, such as pension funds, to better judge costs. Prior to that, he was strategist at APG-Investments, where, as a member of the Global Advisory Committee of CEM, he focused on all aspects of cost and cost transparency including relations with auditors and the Dutch Central Bank.

Prior to APG, he held senior positions at ABP-Investments, Robeco and PWC. Eric is author of several prominent publications on cost transparency, including the 'Recommendations on Administrative Costs' (Aanbevelingen uitvoeringskosten)' published by the Federation of the Dutch Pension Funds. He is also a lecturer at Nyenrode Business University in the Netherlands.

Since the publication of the Recommendations on administrative costs in the occupational pension sector in the Netherlands, some significant changes in the market have been observed. In particular, a decrease in the costs of IORPs and a consolidation of the market aimed at leveraging economies of scale.

What other trends can you observe in the market?

The consolidation of the market is not only due to seeking to reduce costs by economies of scale, but also to increasing regulation for pension funds, such as key functions by IORP directive, and especially in the Netherlands, a new governance regulation requiring board members to pass an exam to maintain their role. The direct consequences of this is that small IORPs decide to merge with bigger ones leading to a consolidation of the market. Other trends observed are the general increased cost awareness which leads to lower costs, as cost transparency gave IORPs more power in the negotiation processes with asset managers.

Which costs have changed?

Generally, every cost has changed: the pension administration costs and investment costs.

When comparing cost levels of pension administration it is important to take into account the service offered, the complexity of pension schemes and transitional provisions, the agreed account, the level of automation, the number of pension transfers and the number of inactive members in the fund. For this reason, the cost comparison has to be performed carefully.

In order to identify whether the investment costs are high you have to take into account the asset allocation, active or passive management and implementation style in relation to (long term) returns of assets. Bottom line cost comparison is therefore difficult. To be able to judge the total investment cost level an independent cost standard, taken into account i.e. asset allocation, should be calculated.

Do you see a convergence among IORPs toward a specific level per type of cost?

No, the costs depend on the policy of the pension funds and their investment strategies.

What does this change reflect the most, rank the reasons from 1 to 3:

- **a change in IORPs size;**
- **better negotiation position towards asset managers, as transparent cost information allows to identify inefficiencies in the investment supply chain, for example if the fiduciary manager does not choose the most cost-efficient external asset managers, or if asset managers charge high fees;**
- **a change in investment strategy, including asset allocation.**

The first reason for the decrease of costs is reflected by the negotiation position. However, fiduciary fees have to be compared carefully as they depend on the service delivered. This applies to asset management costs too: the relationship with the pension fund and the services delivered represents a key aspect to be considered, as not always the cheapest provider should be chosen.

The second reason relates to the size of the IORP, while the change on asset allocation is not a result of the improved cost transparency. Some asset classes are more expensive, but are more profitable when held in the long-term (example: infrastructure investments). The asset liability management is the main reason for changes in asset strategies, while the cost transparency does not impact the commitment towards specific asset classes.

Recently, EIOPA published an Opinion on the supervisory reporting of costs and charges of IORPs in which it mentions that IORPs provide value to members, when their needs for retirement and investment preferences - when these are expressed - are addressed. For "value for money" assessments, returns and risks data should be taken into account, together with cost data as well as the type and quality of the service provided.

Are IORPs delivering value for money to consumers, also in comparison with other long-term saving solutions?

This is a difficult question, as the same cost transparency rules are not applicable to other long-term saving solutions. Other firms, such as insurance undertakings and investment funds, have different transparency rules. Transparency, communication and comparisons of investment funds and insurance products needs to improve. Using the same transparency rules is an important first step.

Pension funds are investors with a long term horizon and have a diversified portfolio with alternative asset classes such as private equity and infrastructure. Costs level of these products are higher but also the expected long term return.

Have you observed any change in the service provided by pension funds?

Not really, the type of services delivered are the same, but the increased level of automation has driven the costs down. Pension funds have developed many proprietary tools for users on-line, such as calculators.

At EU level, what kind of impact do you foresee that the messages included in EIOPA Opinion on the supervisory reporting of costs and charges of IORPs will have in the market?

Pension funds are not generally keen to disclose the details on costs because it's wrong to focus just on costs. The Opinion would force them to disclose the costs. In the Netherlands there is still a focus on cost only. As a result pension funds who invests a high percentage of their assets under management in alternatives are regarded as expensive.

We have launched our proprietary benchmarking techniques at Institutional Benchmarking Institute on IORPs to come to benchmarking in context. Higher costs are not wrong if on a long term the return is higher (with lower risk).

It is difficult to say what will happen in other Member States once they implement the Opinion. This depends on the culture and how important the provision of "value for money" is for the public.

One of the main criticism regulators receive is that a look-through based cost disclosure and reporting comes with costs, which are ultimately passed to members.

We can only refer to our own experience. Due to the legal framework, in the Netherlands international asset managers were required to report costs. The international asset managers already have these cost information and report accordingly to the Dutch Pension Funds. The proposed framework of EIOPA is based on the Dutch framework so a lot of the information is already available.

Are the reporting costs balanced out by ultimately lower IORP costs and hence better net returns?

The reporting is not very costly.

How small IORPs are managing the cost reporting?

They can do it as well as larger IORPs, as they use the same fiduciary managers and external asset managers.

ANNEX I — METHODOLOGY

The Consumer Trends Report methodology was adopted in 2012 and revised in 2013 and 2020 to produce more robust Consumer Trends Reports and adapt to the availability of new data to improve the robustness of the report. In terms of data source:

- As far as the quantitative information is concerned, the main databases that are leveraged are the Solvency II database and, starting from 2020 the IORPs database.

  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 data without distinguishing between the premiums gathered from individual retail consumers and those gathered from corporates. 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. The analysis of the Solvency II data is mainly performed using a list of Retail Risk Indicators (RRI)[24].

  The quantitative data for the pension section have been sourced from the IORPs database; a detailed description of the pension data and sources is reported in Annex II.

- The qualitative data are mainly sourced from the Members' survey, the stakeholders' survey and the consumers' research.

NCAs were requested to fill in four surveys: four for insurance including: (1) the top three consumer issues, positive development and thematic work, (2) focus topics, (3) information on complaints and (4) financial innovation; and four for pension: (1) the top three consumer issues, positive development and thematic work, (2) focus topics, (3) information on complaints and (4) market overview and size.

In addition to the Members' contribution, EIOPA gathered inputs from other stakeholders (Insurance Europe, Pensions Europe, the European Federation of Insurance Intermediaries — BIPAR, the European Consumer Organisation — BEUC, and the European Federation of Investors and Financial Services Users — Better Finance, the Nordic Financial Union), which either answered directly through a questionnaire or shared their views through their representatives in the OPSG. Like in 2020, EIOPA also sought feedback from consulting firms. EIOPA also regularly meets stakeholders to discuss concrete insurance and pensions issues. Their feedback is particularly relevant to refine some of the conclusions of the report, in particular with regard to those aspects for which a straightforward interpretation of the data is not possible.

In 2021 EIOPA conducted a survey on a focus group of 300 consumers, identified based on their socio-economic background in order to ensure more representativeness, living in the following five countries: Spain, Germany, Poland, Finland and The Netherlands. The questionnaires were aimed at gathering consumers experience on two topics in particular: the price optimisation and the claims handling process.

EIOPA also carried out two behavioral studies: one on insurance distribution and advertising via digital channels and one the sales of travel insurance products in a 'post pandemic world', the results have been included in the BOX 2 and BOX 3 respectively.

ANNEX II — 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 [25].

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 the pension schemes that are not under the direct supervision of EIOPA Member States, with that of EIOPA's pensions database [26], being the definitions included therein that are relevant to the present report.

Data sources and data quality

The analysis performed is based on the IOPRs data reporting - 2020 is the first complete reporting year, following the "*Decision on EIOPA's regular information requests towards NCAs regarding the provision of occupational pension's information*"[27]. The analysis is complemented with answers obtained through the surveys distributed to Members. The data reported before 2020 was collected by EIOPA from the Members States on a voluntary basis and the data has a different structure. Efforts were made to reconcile the information comprehensively. This dataset covers IORPs which comply with the European definition of an institution for occupational retirement provision (IORP) and criteria pinpointed in the aforementioned IORP II Directive[28]. Nevertheless, it does not provide the global picture for the European Occupational Pensions sector, given that other occupational pension schemes can be offered by providers employers other than IORPs.

In some jurisdictions, the current number of occupational pension schemes is mainly state funded, and thus, does not qualify as IORPS under EIOPA's remit. In some others, occupational pensions can also be managed by insurance companies, and for countries such as Belgium they even take care of the largest part of the member of an occupational pension.

Sweden finalised the IORP II legislation in January 2020. Therefore, for the period in scope, no IORPs were applying the new legislation, and the Swedish authority has only been able to provide insights based on the applications received in order to become an IORP[29]. Traditionally, occupational pensions have been mainly provided by life insurance companies, but a shift from life insurance to occupational retirement provision undertakings is expected in light of the new legislation. Some changes have already been identified in the global landscape, and the flow is foreseen to be intensified in the upcoming years.

ANNEX III — ADDITIONAL INFORMATION ON PERSONAL PENSION PRODUCTS

Country by country information on Pillar III products

Country	Description
AT	State-sponsored retirement provision (prämienbegünstigte Zukunftsvorsorge) is a form of pension insurance, under which, upon reaching a defined retirement age, a life-long annuity is paid out. Usually a survivor's provision is also arranged, under which following the death of the insured person an annuity continues to be paid to the insured's widow(er). A particular feature of state-sponsored retirement provision is the existence of a capital guarantee and a state premium. Moreover, the product also enjoys preferential tax treatment, with no insurance tax, no capital yield tax and no income tax being accrued.
BE	Under Belgian insurance law, PPPs are pension savings insurance belonging to the 3rd pension pillar. They can be concluded either as unit-linked insurance products, profit participation products or as hybrid products. Exception made of Belgian Tax Law considerations, there is no specific legal framework for PPPs. The legal framework is the one applicable to all life insurance (i.e. mainly the Law of 4 April 2014 on insurance and the Royal Decree on Life Insurance)
BG	Pension Products are provided only by pension insurance companies through their employees or social insurance intermediaries.
CZ	The Czech Republic has a voluntary funded pension system in Pillar III. Czech pension system has two segments (both are called Pillar III): - supplementary pension insurance scheme - since 1994 (from 2013 closed for entry of new participants), it guarantees a non-negative return on annual basis to the participants; - supplementary pension savings scheme - from 2013, participants can contribute into one of the "participating funds", with different risk profiles and investment strategies, participating funds have risk category from scale 1-7.
DE	In addition to the IBIPs sold with the aim of providing a retirement benefit there are also 7 additional personal pension products type, namely Riester products following Altersvorsorgeverträge-Zertifizierungsgesetz (AltZertG). These are voluntary, individually based and present a DB feature. They are state subsidised pension products which were introduced in Germany in 2001 and which are not insurance specific. They may comprise: ▪ Classic private pension schemes ▪ Bank savings plan ▪ Funds-related pension scheme; internal and external investment funds ▪ Funds savings plan ▪ Direct insurances and pension funds ▪ "Wohn-Riester" (home owner): a contract of loan to buy or build privately used real estate and cooperative shares ▪ Combinations are possible
DK	PPPs are comparable to occupational pensions and employer based pension schemes sold by life insurance undertakings i.e. life-long annuities, fixed term annuities or lump sum payments at retirement. Fixed term annuities and lump sums are provided both by banks and life insurers.
EE	Pillar III consists of insurance products and supplementary pension funds. Supplementary or voluntary pension fund is a common fund whose main objective is to provide unit-holders of the pension fund with a funded pension. Voluntary pension funds also include occupational retirement pension funds. The amount of contributions as well as suspension of contributions is decided by the employee and the money can be taken out, as a whole or in part, before the retirement age. Insurance products include pension insurance with guaranteed interest rate and pension insurance with investment risk.

Country	Description
FI	Individual voluntary pension products are rarely sold and there is not an official definition available.
FR	In 2019, the PACTE law created a common framework for individual and company pension products by establishing "Plans épargne retraite". These plans can be made up of insurance products, products covered by the IORP Directive or securities accounts allowing the marketing of financial instruments. The framework instituted by the PACTE law has some features in common with that of the PEPP Regulation, notably its cross-sectoral nature. Moreover, these plans offer savers several investment options to gradually reduce the financial risks. The maximum exposure to risky financial assets is defined in the regulations according to the maturity of the plans and the profile of the savers for whom they are intended. Three profiles have been regulatory defined. To date, the offering of "plan épargne retraite" is mainly made up of insurance products. These plans seem to be commercially successful.
HR	The essential difference between the open-ended voluntary pension funds and the closed-end voluntary pension funds (which are covered by IORP) is that open-ended voluntary pension funds are opened to the general public.
IE	There are two forms of personal pension contracts used to save for retirement: Personal Retirement Savings Accounts (PRSAs) and Retirement Annuity Contracts (RACs). PRSAs can also be used by people in pensionable employment who wish to make Additional Voluntary Contributions (AVCs). RACs are used mainly by the unincorporated self-employed, but also to a much lesser extent by employees in non- pensionable employment. There is a third type of retirement contract, Personal Retirement Bonds or 'buy out bonds' which are designed only to accept transfers from occupational pension schemes in lieu of maintaining a preserved benefit in the scheme. Generally, individuals can take a tax-free lump sum from a PRB and use the remaining funds to buy an annuity (pension) or invest in an Approved Retirement Fund (ARF).
IT	Pillar III products include "PIPs" (*Piani individuali pensionistici di tipo assicurativo*) and open pension plans (so called *fondi pensione aperti*) with individual adhesion. PIPs are individual pension plans implemented through life insurance contracts offered by insurance companies; they can be either in the form of with-profit (traditional policies) or unit-linked policies and they only support personal plans. Open pension funds are promoted by banks, insurance companies, asset management companies. They support both occupational plans (collective adhesion) and personal plans (individual adhesion). In both PIPs and open pension funds the assets of the products are required to be segregated by those of the provider and they do not have legal personality. In Italy private pension products are specifically regulated by the law and have the same fiscal treatment of occupational pension funds which is more favorable compared to that of other financial and insurance products. Also, they have the same rules for adhesions, disclosure and benefits payment of occupational pension funds. Italian private pension products are not considered IBIPs and are not subject to the PRIIPs regulation.
LT	3rd pillar pension funds refer to supplementary voluntary pension accumulation; they were managed by pension accumulation companies. Contributions are transferred by participants themselves or by their employers, also by other third parties. There are 17 supplementary voluntary pension accumulation funds operated in Lithuania; they were managed by 4 management companies. It is worth to mention, that the decision to participate in a 3rd pillar pension fund is voluntary, no measures are foreseen for controlling coverage. There are no restrictions on membership application.
LV	Private pension plans are the possibility according to free choice to create additional savings for your pension. It means that additionally to State funded pension scheme (that is mandatory), part of your income is invested in private pension funds by yourself or by your employer.
MT	Pillar III products refers to retirement schemes which are not an occupational retirement scheme and to which contributions are made for the benefit of an individual. A proposal aimed at regulating the Maltese insurance undertakings distributing insurance products with pension element is currently under discussion.
PL	IKZE (Individual retirement savings account) and IKE (Individual retirement account) are personal saving accounts established on DC basis that facilitate saving for the future pensions.

Country	Description
PT	The following products are qualified as Pilar III products: individual membership of open pension funds, retirement saving schemes (Plano Poupança Reforma - PPR) financed by insurance contracts, retirement saving schemes (Plano Poupança Reforma - PPR) financed by pension funds and retirement saving schemes (Plano Poupança Reforma - PPR) financed by investment funds. Another relevant feature of some of these products is the fact that they can offer tax benefits. PPPs in the form of life insurance and pension funds, the reimbursement of the accumulated amount is possible at any time, but a tax penalty should be imposed. However, in some specific cases, such as at retirement age, disability, pre-retirement or early retirement or in cases of serious illness, permanent incapacity and long-term unemployment the reimbursement of the accumulated amount is possible without tax penalties.
RO	The private pension system in Romania consists of 3 components: Pillar 2 (mandatory private pensions), Pillar 3 (voluntary pensions) and Occupational Pensions. Although the necessary legislative framework exists, no IORPs have been established yet. Pillar 3 pension funds allow for both employer and employee contributions. These pension funds are managed by authorised management companies and are organised based on a complete separation between the fund´s assets and those of the management company. The legislation regarding decumulation through annuities is still undergoing the legislative process before adoption.
SE	SE Tax incentive for private pensions was removed in 2016. After that almost no private pension premiums are payed, except, for self-employed persons where tax incentives remains.
SI	PPPs are life cycle products based on the rules set for occupational pensions. In such products the investment strategy of the product is more aggressive at inception to be then shifted to more moderate investment strategy (middle age group) and finally for older contributors it is moved to a conservative investment strategy.
SK	PPPs are voluntary scheme - with the exception of people working in certain risky occupations, managed by management companies whose assets are kept separate from the contributors assets (which can be both individuals and employers).

ANNEX IV – LIST OF NATIONAL COMPETENT AUTHORITIES

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

ANNEX V — SOLVENCY II LINES OF BUSINESS

Non-life lines of business	Definition [30]
(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
GWP	gross written premium
IBIPS	insurance-based investment products
IDD	Insurance Distribution Directive
MTPL	motor and third party liability
OPSG	Occupational Pensions Stakeholder Group
POG	product oversight and governance
PPI	payment protection insurance
PRIIPS	packaged retail and insurance-based investment products

ENDNOTES

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

(2) Article 29 of the EIOPA Regulation.

(3) LV, IS and EE are not shown in the graph to ensure confidentiality as the total number of undertakings at least one line fo business is lower than 3.

(4) Regulation (EU) 1286/2014 of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), Link.

(5) It has been observed that the Member States applied 27 supervisory actions within their powers like: thematic review, on and off-site inspections and mystery shopping.

(6) EIOPA Value for Money Consultation paper, Link.

(7) EIOPA Value for Money Supervisory Statement, Link.

(8) The term "commission" is approximated because, given the data available in the Solvency II quantitative reporting templates, the ratio only includes acquisition costs and not other source of costs which are often considered "commission", such as: advertising, marketing and back office costs. For a more detailed analysis of this Retail Risk Indicator you can refer you to the methodology published, Link.

(9) Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation published in the Official Journal of the European Union on 9 December 2019, amended in June 2020 with the adoption of Regulation (EU) 852/2020 (the so-called "Taxonomy Regulation") and it aims to require the financial market participants - and financial advisers - to disclose specific information on sustainability aspects.

(10) IVASS and Banca d'Italia joint letter to the financial sector on the sale of credit life insurance products, Link.

(11) Teurer Schutz für Kreditkunden, 09/11/2020, Link.

(12) Annex I-V to the report on the application of the IDD, shows that banks are the predominant distribution channel for life insurance products, Link.

(13) AT is not shown in the graph to ensure confidentiality as the total number of undertakings is lower than 3.

(14) e.g. overheads such as commissions paid to distribution channels, salaries of staff, technology costs etc.

(15) In the NL there is auto-enrolment.

(16) The markets for which comparison between the 2019 and 2020 reporting are meaningful refers the 21 Member States reported in Figure 30.

(17) BG, HU, PL, DE, DK, SI are not shown in the graph to ensure confidentiality as the total number of IORPs was lower than 3.

(18) AT, FR, BG, LI, HU, PL are not shown in the graph to ensure confidentiality as the number of DC and DB IORPs was lower than 3. In addition no information are shown for FI, NO, for DC schemes and for ES and HR on DB schemes.

(19) For DE data is not reported in Figure 33 because the information on the size of the IBIPs offering a pension benefit is not available. Hence to avoid providing a partial and misleading interpretation the chart does not include such market. However the size of the market of Pillar III products different from IBIPs is available and in 2020 more than 16 million contracts were reported.

(20) In this group of countries, there is a specific regulation to monitor and define PIII products. IBIPS do not overlap with PIII products as they are not sold with the purpose of providing extra income after retirement, as it happens in other jurisdictions.

(21) The consideration shown on the source of pension complaints are consistent for both the complaints collected at providers and authority level.

(22) HR and EE reported respectively 4 and 3 number of complains for DC schemes.

(23) DK reported a total of 31 complaints for which the split between DC and DB was not available. PL reported 1 complaints related to DC schemes.

(24) The Retail Risk Indicators methodology has been revised in November 2021, Link.

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

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

(27) EIOPA, Decision on EIOPA's regular information requests towards NCAs regarding the provision of occupational pension's information, Link.

(28) Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), Link.

(29) 'Tjänstepensionsföretag' precise classification.

(30) 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, Link.

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