

**Key findings of
EIOPA's thematic review on
credit protection insurance (CPI)
sold via banks**

The thematic review looked at the functioning of the EU market for **credit protection insurance** (CPI) products sold via banks to detect any potential consumer protection issues.

Are consumers treated fairly?

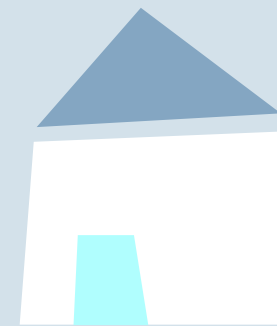


Are they placed at the heart of 'bancassurance' business models?

What sources of conduct risk and consumer detriment exist on the market?

Products we looked at:

- mortgage protection insurance
- consumer credit protection insurance
- credit card protection insurance



Data sources

market sample covering **75%** of total gross writer premium

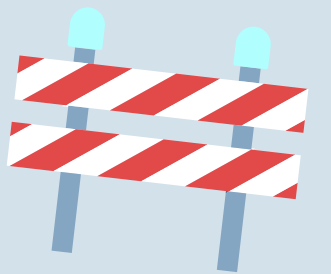
2 questionnaires to insurers & banks (as insurance intermediaries)

100 consumer interviews in 10 EU member states

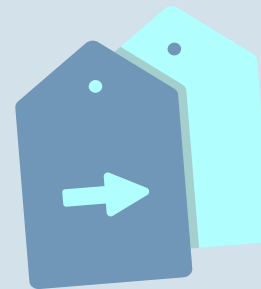
business model analysis (BMA)

While acknowledging the various benefits of CPI products, the thematic review unveiled **significant risks** to consumers arising from:

1 limited product choice and barriers to shopping around



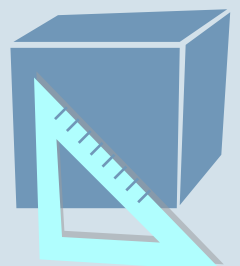
2 difficulties in comparing products



3 challenges with cancellation and switching



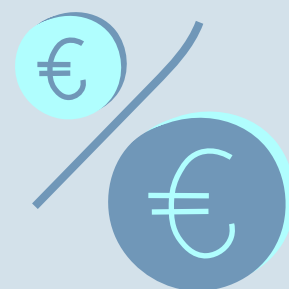
4 lacking consumer preferences in product design



5 issues with sales practices

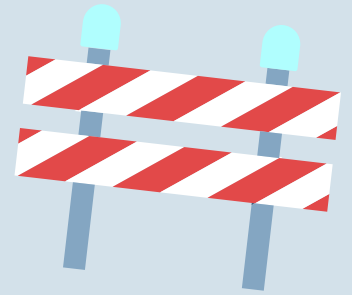


6 high profitability & conflict of interest



1

Limited choice and barriers to shopping around



In theory, consumers are free to choose insurance providers.
In practice, however,

83% of banks tie CPIs to the ‘core’ product

meaning that they can only be bought together with
mortgages, loans or credit card services.

66% of banks sell CPIs as group policies

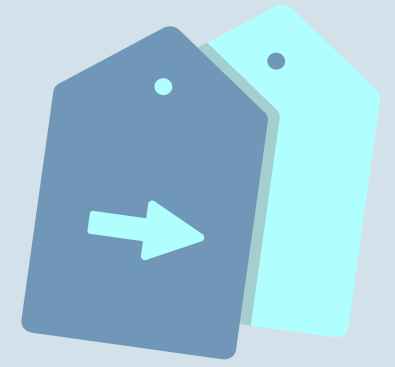
where the bank is the policyholder and extends the CPI products
only to customers that will buy the bank’s own credit products.

More than half of the banks

do not inform their customers that they
could buy CPIs from another provider.

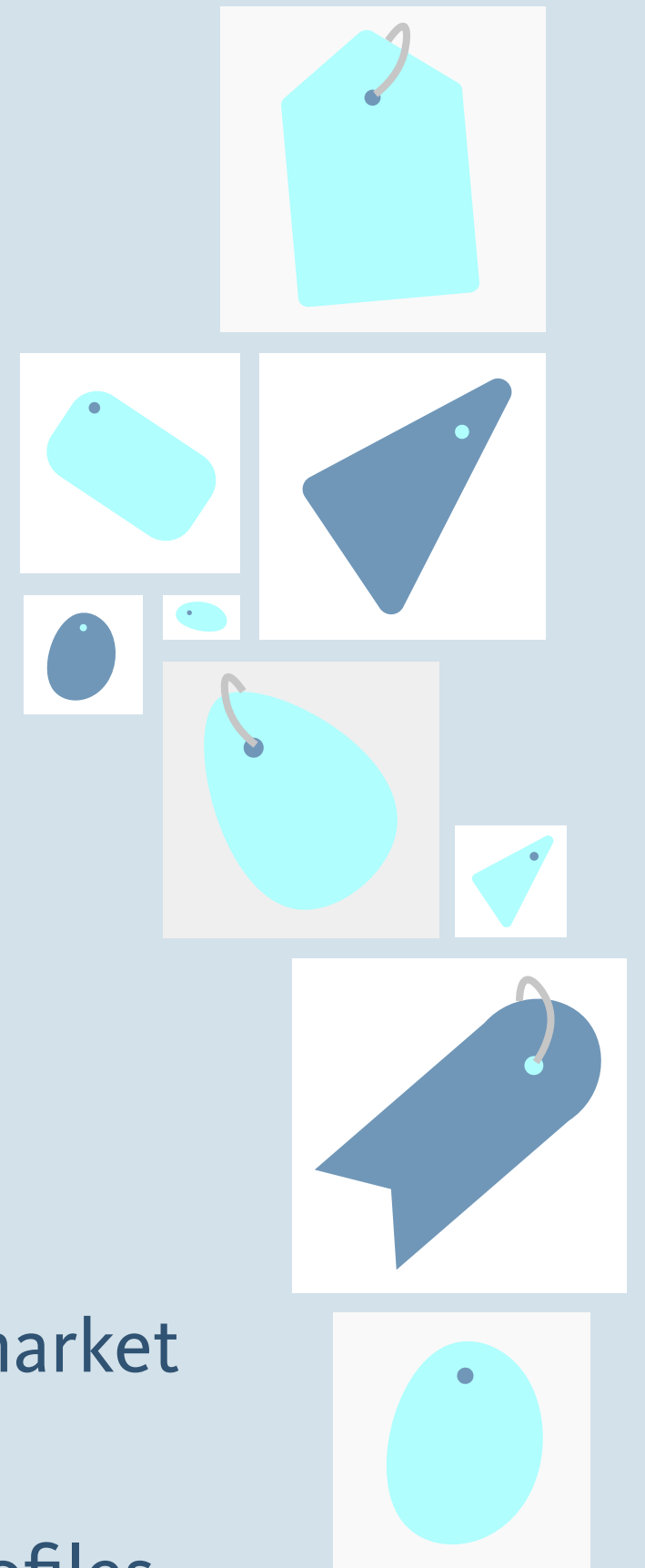
2

Comparability



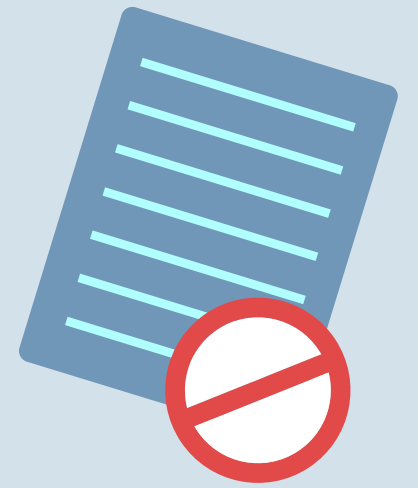
It's difficult for consumers to compare products from different providers and make informed decisions due to **large variety** in terms of both coverage and pricing.

- > no uniform name across the EU
- > diversity in coverage and exclusions
- > different age limits
- > different no-claims and waiting periods
- > high price spreads between banks in the same market
- > differential pricing to clients with similar risk profiles



3

Cancellation and switching



Consumers often encounter difficulties when wanting to cancel CPIs or wishing to change the provider of their insurance.

43% of insurers indicated that before cancelling CPIs, consumers have to

get an agreement from the bank and fulfil certain conditions.

This is mostly because of group policies, where the bank itself is the policyholder and the consumer is affiliated as the insured person.

Canceling Single Premium products can be even more difficult:

22% of insurers **require consumers to repay the loans first** before cancelling the CPI policy.

Difficulties also exist with maintaining mortgage CPI policies:

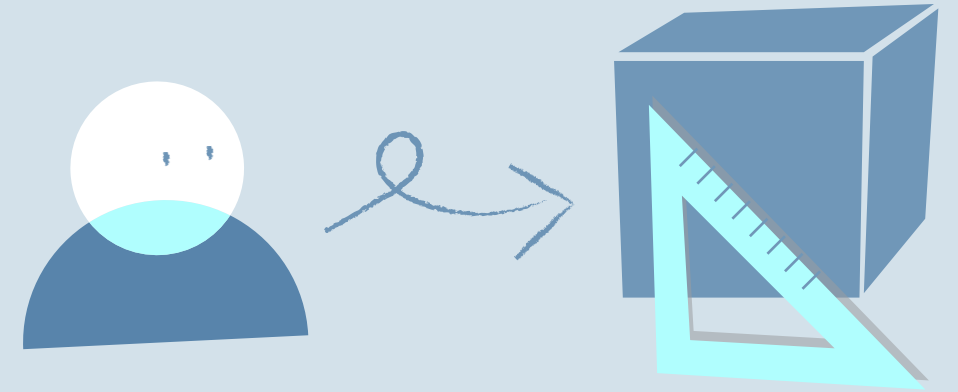
70% of insurers indicated that consumers would **not be able to**

keep their existing policies when remortgaging

their loans with another bank.

4

Consumer preferences in product design



As most CPIs are sold as group policies where the cover provided is standardized and determined by the bank, the quality of CPI products might be inadequate and not meet consumers' needs.

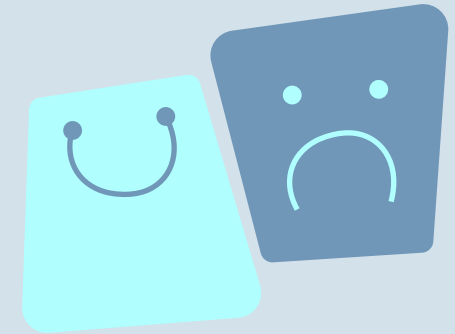
Little to no tailoring to consumers' needs can lead to both under- and overinsurance.

While banks can specify the characteristics of the target market for group policies, only **42% of insurers define the target market** of their CPI products together with their banking partners. Only 21% of insurers use data from their banking partners for price optimisation when setting their premiums.

In addition, 62% of insurers do not take into account medical conditions when defining the target market and **74% of insurers exclude pre-existing medical conditions** from their CPI products.

5

Issues with sales practices



CPI products are generally **cross-sold with the ‘core’ product** (like mortgages, loans or credit cards) and are considered an ‘add-on’ to the main product.

Given consumers’ main focus on the complex credit product, they **may not be paying adequate attention** to the characteristics of the CPI.

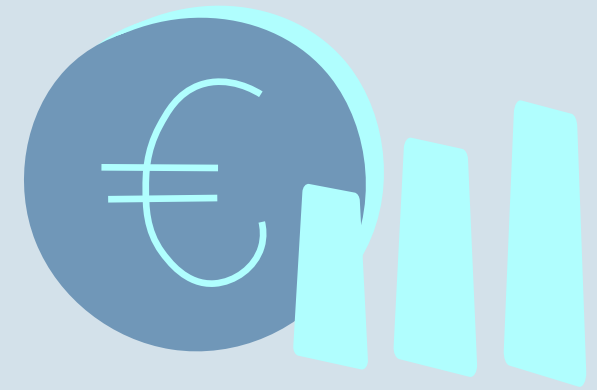
83% of the banks indicated that the sale of the CPI products is executed by the same employees that are in charge of ‘primary’ credit products. 34% of banks use **incentive schemes** linked to the sale of CPI products, such as:

- sales target tied with bonuses
- higher commissions for the sale of a credit product with a CPI
- specific CPI-related commission on top of the incentive scheme for the banking product

6_a

High profitability

for banks and insurers



CPI products seem to be a highly profitable business for both insurers and banks.

On average, they **retain between 74-92% of GWP** (gross written premium) to cover costs and book as profit.

EIOPA found that between 2018-2020, **commissions** paid to banks ranged:

between **30-70%** of GWP for over half of mortgage CPI policies

between **40-80%** of GWP for over 2/3rds of consumer credit CPI policies

and between **40-90%** of GWP for most credit card CPI policies.

Some banks may even use CPIs to offset low margins on credit offers. 18% of

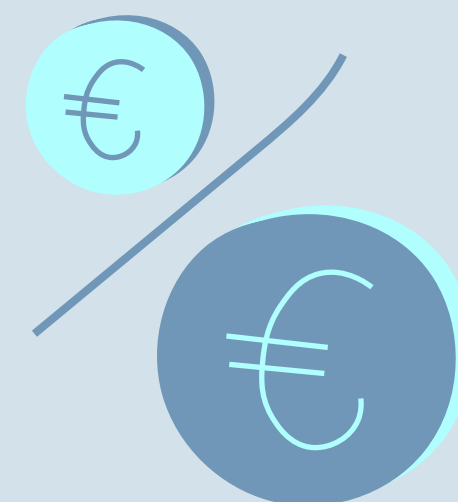
banks **generated more income from the sale of CPIs**

than from lending activities.

6_b

Poor value for money

for consumers



High profitability for insurers and banks raises questions for the value for money consumers get out of CPI products.

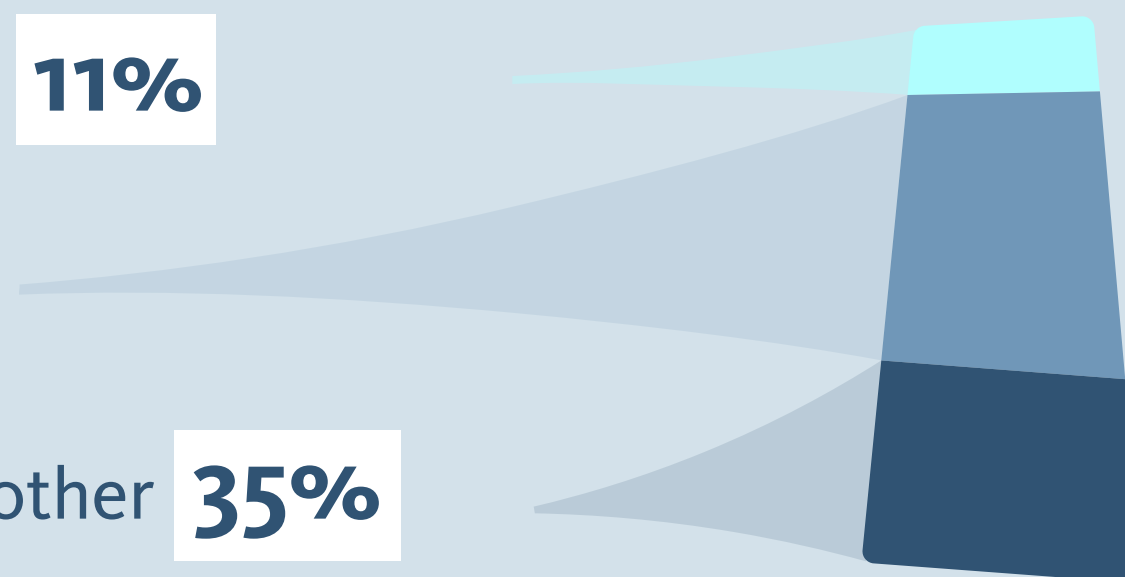
The vast majority of insurers (80%) reported a claims ratio between 0% and 40% of GWP. This means that in most cases, **for every €1 paid** by consumers in premiums, **they get as little as 0-40 cents** back in claims.

The situation is even more extreme for Single Premium consumer credit CPIs, where for every €1 paid:

consumers on average get **11%**

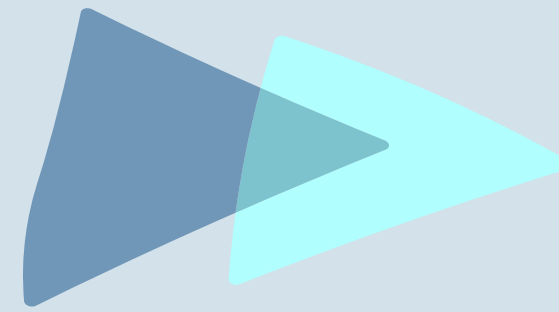
banks pocket **40%**

and **insurers** take home another **35%**





Next steps



To address the concerns brought to light by the thematic review and **improve consumer outcomes** with CPI products, EIOPA will:

- > start a dialogue with the industry to discuss findings and expectations
- > issue a warning to insurers and banks to tackle conflicts of interest
- > share the findings with the European Commission to highlight consumer protection and competition issues
- > work with NCAs to help identify outliers that pose high risk to consumers
- > engage with EU banking supervisory authorities to reflect on risk management frameworks and mitigate conflicts of interest in bancassurance

...to find out more

visit EIOPA's website at
www.eiopa.europa.eu



eiopa

European Insurance and
Occupational Pensions Authority

