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EIOPA calls for better value for money in credit protection insurance products and issues a warning to insurers and banks

On 4 October 2022, the European Insurance and Occupational Pensions Authority ("EIOPA") published the results of a thematic review (the "Review") on the functioning of the EU market for credit protection insurance ("CPI") products sold with mortgages, consumer credits and credit cards.

The Review revealed a number of practices that could, according to EIOPA, be detrimental to consumers, causing EIOPA to issue a warning (the "Warning") addressed to insurers and banks acting as insurance distributors.

I. Key considerations

Whilst EIOPA acknowledges and confirms the various benefits of CPI products, the Review finds that the "bancassurance business model", in which there is a relationship between an insurer manufacturing CPI products and a bank providing a channel for distributing these products on the insurer's behalf, harbours 5 categories of significant risks to consumers:

- risks deriving from limited product choice and barriers to shopping around, as most banks tie CPI products to their "core" products in "cross-sales", meaning that the CPI products may only be bought together with mortgages, loans or credit card services, and cannot be bought from another provider;
- risks deriving from the difficulty of comparing CPI products due to their broad variety of coverage and pricing;
- risks relating to CPI product cancellation and switching, linked to the obligation on consumers to seek their bank's agreement before being able to cancel a policy, in particular in the context of "group policies" where the bank itself is the policyholder and the consumer is affiliated as insured person;
- risks deriving from the lack of consumer preferences in CPI product design, as many CPI products are sold as "group policies", for which the provided insurance cover is standardised and determined by the bank;
- risks deriving from high remuneration and conflicts of interest, considering that, on average, insurers and banks retain between 74% and 92% of the gross written premium, which may lead to detrimental conflicts of interest.

The Warning specifies that EIOPA expects insurers and banks to put customers' interests at the heart of their business model and to take remedial actions to improve consumer outcomes, by reviewing both the CPI product manufacturing process and the related distribution arrangements, in compliance with the rules and regulations laid down in the amended Directive (EU) 2016/97 on insurance distribution and the amended Commission Delegated Regulation (EU) 2017/2358 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.

II. Next steps

According to the Warning, insurers and banks should expect EIOPA and the national competent authorities to prioritise monitoring the CPI market in the future. They should also expect competent authorities to exercise their supervisory powers (taking into account the principle of proportionality), including in the form of on-site inspections and other investigations, along with potential sanctions.

EIOPA specifies that it will follow up on the implementation of the Warning by insurers and banks, including the measures taken by the competent authorities to address the issues identified in the Review.

EIOPA is organising a public event to present and engage with stakeholders on the findings of the Review and the expectations set out in the Warning. The event is scheduled for 27 October 2022.

Contact our experts to help you meet the challenges deriving from the developments discussed above.

To read the Warning, click here_

To read the Review, click here_

To read the invitation to EIOPA's public event, click here_

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