Market conduct / POG

Findings from 2024 non-life questionnaire

COMMISSARIAT AUX ASSURANCES

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Agenda

1. Context – Scope & objectives

Scope of the questionnaire:

- **non-life insurance products**;
- offered to **retail customers** (i.e. natural persons who underwrite the contract with another purpose than a commercial/professional activity);
- on the territory of the **Grand Duchy of Luxembourg** and/or under **FOS** from the Grand Duchy of Luxembourg and/or under **FOE**

➔ Responding undertakings: 16

CAA's objectives:

- **raise awareness** on the conduct of business rules;
- ensure **the correct application** by non-life insurance undertakings of the obligations related to insurance distribution;
- **assess the measures implemented** by non-life insurance undertakings regarding insurance distribution;
- **prepare** non-life insurance undertakings for **On-Site/Off-Site** conduct of business inspections.

2. Findings – CAA's main observations

2.1. **Product governance**

Question 7 **With regard to Article 295-15 of the LSA (IDD, Article 25) and Regulation (EU) 2017/2358, before being distributed, an insurance product is subject to: (multiple answers possible)**

a product approval process	100,00%
the identification of a positive target market	100,00%
the identification of a negative target market	75,00%
the testing of the product's compatibility with its target market	75,00%
an analysis of conflicts of interest	87,50%
an analysis of the product with regard to customers' interests	100,00%
the issuance of a "Target Market Statement" made available to customers via the insurance undertaking's website	6,25%
none of the above	0,00%

Question 9 **With regard to Article 295-15 of the LSA (IDD, Article 25) and Regulation (EU) 2017/2358, the insurance undertaking's product approval procedure for newly designed/significantly adapted insurance products includes: (multiple answers possible)**

the different stages in the approval process	87,50%
people's roles and responsibilities at the different stages of the approval process	100,00%
criteria for identifying the target market	100,00%
the product pricing methodology	81,25%
the methodologies for testing the compatibility of the product with the needs, characteristics and objectives of its target	56,25%
the various parameters to consider when determining the distribution strategy	75,00%
sustainability factors	31,25%
the indicators to be monitored to assess whether, over the course of their lifetime, products remain consistent with the needs, characteristics and objectives of their identified target market	93,75%
the time intervals for the regular product reviews	100,00%
an analysis grid setting out the criteria for determining whether an adaptation is to be considered significant	68,75%
the insurance undertaking does not have a formalised product approval procedure for newly designed/ significantly adapted insurance products	6,25%

➔ While **100% of responding undertakings have a product approval process**, it is **not systematically enforced in practice** (defaults in terms of: testing, conflict of interests' analysis, distribution strategy, sustainability factors)

➔ **GOOD PRATICES:** ✓ Identification of a **negative target market**

✓ Grid with criteria to determine if an adaptation of the product is significant or not

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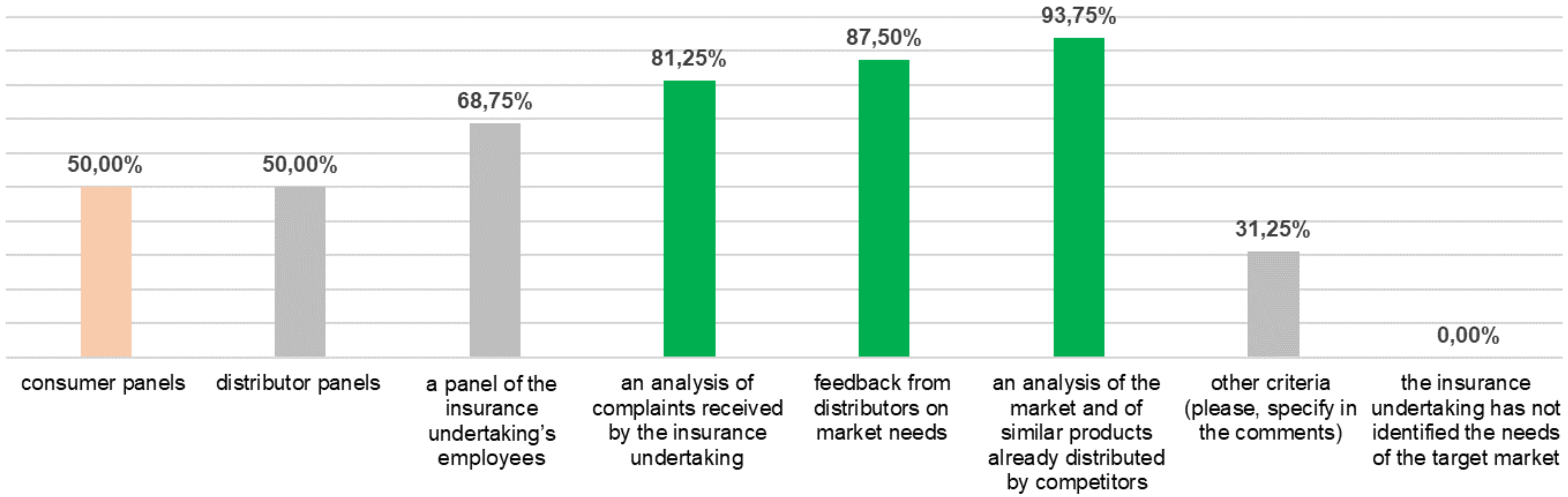
2. Findings – CAA's main observations

2.2. **Target market**

Question 11 **The needs, characteristics and objectives of the target market for a product are identified by the insurance undertaking on the basis of: (multiple answers possible)**



➔ **GOOD PRATICES**:

- ✓ Most undertakings take **market analysis** (93,75%), **feedback from distributors** (87,50%) and **complaints' analysis** (81,25%) into account to identify the needs and objectives of the target market
- ✓ One undertaking indicated that it also uses **the experienced loss ratio**

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2. Findings – CAA’s main observations

2.3. **Testing**

Question 13 — **With regard to Article 6 of Regulation (EU) 2017/2358, concerning insurance products newly designed or significantly adapted since October 1, 2018 (entry into force of IDD) and still distributed on January 1, 2024: (multiple answers possible)**

The insurance undertaking has tested its entire product range	18,75%
The insurance undertaking has tested part of its product range	43,75%
The insurance undertaking distributes products that have not been significantly adapted since October 1, 2018	31,25%
Other answer (please, specify in the comments)	18,75%

Question 14 — **With regard to Article 6 of Regulation (EU) 2017/2358, which processes does the insurance undertaking put in place to verify, when designing or adapting a product, that it is compatible with the target market and the level of information of the customers? (Multiple answers possible)**

Product testing by a panel of the insurance undertaking's employees	50,00%
Product testing by a panel of customers	50,00%
Analysis of actuarial scenarios of the product in the customer's interest	37,50%
Other (please, specify in the comments)	37,50%
No recurring process has been put in place by the insurance undertaking so far	18,75%

Question 15 — **With regard to Article 6 of Regulation (EU) 2017/2358, when conducting product testing, the insurance undertaking selects criteria such as: (multiple answers possible)**

the risk of product misunderstanding by the target market (product complexity)	62,50%
the exclusions based on the needs, characteristics and objectives of the target market	75,00%
the commissions/premium ratio compared with the claims/premium ratio	50,00%
the risk of conflicts of interest that could lead the distributor to recommend a less suitable product	68,75%
the risk that the underwriting or distribution channel is inappropriate to the target market	50,00%
the claims ratio	56,25%
other (please, specify in the comments)	12,50%
no product testing is being/has been carried out yet	12,50%

- ➔ **Testing is still not a widespread practice** among undertakings: only 18,75% tested their insurance products newly designed or significantly adapted since 2018
- ➔ 2 undertakings answered that **product testing was performed by MGAs** and it appears a **total lack of monitoring of MGAs’ activities**
- ➔ **18,75% undertakings do not have any defined process for testing**
- ➔ **Q14 + Q15 aimed at giving insights to undertakings**

2. Findings – CAA's main observations

2.4. **Product review & follow-up**

Question 18 — **With regard to Article 295-15 (1) paragraph 4 of the LSA (IDD, Article 25.1 al. 4) and Article 7 of Regulation (EU) 2017/2358, if the insurance undertaking has indicators to assess whether the products it markets remain consistent with the needs, characteristics and objectives of the identified target market and whether the intended distribution strategy remains appropriate, what are they? (Multiple answers possible)**

Questions or comments from customers about products or coverages	81,25%
The increase in complaints	100,00%
The number of sales outside the target market	25,00%
The renewal rate	81,25%
Feedback from distributors	81,25%
The amount of written premiums per product	81,25%
The number of claims which the insurance undertaking rejected	68,75%
Monitoring the claims ratio from the customer's perspective	68,75%
Monitoring the claims ratio, to ensure the profitability of the product for the insurance undertaking	81,25%
Other indicators (please, specify in the comments)	12,50%
No precise indicators is used by the insurance undertaking to that aim	0,00%

Question 19 — **When the insurance undertaking distributes insurance products ancillary to a good or service that is not an insurance product (such as insurance linked to a mobile device (e.g. tablet, mobile phone, laptop, and so on)), what is the threshold which the claims ratio should fall in for an insurance product or service to be approved from the customer's perspective?**

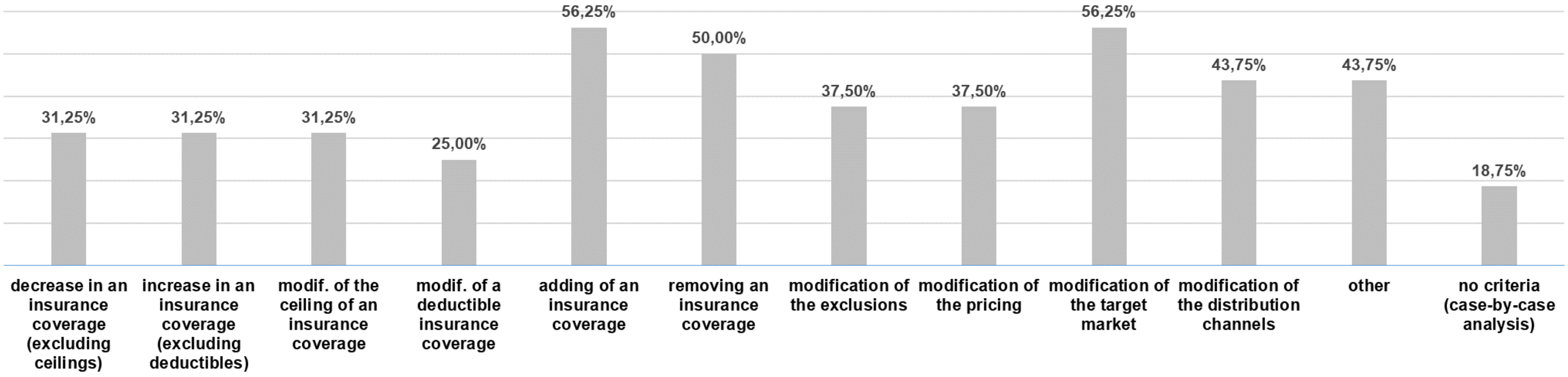
Claims/Premium: <15%	0,00%
Claims/Premium: 15% to 24%	33,33%
Claims/Premium: 25% to 29%	0,00%
Claims/Premium: 30% to 44%	0,00%
Claims/Premium: 45 to 60%	0,00%
Claims/Premium: >60	33,33%
The insurance undertaking does not have a predefined claims ratio	33,33%

- ➔ **GOOD PRACTICES on indicators:** complaints review and analysis of feedback from customers and distributors
- ➔ **Areas for improvement:** outside target market sales, claims ratio monitoring and claims rejected (EIOPA's indicator)
- ➔ **Claims ratio should not only be monitored from a profitability perspective for the undertaking but also from the client's perspective**
- ➔ Focus on ancillary insurance products: **below 30% claims ratio seems too low from a customer's perspective**

2. Findings – CAA's main observations

2.4. **Product review & follow-up**

Question 22 **With regard to Article 295-15 (1) paragraph 4 of the LSA (IDD, Article 25.1 al. 4) and Article 7 of Regulation (EU) 2017/2358, the insurance undertaking considers the following adaptations as significant adaptations of an existing product that would trigger a product review: (multiple answers possible)**



➔ **Areas for improvement:** 🗶 **each of the above adaptations should systematically be considered as significant and trigger product review** ⇨ explains why 31,5% undertakings responded not having significantly adapted their products since 2018

🗶 some undertakings consider adaptations as significant only if deemed material (e.g. pricing adaptation) ⇨ **materiality level should be defined**

🗶 **only 37,5% of undertakings consider that product should be reviewed following the modification of exclusions** ⇨ **modification of exclusions = trigger product review**

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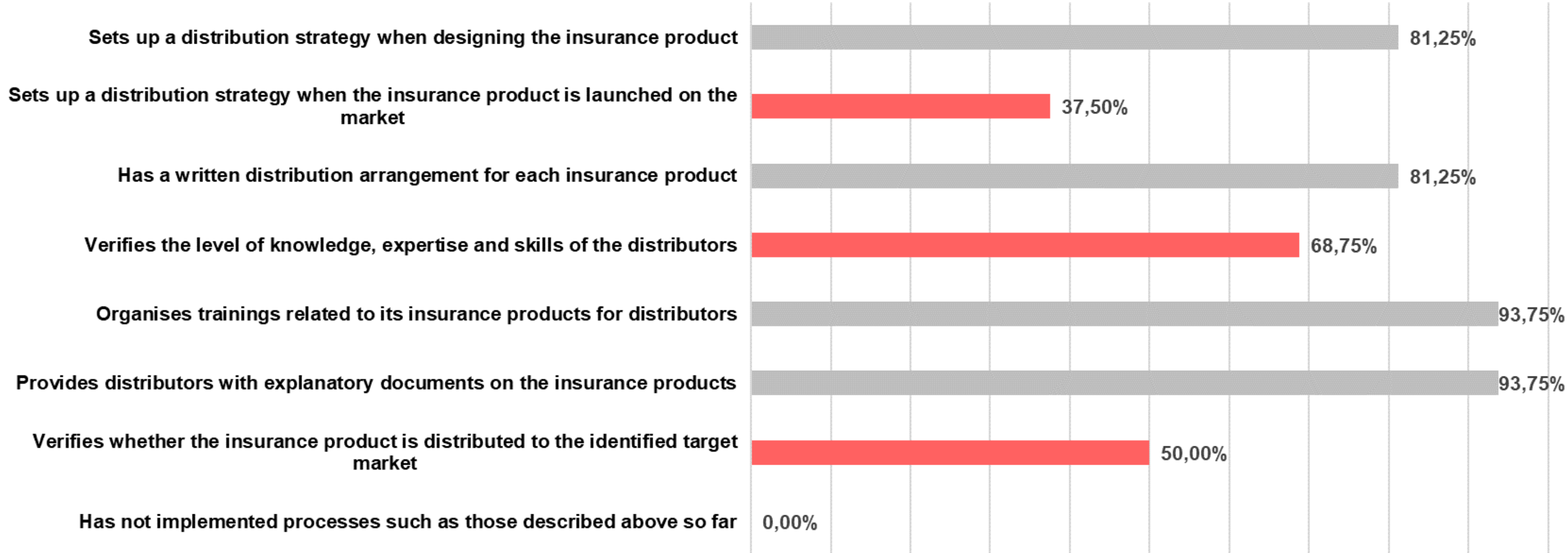
2. Findings – CAA's main observations

2.5. **Distribution & remuneration scheme**

Question 27 **With regard to Article 295-15 (1) paragraph 5 of the LSA (IDD, Article 25.1 al. 5) and Articles 8 and 10 (6) of Regulation (EU) 2017/2358, in terms of distribution, the insurance undertaking: (multiple answers possible)**



Distribution related obligations are not sufficiently adressed by undertakings' POG

➔ Undertakings should not wait for the product to be launched on the market to set up a distribution strategy

➔ No systematic follow-up of the product distribution to the target market by the undertaking

➔ No systematic follow-up of distributors in terms of knowledge, expertise and skills to distribute the product

2. Findings – CAA's main observations

2.5. **Distribution & remuneration scheme**

Question 28	**What are the distribution channels used by the insurance undertaking for its insurance products? (Multiple answers possible)**	
	Direct sales	68,75%
	Distance selling	43,75%
	Insurance intermediaries acting in the name of and on behalf of one or more insurance undertakings (e.g. an insurance agent under the LSA)	75,00%
	Insurance intermediaries established on their own, who act as intermediaries between the policyholders they represent and the insurance undertaking (e.g. an insurance broker under the LSA)	68,75%
	Ancillary insurance intermediaries	37,50%
	Business introducers/indicators	37,50%
	Other (please, specify in comments)	6,25%

Question 29	**Which type of ancillary insurance intermediaries does the insurance undertaking collaborate with? (multiple answers possible)**	
	Travel agencies	18,75%
	Mobile phone operators	12,50%
	Funeral directors	0,00%
	Distributors of home appliances	6,25%
	Car dealers	6,25%
	Property managers	0,00%
	Airline companies	0,00%
	Other (please, specify in the comments)	12,50%
	Not applicable, the insurance undertaking does not work with ancillary insurance intermediaries	62,50%

- ➔ 37,5% undertakings are working with ancillary insurance intermediaries (**mainly cross-border activities**)
- ➔ **Only 7 ancillary insurance intermediaries** are registered in Luxembourg at this date ⇨ **CAA has doubts on the fact that they are all registered**

2. Findings – CAA's main observations

2.5. **Distribution & remuneration scheme**

Question 35 — **With regard to articles 295-7 (3) and 295-9 (1)f) of the LSA (IDD, Article 17.3 and 19.1(e)), how does the insurance undertaking remunerate the intermediaries/third parties which it collaborates with? (Multiple answers possible)**

Fees	12,50%
Commissions	93,75%
Contribution by the insurance undertaking to expenses directly or indirectly related to the intermediary's activities (e.g. operating expenses, leasing expenses, representation expenses, accounting support)	43,75%
Participation in the technical result of the portfolio (claims experience)	37,50%
Other benefits, to be specified in the comments (e.g. training abroad)	6,25%
Not applicable	6,25%

Question 36 — **With regard to article 295-7 (3) of the LSA (IDD, Article 17.3), the insurance undertaking has a system for remunerating its distributors (whether salaried or not) for the sales of insurance products which is based on: (multiple answers possible)**

the amount of premiums	93,75%
the increase in the volume of premiums	37,50%
the total sales volume	31,25%
the type of contracts sold	43,75%
the number of contracts sold	25,00%
the number of claims declared	0,00%
the portfolio's claims ratio	37,50%
other categories (please, specify in the comments)	18,75%
none of the above categories	6,25%

- ➔ **Inappropriate remuneration scheme**: remuneration based on claims (technical result, number of claims declared, claims ratio) & on sales/premium volumes **>< intermediaries' duty to act in the best interests of their customers (IDD)**
- ➔ **Profit sharing agreements and broker status vs. conflicts of interest**

2. Findings – CAA's main observations

2.6. **Exclusions & coverage**

Question 25	**As part of the product approval process, the exclusions: (multiple answers possible)**	
	are taken into account when identifying the target market	81,25%
	are included in the General Conditions of the insurance product	100,00%
	are included in the Insurance Product Information Document (IPID)	93,75%
	are tested for their understandability by the target market	18,75%
	are part of sales brochures	6,25%
	are part of the commercial information available on the insurance undertaking's website	37,50%
	are communicated (including their impact on the target market) to distributors	56,25%
	other (please, specify in the comments)	12,50%
	are not considered in a documented manner	0,00%
Question 40	**When distributing an insurance product, does the insurance undertaking provide customers, pre-contractually, with a table summarising or comparing the different levels of insurance coverage available for the same insurance product?**	
	Yes	87,50%
	No	6,25%
	Not applicable, the insurance undertaking does not distribute products with different levels of insurance coverage for the same insurance product	6,25%
Question 46	**In the case of direct sales and/or distribution through an intermediary acting in its name and on its behalf, the insurance undertaking ensures, as part of the analysis of demands and needs, that the risk of double insurance coverage is identified by: (multiple answers possible)**	
	verifying that the same risks are not already covered by the insurance undertaking itself	43,75%
	questioning customers about the coverages they already benefit from with another insurance undertaking	43,75%
	questioning customers about the coverages they already benefit from via a means of payment	12,50%
	questioning customers about the coverages they already benefit from through their employment contract	6,25%
	questioning customers about their registration with a non-insurance service provider (such as CMCM, Air Rescue, Club Automobile, etc.)	12,50%
	other questions (please, specify in the comments)	12,50%
	no, this is not verified	25,00%
	not applicable, the insurance undertaking distributes neither through direct sales nor through an intermediary acting in its name and on its behalf	6,25%

➔ **GOOD PRACTICE : ** 87,5% undertaking indicated providing to customers a **table summarising/comparing levels of coverage by product**

➔ **Areas for improvement:**
- **Exclusions are not systematically part of the product approval process** (target market identification, testing, communication to distributors)
- **One undertaking did not indicate exclusions are part of the IPID**
- **Double coverage risk is not verified at all by 25% undertakings** and, when poorly verified, it is limited to insurance coverages (almost no verification of cross-sold coverages or non insurance service provider additional free coverage)

3. Next steps

➔ CAA ranked undertakings according to 3 categories, based on the quality of their answers

➔ Follow-up will be prioritized accordingly :

- On-site inspections
- Off-site inspections (additional information / documents request)
- Recommendation letters

11, rue Robert Stumper
L-2557 Luxembourg
T. +352 22 69 11-1
F. +352 22 69 10
caa@caa.lu

www.caa.lu

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