



# **“WHAT FUTURE FOR CREDITOR PROTECTION INSURANCE IN EUROPE”**

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N A N T E S | P A R I S | B A R C E L O N E | M A D R I D | M I L A N | D Ü S S E L D O R F

- HISTORY
- MARKET SIZE
- THE PROBLEMS
- THE ANSWERS PROVIDED
- WHAT ARE THE 'BAD' OR 'GOOD' SOLUTIONS
- THE 'GOOD' SOLUTIONS
- OVERALL CONCLUSION

■ Where does the concept of creditors' insurance come from, what does it include?

## History

- Gradually, the product, which initially was only to secure the bank, became a product to secure the creditor himself and his family, making access to credit easier.

## ■ Today:

- The product has been extended to a whole family of needs
- With a progressive enlargement of guarantees
- Today, creditor protection insurance is a key factor for a sustained credit growth:

## ■ Market size in 2007

- France	6.4 billion Euro ---- 8 billion in 2013
- Germany	6.1
- Japan	4.3
- UK	3.7
- Spain	3.6 (2008)-----1.5 billion in 2013
- Italy	2.4 (2010)-----1 billion in 2013
- The Netherlands	2.2
- Brazil	1
- Poland	1
- Belgium	0.8
- Portugal	0.7

### ■ Size of the European total market : At least 30-35 billion Euro in the years to come.

- With a significant growth potential in all markets under-equipped in penetration rate on mortgage: notably for aggravated risks.

## ■ EVERY MARKET HAS A DIFFERENT APPROACH, NOTABLY FOR MORTGAGES:

- In France
- UK
- UK / Spain / Italy

## ***I - PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE OCCURRED IN EUROPE SINCE 2000/2005...***

### **■ DIAGNOSIS**

#### **■ 5 FAMILIES OF PROBLEMS**

- 1. TOUGHENING EUROPEAN REGULATION**
- 2. CHALLENGING BANKS « MONOPOLY » FOR MPPI PRODUCTS**
- 3. PROGRESSIVE DENATURING OF THESE PRODUCTS, LEADING TO EXCESSES IN SOME MARKETS**
- 4. INSUFFICIENT OR IMPERFECT RISKS COVERAGE**
- 5. LOW SERVICE QUALITY IN THIS FIELD**

***I – PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE OCCURRED IN EUROPE SINCE 2000/2005...***

## **1. TOUGHENING EUROPEAN REGULATION**

- Up to DIA 1: no problem
- DIA 1 has been defined as a 'minimum harmonization'. So, it has encouraged states to implement local rules which strongly differed from one country to another.

**Trying to harmonize, we have actually 'disharmonized'!**

***I - PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE OCCURRED IN EUROPE SINCE 2000/2005...***

## **2. CHALLENGING BANKS “MONOPOLY” FOR MPPI PRODUCTS**

- In FRANCE: Since 2000, individual insurance markets have tried to compete with banks by segmenting the single rate of group insurance
- The LAGARDE LAW in 2010 made it mandatory for banks to accept ‘guarantees equivalent to their own contracts if their clients negotiated them separately
- In ITALY: banks were compelled to propose 2 extra contracts from competition without remuneration
- In UK: the decoupling of the credit and the insurance selling, etc.

## ***I – PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE OCCURRED IN EUROPE SINCE 2000/2005...***

### **3. PRODUCTS DENATURING AND 'EXCESSES'**

- **In the UK market, a deep crisis of the PPI occurred: bank and independent PPI distributors were blamed for:**
  - Excessive margins (up to 80%)
  - Forced sale
  - Misseling
  - Refusal to pay the claims
  - Existence of "single premiums"
- **Overall:**
  - Loss of consumer confidence
  - Substantial fines: 20 billion £ in September 2014
  - Re-opening of 3 million of claims
    - And maybe, at last, 5 million...
  - PPI market collapse and plummeting premiums collection (more than 50%)

## ***I - PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE OCCURRED IN EUROPE SINCE 2000/2005...***

### **4. INSUFFICIENT OR IMPERFECT RISKS COVERAGE**

- ‘Aggravated risks’ are unknown in some markets
  - Or poorly developed (Italy, Spain)
- Products with insufficient ‘coverage’ (Poland)
- Guarantees not sold: unemployment (France, Spain)

***I – PROBLEMS IN THE CREDITOR PROTECTION MARKET HAVE  
OCCURRED IN EUROPE SINCE 2000/2005...***

## **5. LOW SERVICE QUALITY**

- **Underwriting period : sometimes from 7 to 15 days**
- **Product not 'sold' but imposed (Misselling)**
- **Delays too long for claim payments**

## II – THE ANSWERS PROVIDED

### 1. TOUGHENING EUROPEAN REGULATION

- **PROJECT DIA 2:**

- The progressive transparency on commissions (products of investments, then non-life insurance, i.e. General Insurance, to avoid the conflicts of interests)
- The proposed ban of commissions for 'independent' distributors (brokers)

- **EIOPA'S RECOMMENDATIONS:**

- Pre-contractual Information
- Freedom of choice
- Really taking into account client's interest: suitability of product to client
- Suitability check during the whole life of the contract

## II – ANSWERS PROVIDED TO DATE

### 2. CHALLENGING BANKS "MONOPOLY" FOR MPPI PRODUCTS

- IN FRANCE :
  - LAGARDE LAW
  - MOSCOVICI LAW
  - HAMON LAW
- THE EUROPEAN DIRECTIVE ON MORTGAGES – applicable since 2013 – restates the obligation to accept 'equivalent guarantees'
- THE DISPLAY OF CREDITOR PROTECTION INSURANCE COMMISSIONS IN PORTUGAL

## *II – ANSWERS PROVIDED TO DATE*

### **2. CHALLENGING BANKS "MONOPOLY" FOR MPPI PRODUCTS**

- **THE SUCCESSIVE 'REGOLAMENTO' IN ITALY**
  - REGOLAMENTO 35 – December 2010
  - REGOLAMENTO 40 – 2<sup>nd</sup> April 2012
  - DECRETO LIBERALISATION MONTI – December 2012
- **STRENGTHENING OF CPI MARGINS CONTROL IN POLAND**
- **DECOUPLING IN THE UK (2009)**

## II – ANSWERS PROVIDED TO DATE

### 3. DECISIONS MADE BY STATES: Mainly

- IN THE UK, THE 'PPI SCANDAL':

- Single premium ban for CPI/MPPI insurance in consumer credit and mortgage (2009/2010)
- Decoupling of credit and insurance sale (2010)
- Re-opening of badly paid claims files (2011 – 2014)
- Penalties (2007 until 2014 included)
- 'TCF' Implementation: Treat your Customer Fairly (2007)
- Enhancing of pre-contractual information to clients

- IN FRANCE:

- Introduction of an advisory duty and pre-contractual information to clients (2005)
- 'Standardized Information Sheet' (2005)
- Creation of 'AER Insurance' (Annual Equivalent Rate) (2013, implemented in 2014)
- The obligation to accept 'equivalent guarantees' and a fine of €3,000 in case of non compliance (Hamon Law – 2014) etc.

## II - ANSWERS PROVIDED TO DATE

### 4. INSUFFICIENT OR IMPERFECT COVERAGES

- IMPROVING SALES OFFER DEPENDING ON THE MARKETS:
- The 8 principles laid down by EIOPA in July 2014 aimed at:
  - An increased monitoring of the insurance products governance and an explicit approbation
    - the product complies with the customers' objectives and interests and:
      - Tests of products
      - Transparent fees
      - << Fair >> result
      - Clear and accurate information
      - Periodic control of product suitability
  - A commitment of the insurance companies to undertake appropriate actions when business situations go against the customer's interest

For now, these principles are applied to investment products. But later, there is no reason why EIOPA would not aim for a generalization of these principles to other products. That's why it is best to stay informed...

## II - ANSWERS PROVIDED TO DATE

### 4. INSUFFICIENT OR IMPERFECT COVERAGES... THERE AS WELL DEPENDING ON THE MARKETS:

- The answer provided in France based on aggravated risks sharing to facilitate financing is an appropriate one, but in the same time the French State wants to increase competition by promoting the market of individual guarantees, which demutualizes risks.
- Every insured individual should pay the exact cost of his risk
- Specialization of underwriting teams
- Continued product innovation, in particular the interesting approach of the so called 'turning' guarantees (evolutionary guarantees in time)
- The taking into account of new risks:
  - Unemployment
  - 'Dreaded' diseases

## *II - ANSWERS PROVIDED TO DATE*

### 5. QUALITY OF SERVICE ACCORDING TO THE COUNTRIES

- **DIGITALISATION**
- **COMMERCIAL STEERING**
- **DEADLINE: SLA'S SYSTEMATIZATION**
- **FASTER CLIENT CARE PROCESS**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **1. REDEFINING THE SPECIFICATIONS’ BASIS**

- **THE INTEREST OF THE CLIENT**
- **THE INTEREST OF THE LENDING ENTITY**
- **THE NEW RULE OF THE GAME WHICH MUST BE CLARIFIED**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **2. THE ‘BAD SOLUTIONS’:**

- In this field, experience and hindsight show that the following solutions are not good:
  - **CLIENT ‘OVER-INFORMATION’**
  - **ARBITRARY PRODUCTS SIMPLIFICATION:**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **2. THE ‘BAD SOLUTIONS’...**

- **LABELLING**
- **DECOUPLING:**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **2. THE ‘BAD SOLUTIONS’...**

- **SYSTEMATIC VALIDATION OF PRODUCTS BY STATE AUTHORITIES:**
  - **Experience in this field shows that it has three consequences**
  - **State decisions designed to remove salesmen remuneration**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **2. THE ‘BAD SOLUTIONS’...**

- **THE SALE WITH NO MARGIN**

## ***III – SO WHAT ARE ‘BAD’ OR ‘GOOD’ SOLUTIONS TO APPLY TO CREDITOR PROTECTION INSURANCE?...***

### **2. THE ‘BAD SOLUTIONS’...**

- **THE SYSTEMATIC AND MANDATORY TRANSPARENCY OF COMPENSATION.**
- **This system creates several problems:**

## *IV – THE 'GOOD' SOLUTIONS TO BE APPLIED TO CREDITOR PROTECTION INSURANCE? ...*

- MULTI CHOICE FOR THE CLIENT
- THE OPEN ARCHITECTURE FOR BANKS
- TRANSPARENCY 'UPON REQUEST'
- THE CREATION OF PRODUCTS WITH NORMAL MARGINS

## *IV – THE 'GOOD' SOLUTIONS TO BE APPLIED TO CREDITOR PROTECTION INSURANCE? ...*

- AVOID MISSELLING
- CONTROL THE PREMIUM CLAIM RATE TO MAKE IT  
'REASONABLE'
- LOWER REFUSAL RATE IN CASE OF CLAIM
- LOWER CLAIMS

## IV – THE 'GOOD' SOLUTIONS TO BE APPLIED TO CREDITOR PROTECTION INSURANCE? ...

- EVOLUTIVE ADVICE
- INCREASE OF ADVICE TO CLIENTS
- PROHIBITION OF SINGLE PREMIUMS
- TCF (TREAT THE CUSTOMER FAIRLY) APPROACH AND THE INTRODUCTION OF PRODUCT: FIT AND PROPER

***A balance must be found between the interests of the client and a reasonable commission to develop the creditor insurance European market. This balance is not unachievable.***

## OVERALL CONCLUSION

### THE MAXIMUM POSSIBLE LOSS OF CREDITOR INSURANCE

- Is that customers get a negative image of this product.
- If confidence is ruined, sales are not possible anymore.



*Thank you for your attention*

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