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The Single EU Insurance Market: How Does It Work? Frequently Asked Questions

A single currency, travel without borders, student exchange, environmental protection, regional funds... the influence of the European Union on our daily lives cannot be ignored. It also affects insurance.

CEA (the European insurance federation) would like to answer some Frequently Asked Questions on the Single EU Insurance Market. These FAQs can only set out the opportunities available to insurers and consumers. The extent to which insurers take advantage of these opportunities varies from company to company, depending on their preferred business model.

1. Is it possible for an insurer to offer services in another EU country?

Yes. The authorisation granted to an insurer established in an EU country is valid for the entire European Economic Area. That means that, provided it complies with EU and national legislation, an insurer can offer its products on 28 national markets: the twenty-five EU markets as well as Norway, Iceland and Liechtenstein.

The company is entitled to do business outside its home country under Freedom of Establishment (by setting up a branch or a subsidiary in another country or investing in an existing company) or under Freedom of Services (by notifying the company's supervisory authority of its intention to undertake cross-border insurance business).

Experience has shown that consumers prefer to buy their insurance locally, and most insurers prefer to offer policies in countries where they fully understand the risks. For retail insurance products therefore, insurance groups make much more use of Freedom of Establishment than of Freedom of Services. According to data gathered by CEA, cross-border transactions rarely exceed a few percentage points of annual premium income¹.

2. Is it safe for a consumer to buy insurance from an insurer based in another EU Member State?

Yes. European and national legislation establish consumer protection standards. For example, European directives have defined minimum solvency requirements² and standards of prudential supervision³. The EU has also defined the degree of information that should be given to the consumer, and how insurance intermediaries have to give appropriate advice.⁴ National rules set further consumer protection and information requirements. This is not to say that a foreign policy will cover the same risks or produce the same results as a national policy.

¹ Cross-border retail insurance commercial transactions generally vary between 0.001% and 2% of the total turnover.

² Solvency margins define the capital which an insurer needs to hold to enable it to absorb significant unforeseen losses.

³ An insurer's prudential framework is made up of a set of legal requirements and control by supervisory authorities to make sure that an insurer can meet its commitments at all times.

⁴ In addition to this, CEA has defined recommendations for Internet marketing.

The EU and national professional bodies have taken initiatives to encourage alternative dispute resolution. In the case of cross-border complaints, the European Commission has set up the FIN-NET network, to facilitate cooperation between national ombudsmen or redress schemes. A consumer can call on his national ombudsman to liaise with the counterpart in the country where the insurer is established. A proposal for an EU directive on mediation in civil and commercial matters is currently under discussion so as to make it easier for individuals and companies to exercise their rights in a Member State other than their own.

3. Who are the main beneficiaries of the Single Insurance Market?

Although the Single Insurance Market is far from being completed, existing EU legislation and the basic guarantees it establishes already has a strong influence on *all stakeholders*.

European law requires all activities of insurance companies to be subject to prudential supervision standards, which serves as a guarantee for their solvency and allows them to develop their products in a creative but safe way. It also sets professional standards for insurance intermediaries and occupational pension providers.

Consumers and insurance professionals alike benefit from balanced competition policy, which allows for technical cooperation among insurance companies (and/or intermediaries) but ensures that no anti-competitive practices occur.

Single Market legislation has facilitated travel in Europe for motorists and compensation of victims in case of an accident abroad. Levels of consumer information and protection in mandatory motor insurance have been harmonised across Europe.

The Single Insurance Market will further increase competition, offering consumers even greater choice and lower prices.

Corporate policyholders (i.e. large risks) have access to a pool of financial capacity and technical expertise beyond what the local market alone can offer.

Similarly, some *buyers of individual life insurance* have made use of the opportunity to shop abroad.

The *vast majority* of Europeans, however, rely on local providers and distribution networks to meet their retail insurance needs. Language barriers and the need for “after sales services” requiring proximity between the consumer and the insurer may explain this preference. Nevertheless, thanks to the fact that many companies have established themselves in other EU countries over the past 15 years, and to deregulation measures such as the end of systematic prior approval of policy wordings and rates, the range of products offered to consumers has widened considerably. Enhanced competition also further helps to keep prices down.

For *insurance companies*, the momentum of the Single Insurance Market has clearly facilitated access to new markets and thus paved the way for new business opportunities. It has inspired a number of companies to grow in selected markets within the European Union and to expand outside of the Union, both in well-established (e.g. USA) and emerging markets. As a result, European groups have risen to become world leaders in their industry. Smaller companies with a specific focus have also found an opportunity to export their specialties to foreign customers.

However, insurers feel that it is easier for them to offer products across Europe provided they have a permanent branch or subsidiary. Insurers need to know their risk exposure in order to design adequate insurance products (smoking habits, driver habits, climate, etc. – many factors vary from one country to another, with an impact on health, motor or household insurance products). The diversity of national regulations (e.g. fiscal, liability or social security legislation and legal systems concerning natural catastrophes) also hinders the development of cross-border business in the insurance sector.

4. Can I take out a motor insurance policy from a foreign insurer?

Yes. The vehicle needs to be insured in the Member State in which it is registered. Any motor insurer licensed in one of the EEA markets to write motor insurance has the possibility to offer products to foreign customers under freedom of services if it wishes to do so and provided it: a) notifies its supervisory authority of its intention to undertake cross-border insurance business; b) fulfils the conditions regarding membership of the local green card bureau, appointment of a claims representative in the host country, and contribution to road accident guarantee funds; c) meets the requirements set out in the host country's national legislation.

Because of the latter, it may well be that in case of a move to another country the motor insurance policy cannot be transferred. However, the policyholder's home country motor insurance cover remains valid during temporary stays of the vehicle in another EEA country. In case of an accident abroad, so as to facilitate the claim settlement, the victim is allowed to get in touch directly with the claims representative in his country of residence designated by the insurer of the responsible party.

5. Why are prices so different for motor policies?

Insurers, like many other businesses, have been granted the freedom to set premiums. Besides the fact that each insurer has different costs and returns, several factors explain price differences in motor insurance from one country to another. Some are related to basic facts that influence the level of risk and compensation or market issues, some to legal requirements and some to the level of taxation.

Basic facts vary substantially from one country to another:

- traffic conditions and road safety determine risk exposure: traffic density, driver habits, police controls, road and vehicle condition, are all part of country-specific factors;
- compensation varies as a result of different costs: regarding material damage, prices for replacement parts, new cars and wages can vary widely; regarding injuries, medical treatment and the level of compensation for loss of revenue and pains and suffering lead to substantial differences, reflected in insurance premiums; in addition, the level of the interest rate applied to time lapsed since the accident has a multiplying effect on the compensation itself;
- the varying importance of uninsured driving or fraud.

Furthermore, the *policy content* of motor third party liability insurance is defined by the legislation of the country of registration of the vehicle. There are important differences, for example, in the minimum amount of coverage and in general liability rules (particularly regarding protection of pedestrians or cyclists).

Market issues also play a role: economies of scale can be achieved in the bigger countries; in some countries, most motorists take out only third party liability insurance, while in others it is usual to take comprehensive insurance. This would lead to differences in the degree of sharing risks, reflected in pricing.

Finally, the basis and level of motor insurance *tax and other para-fiscal contributions* are not coordinated in the EU and vary widely across Europe. They are calculated according to the rules of the country of registration of the vehicle, and have to be collected by the insurer to the benefit of this country.

All of these aspects explain why insurers operating in a given country have to adapt their pricing to local conditions. This also applies to international groups who offer products in several Member States of the EU.

6. Can my home country household insurer also insure my holiday property?

Yes. A household insurer must notify its supervisory authority of its intention to take up cross-border household insurance business. However, in practice most insurers prefer to insure properties in countries where they fully understand the risks. The home country insurer may well tell the policyholder that he/she could get a better policy from an insurer based in the country of his/her holiday property.

Policies covering buildings in another country have to comply with tax regulations and in some cases requirements regarding the policy content, such as mandatory cover against natural catastrophes.

This could be an area where cross-border business via Freedom of Services has a chance to develop. The more citizens own property homes in other EU countries, the greater the incentive for insurers to develop this business.

7. If I move to another country for work purposes or retire in another country, what will happen to my private pension scheme?

There are a number of insurance products which help prepare for retirement: on the one hand, *individual schemes* and, on the other, *occupational pensions*.

The first (essentially life insurance and, increasingly, long-term care insurance) are private contracts which can be written on an individual and voluntary basis. Because of their contractual nature, there is great flexibility for the insured to decide whether he wants to continue the contract, cancel and surrender the value or get the benefit paid in his new country of activity or retirement. It is in the interest of the insured to gather information on the administrative requirements and on specific rules regarding tax advantages and taxation of capital or annuities.

When a pension scheme is set up in the context of employment (occupational pensions, financed by the employer or by both the employer and the employee), however, the situation is more complicated. While it is theoretically possible to transfer acquired pension rights into another Member State, in practice administrative, fiscal and legal (especially social law) barriers often hinder such a transfer. The EU recently published a legislative proposal to improve the portability of acquired pension rights. However, as long as taxation remains a national competence, it is difficult to address the issue at EU level. The majority of countries have levies on the premiums paid into the scheme with accrued benefits and payment of capital or annuities being exempt (the taxed-exempt-exempt or TEE model), while a few only levy taxes on capital or annuities (the exempt-exempt-taxed or EET model), or on both investment returns and benefits (the exempt-taxed-taxed or ETT model). Bi- or multilateral tax treaties normally seek to avoid double taxation in the country of origin and the country of residence/retirement. Again, it is important that the policyholder has all the necessary information to take an informed decision.

8. What are the steps which remain to be taken?

Despite several decades of EU legislation, the Single Insurance Market is far from being completed.

Further action is needed in the areas of financial reporting and prudential supervision, where the EU has projects in the pipeline. The aim is to improve the comparability and transparency of financial statements, to ensure insurance companies' risk management enables them to meet their commitments at all times, and to facilitate cross-border business by streamlining supervisory practices.

In the context of increasing mobility of workers throughout the EU, it is also urgent to remove social and fiscal barriers to the portability of occupational pensions (see question 7). CEA is actively working on this in close cooperation with the EU and other relevant bodies.

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