

THEMATIC REVIEW ON INSURANCE POLICIES LINKED TO THE FINANCING OF THE PURCHASE OF MOTOR VEHICLES



August 2017

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TIPS FOR CONSUMERS

1. Introduction and synthesis

This Report illustrates the results of the thematic review carried out by IVASS on the market of insurance policies linked by car dealers to the financing of the purchase of motor vehicles offered in promotion by various car manufacturers.

The thematic review had its beginning from the results of a mystery shopping carried out by the Consumer Association “Altroconsumo” at car dealerships of various brands of cars, resident in 10 Italian cities, transmitted by the same Association to AGCM (the Italian Competition Authority), Bank of Italy and IVASS in October 2016.

The *mystery shopping* had the goal of verifying the sector of loans aimed at the purchase of motor vehicles and stipulated at the time of the purchase. It stemmed from some promotional advertising that offered payment by instalments for the purchase of city cars of the greatest variety of car brands.

The anomalies reported, concerning the content and the form of the promotional advertising, as well as the terms of the offer both for loans and for credit protection insurance policies, have required the involvement of the three supervisory Authorities, each for the aspects falling within their jurisdiction, since the aspects to be taken into account concerned:

- i) advertisements lacking in transparency, if not in fact deceptive, concerning the offer of loans aimed at the purchasing of vehicles in instalments at prices significantly lower than those foreseen for payments in cash (AGCM);
- ii) financing often provided by companies belonging to the same group as the manufacturer of the motor vehicle (Bank of Italy);
- iii) financing linked to insurance cover of the PPI type (*Payment Protection Insurance*) issued by undertakings also belonging to the same group (IVASS).

The three Authorities agreed to intervene independently, each for the aspects of their specific competence:

- **AGCM** for any misleading and/or unfair promotional message, also in relation to the fact that the purchase offer is presented as more advantageous in the case of payment by instalments compared to the offer in the case of purchase in cash;
- **Bank of Italy** in regard to the financing institutions in relation to the procedures for the issuing of the documentation and transparency concerning terms and conditions of the loan;
- **IVASS** in regard to the insurance undertakings and the financing institutions, acting as insurance intermediaries, concerning the procedure of the offer and distribution of the PPI products linked to the loans.

With letters of 28 February 2017, addressed to 12 insurance undertakings and 9 financing institutions (acting also as insurance intermediaries) connected to different car manufacturers, IVASS has requested both qualitative data (copies of partnership agreements, information dossiers of the insurance products offered, forms for ascertaining the adequacy of the policy to the needs of the customer and for the assessment of the state of health, welcome letters¹ to customers) and quantitative data (volume of premiums, number of contracts sold in combination with loans, number of claims reported and those rejected and the reasons thereof) necessary for the evaluation of the individual cases.

The following table shows the relationships between insurance undertakings, financing institutions / insurance intermediaries² and car manufacturers.

¹ It is the letter containing a welcome message, the main terms of the contract, time and methods to withdraw from the contracts. The insurance companies are required to send this letter to the customers who have underwritten a policy.

² recorded in the Single Register of Intermediaries (RUI) or in the list of EU insurance intermediaries licensed to operate in Italy.

Insurance COMPANIES	CLASSES	Way in which business is conducted and home country	Entities granting the loan (acting also as insurance intermediaries)	CAR MANUFACTURERS
CACI LIFE Dac CACI NON LIFE Dac Credit Agricole Group	life non-life	fos Ireland	FCA BANK S.p.A. (Fiat Chrysler Automobiles Group)	FIAT, LANCIA, MASERATI, ALFA ROMEO, CHRYSLER, ABARTH, JEEP, FERRARI
CARDIF VIE S.A. CARDIF RISQUES DIVERS S.A. BNP Paribas Group	life non-life	French branch	Opel Financial Services (GENERAL MOTORS)	OPEL
CARDIF VIE S.A. CARDIF RISQUES DIVERS S.A. BNP Paribas Group	life non-life	French branch	VOLKSWAGEN Financial Services	VOLKSWAGEN, SEAT, SKODA
CARDIF VIE S.A. CARDIF RISQUES DIVERS S.A. BNP Paribas Group	life non-life	French branch	FINDOMESTIC Banca (BNP Paribas group)	Multibrand and VOLVO
CNP SANTANDER INSURANCE LIFE DAC CNP SANTANDER INSURANCE EUROPE DAC	life non-life	Irish branch	SANTANDER Consumer BANK S.p.A. (international group based in Spain)	HYUNDAI, KIA
Financial Assurance Company Ltd (FACL) Financial Insurance Company Ltd (FICL) AXA Group	life non-life	UK branch	TOYOTA FINANCIAL SERVICES	TOYOTA
Financial Assurance Company Ltd (FACL) Financial Insurance Company Ltd (FICL) AXA Group	life non-life	UK branch	FCE BANK Plc (Ford Credit)	FORD
RCI LIFE Ltd RCI INSURANCE Ltd	life non-life	fos Malta	RCI BANK (branch of RCI Banque S.A., former Finrenault)	RENAULT, NISSAN, DACIA, DATSUN, INFINITI
PSA LIFE INSURANCE EUROPE Ltd PSA INSURANCE EUROPE Ltd	life non-life	fos Malta	BANCA PSA Italia (branch of Banque PSA Finance S.A.)	PEUGEOT, CITROEN, DS

The greatest critical issues emerging from the thematic review concern the following aspects:

- relationships between car manufacturers, providers of financing and insurance undertakings such as to create situations of conflict of interest to the detriment of consumers;
- high level of the costs for insurance policies, due to very high commissions, which cannot be justified in the light of the activities carried out by the providers of financing / insurance intermediaries;
- a high number of combined policies, generally equal to or greater than 30%, with peaks, in 2016, of 60% and 75%;
- very low indicators of claims frequency, ranging between 0.03% and 3.82%, raising doubts about the actual usefulness of the insurance cover or about the fact that the policyholder is aware of the possibility of activating a policy;

5. unsatisfactory compliance by insurance undertakings to IVASS/Banca d'Italia recommendations relating to PPI policies³.

2. Relationships between car manufacturers, providers of financing and insurance undertakings: conflicts of interest

As can be seen from the table referred to in paragraph 1, of the insurance undertakings under examination: 2 are branches in Italy of French undertakings which operate for three financing institutions, 2 of UK undertakings operating for two financing institutions and 2 of Irish undertakings; 4 are undertakings under Maltese law and 2 under Irish law.

The premiums collected in 2016 amounted to 164 million euro (compared with 156 million euro in 2015).

As described in greater detail in Annex 1, the partner credit institutions and insurance undertakings belong to the same group of the car manufacturer⁴.

From the pre-contractual and contractual documentation, said partnerships are not clearly detectable by the consumer and certainly the strong interests result in a situation of conflict of interest that may not be, a priori, considered detached from possible criticalities in terms of the rules of fairness and transparency in relation to the consumer, as laid down in article 183 of the Insurance Code.

The concern appears to be confirmed by the amount of the commissions applied that generally reach significant percentages (in 2015 amounting, in certain cases, to 80% and in 2016 to 77%) as well as by the high rates of policies combined with financing that are, with few exceptions, very high and that even reach 75%.

By reason of the relationship that exists between those who operate in various roles in the motor vehicle market, the high levels of the commissions do not appear to be justified, even taking into account that dealers, in the specific case, simultaneously carry out the functions of:

³IVASS-BANCA D'ITALIA Letter of August 2015 (www.ivass.it)

⁴Merely by way of example, the "P" of PSA Bank, PSA Insurance and PSA Assurance connects the bank and insurance undertakings to the car manufacturer Peugeot and the "R" of RCI Banque, RCI Insurance and RCI Life refers to the car manufacturer Renault.

- sale of motor vehicles on behalf of the car manufacturer;
- promotion of the financing operation on behalf of the entities that grant it;
- intermediation of the policies guaranteeing the repayment of the loan.

There is no doubt that the amount of the commissions affects the behaviour of the dealership that, for the various roles that it plays, has a particular interest in placing insurance covers of the group in combination with the financing operation.

However, these high levels of commissions may lead to cancelling out the benefits for the consumer arising from the attractive discounts on the price of the sale of the motor vehicles advertised by the car manufacturers in the case of purchase through financing.

3. Characteristics of the insurance covers

The policies linked to financing operations for the purchase of motor vehicles in instalments include guarantees both of the life and the non-life class, in most cases offered in the form of a package.

As generally observed for the guarantees for credit protection, they provide cover for the risks of death, disability or incapacity due to accident and sickness, hospitalisation, loss of employment.

The packages offered are designed for specific *targets* (employees, self-employed workers and the unemployed or pensioners). Therefore there are no assumptions of so-called shifting guarantees, highlighted as a critical issue by IVASS and Banca d'Italia in their letter to the market of August 2015.

The duration of the cover always coincides with that of the financing.

4. Indicators of the phenomenon

For each combination of undertaking, financing institution and car manufacturer, in addition to the volume of premiums and to the percentages of the commission, Annex 2 lists some indicators: rates of combination, withdrawal, claims frequency and rejections of claims for compensation.

4.1 Combination rates

Despite the fact that the documentation delivered to the customer clearly indicates that the combination of the insurance guarantees with the financing operation is **optional**, the high level of the combination rates suggests that the dealer uses a sort of pressure when placing the policies especially in cases of partnership between companies belonging to the same group.

The **combination rates** of the policies with the financing operations are, in fact, always equal to or higher than 30% with **peaks**, in 2016, **of 60% and 75%**. The only exception (with less than 5% in 2016) concerned the offers of motor vehicles of a car manufacturer belonging to the same group of the provider of the financing, a group that does not however include insurance undertakings.

4.2 Rates of withdrawal from the contracts

The right of withdrawal of the customer who changes his/her mind after the conclusion of the contract is established, in accordance with the regulations, in the conditions of insurance of all the undertakings participating in the thematic review. The rates of withdrawal are however normally very low (**from 0.6% to 2.0%**) apart from two cases that in 2016 have registered, respectively, more than 90% and about 20% of withdrawals.

4.3 Claims ratio and rates of rejection

The claims ratio (ratio between the number of claims reported and the number of contracts placed), was extremely low: in 2016 it varied from a minimum of **0.03%** to a **maximum of 3.82%**.

Despite this, the rates of rejection (ratio between claims for which the undertaking refused compensation/number of claims reported) are around **20%**, with a maximum in 2016 of 38% and not in all cases decreasing from 2015 to 2016.

4.4 Grounds for refusing compensation

The main causes for rejecting the claims were "risk excluded" (30%) or "pre-existing condition/not in good health" (29-28%). In particular, in one case, in 2016 there were 59.5% of rejections for "risk excluded" and in another 95.2% for "pre-existing condition/not

in good health". In this respect, reference is made to the comments on the adequacy and health questionnaires, formulated in the next paragraph.

5. Misalignments with the recommendations of IVASS and Banca d'Italia regarding PPI

From the examination of the pre-contractual and contractual documentation it has come out that:

- a) the **questionnaires on the adequacy of the policy**, albeit revised by the undertakings, are not always satisfactory and, often, the key information is collected and recorded when concluding the different operation of the granting of the financing (for the compilation of the "SECCI"); moreover, in most cases, more than questions, it concerns "disclaimer" statements, rendered by the policyholder that can, once subscribed, however proceed with the purchase of the policy, even if it is not adequate. Only some undertakings exclude the possibility to conclude the contract in the event of a refusal to reply by policyholders.
- b) in place of **health questionnaires for detecting the state of health of the policyholder**, two undertakings still use the Statement of Good Health (DBS), which was the subject of criticism in the Letter to the market of 2015; two propose, for covers linked to loans of more than 30,000 euro, a questionnaire with both closed and open questions. Below this threshold, four undertakings do not ask for information and declare that, in case of claims, they do not raise objections relating to past illnesses. The other two do not ask for information on the state of health regardless of the amounts to be financed. **However the health issues, not properly detected in the underwriting phase, still constitute for all the undertakings the main cause of rejection of claims for compensation.** A case apart is that of two undertakings that have neither DBS nor health questionnaires, stating that they did not consider issues related to past illnesses, although in the policy conditions there are **exclusions** relating to the state of health prior to the signing of the policy;
- c) the **welcome letters** in most cases are transmitted to the customer only by the financing institution and, therefore, are almost always deficient in one or more

elements such as, for example, the amount of the insurance premium or the specification of the covers underwritten, the effective date of the guarantee or the reduction of the instalment of the loan as a result of withdrawal from the policy, procedures for the exercise of the withdrawal or the undertaking to contact in case of accident;

- d) all undertakings provide for the **return of the premium paid and not enjoyed**, indicating the method of calculating the sum to be reimbursed compared to the residual debt, but there is no mention in the contractual conditions for a possible partial repayment of the debt.

6. Next steps

IVASS will again take action vis-à-vis the individual pairs of undertakings/financing institutions to request that changes be made to the sales process and to the forms used in the underwriting phase.

They will be required to fully comply with the indications provided by IVASS and Banca d'Italia in their Letter to the market of 26 August 2015 in order to ensure fairness and transparency in the supply of insurance products to the customer as well as in the Letter to the market of 3 April 2017 regarding the implementation of automated processes for the calculation of the return of any premium paid and not enjoyed even in cases of partial early repayment of the debt.

In the meantime, we deem it useful to provide consumers with the following advice:

TIPS FOR CONSUMERS

- 1. IF YOU INTEND TO ACCEPT A COMMERCIAL OFFER FOR THE PURCHASE OF A MOTOR VEHICLE BY INSTALMENTS, PAY ATTENTION TO ANY PROPOSALS FOR INSURANCE POLICIES FOR CREDIT PROTECTION LINKED TO THE FINANCING.**

KNOW THAT YOU HAVE THE RIGHT TO REFUSE THE SIGNING OF INSURANCE POLICIES LINKED TO THE LOAN AND THAT ACCEPTING THE INSURANCE PROPOSAL IS ONE OF YOUR OPTIONS AND NOT AN OBLIGATION.

IF YOU THEN WANT TO PROTECT YOURSELF FROM THE RISK OF NOT BEING ABLE IN THE FUTURE, FOR REASONS INDEPENDENT OF YOUR WILL, TO REIMBURSE THE DEBT THAT YOU ARE ABOUT TO CONTRACT, YOU CAN ALSO CONCLUDE A DIFFERENT POLICY TO PROTECT THE PAYMENT OF THE DEBT (PPI) WITH AN INSURER OF YOUR CHOICE, THAT COULD OFFER YOU MORE FAVOURABLE INSURANCE CONDITIONS.

- 2. IF YOU CHOOSE TO SIGN THE POLICY LINKED TO THE FINANCING, KNOW THAT YOU HAVE THE RIGHT, BEFORE SIGNING THE CONTRACT, TO BE INFORMED OF THE CHARACTERISTICS, COSTS, NATURE AND EXTENT OF THE COVER, MAXIMUM INSURED AMOUNT, ANY DEDUCTIBLES, EXCESS, ETC...**

VERIFY IN THE INFORMATION DOSSIER THAT THE CONDITIONS ARE APPROPRIATE TO YOUR NEEDS: YOU CAN, ALSO IN THIS CASE, COMPARE THEM WITH THOSE OF OTHER SIMILAR POLICIES PRESENT ON THE MARKET.

- 3. EVEN AFTER SIGNING THE INSURANCE POLICY, IF YOU THINK THAT YOU HAVE NOT MADE THE RIGHT CHOICE, YOU HAVE THE RIGHT TO WITHDRAW FROM THE CONTRACT GENERALLY WITHIN THE FOLLOWING 60 DAYS. HOWEVER, ALWAYS CHECK THIS TIME LIMIT IN THE POLICY CONDITIONS.**

- 4. ASK THE CAR DEALER TO GIVE YOU A DETAILED BREAKDOWN OF THE COSTS FOR THE PURCHASE OF THE MOTOR VEHICLE, OF THOSE ARISING FROM THE FINANCING OPERATION AND THOSE RELATED TO THE INSURANCE POLICY.**

ONCE YOU HAVE OBTAINED THIS INFORMATION, ASSESS WHETHER THE DISCOUNT ON THE PRICE OF THE VEHICLE ADVERTISED BY THE PROMOTIONAL OFFER IS ADVANTAGEOUS: I.E., IF IT ALLOWS YOU TO OBTAIN ACTUAL SAVINGS, OF AN AMOUNT GREATER THAN THE SUM OF THE FINANCIAL CHARGES AND COMMISSIONS RELATED TO THE LOAN AND TO THE POLICY PROTECTING THE PAYMENT OF THE DEBT.

RELATIONSHIPS BETWEEN INSURANCE UNDERTAKINGS, FINANCING INSTITUTIONS AND CAR MANUFACTURERS

1. The branches in Italy of the French undertakings **Cardif Vie S.A.** and **Cardif Risques Divers S.A.**, belonging to the **BNP Paribas group**, offer their PPI products in combination with the loans granted by **General Motors Financial Italia S.p.A.**, which is an Italian company belonging to the General Motors group (with a US holding company **General Motors Co.**), active worldwide in the production and marketing of cars and motorcycles with the brands Opel, Buick, Cadillac and Chevrolet.

The Italian branches of these same French undertakings **Cardif Vie S.A.** and **Cardif Risques Divers S.A.** offer their PPI products also in combination with the loans granted by **Volkswagen Bank GmbH**, a company incorporated under German law, with a branch in Italy, providing banking and financial services mainly for the purchase of vehicles of the **Volkswagen group** (with a German holding company **Volkswagen AG**), to which it belongs, with the brands Volkswagen, Audi, Seat and Skoda.

Always the branches in Italy of the French undertakings **Cardif Vie S.A.** and **Cardif Risques Divers S.A.** offer their PPI products also in combination with the loans granted by **Findomestic Banca S.p.A.** which provides banking and financial services, inter alia, for the purchase of motor vehicles, but since it is not a *captive* company, it is not linked to any specific car brand. However, the company is under the management and coordination of the single shareholder **BNP Paribas Personal Finance S.A. (BNP Paribas Group)** and operates mainly on the basis of commercial collaborations with multi-brand dealerships. In 2016 it however stipulated a privileged agreement with the car manufacturer of Volvo motor vehicles.

2. The branches in Italy of the Irish undertakings **CNP Santander Insurance Life Dac** and **CNP Santander Insurance Europe Dac** offer their PPI products in combination with the loans granted by **Santander Consumer Bank S.p.A.**, belonging to the international group with head office in Spain and providing banking and financial services for the purchase of motor vehicles with the brands Hyundai and Kia.

3. The Italian branches of the British undertakings **Financial Assurance Company Ltd** and **Financial Insurance Company Ltd (FACL and FICL)** offer their PPI products also in combination with the loans granted by **FCE Bank Plc (Ford Credit)**, a company incorporated under the UK law belonging to the **Ford group**, ultimately controlled by the US holding **Ford Motor Co**, which mainly provides financial services to car dealers and purchasers of vehicles of the group with the brands Ford and Lincoln and carries on business in Italy from its branch.

The Italian branches of these same British undertakings **Financial Assurance Company Ltd e Financial Insurance Company Ltd (FACL and FICL)** offer their PPI products also in combination with the loans granted by **Toyota Financial Services Plc**. The latter is a company incorporated under the UK law, with a branch in Italy, which provides financial intermediation services mainly to purchasers of vehicles of the Toyota group (with a Japanese holding **Toyota Motor Corporation**) with the brands Toyota, Daihatsu and Lexus.

4. **RCI Life Ltd** and **RCI Insurance Ltd**, Maltese undertakings, offer their PPI products also in combination with the loans granted by **RCI Banque S.A.** (former **Finrenault**) which is a company incorporated under the French law, with a branch in Italy, providing financing for the purchase of goods and services mainly linked to the purchase of vehicles of the brands Renault, Dacia, Nissan and Infiniti. It belongs to **RCI Banque Group** (whose ultimate parent company is the French holding **Renault S.A.**).

5. The insurance undertakings **PSA Insurance Europe Ltd** and **PSA Assurance Ltd**, both with head office in Malta, offer their PPI products also in combination with

the loans granted by **Banca PSA Italia S.p.A.**. This is a company incorporated under Italian law, set up in 2014, owned in equal shares by **Banque PSA Finance S.A.** and **Santander Consumer Bank S.p.A.** and under the management and coordination of the latter. In the past, the current business of providing financing for the purchase of vehicles manufactured by the companies of the **PSA automotive group**, under the brands **Peugeot**, Citroën and DS was carried out by the Italian branch of Banque PSA Finance S.A..

- 6. Caci Life Dac and Caci Non Life Dac (Credit Agricole Creditor Insurance)**, Irish companies belonging to the insurance group Crédit Agricole, offer their PPI products also in combination with the loans granted by **FCA Bank S.p.A.**, which is a company incorporated under Italian law carrying on business in the credit sector mainly in favour of the industrial companies of **FIAT Chrysler Automobiles Group – FCA** (with the US holding FCA NV). Since 2006, as a result of a merger by incorporation, it has carried on business in Italy in place of **Fiat Sava S.p.A.** The FCA group produces and markets cars and motorcycles of the brands Fiat, Alfa Romeo, Lancia, Abarth, Maserati, Ferrari, Chrysler and Jeep. The fact that FCA Bank belongs to Fiat Chrysler Automobiles and Crédit Agricole Consumer Finance, international leaders in their respective operational sectors, represents a unique experience in Europa of a joint venture owned in equal shares by a car manufacturer and a bank.

Volume of the premiums, commissions, rates of combination, withdrawal, claims frequency and rejection of claims for compensation

COMPANIES linked to FINANCING COMPANIES and CAR MANUFACTURERS	COMMISSIONS ON PREMIUMS EARNED		PREMIUMS (in euro)		COMBINATION RATES (values >30% in red)		WITHDRAWAL RATES (values >20% in red)		CLAIMS RATES (values >1% in red)		REJECTION RATES (values >20% in red)	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
1a	63,56%	59,66%	18.235.538,00	18.185.091,00								
1b	63,31%	59,30%	10.612.262,00	10.607.598,00	55,80%	53,02%	0,61%	1,08%	0,14%	0,03%	35,48%	7,14%
2a	68,64%	48,12%	2.252.592,00	3.196.878,00								
2b	72,21%	50,55%	1.841.228,00	248.419,00	39,26%	28,97%	0,96%	1,45%	0,33%	0,52%	44,00%	28,95%
3	--	10,15%	--	916.096,00	--	32,12%	--	1,26%	--	0,10%	--	6,25%
4	75,50%	77,00%	51.327.342,04	60.767.378,73	34,58%	29,95%	1,75%	2,41%	1,36%	1,27%	41,07%	37,07%
5a	79,03%	69,66%	4.744.445,00	4.139.780,00								
5b	80,68%	71,53%	6.064.441,00	8.532.889,00	77,27%	60,50%	1,78%	3,22%	0,16%	0,40%	18,60%	19,27%
6a	48,97%	48,17%	17.322.025,00	18.829.900,00								
6b	49,15%	48,82%	9.215.812,00	3.378.720,00	46,97%	38,70%	0,96%	1,45%	0,37%	0,47%	28,17%	15,79%
7a	67,49%	67,77%	10.136.974,00	17.381.403,00								
7b	69,37%	62,65%	9.501.482,00	371.146,00	56,96%	49,49%	1,78%	2,39%	0,66%	0,84%	34,58%	19,75%
8a	67,80%	61,46%	1.156.084,00	520.919,00								
8b	68,10%	59,97%	735.876,76	416.917,86	11,65%	4,68%	37,66%	87,07%	0,58%	1,43%	17,39%	20,00%
9a	40,00%	40,00%	38.734,15	49.103,17								
9b	40,00%	40,00%	13.019.881,00	16.505.266,00	76,69%	74,93%	15,73%	20,26%	0,28%	0,31%	22,35%	5,21%

The order of the lines is not the same as that in table on page 5 of the Report.