

*CONSUMER PROTECTION DEPARTMENT*

**SURVEY ON THE COST OF POLICIES  
LINKED TO LOANS  
(*PPI – PAYMENT PROTECTION INSURANCE*)**

**FIRST RESULTS**

MAY 2016



ISTITUTO PER LA VIGILANZA  
SULLE ASSICURAZIONI

**I V A S S**



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## **1. Introduction and synthesis**

The collection of data on the policies offered in combination with mortgages and loans (the so-called PPI-*Payment Protection Insurance*) and on the relevant costs, started on 25 September 2015, was completed.

The first results are provided below.

We remind that by letter to the market dated 26 August 2015 IVASS and the Bank of Italy required the board of directors of insurance undertakings and insurance intermediaries registered in section D of the R.U.I. (Single Register of Intermediaries)<sup>1</sup> to adopt plans for the realignment of products, selling practices and settlement policies aimed to remove the problems observed in the PPI sector, and announced the launch of a survey on the level of the costs of these policies.

The need for a more in-depth study was felt after the analysis of the information dossiers relating to PPI products published on the companies' websites showed that the costs borne by policyholders are extremely high and that a significant part of the premium (sometimes exceeding 50%) is paid to intermediaries as a consideration for the distribution activity performed. Moreover, according to a number of complaints received by IVASS, the high levels of commissions observed were not always consistent with the quality of the service provided when placing the policy, taking account of the fact that in many cases the products sold were not appropriate to the customer's actual needs.

The survey concerned all the Italian insurance undertakings (122) and the branches of EU undertakings licensed to carry on business in Italy under the right of establishment (93); data collection was concluded on 30 November 2015.

The result was a picture of a market that in 2014 collected a premium income (new contracts) of € **1,532 million**, € **869 million** of which relating to life classes (57%) and € **663 million** relating to non-life classes (43%).

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<sup>1</sup> Banks, post offices, stock brokerage companies, financial intermediaries registered in the special register referred to in article 107 of the consolidated law on banking.

52% of the overall premium income relates to the offer of policies linked to **personal loans** and 38% to policies linked to **mortgages**, while the remaining 10% refers to policies designed by undertakings without distinction as to whether they are combined with mortgages or personal loans.

**642** insurance products overall were sold, **509** of which **on a collective basis** (79.3% of the total), where the policyholder is the bank or the financial institution that provides the financing and the client joins the agreement as insured party, and **133 on an individual basis** (20.7%).

On the whole, the products examined were entered into by (or on behalf of) **5.9 million policyholders**, where **5.5 million** entered into collective policies and only **0.4 million** underwrote individual policies.

Premiums were mainly collected by **banks (78%)**; a further share of 12% is attributable to other financial intermediaries<sup>2</sup> while agents and brokers account each for 4% and post offices for 2%.

Insurance undertakings paid their distribution networks around € **679 million** of fixed commissions<sup>3</sup>, equal to 44.32% of premiums.

In particular, the levels of fixed commissions:

- were not higher than 30% of the premium rate in **65.2%** of the cases;
- ranged from 31% to 49% in **24.2%** of the cases;
- were equal to or higher than 50% of the premium rate in **10.4%** of the cases.

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<sup>2</sup> Financial intermediaries pursuant to article 107 of the consolidated law on banking and stock brokerage companies.

<sup>3</sup> This amount does not include the other fixed or variable commissions (*rappels*) granted when production targets are achieved or profit-sharing mechanisms expressed as a percentage of the technical balance.

## **2. The size of the PPI market**

### *2.1. Number of undertakings*

The survey involved all the Italian undertakings (122) and the EU undertakings pursuing business in Italy under the right of establishment (93).

Of these undertakings, 77 claimed that in 2014 they marketed products linked to mortgages and personal loans, 54 of which Italian and 23 from the EU.

### *2.2. Premium income*

#### *2.2.1 Insurance classes*

The non-life and life premiums earned overall by undertakings in the year 2014, relating to new policies, amounted to € **1,531,611,227**, € **868,931,624** of which relating to life business<sup>4</sup> (around 57% of premiums) and € **662.679.603** relating to non-life business (around 43% of premiums).

Life premium income relates almost entirely to assurance on the length of human life (class I) while non-life premium income relates mainly to miscellaneous financial loss (class 16) which, with € 285,750,863, represents 19% of total premiums.

This class is followed by:

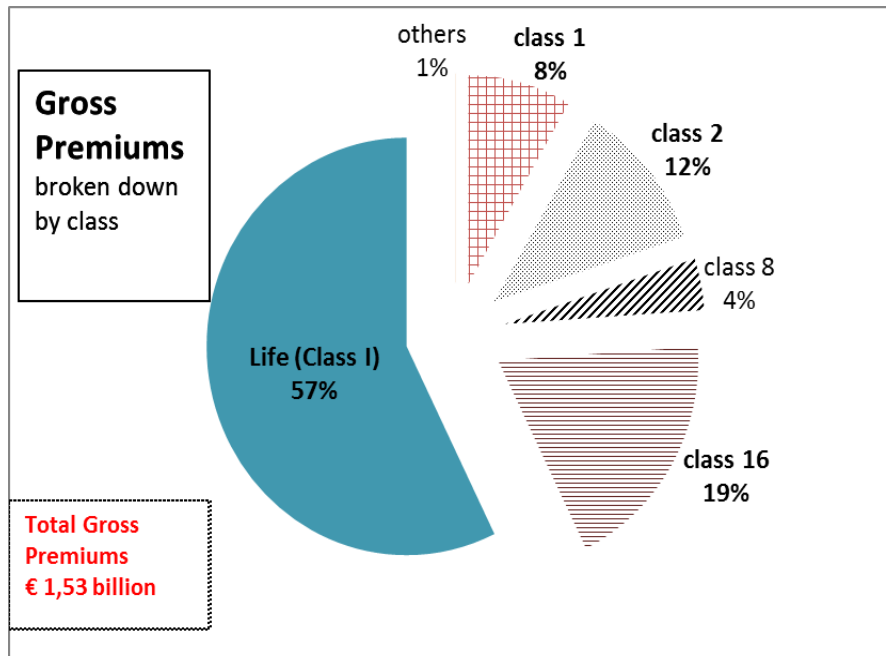
- **sickness** (class 2) with 11%;
- **accidents** (class 1) with 8%;
- **fire** (class 8) with 4%;
- “**other damage to property**” (class 9) for covers relating to all damage to or loss of buildings due to events other than fire and **legal expenses** (class 17) which account for the remaining share of overall premiums (1%).

Below is a graphic representation.

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<sup>4</sup> PPI products include life assurance covers such as assurance in case of death in class I (assurance on the length of human life) and insurance providing cover against the risk of serious disability resulting from accident or sickness or longevity (the so-called permanent health insurance – class IV).

**Graph No. 1**



45% of premium income is attributable to four groups (with a weight over total premium income equal to 15%, 11%, 10% and 9%).

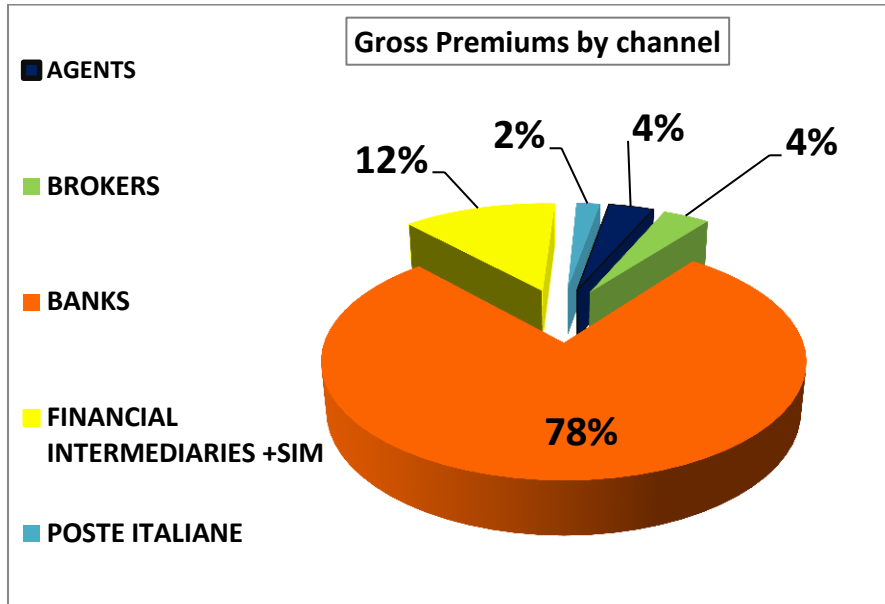
Around 66% of premium income for the top ten undertakings relates to life business. The first three positions in this ranking are in fact held by life undertakings, one of which is Italian and two are EU undertakings carrying on business in Italy by way of establishment. Other three life undertakings included among the top ten are Italian.

The remaining four are undertakings pursuing non-life business, three of which are Italian and one from the EU.

### *2.2.2 Distribution channels*

**Banks** were the main distribution channel in terms of premium income, collecting **78%** of premiums; a further share of 12% is attributable to other financial intermediaries while agents and brokers account each for 4% and post offices for 2%.

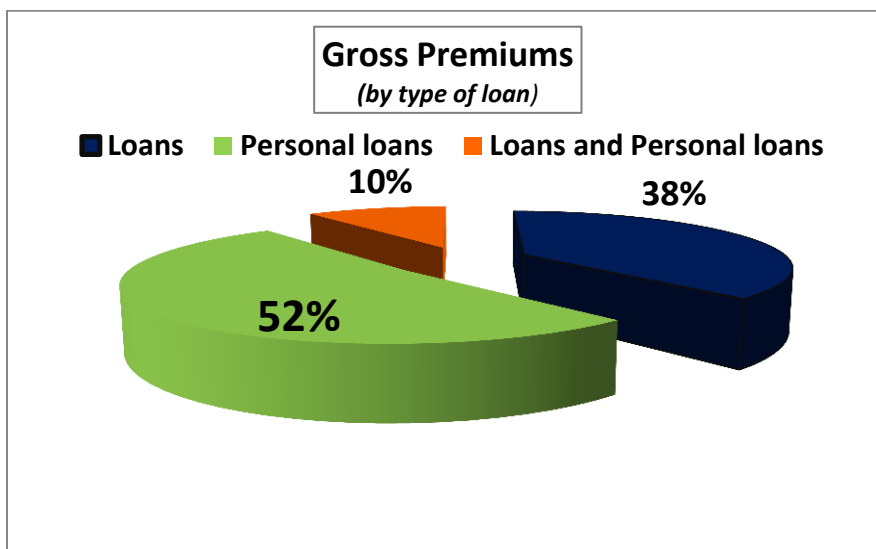
**Graph No. 2**



*2.2.3 Type of loan to which policies are linked*

As to the type of loan to which policies are linked, premiums relating to **personal loans** account for 52% of total income and those relating to mortgages for 38%; the remaining 10% refers to policies designed by undertakings without distinction as to whether they are combined with mortgages or personal loans.

**Graph No. 3**



### 2.3. Number of products marketed

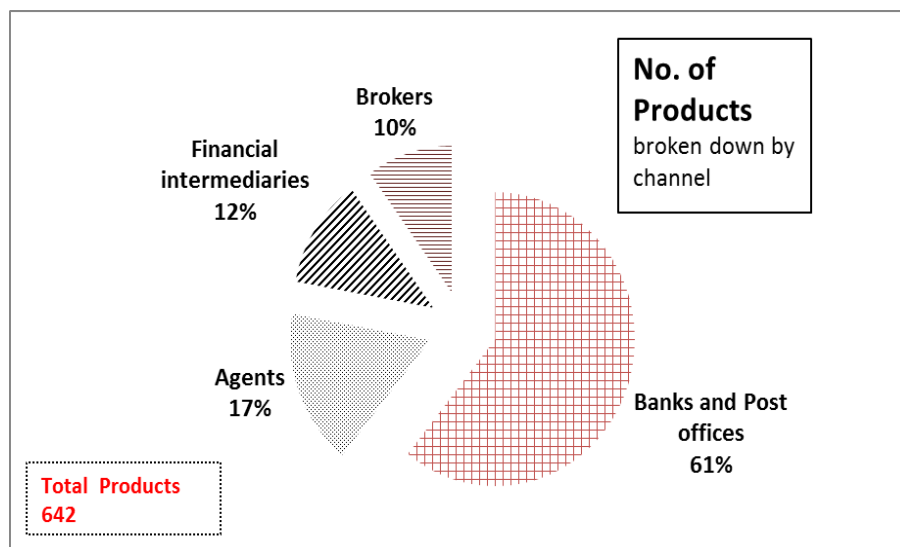
On the whole **642** products were marketed: **509** on a collective basis underwritten by banks/financial institutions in their capacity as policyholders with affiliation by clients (79.3% of the total); while **133** products were sold on an individual basis, and underwritten directly by the clients applying for the loan (20.7% of the total).

In 58% of the cases the products offered are “composite packages” combining both life and non-life covers; in the other cases they either include life or non-life covers.

The most frequent covers are guarantees in case of death or serious illness, accident, sickness and loss of employment and, to a minor extent, packages include covers relating to general liability, legal expenses, assistance, land vehicles and other damage to property.

In terms of number of products marketed banks and post offices placed 61% of the products, agencies 17% and the other sales channels the remaining part (other financial intermediaries: 12% brokers: 10%).

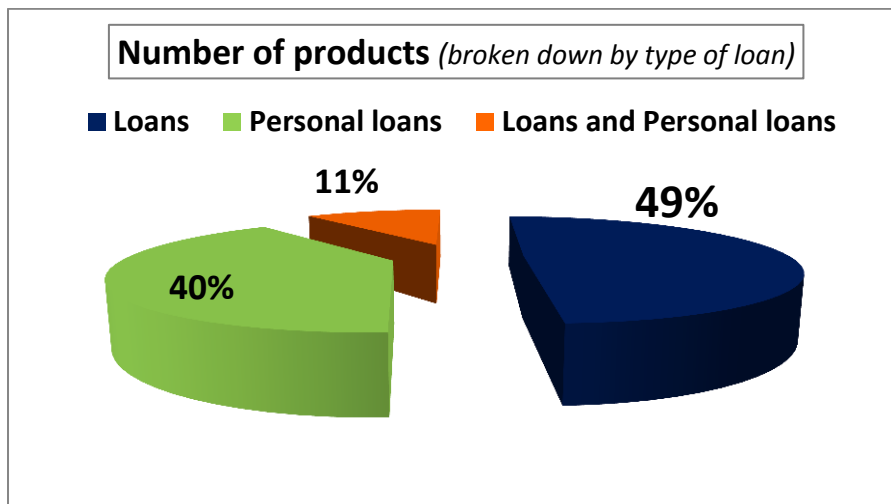
**Graph No. 4**





As to the type of loan, insurance products are more often linked to mortgages (49%), than to personal loans (40%) and policies making no distinction between mortgages and personal loans (11%).

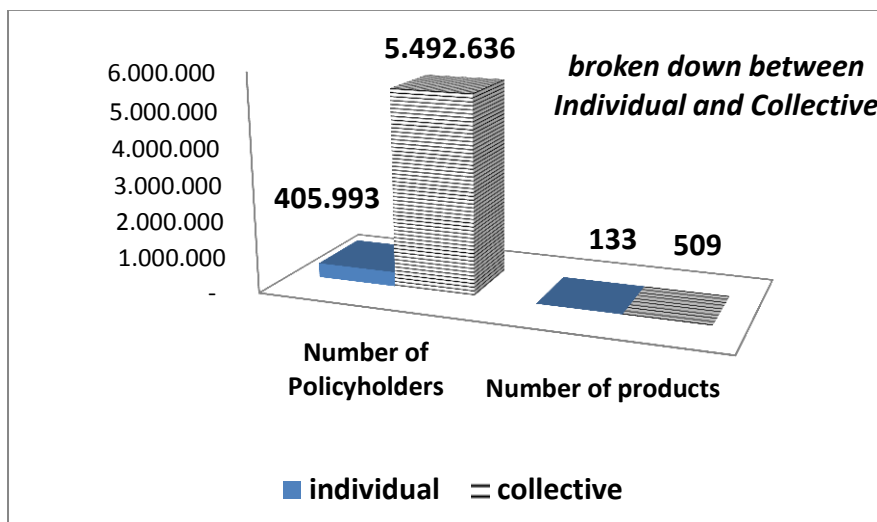
**Graph No. 5**



*2.4. Number of policyholders*

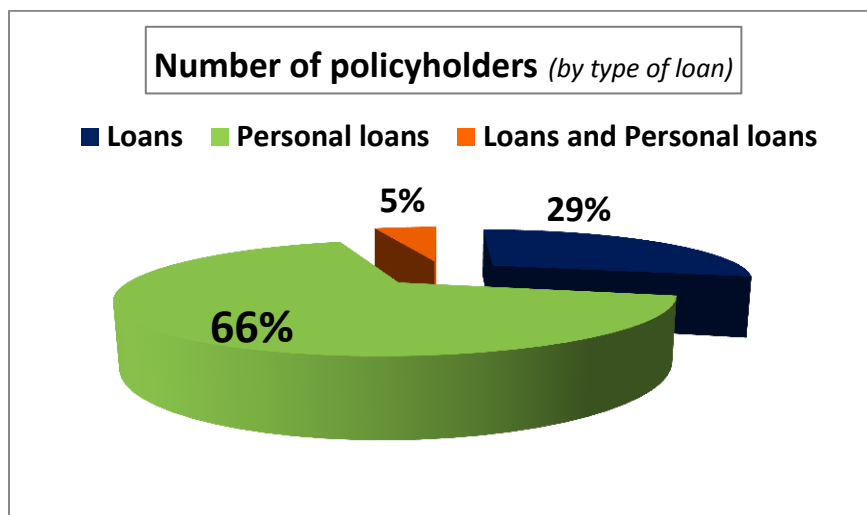
The number of policyholders overall amounts to **5,898,629**, subdivided into **5,492,636** (93.12%) affiliates of contracts entered into by intermediaries on a collective basis and only **405,993** (6.88%) holders of policies underwritten on an individual basis.

**Graph No. 6**



The highest number of policyholders (66%) have underwritten contracts relating to loans, followed by mortgages (29%); the remaining 5% refers to policies combined without distinction with mortgages and loans, as can be seen in the graph below:

**Graph No. 7**



### **3. Analysis of the costs**

#### **3.1. First results**

Data on cost level and structure has been transmitted to the Bank of Italy and will be subject to further investigation.

The first results are provided below.

If we consider all the products marketed in 2014, undertakings paid their distribution networks € **679.054.242** of fixed commissions, equal to 44.32% of premiums in 2014<sup>5</sup> and, in detail, commissions:

- did not exceed 30% of the premium rate in **65.2%** of the cases;
- ranged from 31% to 49% of the premium rate in **24.2%** of the cases;
- were equal to or higher than 50% of the premium rate in **10.4%** of the cases.

<sup>5</sup> This data does not include the other fixed or variable commissions (*rappels*) granted when production targets are achieved or profit-sharing mechanisms.

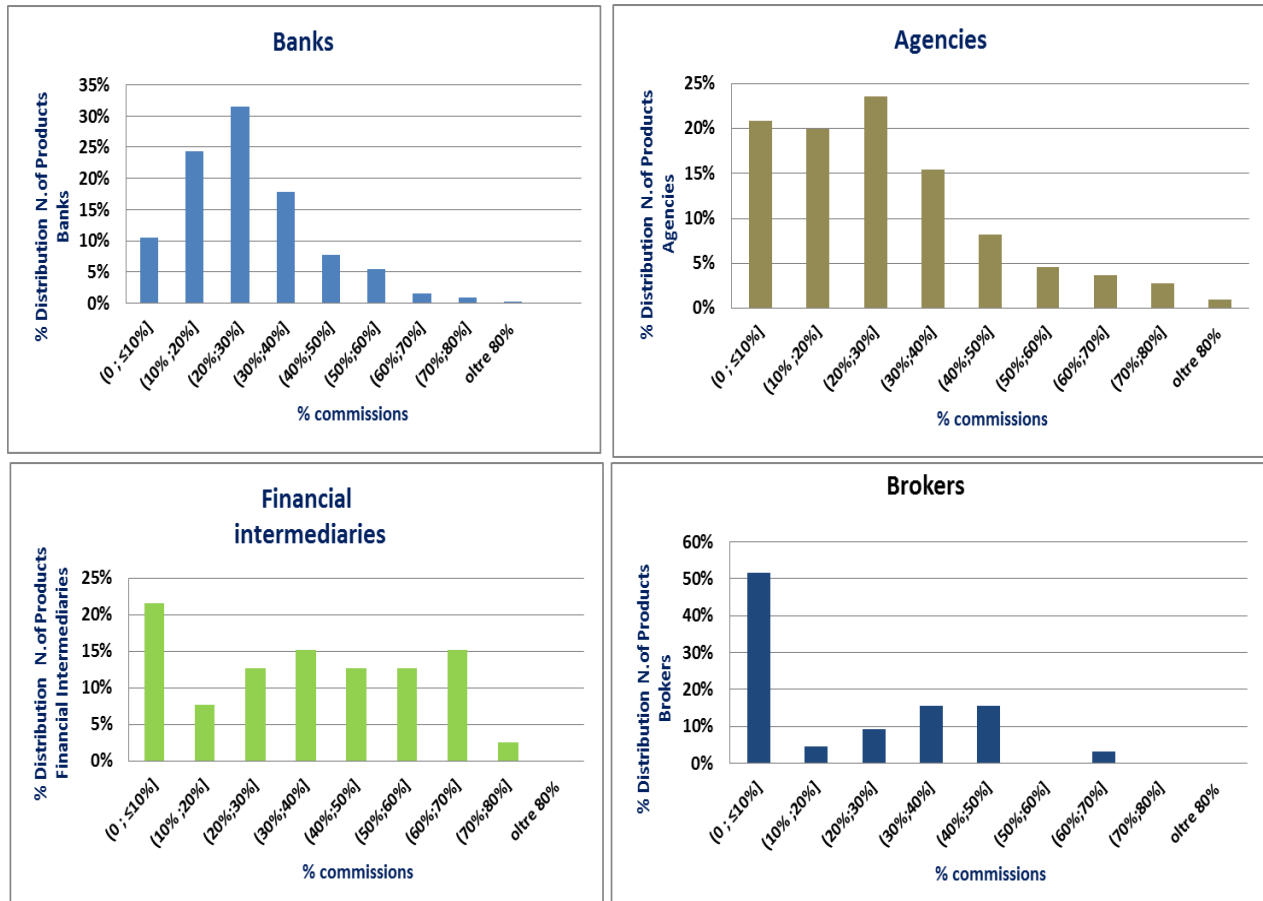
Banks, the most important distribution channel in terms of premium income, earned:

- in approx. 76% of the cases, commissions of between 10% and 40% (relating to around 65% of all the products), a percentage that reaches 81.4% if we include also commissions of up to 50%;
- in 8% of the cases (relating to around 7.2% of all the products) the highest commissions, i.e. those exceeding 50%.

As regards financial intermediaries other than banks it has been observed that the commissions applied are more variable. Here commissions exceeding 50% represent around 30.4% of the products placed by this distribution channel.

As shown in Graph No. 8, the commissions paid to Agencies and Brokers are mainly concentrated on levels not exceeding 50%.

**Graph No. 8**



It should be taken into account that often undertakings, apart from the commissions expressed as a fixed percentage of the premium, grant other fixed or variable commissions (*rappels*) when production targets are achieved (for example on a quarterly basis) or profit-sharing mechanisms expressed as a percentage of the technical balance (often 50%).