



# FACTSHEET

## Small insurance, Big nuisance

### What are small insurances?

Playing on our natural instinct to protect ourselves and our property, insurance companies drive consumers into taking out more and more insurances.

Small insurances cover very **specific types of risk** such as mobile phone theft, payment services fraud, a lack of snow on a skiing holiday or cancellation of travel.

They have proliferated widely and further to standard home, car and liability insurances. They constitute **an increasing portion of household budgets**. Small insurances are **sold** mainly by **non-professional insurers** and are mostly ancillary to the purchase of a good or a service.

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"Small insurance"...but not so small – a **€3 billion** industry in France, **81%** of French consumers have at least one, 2.4 small insurance/consumer"  
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### What is the problem?

Insurance products **should offer** consumers **real value for money** - which is all too often not the case with small insurances.

We have identified three main problems in what is a growing industry:

- **Poor product quality:** many small insurances include a broad range of restrictions and exemptions which makes them useless to victims of loss, accident or harm.
- **Unfair selling context:** Ancillary, small insurances are often proposed to consumers when they buy a specific product or service. This puts them in a bad negotiation position by leaving them exposed to pressure and being misled. Information on the insurance is usually conveyed orally, in a casual way without bringing attention to many hidden risks.
- **Shoddy business models:** Premiums paid by consumers are mostly used to remunerate the seller instead of funding compensation for damages. Intermediaries such as shop assistants are highly incentivised to sell small insurances, which creates conflicts of interests and consumer detriment

### Cases

In the **absence of appropriate legal protections** and **poor enforcement of those which do exist**, the above shortcomings have led to numerous instances of mis-selling detected by BEUC members:

- **Mobile phone insurances:** according to a recent study by our Belgian member Test Achats/Test-Aankoop, more than eight out of ten insurance contracts offer very bad value for consumers. Most people are unaware that this insurance mostly only applies to thefts involving violence. This leaves pick pocketing victims claiming in vain. In France, this **€500 million** industry has prompted thousands of complaints, stemming from similar inadequate coverage of these insurances.
- **Insurance against a lack of snow:** winter holiday insurance is being sold to consumers without informing as to the limited protection. Contracts guarantee the repayment of holiday prices if all cross-country ski trails lasting 2 days are closed (even in the shade of pine trees) or if 50% or two thirds of an alpine ski resort is closed – knowing that almost all ski resorts can use snowmaking machines.



- **Payment Protection Insurance (PPI):** PPI is designed to cover loans or credit card payments if a borrower's income situation deteriorates, for example when they become ill or lose their job. Banks and other lenders in the UK sold PPI on a massive scale to their customers – without proper information on the product, falsely claiming it was a compulsory element of a loan or simply adding it to the loan without the borrower's consent. Extremely high commissions of up to 87% were paid on such policies. The total industry compensation bill for this mis-selling scandal exceeds €20 billion.

## 🗨️ Consumer tip: do not take out insurance you do not need

Insurance represents an ever-increasing slice of household budgets - stretching to the equivalent of one month's average income (Insurance Europe, "Statistics 48").

While much insurance is useful and necessary, some small products are simply not worth their price. In general consumers should:

- Check if they are not already covered for this risk by another type of insurance (e.g. home insurance, warranty, all-risk insurance...);
- Consider if the exclusions and restrictions make the insurance still worthwhile;
- Be conscious of potential conflicts of interest of sellers;
- Consider the necessity of different **insurance options before going into a shop to buy specific products or services**

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For many small insurance, **80 %** of the total premium paid goes to industry players or intermediaries.  
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## 🗨️ What should be done and how can you help achieve more honest insurance?

- Key features of the insurance (coverage, exclusions and costs) should be provided to the consumer in due time before signature;
- Remuneration structures of insurance salespeople should limit conflicts of interest. Disclosure of commissions and non-monetary benefits should warn consumers about the financial interests of the seller;
- Inclusion of small insurances in the scope of the review of the Insurance Mediation Directive (IMD II). IMD II aims to improve consumer protection when it comes to the distribution of insurance products. Small insurances are excluded from such improvements which would be a missed opportunity.