



22 November 2018

Re: Thematic Inspection of Gadget Insurance

Dear CEO,

The Central Bank of Ireland (the “Central Bank”) has today published the findings of its thematic inspection of the sale of gadget insurance. Gadget insurance was identified as a priority risk for a number of factors, but most notably as it is generally sold as an add-on when buying a new mobile phone. Consumers often agree to add-on insurance at the point of sale due to emotional and situational factors that can prompt decision fatigue. This limits a consumer’s ability to fully understand the terms and conditions, e.g. if an excess applies, and the overall cost of the insurance¹.

Scope

The thematic inspection examined the manufacturing and distribution of gadget insurance products², and assessed a number of areas (including but not limited to): product oversight and governance, timeliness and clarity of information provided to consumers, a review of policy terms, conditions and exclusions and their impact on a policyholder’s ability to make a claim (see **Appendix 1**).

This supervisory work was supported by [consumer research](#) (see **Appendix 2**), which was undertaken to examine consumers’ attitudes, behaviours and experiences when buying insurance for gadgets such as smartphones and tablets. The research also sought to understand the impact of any potential behavioural biases and identify potential risks in this area.

Findings

The Central Bank identified a number of key consumer protection risks during this thematic inspection. In particular, the Central Bank is concerned that a consumer

¹ Source: [ESRI international literature study](#)

² For the purposes of this thematic inspection, gadget insurance was defined as any “insurance product that covers certain insured events arising in relation but not limited to: mobile phones, laptops, tablets, computers, smart watches, sat navs, digital cameras, ipods / mp3 players, hand held game consoles, kindles/e-readers, headphones, camcorders, modems etc.”



centric approach has not been adopted in relation to certain aspects of gadget insurance product design, in making sure that the product sold meets the needs of consumers, and in how the cost of the insurance is presented at the point of sale.

This is supported by the findings of the consumer research, which showed that the majority of consumers did not understand their cover and thought it covered more than it did; some consumers may be paying for cover they do not need; and few were familiar with the details of the exclusions and excess related to the policy. In addition, consumers deemed certain policy terms to be unfair such as excess costing more than the repairs, the application of waiting periods, no cover for under 18s and restrictions on the age of the gadget and the place of purchase.

As a result, the Central Bank has required the inspected gadget insurers and their distributors to undertake certain firm specific actions in order to improve consumer protections when selling mobile phone insurance. These actions include the:

- Review and updating of sales & marketing material and training material;
- Enhancement of procedures and controls relating to:
 - the handling of claims;
 - the handling of complaints;
 - oversight of outsourced activities; and
- Documentation of preparedness for and compliance with the Insurance Distribution Directive.

The purpose of this letter is to provide the wider industry with feedback in relation to the findings of the thematic inspection, which all insurers should now assess in the context of the manufacturing and distribution of their own non-life insurance products and not just gadget insurance products. The areas of particular concern identified are as follows:

1. Inadequate information provided to consumers of gadget insurance policies

The thematic inspection identified that many of the insurance products reviewed renew automatically on a monthly basis for an extended period (most commonly up to 59 months). During this time, consumers receive little or no communication post-sale from the manufacturer or distributor in relation to the gadget insurance product. This is of particular concern to the Central Bank in the context of the findings from the consumer research, which reported that:

- 21% of respondents did not cancel previous policies after taking out a new policy;



- The focus of the consumer was very limited in respect of their insurance and more concentrated on the detail and purchase of the gadget; and
- The majority of focus group participants had indicated that they had not intentionally sought out gadget insurance, but that they had been offered it while making a purchase of a mobile phone or other gadget.

In the course of the inspection, the Central Bank identified that one firm issues an annual communication to its gadget insurance customers, which provides a summary of the policy, including benefits and premium details. The Central Bank views this as best practice and an example of a good consumer centric approach.

It is important that consumers are regularly engaged with and reminded of the main features, exclusions etc. of their insurance policy throughout its lifespan. This will be of benefit to the consumer if an insured event occurs and they have to make a claim under the policy. In addition, regular communication from the insurance manufacturer and/or distributor will aid in reducing the risk that a consumer inadvertently fails to cancel a previous policy after taking out a new policy, resulting in the consumer paying for cover that they do not need.

The Central Bank expects all insurers to issue an annual statement reminding consumers that the gadget insurance product remains in force, setting out the total cost of the insurance for the next 12 months, highlighting the key features and exclusions of the policy, details of how to make a claim, and providing consumers with relevant contact details should they wish to cancel or discuss any aspect of the policy.

2. Inadequate identification of target market and suitability assessment

The thematic inspection identified that insurers set a wide target market for the gadget insurance product, which was generally cited as being anyone over 18 years of age who purchased a mobile phone. The target market should exclude consumers where the gadget being purchased is already covered by an existing insurance policy held by the consumer. This will reduce the risk that a consumer does not cancel a previous policy after taking out a new policy, resulting in the consumer paying for cover that they do not need.

The relevant information should be sought at the point of sale when assessing the suitability of the gadget insurance product for a consumer. As stated above, the consumer research found that 21% of respondents failed to cancel previous policies after taking out a new policy, this indicates that existing cover is not being



adequately discussed with consumers at point of sale. In addition, the consumer research also found that 41% of consumer respondents disagreed with the statement that ‘gadget insurance providers do the best they can to understand the needs of their customers’. The consumer research also found that the majority of participants in the qualitative focus groups bought gadget insurance on the recommendation of a retail sales person and relied on verbal advice and explanations at the point of sale to make their decision.

Under chapter five of the Code, insurers have an obligation to ensure that, regardless of the distribution channel, a suitability assessment is undertaken which should, in order to assess a consumer’s needs, include the exploration of a consumer’s existing cover. This is of particular importance given how the gadget insurance product is sold to consumers (i.e. as an add-on sale), whereby the consumer did not generally intend to buy the gadget insurance product prior to being offered same and may not have had the time to fully consider their purchase.

The Central Bank expects insurers to remain fully aware of the reliance that consumers place on distributors and ensure that regular reviews and appropriate updates are made to the product information/documentation provided to consumers at point of sale. In addition, insurers should satisfy themselves and be able to demonstrate that front-line staff distributing their gadget insurance products are provided with appropriate and relevant training and information in relation to the product, so that they are in a position to clearly explain product features to consumers and to properly assess suitability.

3. Inadequate provision of information about price

The thematic inspection identified that the price of the gadget insurance product was usually presented to consumers as a monthly figure rather than on an annualised basis or based on the maximum possible duration of the insurance contract, e.g. up to 59 months in some instances. It is important that insurers take all necessary steps to ensure that consumers are provided with sufficient information to allow them to make as informed a decision as possible prior to entering into a contract of insurance.

The Central Bank requires insurers to operate within the full spirit of General Principle 2.6 and Provision 4.30(a) of the Code (see **Appendix 3**) and ensure that consumers have a full understanding of the true cost of the insurance product. The Central Bank expects insurers to inform consumers of the cost of the insurance premium on both an annualised basis and based on the maximum possible duration



of the insurance contract (i.e. where the insurance contract continues to renew automatically until terminating after a pre-determined duration).

4. Non-Compliance with Claims Handling Provisions of the Consumer Protection Code 2012

The Code requires all insurers to have appropriate procedures in place for the effective and proper handling of claims. The thematic inspection determined that all of the insurers inspected have procedures and processes in place to ensure compliance with these requirements, and that while generally firms were meeting the required standards, a number of areas were identified where firms need to improve. This includes ensuring that consumers are afforded time to consider a settlement offer and ensuring that they are provided with information on how to appeal the settlement offer, should they wish to do so.

While noting that claims acceptance rates were high overall (averaging at 91.6% across the firms inspected), the thematic inspection identified a number of common/recurring reasons for claims being declined, these included:

- The loss of handsets not being reported to consumers' telephone networks within the timeframes set out under the insurance contract terms;
- Policyholders failing to report claims to the insurance firm (or claims administrator) within the timeframes set out under the insurance contract terms; and
- The failure of policyholders to supply the insurance firm with all the information and evidence required, in order for the insurer to verify the validity of the claim.

The above reasons for a claim being declined could potentially have been avoided by the consumer if they had been more familiar with the terms and conditions of the insurance product purchased, specifically those impacting on making a claim. It should be noted that the consumer research highlighted that, while 43% of consumers read the policy terms and conditions, the majority of consumers did not understand their cover and thought it covered more than it did. In addition, few market research participants seemed familiar with the details of the exclusions and excess related to the policy.

Insurers must ensure that the documentation issued to consumers, at point of sale and thereafter, is clear in terms of how to make a claim, thereby better assisting consumers who have experienced a genuine loss to make a successful claim.



As stated above, a common/recurring reason for declined claims was when policyholders did not supply the insurer with all the information and evidence required, in order for the insurer to accept the claim. Firms are reminded of the requirements imposed under Provision 7.7(f) of the Code (see **Appendix 3**) to ensure that when additional documentation or clarification is required from the claimant, that the claimant is advised of this as soon as required. Where the required documentation or clarification has not been provided, the claimant must be issued with a reminder on paper or on another durable medium.

In addition, from the consumer files reviewed, there was no evidence that claimants were being allowed at least ten business days to accept or reject a settlement offer, as required by Provision 7.17 of the Code. It is important that claimants are made aware that they are entitled to take time to consider the settlement offer, so that they do not feel unduly pressurised in making a decision. Firms will note that a claimant can decide to waive this right and in such instances, the regulated entity must retain a record of the decision (see **Appendix 3**). In this regard, the Central Bank expects insurers to review their claims handling policies and procedures to ensure that this requirement is included. In addition, insurers must ensure that all persons handling claims on their behalf are allowing consumers at least ten business days to accept or reject a settlement offer and that compliance with this requirement is monitored appropriately.

Under Provision 7.20 of the Code (see **Appendix 3**), regulated entities must provide a claimant with written details of any internal appeals mechanisms available. A number of firms inspected were unable to demonstrate full compliance with this requirement of the Code, as they did not provide consumers to whom a settlement offer has been made, with written details of the internal appeals mechanism available to them.

In this regard, the Central Bank expects insurers to review their claims handling policies and procedures to ensure that this requirement is included. In addition, Insurers must ensure that claimants who are dissatisfied with a settlement offer are made aware of the appeals process available to them.

5. Risk that Gadget Insurance may not meet consumers' expectations

Having considered the overall findings of the thematic inspection and consumer research, the Central Bank is concerned that there is a risk of a gap between what consumers believe their gadget insurance covers and what it actually covers, particularly in circumstances, supported by the research findings, where consumers



are not made fully aware of the key features and exclusions of the gadget insurance product. This risk is exacerbated by the fact that many consumers purchase the insurance as an add-on sale and are not generally informed of the yearly cost of insurance or the cost of insurance over the maximum duration of the product.

The Central Bank expects insurers to take the necessary steps to ensure that consumers are provided, in all instances, with clear and understandable information on the product being sold, including the cost of the product, at the point of sale so that consumers can make an informed decision.

Next Steps

Firms are required to consider the issues identified in this letter, in the context of their own governance and business processes and procedures (for all non-life insurance products and not just gadget insurance products), and to take all remedial actions necessary to ensure that they are operating in line with the Central Bank's expectations and acting in the best interests of consumers. The Central Bank expects that this letter will be discussed and minuted at the firm's next Board meeting.

Additionally, the Central Bank is engaging directly with those firms where issues have been identified, and formal supervisory requirements with specific timelines for remediation have been imposed. The Central Bank will have regard to the contents of this letter when conducting future supervisory engagements.

Should you have any queries in relation to the contents of this letter, please contact the Consumer Protection Insurance Team at cpinsuranceteam@centralbank.ie.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pat Sage', written in a cursive style.

Pat Sage
Head of Function
Consumer Protection Supervision Division



Appendix 1 Overview of the Thematic Inspection

The thematic inspection consisted of two phases, the first of which was an initial information request by way of questionnaire to 45 Domestic and Freedom of Service/Establishment non-life insurers in order to identify the firms providing gadget insurance. In the second phase, the three insurers with the largest market share (over 80%) by policy count as well as the two regulated insurance intermediaries, identified as the main distributors, were selected for further review, including onsite inspection. It was identified by the Central Bank that the sale and supply of mobile phone insurance is the most purchased gadget insurance product. Therefore, the onsite inspections focussed primarily on the manufacturing and distribution of mobile phone insurance.

At a high level, some of the areas assessed included:

1. The level of governance, processes and procedures that insurers have in place for product oversight and governance (“POG”);
2. The due diligence undertaken by insurers in respect of the retail intermediaries/retailers distributing the gadget insurance product;
3. The training and product information provided by insurers to the retail intermediaries/retailers distributing the gadget insurance product, as well as how the insurers maintain oversight of the retail intermediaries/retailers;
4. Whether consumers are being provided with the terms and conditions and product information in a clear, timely and accurate manner; and
5. Whether these product terms and conditions and exclusions affected the ability of consumers to make a claim.



Appendix 2 Key Findings from Consumer Research

The consumer research found that:

- The majority of consumers did not understand their cover and thought it covered more than it did, and some consumers may be paying for cover they do not need;
- Most consumers did not plan to buy gadget insurance until it was sold to them as an add-on at the point of sale;
- A significant majority of participants in the focus groups (who mostly bought in-store) stated that the gadget insurance was sold to them as part of an add-on purchase when buying a gadget, usually a smartphone or a laptop, with most purchases based on verbal explanations of retail staff;
- Focus group participants often justified their decision to purchase gadget insurance assuming it covered the “basics” such as general repair/replacement and screen fixing at no extra cost.
- Few participants seemed familiar with the details of the exclusions and excess related to the policy. Some deemed certain policy terms to be unfair such as excess costing more than the repairs, application of waiting periods, no cover for under 18s and restrictions on the age of the gadget and the place of purchase;
- The research also found that participants were unfamiliar with requirements to report incidents to Gardaí, and requirements to report such incidents to Gardaí within specified time limits.

The quantitative survey supported the findings of the consumer research with:

- 29% reporting unawareness of the requirement to report theft/loss to the Gardaí;
- 45% expecting ‘wear and tear’ to be covered; and
- 77% expecting to be offered a new device in the event of a device needing to be replaced.

The report also highlights that:

- 12% of the adult population (440,000 consumers) held gadget insurance (at the time of the research) however, as many as 24% were likely to have held it within the past two years;
- 21% of respondents failed to cancel previous policies after taking out a new policy – in doing so, they were paying for cover they no longer needed.



ESRI review, 'Do some Financial Product Features Negatively Affect Consumer Decisions? A Review of Evidence'

- In addition, the Central Bank-funded ESRI review, 'Do some Financial Product Features Negatively Affect Consumer Decisions? A Review of Evidence', considered international evidence on consumer decision-making in retail financial markets, linking specific features of products to the quality of consumer decisions. The review identified and evaluated research from multiple methods and disciplines in three broad areas: credit products (credit cards, personal loans, and mortgages), investment products (retail and structured investments), and insurance (in particular add-on insurance);
- The findings of this themed inspection and consumer research are supported by the conclusions reached in this study. Findings from this study highlight that consumers often agree to add-on insurance at the point of sale due to emotional and situational factors that can prompt decision fatigue. This limits consumer ability to fully understand the terms and conditions, the overall cost of the insurance and excess. The full ESRI report can be found here: <https://www.esri.ie/publications/do-some-financial-product-features-negatively-affect-consumer-decisions-a-review-of-evidence/>



Appendix 3 Consumer Protection Code, 2012 - Provisions

Item 1 – General Principle 2.1 of from Chapter 2 of the Code:

“A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it... acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market.”

Item 1 and 3 – General Principle 2.6 of from Chapter 2 of the Code:

“A regulated entity must ensure that in all its dealings with customers and within the context of its authorisation it... makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer.”

Item 3 - Provision 4.30(a) of the Insurance Products section in Chapter 4 of the Code:

“A regulated entity providing an insurance quotation to a consumer must include the following information in the quotation, assuming that all details provided by the consumer are correct and do not change... the monetary amount of the quotation.”

Item 4 - Provision 7.7(f) of the Claims Processing section in Chapter 7 of the Code:

“When additional documentation or clarification is required from the claimant, the claimant must be advised of this as soon as required and, if necessary, issued with a reminder on paper or on another durable medium.”

Item 4 - Provision 7.17 of the Claims Processing section in Chapter 7 of the Code:

“A regulated entity must allow a claimant at least ten business days to accept or reject the offer. Where the claimant waives this right and accepts the settlement offer within this timeframe, the regulated entity must retain a record of this decision.”

Item 4 - Provision 7.20 of the Claims Processing section in Chapter 7 of the Code:

“A regulated entity must provide a claimant with written details of any internal appeals mechanisms available to the claimant.”