

# *The European Single Insurance Market*

*Cross-border insurance contracts:  
conclusion or exclusion?*



*A study by the  
European Consumer Centre Germany*

Centre Européen de la Consommation  
Zentrum für Europäischen Verbraucherschutz e.V.  
[www.cec-zev.eu](http://www.cec-zev.eu)

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# THE EUROPEAN SINGLE INSURANCE MARKET – WHAT DOES THE MARKET FOR CROSS-BORDER INSURANCE PRODUCTS LOOK LIKE FOR CONSUMERS IN THE YEAR 2014?

On 1 July 2014 twenty years of liberalisation and opening up of the European Single Insurance Market have passed. With the creation of the European Single Market for insurance services, the European Union pursues the objective to facilitate the access to these services in other Member States for consumers and to allow insurance companies to open new distribution markets for their products.

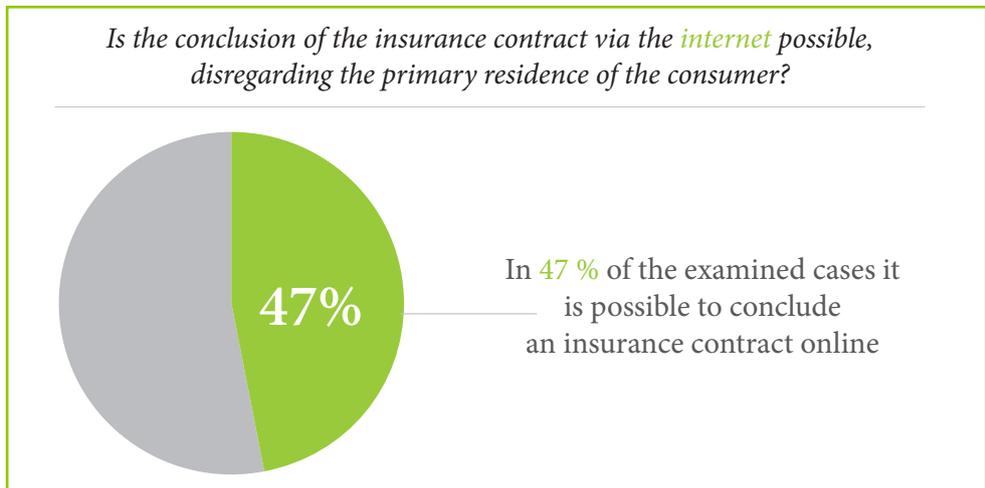
The European Consumer Centre Germany has taken this anniversary date as an occasion to take a closer look at the current state of the European Single Insurance Market. The aim of the present study is to provide comprehensive research and analysis of the current range of cross-border insurance products (travel cancellation insurance, compulsory motor car liability insurance, personal liability insurance, personal accident insurance, building insurance and life insurance) on offer in four different member states (Germany, Austria, France and Great Britain) and to provide information to the consumer. For the purpose of this study it was of particular interest to know if a German consumer interested in concluding an insurance contract in another member state can do so via the Internet.

The progress in information technology and the corresponding legal framework<sup>1</sup> allows consumers to inform themselves about different products, to conclude a legally effective contract and pay for it online. In the framework of a comprehensive Internet research and a written survey among insurance companies, the European Consumer Centre Germany examined the question if consumers are able to benefit from this opening up of the market and if consumers are actually able to conclude cross-border insurance contracts with an insurance company from another Member State.

## RESULTS OF THE INTERNET RESEARCH

While conducting the Internet research we acted like an average consumer would do as well: we invented virtual data profiles of consumers and tried to conclude insurance contracts in different Member States. The principal residence of all our virtual insurance customers differed from the country where the headquarters of the insurance company was based. The insurance companies and their products that were examined more closely were on a random basis. The outcome was disillusioning. It was possible to conclude a contract via the internet with 47 percent of the selected insurance companies, i.e. in principle this chain of distribution was open to the consumer.

However, when trying to conclude insurance contracts from an address in a country that deviated from the country of origin of the insurance company, the limitation of the European Single Insurance Market became apparent: of 144 tested insurance companies, it



1. Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002L0065&from=EN>.

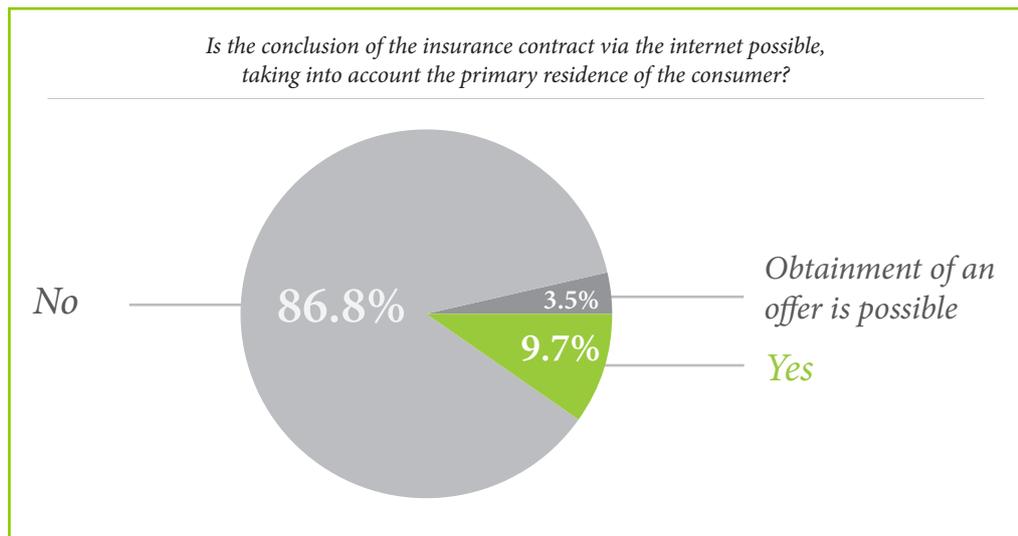


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was only possible with 14 insurance companies to conclude an insurance contract where the consumer’s principal residence differed from the country of origin of the insurance company. Contrary to the 47 percent mentioned above this meant that only 9,7 percent of the selected insurance companies offered cross-border insurance contracts via the Internet.

The reasons for failing to conclude an insurance contract with a foreign address are manifold:

- The country of origin of the potential insurance holder is predefined in the online form and cannot be changed by the consumer.
- The online application form does not allow the consumer to enter a foreign address.
- In order to conclude an insurance contract online, the consumer has to create a user account. This, however, is only possible with a domestic address.
- In order to be able to conclude an insurance contract online, the potential insurance holder has to be taxable in the country of the insurance company.
- Only postal codes with four digits can be entered. Therefore, all postal codes that do not fulfil this requirement are excluded.
- The primary residence of the consumer or the location of the property is autocompleted, but only with domestic cities.
- To be able to conclude a compulsory motor car liability insurance it is necessary to type in a domestic license number.
- Although it is possible to conclude the insurance contract online, the contract only covers insurance claims that have occurred in the country where the insurance company is situated.



### WRITTEN SURVEY OF THE INSURANCE COMPANIES

Besides the Internet research we also conducted a written survey among insurance companies. In total we contacted 567 insurance companies in Germany, France, Austria and Great Britain. In our written survey we asked the insurance companies if a customer that does not have his primary residence in the same country as the insurance company would receive an offer to conclude an insurance contract in one of the fields we were having a closer look at (travel cancellation insurance, compulsory motor car liability insurance, personal liability insurance, personal accident insurance, building insurance and life insurance). The evaluation has shown that such offers are almost non-existent. Out of 32 insurance companies that have returned the filled-out questionnaire just 3 insurance companies are offering cross-border insurance contracts that can be concluded by consumers with a primary residence abroad. This equates to **0,52 percent of all insurance companies that have been contacted.**

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### THE FREE MOVEMENT OF SERVICES IN THE FIELD OF INSURANCE CONTRACTS IS LEFT UNEXPLOITED

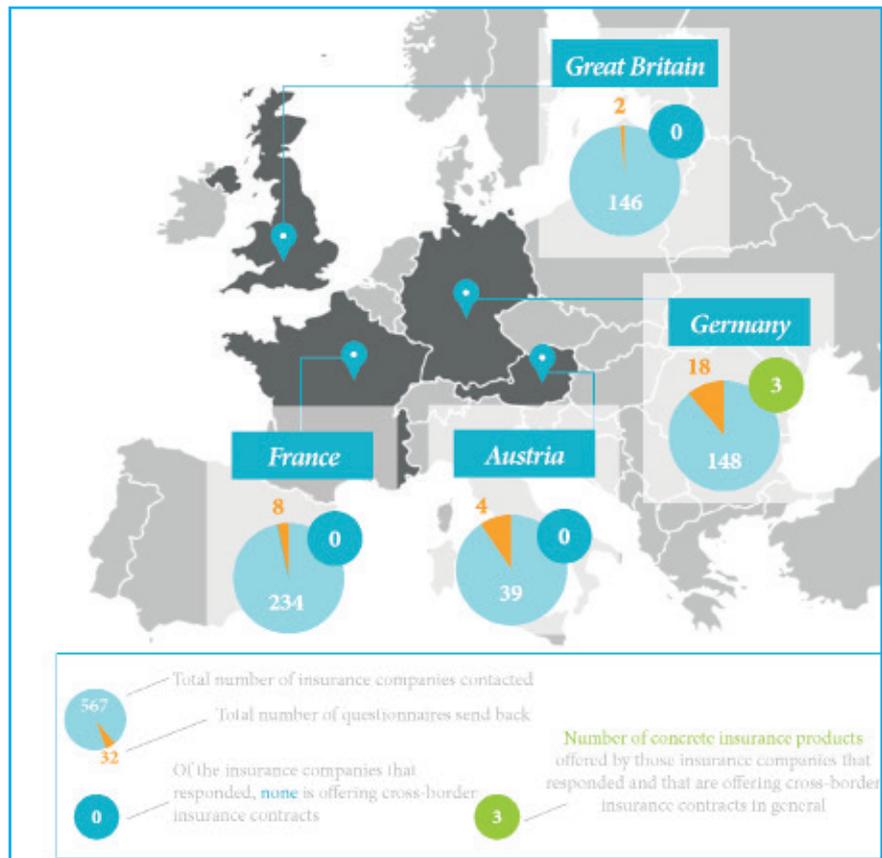
Although the necessary legal framework for offering insurance contracts on the basis of the free movement of services already exists since 1994, from a consumer’s perspective the market for insurance contracts is still more or less purely national in scope. Therefore, cross-border insurance contracts are very much niche products<sup>2</sup> despite the fact that today’s technical possibilities due to the Internet and the corresponding legal framework<sup>3</sup> make the conclusion of cross-border contracts as easy as never before in an European insurance market that can still be seen as a growth market. However, currently only 1 percent of the insurance contracts are concluded cross-border. One gets the impression that the insurance companies do not want to interfere on other companies’ home market by means of cross-border online direct selling.

The possibility to conclude a cross-border insurance contract is, however, the fundamental requirement for a wider choice for consumers and the possibility for the insurance companies to engage in competition with each other. Provided that effective competition is ensured, this would lead, in the long term, to lower prices and a better price/performance ratio for the consumers.

The present study shows that the market for cross-border insurance contracts falls short of its potential so far, although there is demand for cross-border products, especially in border regions between different Member States.

From this it appears that 20 years after the introduction of the European Single Market for insurance services it is almost impossible for consumers to find and then conclude a cross-border insurance contract.

The fact that the European Single Market for insurance services lies unexploited is even more surprising because this market has enormous economic potential.



2. Staudenmayer, M. & Moser, C. (2013), Probleme im Bereich des europäischen Versicherungsvertragsrechts – Einsetzung einer Expertengruppe durch die Europäische Kommission, in: DeutscherAnwaltSpiegel 2013, Heft 10, S. 4-6.

3. Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the distance marketing of consumer financial services and amending Council Directive 90/619/EEC and Directives 97/7/EC and 98/27/EC, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32002L0065&from=EN>.



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Especially markets of those countries who joined the European Union after 2004 are not flooded with insurance products yet and in these countries consumers do not have a long tradition to protect themselves against certain risks (for example personal liability insurance). Furthermore, insurance companies from these four countries offer particularly sophisticated insurance products as well as a long tradition to cover those risks by insurance contracts and therefore the necessary expertise to enter new markets.

Moreover, these insurance companies could benefit from economies of scale<sup>4</sup>, i.e. in order to be able to conquer new markets it would be necessary to alter the insurance contracts in question, the insurance companies concerned would be able to use production factors already available to them and therefore this process would not cause further expenses.

In addition, the introduction of the SEPA scheme („Single Euro Payments Area“) which became compulsory for business transactions on 1 August 2014 facilitates significantly the performance of cross-border insurance contracts. Furthermore, the inclusion of new markets may lead to a risk spreading with positive effects on the profits and the individual rating of an insurance company.<sup>5</sup> For consumer this may have the effect of constant or even falling insurance premiums. The above may lead to the conclusion that the market for cross-border insurance products is absolutely underdeveloped.

The markets for direct sales of insurance contracts as regards the freedom to provide services remain niche markets and play a very minor role regarding the revenues and therefore tend to be the exception.

The market for cross-border insurance products remains unexploited and therefore contains great potential to result in considerable growth of the European economy as well as its employment market.

Regrettably, the European Commission’s expectations in the field of cross-border insurance contracts have not been fulfilled: „E-commerce may revolutionise the provision of financial services, especially cross-border within the Internal Market.“<sup>6</sup>

The complete study is available on our website (in German only): [www.eu-verbraucher.de](http://www.eu-verbraucher.de)

**European Consumer Centre Germany  
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**Contact person:** Karolina B. Wojtal, LL.M. (Bruges)  
wojtal@cec-zev.eu

4. Gesamtverband der Deutschen Versicherungswirtschaft e.V. (GDV) (2010), Globalisierung der Erstversicherungsmärkte: Stand und Entwicklungstendenzen am deutschen Markt, in: Volkswirtschaftliche Themen und Analysen 2010, Heft 6, S. 1-28, [http://www.gdv.de/wp-content/uploads/2011/12/Publikation\\_Volkswirtschaftliche\\_Themen\\_und\\_Analysen\\_Heft\\_6\\_2010.pdf](http://www.gdv.de/wp-content/uploads/2011/12/Publikation_Volkswirtschaftliche_Themen_und_Analysen_Heft_6_2010.pdf), S. 9.

5. Gesamtverband der Deutschen Versicherungswirtschaft e.V. (GDV) (2010), Globalisierung der Erstversicherungsmärkte: Stand und Entwicklungstendenzen am deutschen Markt, in: Volkswirtschaftliche Themen und Analysen 2010, Heft 6, S. 1-28, [http://www.gdv.de/wp-content/uploads/2011/12/Publikation\\_Volkswirtschaftliche\\_Themen\\_und\\_Analysen\\_Heft\\_6\\_2010.pdf](http://www.gdv.de/wp-content/uploads/2011/12/Publikation_Volkswirtschaftliche_Themen_und_Analysen_Heft_6_2010.pdf), S. 9.

6. Press release of the European Commission (2002), IP/02/707, Distance marketing of financial services: Commission welcomes European Parliament’s support for Directive, [http://europa.eu/rapid/press-release\\_IP-02-707\\_en.htm](http://europa.eu/rapid/press-release_IP-02-707_en.htm).

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Centre Européen de la Consommation  
Zentrum für Europäischen Verbraucherschutz e.V.

One address – two countries

Bahnhofsplatz 3  
77694 Kehl  
Germany



Open to the public:  
Tuesday to Thursday  
9 am - 12 pm and  
1 pm - 5 pm

Phone: + 49 7851 99148-0

Email: [info@cec-zev.eu](mailto:info@cec-zev.eu)

## European Consumer Centre Germany

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