

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Ms Eve Engledow
Financial Stability and Risk Team
HM Treasury
1 Horse Guards Road
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20 February 2007

Our ref: Travel/KW

Dear Ms Engledow

Travel Insurance Review - HM Treasury Call for Evidence

The Panel welcomes this opportunity to contribute to the debate over whether travel insurance sold along with holiday or related travel should be subject to regulation.

The Panel wrote to Ruth Kelly - the then Economic Secretary to the Treasury – in January 2002 outlining its concerns that travel insurance sold in this way was not to be caught within the scope of the FSA's general insurance regime. It is therefore pleased that this review is being conducted.

In essence, the Panel has not changed its view over this issue – it is firmly of the opinion that travel insurance sold along with a holiday or other travel should be the subject of FSA regulation, in the same way as other general insurance products. The Panel can see no rationale for leaving such bundled products unregulated. That a consumer could in theory buy a standalone insurance product from a travel agent and be protected by the current FSA regulatory regime, but a different consumer buying the same product as part of a holiday 'package' would not, is an inconsistency which is difficult to justify. The Panel believes a unified approach must be adopted to ensure an appropriate level of consumer protection in this market. It is also concerned over the lack of consumer protection available in the event of an unregulated firm collapsing.

As was stated at the time in the letter to the Economic Secretary, in the case of travel insurance the Panel was concerned that consumers could be charged many times as much for the same or an inferior level of insurance cover by a tour operator or travel agent as they would be charged by an independent travel insurer. In addition many consumers who travel abroad two or three times a year would be much better off with annual travel insurance policies rather than single trip insurance policies – yet travel agents and tour operators do not give this vital advice.

Research conducted by London Economics for the Office of Fair Trading¹ showed that travel agents and tour operators sold the greatest number of policies in 2004 - 30% of all policies sold. The research found that travel agents tended to sell a disproportionately high level of single policies relative to the market average and that travel insurance bought from a travel agent can be up to four times more expensive than available best buy policies. Such over-pricing suggests a lack of effective competition in the market place because consumers are not aware of other similar cheaper products and due to the lack of proper advice in the sales process.

A mystery shopping study conducted by Which?² concluded that the level of disclosure during the sales of these products is not sufficient to ensure consumers made a good choice. The study also highlighted that in 35% of cases, consumers were asked no medical questions; only 19% of firms explained what the policy covered; and none of the surveyed firms explained exclusions.

Essentially, the consumer does not have any choice at the point of sale. These products are bundled in with the holiday; are a secondary purchase, and the ability of consumers to consider what is being offered is minimal. There is therefore a lack of real competition. The Panel also believes that these products frequently fail to meet consumers' needs – largely as a result of the many exclusions not being made clear. Consumers then find that they have no valid claim as the circumstance of the claim they attempt to make is specifically excluded. Whilst these products may be of relatively low cost, there are occasions where this failure could lead to significant consumer losses. This is especially so where pre-existing medical conditions are not discussed before the policy is purchased.

In its 2005/6 annual report, The Financial Ombudsman Service stated that travel insurance policy terms are complex, the sales process is limited and there is evidence that in the past there has been widespread consumer misunderstanding on the scope and eligibility criteria within these policies. All this evidence points to the fact that the current exclusion given to travel insurance bundled with other travel or holiday packages is not a sustainable model.

The Panel is unable to comment on the potential costs of including travel insurance sold within holiday 'packages' but believes that the current FSA intention to introduce a more principles-based regime would serve to minimise costs in this regard. The review of the general insurance regime, being conducted by the FSA, is likely to lead to a more principles-based approach and may also include some de-regulatory initiatives. The Panel feels that these moves may alleviate some of the concerns the industry has expressed over the compliance costs associated with FSA regulation.

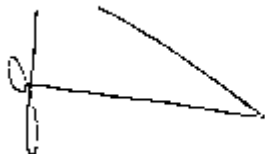
The Panel does not believe the option of adopting a self-regulatory approach to these policies would be effective. The Panel understands the current ABTA code covers the sale of these products, and it is clear that this code has been ineffective in ensuring consumers are given the right information in order to make an informed choice of what type of policy to buy and from whom they should buy it. In addition, not all travel agents are members of trade associations and are not therefore currently subject to such codes.

¹ Research into Payment Protection Insurance in the UK (non confidential version) prepared for the Office of Fair Trading by London Economics October 2006 page 178

² 'Travel insurance selling put to the test' – research undertaken Jan-March 2006, published in July edition of Which?

I hope the above information is of use. The Panel would be happy to discuss this submission with you in more detail if that would be helpful. Please contact the Panel Secretariat if you wish to arrange a meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Howard'. The signature is stylized, with a vertical line on the left and a horizontal line extending to the right, ending in a small loop.

John Howard
Chairman
Financial Services Consumer Panel