

ABTA – Written Evidence (CIM0021)

ABTA Submission

House of Lords Financial Services Regulation Committee

Regulation of the Consumer Insurance Market

About ABTA

ABTA is the UK's trade association for travel agents, tour operators and the wider travel industry, with over 3500 travel brands in membership and a combined annual UK turnover of more than £42 billion. ABTA works with its members to raise and maintain standards, enable a more sustainable travel industry, and provide travellers with advice, guidance and support. The UK travel sector is a thriving economic success story, with dynamic businesses making significant contributions across the country.

Many ABTA members sell, promote or facilitate access to travel insurance as part of the holiday booking process, whether as intermediaries, agents or tour operators.

In addition, ABTA operates its own travel insurance scheme, providing products designed specifically for holidaymakers. Through the operation of this scheme, ABTA has direct experience of the travel insurance market, including consumer demand, product design, claims trends and the challenges associated with ensuring travellers have access to appropriate and affordable insurance cover.

ABTA welcomes the Committee's inquiry and supports efforts to ensure that the consumer insurance market delivers fair and appropriate outcomes. This response draws on ABTA's experience of the travel insurance market, including insights from the ABTA Travel Insurance scheme and evidence gathered through a survey of ABTA members.

The submission highlights that consumer understanding remains one of the most significant challenges in the travel insurance market. Clear, timely and accessible communications at the point of sale can make a material difference to consumer outcomes. We also raise concerns about the suitability of price-led purchasing models, which may not always support informed decision-making, and the difficulties faced by older travellers and those with pre-existing medical conditions in accessing affordable and appropriate cover. The submission also argues that this is a timely moment to reassess how travel insurance is sold. The distribution landscape has changed considerably since the UK's 2007 decision to gold-plate EU directives by bringing ancillary travel insurance sales within full FCA regulation.

1. What are the key areas of concern for consumers in the regulation of home and travel insurance?

a. Are there any other types of insurance where consumers are facing similar challenges?

ABTA member survey responses indicate that consumer difficulties with travel insurance centre on three recurring themes:

- A lack of understanding of policy cover and terms, including what is and is not included;
- Consumers underestimating the importance of travel insurance until a claim situation arises; and
- Cost concerns leading consumers to prioritise price over the suitability of cover.

Members also highlighted challenges around the non-disclosure or incorrect disclosure of pre-existing medical conditions as a significant source of claims disputes. This remains one of the most common causes of declined travel insurance claims across the industry. In ABTA's view, this should be addressed through clearer communications at the point of sale.

Members identified specific groups facing greater access challenges, particularly older travellers and those with pre-existing medical conditions, who may struggle to find affordable or comprehensive cover.

2. What impact has the Financial Conduct Authority's (FCA) Consumer Duty had on the consumer insurance market?

The experiences of ABTA members suggest that the Consumer Duty alone is insufficient to ensure that consumers consistently purchase appropriate travel insurance. Survey respondents expressed concern that many consumers remain focused primarily on price when selecting insurance products and do not always engage fully with policy terms, exclusions or levels of cover. A majority of respondents described the current regulatory framework as only "somewhat effective" or "not very effective" in ensuring consumers purchase appropriate travel insurance. This suggests that, while the Consumer Duty has strengthened product governance and value assessments, challenges remain around distribution, consumer engagement and informed decision-making.

As part of a comprehensive review of the proposition, ABTA analysed three years of claims data to assess whether policy benefits, limits and cover levels genuinely reflected customer needs and claims experience. This process identified several areas where cover levels were significantly higher than the levels at which claims were typically made. Rather than simply maintaining those levels, ABTA worked collaboratively with AXA Partners to redesign elements of the product using evidence from real customer outcomes. The objective was to ensure that the product

continued to provide robust protection while delivering fair value, greater transparency and stronger alignment with how customers actually travel and claim.

The result has been a product that continues to provide comprehensive cover while offering better value and clearer benefits for consumers.

Does the current regulation of insurance distribution and sales ensure that consumers purchase appropriate home and travel insurance? Are there any changes that should be made to the regulatory requirements?

- a. How well do consumers understand the terms of insurance cover that they purchase, and how could this be improved?*
- b. Do price comparison websites help consumers purchase appropriate insurance?*

ABTA would firstly wish to highlight that there is a structural issue worth noting in the context of distribution. The EU's Insurance Mediation Directive, and subsequently the Insurance Distribution Directive (IDD), maintained an exemption for ancillary add-on sales of travel insurance, recognising these as simple, low-risk products. In 2007, through an amendment to Article 72B of the Financial Services and Markets Act 2000, the UK went beyond the EU baseline by bringing all sellers of travel insurance, including travel agents and tour operators selling it as an ancillary product, within the scope of full FCA regulation. ABTA opposed this at the time and has consistently questioned the evidence base for doing so: no compelling case was ever made that add-on travel insurance sales presented a material risk of consumer detriment of the kind that would justify full regulatory oversight.

ABTA has previously argued that this went beyond what the EU directives required, and that the practical consequence has been to make it more difficult and costly for travel agents to offer or recommend insurance at the point of sale. Historical data gathered by ABTA suggests that the impact was material: a 2012 survey of ABTA SME members found that 42% had stopped offering travel insurance at the point of sale as a direct result of the regulation, and the Association of British Insurers recorded a fall in single-trip policies sold from 12.6 million in 2007 to 9.5 million in 2010. While these figures are now dated, they illustrate the scale of the distributional impact.

As such, ABTA would welcome the Committee's consideration of whether the current requirements remain proportionate, particularly given the significant changes in the distribution landscape since 2007.

From ABTA's survey, members indicated that consumers frequently do not fully understand the terms of the cover they purchase. The most significant gap identified was around pre-existing medical conditions,

where misunderstanding or non-disclosure at the point of sale remains a persistent cause of claims being declined.

Previously, ABTA has sought to address this directly through the ABTA Travel Insurance scheme. More than four years ago, ABTA introduced a plain-English medical screening explanation video within the quote and purchase journey. The video is designed to help customers understand which medical conditions must be declared, why disclosure matters and how it can affect future claims. Since its introduction, approximately 67% of customers purchasing ABTA Travel Insurance have declared a medical condition during the buying journey. ABTA believes this represents a particularly strong level of customer engagement with the disclosure process and demonstrates that clear, accessible communications at the point of sale can significantly reduce the likelihood of claims disputes and improve consumer outcomes before a claim is ever made.

On price comparison websites, ABTA would highlight an important distinction: while comparison sites have increased accessibility and competition in the market, they can also encourage consumers to focus primarily on price. Travel insurance is not a commodity. Policies that appear broadly similar can differ significantly in terms of cover, exclusions, medical screening requirements, cancellation protection, excesses and claims support. The cheapest policy is not necessarily the most appropriate policy for a given consumer. ABTA would encourage the Committee to consider whether:

- Price comparison platforms provide sufficient tools to help consumers assess the suitability of cover, not only price, and
- Regulatory requirements adequately address the risk that comparison-driven purchasing leads to underinsurance or inappropriate cover selection.

3. Are there any groups of consumers that face challenges in accessing suitable insurance?

a. Do the current regulations effectively protect these groups of consumers?

ABTA members consistently identified older travellers and those with pre-existing medical conditions as the groups facing the greatest challenges in accessing suitable travel insurance. Members noted that older customers, in particular, may require more guidance and support through the purchasing process and that suitable cover can be significantly more expensive or difficult to obtain.

Members were divided on whether current regulations effectively protect these groups, with several indicating that access to appropriate insurance for certain consumers remains a concern that regulation has not adequately addressed. ABTA would welcome greater regulatory focus on

ensuring that vulnerable and older consumers are not effectively excluded from the market.

4. Are consumers' insurance claims handled fairly?

- a. Do the current regulatory requirements provide sufficient protection for consumers when making insurance claims?*
- b. What impact does the outsourcing of claims handling have on consumers' insurance claims? Do insurance firms have appropriate oversight of outsourced claims handlers?*
- c. Do cash settlements deliver good outcomes for consumers?*

Views among ABTA members on claims handling were mixed. Responses ranged from "fairly" handled to "neither fairly nor unfairly" handled, with limited confidence expressed regarding the oversight of outsourced claims handling arrangements. This suggests that consumer experience of claims handling varies considerably, and that transparency around outsourcing arrangements may not be well understood by distributors or consumers.

ABTA monitors key quality metrics around service and claims handling through its arrangement with AXA Partners, and we are supportive of FCA intervention in this area, where it serves to raise standards and consistency of consumer outcomes.

5. How effectively are the current regulatory requirements enforced by the FCA?

Member views on FCA enforcement effectiveness were varied. Some respondents considered the FCA to be enforcing regulations fairly effectively; others expressed uncertainty. A recurring concern among members was the complexity of the current regulatory framework, with duplication and overlap in rules cited as a burden that may not ultimately benefit consumers. ABTA would welcome consideration of whether the regulatory framework could be simplified without reducing consumer protection.

6. What is the role of the Financial Ombudsman Service (FOS) in protecting consumers in the insurance market, and how effectively does it resolve disputes?

ABTA does not have sufficient evidence to offer a detailed view on FOS effectiveness, but notes that accessible and timely dispute resolution is an important consumer protection, particularly for travel insurance, where disputes often arise close to or during travel.

7. Are there any gaps in the current legislation or regulatory framework for the consumer insurance market?

a. Is the current regulatory regime well adapted to respond to the adoption of AI in the insurance industry?

ABTA does not identify a fundamental gap in the current legislative framework governing consumer insurance. However, as noted in our response to Question 3, we consider that the UK's 2007 decision to gold-plate the EU's Insurance Mediation Directive - through amendment to Article 72B of the Financial Services and Markets Act 2000 - warrants review. The IDD, which the UK subsequently implemented, maintained the exemption available to ancillary sellers of low-risk travel insurance products, yet the UK retained its more burdensome approach. ABTA would welcome consideration of whether a more proportionate regulatory approach for ancillary sellers could help restore travel agents' ability to offer and recommend appropriate insurance at the point of sale, to the benefit of consumers.

A notable feature of this evolution is the growth of products designed for specific demographic segments or affinity groups, where underwriting and pricing are tailored to a narrower customer profile. This approach can enable more precise risk assessment and product design aligned to particular customer needs.

While such segmentation can improve product relevance and choice for consumers, it may also contribute to a more fragmented market structure, with different providers operating distinct risk pools and pricing assumptions. This can make like-for-like comparison more complex for consumers, particularly where differences in cover, eligibility criteria and underwriting approach are not immediately transparent.

ABTA therefore considers that transparency at the point of sale remains critical, ensuring consumers are able to make informed decisions based not only on price, but also on the scope and nature of cover being provided.

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