

# UNCOVERING THE IBIP SALES PROCESS

Results from EIOPA's first coordinated Mystery  
Shopping Exercise on Insurance-Based  
Investment Products

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## 1. INTRODUCTION

This report focuses on Insurance-Based Investment Products (IBIPs). EIOPA chose to focus its first coordinated mystery shopping exercise on these products because IBIPs, when designed and sold adequately, play a vital role in ensuring consumers have adequate coverage to manage shocks (insurance-component) and meet their financial objectives (investment component).

In particular, in light of ongoing efforts to facilitate and encourage uptake of retail investments, EIOPA’s first coordinated mystery shopping exercise investigated how IBIPs are sold to better understand the sales process and identify areas for improvement. The goal is to enhance the consumer experience and promote uptake of products that meet consumers’ needs and objectives.

The exercise focused on three main questions aiming to understand the customer journey and outcomes:

- ▶ Do distributors ask enough questions to understand consumers’ needs?<sup>1</sup>
- ▶ Do distributors ensure that consumers fully understand the costs and risks associated with IBIPs, including by providing them transparent and timely disclosures and documents?<sup>2</sup>
- ▶ Do distributors offer products that are consistent with consumer’s needs and objectives?

When interpreting the results, it is essential to consider that the first two supervisory questions rely on shoppers’ perceptions, assessed via a questionnaire, as it was not possible to record the visits. Only question 3 is based on a supervisory assessment of the products that shoppers reported were offered to them. The purpose of this report is diagnostic, aiming to provide a snapshot of the sales process as it is currently carried out. The findings are intended to serve as a foundation for informing future supervisory and policy work. Given the limitations of mystery shopping exercise, the results are not intended to be used to assess regulatory compliance of distributors.

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<sup>1</sup> This question was designed to assess compliance with requirements in terms of needs and demand assessment of *Directive (EU) 2016/97 – Insurance distribution directive*.

<sup>2</sup> This question was designed to assess compliance with requirements in terms of product disclosure of *Regulation (EU) 2019/2088 – Sustainable Finance Disclosure Regulation* and *Regulation (EU) 1286/2014 - Packaged retail and insurance-based investment products*.

## THE EXERCISE AT A GLANCE

In January 2020, the European Insurance and Occupational Pensions Authority (EIOPA) was given a new mandate to coordinate mystery shopping activities across the European Union. This mandate was established to promote transparency, simplicity, and fairness in the market for consumer financial products and services. This exercise represents the first coordinated mystery shopping exercise in the insurance sector.

In terms of scope, the exercise covered:



**8 Member States** from various EU regions and with diverse market sizes. To ensure cross-market comparability, participating National Competent Authorities (NCAs) established common criteria, which were used across to carry out visits in all 8 markets.



**Undertakings representing at least 35% GWP** (Gross Written Premium). At least two different distribution channels were selected in each country, focusing on the most relevant ones.



**568 visits**, of which 454 considered valid. A valid visit refers to a comprehensive sales process where one or more IBIPs were discussed in detail. A full sales process might have required multiple visits, rather than a single meeting; however, these are counted as one. Exploratory visits which did not lead to more detailed discussions and non-IBIP discussions were excluded.

## 2. MAIN FINDINGS

**Overall, the findings suggest that while distributors often provide relevant information to shoppers, there are areas for improvement in terms of disclosure, transparency, and advice. These areas for improvement are not the product of a compliance review but simply reflect practice. In particular:**

- ▶ Distributors typically assessed shoppers' investment horizon, e.g., how long they plan and are able to hold onto the investment, while other key objectives and needs, e.g., risk tolerance and ability to bear losses in case of early surrender, are not so systematically assessed.
- ▶ Distributors often inquire about investment goals and requirements, but the extent and type of questions vary.
- ▶ During the visits, 36% of shoppers received the Key Information Document (KID) and 18% of shoppers with sustainability preferences received sustainability disclosures. It is worth noting that these findings only reflect the point to where products were discussed, and it is not possible to determine how many shoppers would have received the relevant disclosure documents if the sale had been completed.
- ▶ The products offered were often consistent with shoppers' needs, with 84% of products consistent with at least one of the pre-identified needs and objectives.
- ▶ However, it was observed that there is limited correlation between the comprehensiveness of the information gathering process and final outcomes, as well as no correlation between formal advice, visit duration, and shopper outcomes.

### 2.1. INFORMATION GATHERING DURING THE SALES PROCESS

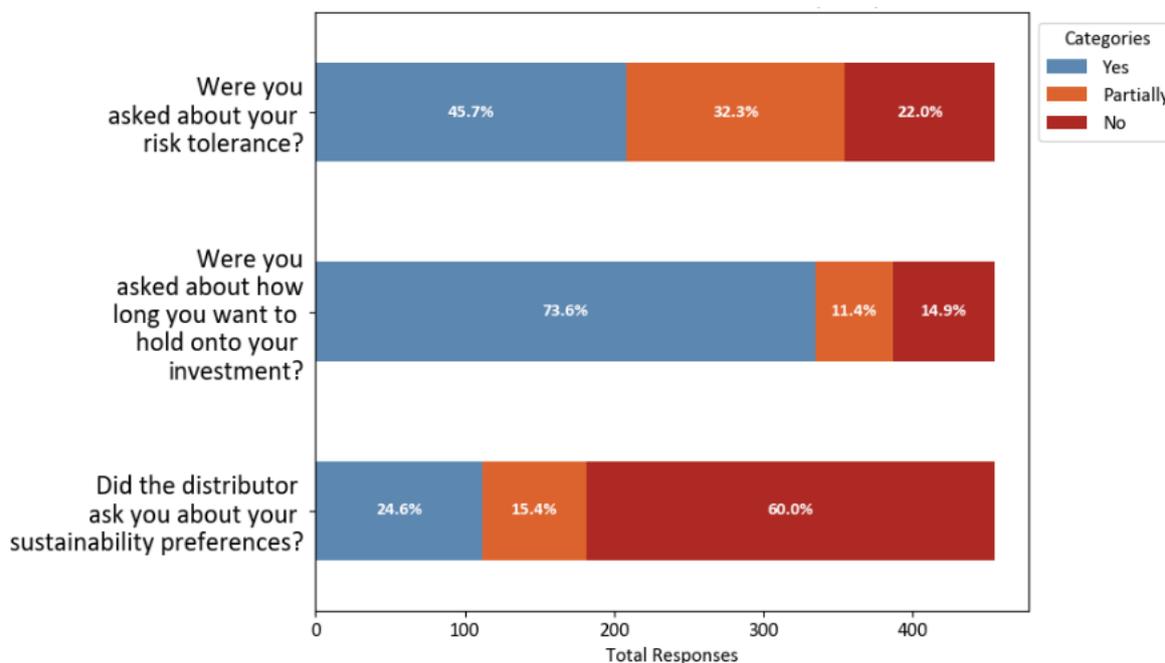
**The exercise found that most distributors assess shoppers’ investment horizon, i.e., their ability to retain IBIPs for the recommended holding period. However, for risk tolerance and ability to bear losses in case of early surrender, a mixed picture emerged.** Looking at the graph below (Figure 1), distributors generally assessed the shoppers’ ability to hold the product for a given period (74% of the visits). This means that distributors actively seek information on investment horizons, job situation and overall financial situation. However, risk tolerance and the ability to bear losses are not as frequently and systematically assessed (45% of the visits).

**A lower percentage of distributors sought information on shoppers’ sustainability preferences.** In 60% of the visits, distributors did not ask about the shoppers’ sustainability preferences. When shoppers with sustainability preferences voluntarily disclosed their preferences, 50% reported that

the distributors lacked knowledge on sustainability aspects. For instance, one shopper noted that upon inquiring about the availability of sustainable products, they received a generic reply referencing 'green policies' and companies focused on sustainability.

**It is important to underline that the assessment of sustainability preferences and broader investment objectives is not always required<sup>3</sup>, as it is relevant only for advised sales and not all the sales considered were with advice<sup>4</sup>.**

Figure 1 – Analysis of distributors’ collection of information to assess consumers’ demands and needs and perform the suitability assessment. Percentage of assessment correctly completed (N = 8 MS)



Source: EIOPA

**Distributors generally inquired about shoppers' investment goals and requirements. The extent and type of questions varied across visits.** While most shoppers reported being asked about their saving capacity, personal or family income, and employment status, questions about their current assets and liabilities were less common. Notably, the least reported by shoppers were questions on

<sup>3</sup> The Commission Delegated Regulation (EU) 2021/1257 brought in the amendment to Delegated Regulation (EU) 2017/2359 (see Article 2) requiring insurance undertakings and intermediaries to integrate customers' sustainability preferences into the suitability assessment when providing advice on insurance-based investment products.

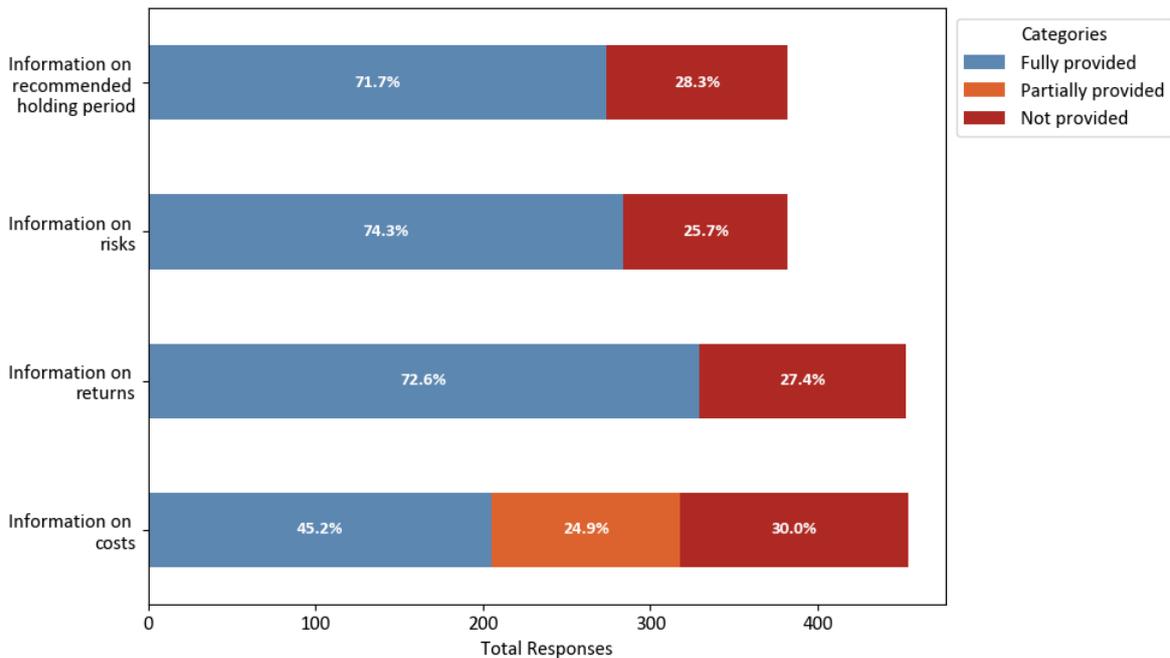
<sup>4</sup> The Directive (EU) 2016/97 – Insurance distribution defines advised sales of IBIPs as personal recommendations to a customer explaining why a particular product would best meet their demands, their needs and is suitable for that person. In contrast, a non-advised sales involves customers making their own decisions. Although our mystery shoppers lacked financial expertise, making advised sales more suitable for them, some visits showed no evidence of a formal advice process being followed.

the value and type of current assets, while questions on the shopper’s financial knowledge, value of loans and other investments or policies held were reported more frequently.

## 2.2. DISCLOSURE AND TRANSPARENCY IN THE SALES PROCESS

The analysis of the implementation of disclosure requirements and information provision found that the level of detail and type of information on the product provided varied across visits. Figure 3 shows the percentage of shoppers who received explanations on various IBIP elements. It highlights that information on returns, risk and holding period was generally provided, with 70% of shoppers receiving such information. In contrast, costs are the least clearly explained element, with 45% of shoppers reporting that distributors provided them with detailed cost information.

Figure 2 – Analysis on the provision of information to shoppers. Percentage of instances where the distributor requested information on the following topics (N = 8/7 MS<sup>5</sup>)



Source: EIOPA

Overall, 36% of shoppers received the KID and 18% of shoppers who expressed sustainability preferences received sustainability disclosures. Figure 4 below illustrates the level of documentation provided to shoppers across all Member States. Note that the percentage of

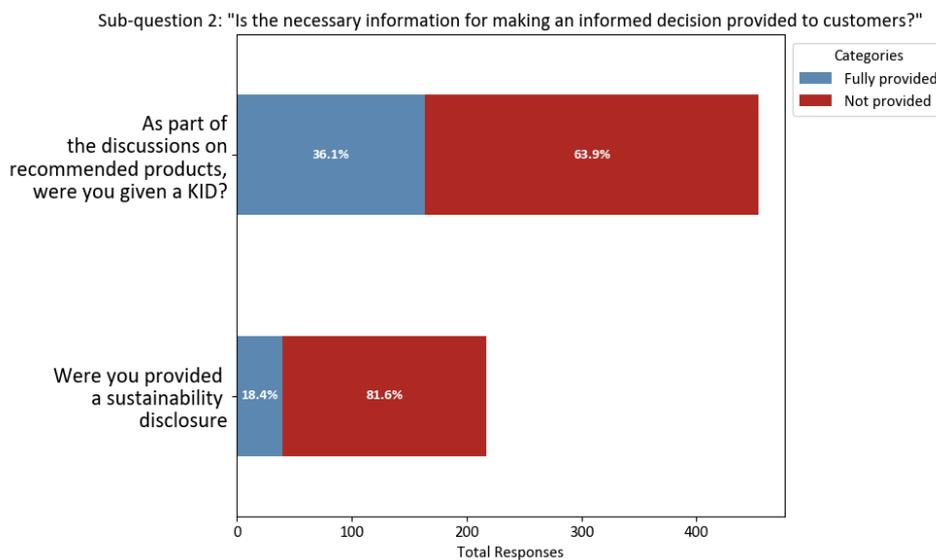
<sup>5</sup> Data on whether distributors provided information on risks and recommended holding period was collected for 7 Member States, while for returns and costs it was collected for 8.

shoppers who received the KID should be read taking into account that the visits ended before the purchase process.

When looking deeper into the data, it was found that shoppers with sustainability preferences who received the KID were more likely to also receive sustainability disclosures: out of the eighty-four shoppers with sustainability preferences who received a KID, 31 (37%) also received sustainability disclosures. Out of the 131 shoppers with sustainability preferences who did not receive a KID, only nine received sustainability disclosures (7%).

**A more detailed analysis shows there is a positive correlation between disclosures and self-reported product understanding.** Of the 163 shoppers who, at the end of the questionnaire, reported that overall, they gained a limited understanding of the products offered, 50 (30%) also reported receiving a KID. Of the 269 that reported a satisfactory understanding of the product’s characteristics, 114 (42%) received a KID.

Figure 3 – Analysis on the provision of information to shoppers. Percentage of instances where documentation and information were provided (N = 8 MS)



Source: EIOPA

### 2.3. PRODUCT CONSISTENCY WITH CONSUMER NEEDS

In terms of product’s consistency with the shoppers’ profiles, Figure 4 shows that, when a conclusive assessment was possible, product consistency with the shopper’s needs across five key aspects examined ranged from 40% (liquidity 1) to almost 80% (sustainability preference) .

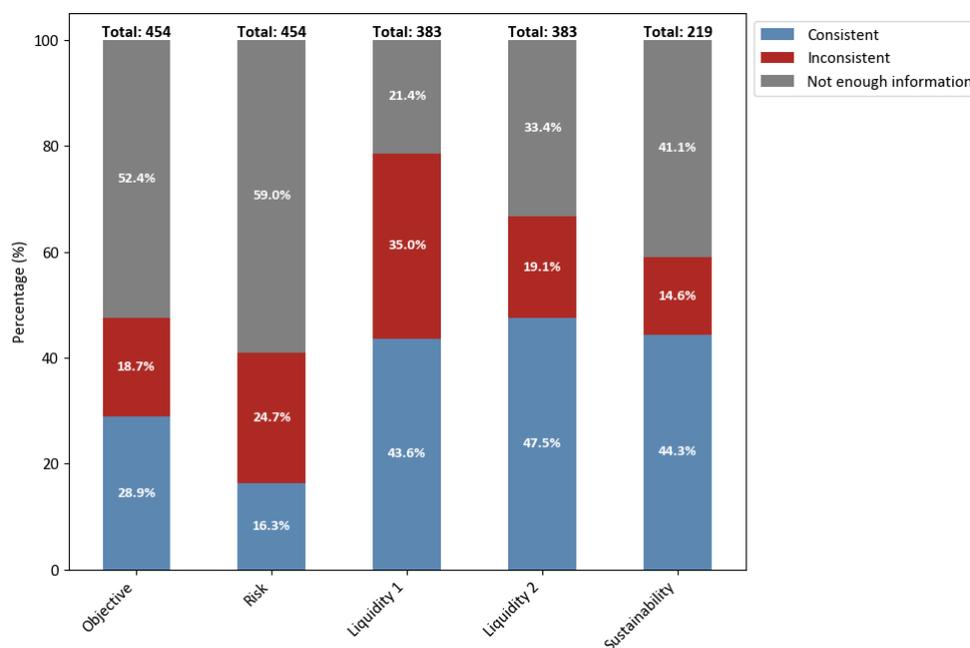
The five key aspects examined were:

- Surrender value at recommended holding period (Liquidity 1),
- Risk profile of the product,
- Return profile of the product,
- Presence of surrender penalties (Liquidity 2) and
- Sustainability characteristics.

Looking at different product elements, when sufficient information on the product was available, participating NCAs determined whether the product could be considered consistent or inconsistent with the shopper’s profile amongst one or more of the above five criteria.

**In 377 out of the 454 visits considered, NCAs were able to assess the alignment of the product with the shopper’s needs on at least one of the five key aspects.** For the remaining visits, a full assessment was not possible due to a lack of information on some product features (in grey in the graph), such as the final asset allocation of multi-option products, which is often only decided at the point of purchase.

Figure 4 – Analysis on the consistency between the products offered and the shoppers’ profiles. Percentage of consistency per product feature (N = 8 MS; except for Liquidity 1 and 2, N = 7 MS):



Source: EIOPA

**The exercise revealed that, across all Member States 84% of the products offered were consistent with at least one product feature, in particular across the five criteria the follow picture emerged:**

- ▶ **Objective: 29% of products offered across all Member States were considered consistent to the stated investment objective of the shopper**, namely, returns achieving target inflation of 2%.
- ▶ **Risk: approximately 25% of the products offered across countries had a Summary Risk Indicator (SRI) of 4 or higher**. This was considered inconsistent with both profiles, given their medium-high risk aversion and low level of financial education.
- ▶ **Liquidity 1: the recommended holding period was the most consistent criteria assessed**. Overall, in 44% of cases, the recommended holding period of the offered products was consistent with the profile's characteristics, as it was less than 15 years, aligning with the desired investment horizon of 10-15 years for both profiles.
- ▶ **Liquidity 2: in approximately 60% of the visits where an assessment of the offered product was possible, the product's liquidity features were deemed consistent with the shopper's needs**. Consistency was assessed by examining the costs and penalties for early surrender and the length of time that the shopper would have to keep the product to receive guaranteed returns.
- ▶ **Sustainability preferences: the majority of products offered were consistent with the shoppers' sustainability preference**. The data shows that distributors offered unsustainable products to the shoppers with sustainability preferences (total: 219 shoppers) only in 14.6% of the cases. This is a lower rate of inconsistency compared to other product features. For the purposes of this analysis, a product was defined as inconsistent with shopper's sustainability preferences if it was disclosing information according to Article 6 of the SFDR<sup>6</sup>.

## FURTHER INSIGHTS INTO DRIVERS OF CONSUMER OUTCOMES

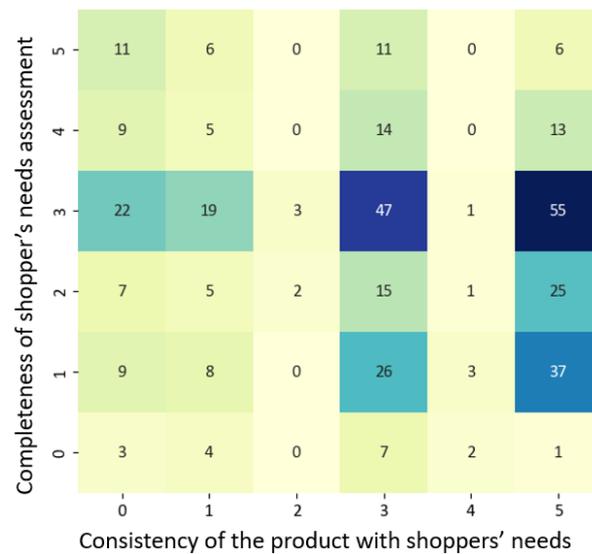
**To gain a deeper understanding of the factors that influence shopper outcomes, EIOPA conducted a further analysis going beyond the specific elements of the sales process.** Three findings stand out, in particular:

- ▶ A very weak correlation was found between the comprehensiveness of the information gathering process and the consistency of the product with the shoppers' needs.
- ▶ No correlation was found between shoppers' perception of receiving detailed advice and consumer outcomes.
- ▶ No correlation was found between better consumer outcomes and more time spent with shoppers.

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<sup>6</sup> A product disclosing according to Article 6 of Regulation (EU) 2019/2088 (SFDR) is a product that does not promote any environmental or social characteristic, nor has sustainable investment as its objective. If it promotes environmental or social characteristics, it needs to disclose according to Article 8 of SFDR. If it has sustainable investment as its objective, it needs to disclose according to Article 9 of SFDR. A shopper with general sustainability preferences should therefore be recommended products that disclose either under Article 8 or 9.

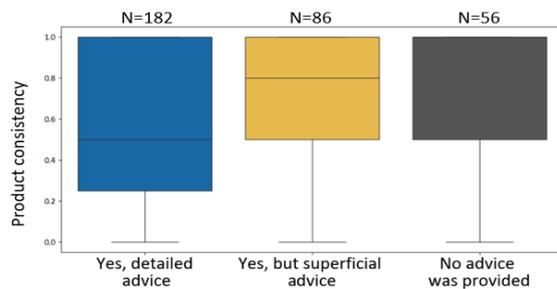
Figure 5 – Correlation analysis – Heatmap representing the distribution of visits based on 1) completeness of the shoppers’ needs assessment (0: incomplete, 5: complete) – y axis and 2) consistency of the product with shoppers’ needs (0: inconsistent, 5: consistent) – x axis.



Source: EIOPA

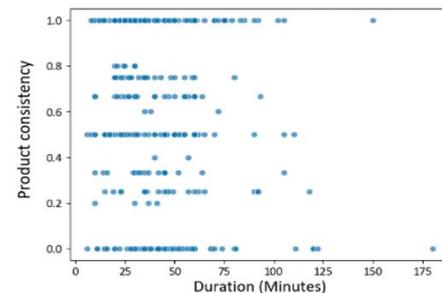
**The heatmap above shows that there is limited correlation between the completeness of the shoppers’ needs assessment and the shoppers’ outcomes.** This heatmap visually represents the distribution of visits based on two scores: the comprehensiveness of the sales process (i.e., sufficient collection of information to determine the shoppers’ demands and needs) and the consistency alignment of the product offering with the shoppers’ needs. Each cell in the heatmap corresponds to a specific combination of these two scores, with the colour intensity indicating the number of visits that fall into that category. The results indicate that, in many instances, despite distributors not asking the information to understand shoppers’ needs, they still offer products consistent with the shoppers’ profile and vice-versa.

Figure 6 – Product consistency with the shopper’s profile (1: consistent, 0: inconsistent) and perceived advice received:



Source: EIOPA

Figure 7 – Product consistency with the shopper’s profile (1: consistent, 0: inconsistent) and duration of the visit<sup>7</sup>:



Source: EIOPA

The graph on the left depicts the limited correlation between the shopper’s perception of receiving detailed advice and shopper outcomes. The analysis looked at whether shoppers perceived that they had received formal advice on the products offered by the distributors. The findings indicate that there is no correlation between the shopper’s perception of advice and good outcomes. In other words, even when shoppers reported receiving detailed advice, it did not necessarily translate to better results. It should be noted that oftentimes, mystery shoppers were under the impression that they had received detailed advice from the distributors when they actually had not, as evidenced by the lack of written advice summary, a mandatory document in several Member States which indicates issues in terms of implementation of advice requirements. It is important to note that the notion of advice in this graph is based on the shoppers’ perception rather than the legal definition.

Similarly, the analysis of visit duration (right graph) revealed no correlation between the time spent with the distributor and shopper outcomes. Looking at the time shoppers spent with the distributors, it emerges that the sale process can be quite lengthy, with visits lasting on average 42 minutes. However, overall, there is no correlation between more time spent by the shopper and better outcomes.

<sup>7</sup> N.B. This is based on the shoppers’ perception; hence, some shoppers may have not included time spend before the visit (e.g., online call) or they may have included the average time per visit even though to complete the process they did more than one visit.

### 3. WHAT EIOPA IS DOING WITH THE RESULTS

**This coordinated exercise, the first of its kind in the insurance sector, demonstrates its potential in better understanding how sales processes work.** EIOPA built on previous work done to develop first a common methodology and leveraged lessons learned from past campaigns.

**Reflecting on the findings, which reveal both positive sales practices and areas for improvement, EIOPA sees the opportunity to use the evidence gathered to inform future supervisory and policy actions:**

- ▶ **Stakeholder engagement:** To further understand the underlying reasons for the varying levels of compliance and diverging outcomes, additional research will be conducted. This will involve open discussions with industry stakeholders and consumer associations, to gather more insights and shed light on the root causes of these findings.
- ▶ **Targeted follow-up:** EIOPA will work closely with the participating NCAs to discuss relevant follow-up actions and determine the best approach to address areas of concern.
- ▶ **Informing future policy work:** The results of this exercise will be used to inform future policy work, with a particular focus on simplifying the sales process and improving consumer outcomes. The exercise highlighted that the sales process remains complex, with consumers often confusing whether and when advice is provided. In light of these findings, more outcome-focused and proportional approaches may be considered, taking into account the complexity of the products and the type of distribution channel.

**EIOPA**

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt – Germany

Tel. + 49 69-951119-20

<https://www.eiopa.europa.eu>