



House of Commons
Treasury Committee

**Are you covered?
Travel insurance and
its regulation:
Government Response
to the Committee's
Fourth Report of
Session 2006–07**

**Sixth Special Report of Session
2006–07**

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury and its associated public bodies.

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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via www.parliament.uk. The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young, Harry Marin and Anna Leach (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

Contacts

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Sixth Special Report

The Treasury Committee published its Fourth Report of Session 2006–07, *Are you covered? Travel insurance and its regulation* on 25 February, as House of Commons Paper No. 50. The Government response to this Report was received on 26 June 2007, and is appended below.

Government response

Introduction

The EU's Insurance Mediation Directive (IMD) requires, broadly, the regulation of the selling of insurance by intermediaries. However, regulation is not required of travel insurance sold along with a holiday or related travel, with the decision whether or not to regulate such products at the discretion of individual member states. Following a public consultation on implementation of the IMD in 2002/3 the Government decided that there was insufficient evidence to regulate travel insurance sold along with a holiday at that time. However, it recognised that there were concerns with this market and undertook to review its decision in early 2007.

In August 2006 the Economic Secretary announced that HM Treasury would be conducting its review into whether travel insurance sold alongside a holiday should be subject to FSA regulation. The Treasury issued a call for evidence in November 2006 consulting on possible options for regulation including FSA regulation, strengthened industry self-regulation and maintaining the status quo. In announcing the call for evidence, HM Treasury highlighted the importance of consumers' understanding of what is and is not covered by their travel insurance, particularly highlighting consumers' understanding of terrorism exclusions in travel insurance as a key area of concern.

The publication of the call for evidence coincided with the Treasury Committee's own hearing into the scope of FSA regulation. The Government is grateful for the work of the Committee in this area.

Information provided with travel insurance

1. Overcoming this consumer detriment is a challenge for the insurance industry, for all those who sell travel insurance and for those who regulate them. In responding to the challenge, the insurance industry, those who sell travel insurance, the Government and the FSA must work together to develop insurance policies that are summarised in plain English, that provide clear and prominent information on exclusions and that are promoted in such a way as to maximise the number of holidaymakers with proper coverage through travel insurance. Such discussions should include consideration of the benefits of the introduction of a comprehensible standard contract so that consumers can make reasonable assumptions about what will normally be excluded or included in their cover. (Paragraph 40)

The Government agrees that there is a challenge for the industry in ensuring travel insurance policies are explained to consumers in the most effective and informative way and that best presents the cover the policy provides.

The Treasury is taking forward work with the Financial Services Authority and the Association of British Insurers to develop a better understanding of what the issues are around consumers' understanding of travel insurance policies, in particular whether people are aware of what they are and are not covered for. This work will also look at whether industry guidance could help improve the quality of disclosure to consumers and better signpost customers through what is a complex insurance policy.

The regulation of bundled travel insurance

2. Given the evidence of the weakness of the sales process within the bundled travel insurance market, we do not believe that there is a convincing case for the maintenance of self-regulation in that market. The fact that the ABTA Code of Conduct is not part of an OFT-approved scheme, albeit for reasons unconnected with the sale of travel insurance, does not inspire us with confidence about the prospects of progress through voluntary self-regulation. We see merit in the introduction of a coherent and unified system of statutory regulation for the travel insurance market and we believe that the FSA is best-placed to deliver such a system. The FSA has relevant expertise in the regulation of the sale of financial products. Although we are sensitive to the FSA's understandable concerns about the extension of its remit, we believe that the costs of regulation would be greater if carried out by a new body. (Paragraph 41)

3. If the FSA were to assume these additional responsibilities, it would need to ensure that regulation across the travel insurance market was consistent, principles-based and risk-based. We recommend that, if the Government is satisfied that the FSA can deliver regulation that meets these requirements, it extend the scope of FSA insurance regulation to cover the bundled travel insurance market. (Paragraph 42)

The Government has decided to give the FSA responsibility for regulating the selling of travel insurance along with a holiday. This is because there is a weight of evidence pointing to a gap in consumers' understanding of travel insurance as a product and the cover that it provides. In particular:

- although the travel insurance market is highly competitive, policies tend to be more complicated than a simple household or motor policy;
- as a secondary purchase, consumers are less likely to be focussed on the details of their insurance policy than through a direct sale;
- the majority of consumers only really seem to consider price, not the details of the policy, in deciding which policy to purchase.

There is also no principled case for the distribution of travel insurance through this channel to sit outside the regulatory framework when stand-alone sales through insurers or brokers are within it. And whilst all firms selling travel insurance could do more to explain to customers what the policy does and does not cover, the evidence suggests that FSA regulated firms do a better job in terms of product disclosure and navigating the consumer through the sales procedure. Furthermore, customers of FSA firms have access to statutory redress and compensation mechanisms if things go wrong.

The Government has full confidence that the FSA is well placed to deliver a principles based and proportionate regime suitable for regulating the selling of this type of insurance. The Government will work with the FSA to ensure the regime is implemented in a sensitive way and that both the FSA and the travel industry have adequate time to adapt to regulation. The Government's intention is for regulation to be in place by January 2009.

Full details are included in the summary of response document, which contains a partial Regulatory Impact Assessment (RIA) and draft legislation. The Government will now undertake a further period of consultation on its preferred approach in order to inform a final RIA.

HM Treasury
26 June 2007