



Report

Is there a need for add-on cover and gadget insurance?

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Summary

Consumers' need for add-on cover differs depending their age. Younger consumers have a greater need for this type of insurance, while older consumers often have little need for it. The need for gadget insurance is limited, and there is often no need for it at all. These are the conclusions of an in-depth analysis conducted by Finansinspektionen (FI).

Add-on cover is insurance linked to a base cover such as home insurance (content and/or building) and auto insurance. All risks insurance is judged to be the most common add-on cover, and it includes damages to property that are not covered by the base cover. Gadget insurance is freestanding cover for a specific item. Normally, this insurance offers more extensive cover than all risks insurance.

Many consumers have add-on cover and gadget insurance, and the premiums for these policies amount to several billion (SEK) every year. Therefore, FI has investigated whether consumers have a need for them. We have assessed the concept of need based on the following definition: insurance products should provide consumers as a collective with reasonable compensation in relation to the premium paid. Low compensation in relation to the premium paid is an indication that consumers are paying for cover for which they have little need.

The analysis shows that younger consumers have a greater need for add-on cover while older consumers often have little need for such cover. Consumers' need for gadget insurance is limited, and there is often no need for it at all. This need can vary, however, depending on the individual, particularly if the person in question does not have home insurance. The analysis also shows that insurance companies' costs to provide gadget insurance amounts to almost 60 per cent of the premium income. The costs are almost twice as high as the compensation paid to policyholders and consist largely of remuneration to the stores that provide the gadget insurance.

A consumer cannot receive compensation from two insurance policies for a single event. It is therefore unnecessary to have several insurance policies that cover the same object and event. It is also often better to have one all risks insurance policy than several gadget insurance policies. Consumers should review their insurance and avoid having overlapping coverage.

Insurance companies are responsible for finding out consumers' insurance demands and needs before offering add-on cover. When it comes to gadget insurance, insurance companies are instead responsible for ensuring that the stores providing the policies consider the demands and needs of the consumer before offering an insurance policy.

Background

Add-on cover enables consumers to expand their existing insurance cover. Consumers can also insure specific items through gadget insurance. But to what extent do consumers actually need these types of insurance?

Consumers need base cover for their home and property, so home insurance is therefore an insurance that more or less everyone needs. However, there are a multitude of additional insurance policies that target consumers, and it can be difficult for consumers to know which policies they need.

Consumers primarily insure their property through their base cover: home insurance (content and/or building) and auto insurance. Anyone who has one of these types of insurance can expand their cover by signing up for additional insurance (add-on cover). The most common form of add-on cover is all risks insurance.¹

Most people who have purchased, for example, an electronic product in a store have probably been asked if they also want to purchase insurance for the item.² There are also gadget insurance for different types of products, but what they all have in common is that they cover damages to the specific item the insurance covers.

FI has investigated how much of a need consumers have for add-on and gadget insurance. A basic rule is that it is only possible to receive compensation from one insurance policy per event. Therefore, there is no need for a consumer to have several insurance policies that cover the same event. We have assessed the extent of consumers' need by comparing how much compensation policyholders receive in relation to the premium they pay for the insurance. The analysis and results are presented in this report.

¹ Consumers who pay for an item using their debit card or credit card may also have an insurance that covers the item through the debit/credit card agreement. Consumers who pay for a trip can have a corresponding travel insurance through their credit card.

² Consumers who pay for electronics using their debit/credit card may also have an insurance that covers the item through the debit/credit card agreement.

Add-on cover and gadget insurance

Add-on cover provides extended cover for property than what is covered by the base cover. Gadget insurance provides cover for a specific product and does not require that the consumer already have insurance. Gadget insurance provides broader coverage in relation to all risks insurance, but is only valid for a limited period of time.

Add-on cover

Add-on cover is added to a base cover such as home (contents and/or building) insurance and auto insurance and covers the same property as the base cover. Just like the base cover, add-on cover is valid one year at a time and is thereafter renewed automatically if the policyholder does not terminate the policy. Add-on cover can thus be valid for a long period of time.

All risks insurance

The most common add-on cover for homes (contents and/or building) insurance is all risks insurance, which basically all firms in the investigation offer.³ All risks insurance can refer to either movable property or fixed interior fittings and building accessories.

All risks insurance that refers to movable property covers the objects that are normally found in a home. This includes everything from electronics to watches and jewellery.

All risks insurance that refers to fixed interior fittings and building accessories covers in turn damages to surfaces, such as walls and floors. It also covers damages to building accessories, in other words items installed or permanently mounted in the home, such as appliances, sanitary installations, and kitchen cabinets.

One condition to receive compensation from an insurance is that the insured item is damaged or disappears as a result of a sudden and unpredictable external event. External here means that the damage to the item was not caused by the item itself, for example that it stopped working. It does not matter if it is the policyholder or a third party who has caused the damage; it also does not matter if the item has been taken outside of the home.

³ All risks insurance is sometimes also included in home insurance policies, in which case it is not an add-on cover.

Is there a need for add-on cover and gadget insurance?

Other add-on cover

Other examples of add-on cover that supplement home (contents and/or building) insurance, include expanded travel insurance, golf insurance and electric wheelchair insurance. They are included in FI's analysis, as are deductible reduction insurance and rental car insurance, which supplement auto insurance. There are also other types of add-on cover, and the selection varies between insurance firms.

Gadget insurance

Gadget insurance is often purchased in conjunction with the purchase of an item and only covers that specific item. Gadget insurance is valid for a limited period of time, normally between one and five years, but this differs depending on the policy.

Gadget insurance is normally associated with TVs, computers, mobile telephones, refrigerators and freezers, watches, jewellery and bicycles. It is not linked to other insurance.

The terms and conditions of gadget insurance differ depending on the type of insurance and the insurance company underwriting it. Generally, gadget insurance, just like all risks insurance, covers damages arising from a sudden and unpredictable external event. It also does not matter if it is the policyholder or a third party who has caused the damage or if the item has been taken outside of the home.

Gadget insurance also often applies even if the item breaks on its own, for example if it stops working. It is also common for gadget insurance to not have a deductible at all or to have one that is lower than for all risks insurance. Gadget insurance often does not apply an age deduction; in other words, a deduction for the age of the insured product is not applied to the payout.

Finansinspektionen's analysis

To investigate the extent of the need of consumers for add-on cover and gadget insurance, FI has reviewed the amount of compensation customers received in relation to the premium they pay.

Method for the analysis

FI requested data from insurance undertakings for the years 2019–2021. With regard to add-on insurance, the data refers to all types of add-on cover taken together. With regard to gadget insurance, the data instead refers to each type of insurance, broken down into groups based on the items that are insured. The analysis is based on all gathered data, and the data has not been broken down by insurance undertaking.

FI has requested data regarding

- the number of existing insurance contracts for add-on cover and gadget insurance,
- premium income from each insurance,
- estimated or actually paid compensation,
- the number of events covered by the terms of the policy and that resulted in or are expected to result in compensation (insurance claim), and
- insurance undertakings' costs for providing gadget insurance.⁴

Loss ratio

The loss ratio is the ratio between the compensation paid and the premium paid. It is calculated by dividing the total compensation by the total premium. This figure shows how much compensation customers receive on average for every SEK 100 they pay for premiums.

Examples

Compensation (SEK)	Premium (SEK)	Loss ratio
20	100	20
50	100	50
70	100	70

Assessment of the need

To assess the need for add-on cover and gadget insurance, we assume in this report that consumers collectively have a need for insurance that offers reasonable compensation in relation to the premium they pay.

⁴ Costs refer, for example, to remuneration to the stores that offer gadget insurance.

Is there a need for add-on cover and gadget insurance?

To assess the extent of this need, we have analysed the average loss level ratios for add-on cover and gadget insurance. We make the assessment that a low loss ratio is an indication of consumers paying for cover for which they have little need.

For comparison, we have also looked at how high the loss ratio is for the various base covers. For the period 2019–2021, the loss ratio for home (contents) insurance was 54, home (building) insurance 72, and auto insurance 66.⁵

Add-on cover

Data about add-on cover was obtained from seven insurance undertakings. The data is based on add-on cover that extends home (contents and/or building) insurance and auto insurance⁶. Calculated in terms of premium volume, i.e., total premiums paid over a period of one year, these insurance undertakings represent more than half of the Swedish market for home (content and/or building) insurance and auto insurance.

The total number of add-on cover policies in each analysed year amounted to SEK 4.5 million. The annual premiums for these policies total SEK 1.7 billion. Policyholders have been broken down by age, and a loss ratio has been calculated for each age group.

The offering of add-on cover differs for each insurance undertaking. The analysis is based on data for all of the companies' add-on cover and broken down by the base cover that they supplement.

Gadget insurance

The information about gadget insurance is based on data from five insurance undertakings that FI considers to represent a significant share of the market for gadget insurance.

In the data that FI has analysed, the number of gadget insurance policies for each analysed year amounts to around SEK 2.7 million, and the premium volume amounts to SEK 1.3–1.4 billion. This amounts in total to approximately SEK 4.1 billion in insurance premiums for the analysed period.

The gadget insurance policies to which the data refer relate to insurance for TVs, refrigerators and freezers, mobile telephones, computers (including tablets, etc.), clocks and jewellery, bicycles, etc. Gadget insurance for mobile telephones

⁵ The term auto insurance does not include third-party motor insurance.

⁶ Auto insurance refers to private car insurance for consumers. Trucks and similar vehicles are not included.

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amounts to more than 75 per cent of the total market for gadget insurance. Other types of gadget insurance share the remaining 25 per cent of the market.

This analysis is based on all policyholders for each type of gadget insurance. In contrast to the analysis of add-on cover, policyholders have not been broken down into different age groups.

Results

FI's analysis shows that consumers' need for add-on cover differs depending on the age of the consumer, and their need decreases as their age increases. The need is largest for consumers up to the age of 50. For consumers older than 70, the need for add-on cover is small. The analysis also shows that the need for gadget insurance is small and significantly smaller than the need for add-on cover.

Add-on cover

The data we analysed shows that the compensation policyholders receive from add-on cover on average corresponds to just over half of the premium that they pay. The loss ratio is thus lower for add-on cover than it is on average for the three base covers.

The analysis also shows that the loss ratio varies sharply between different types of add-on cover depending on the age of the policyholder. Policyholders above the age of 60 receive less in compensation from their add-on cover than what all policyholders receive on average.

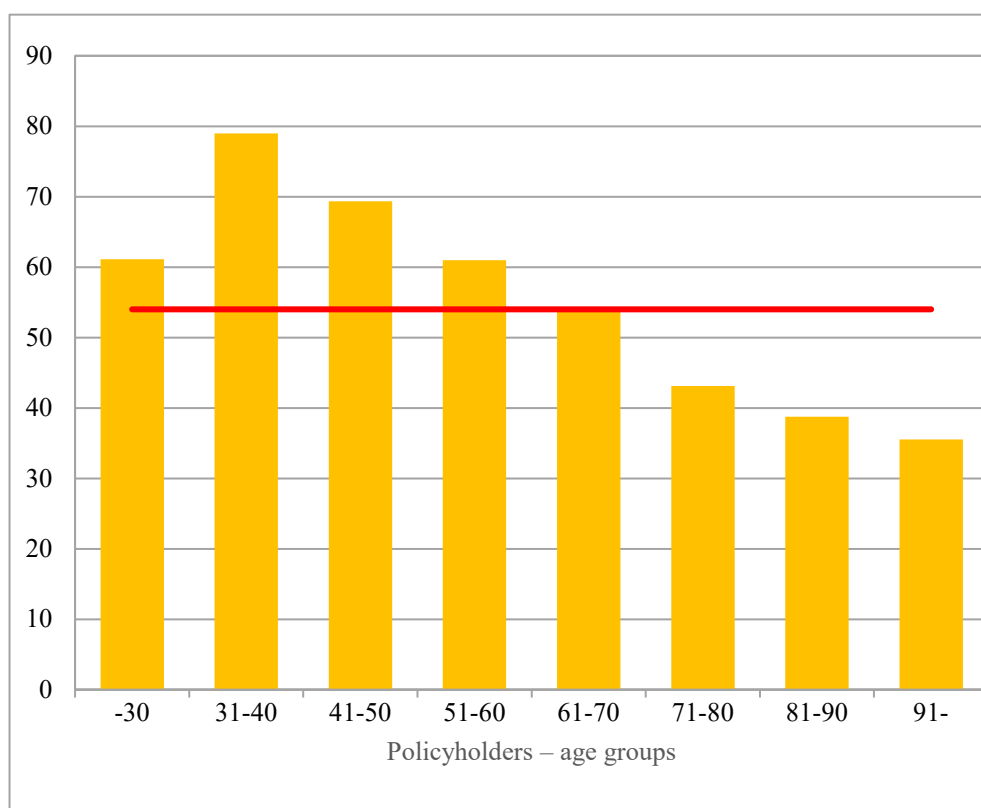
The highest loss ratio is noted among policyholders in the age groups up to 50. For these groups, the compensation in relation to the premium is as high as for home (contents and building) insurance and auto insurance.

The results of the analysis do not vary significantly between insurance undertakings; neither do they vary significantly between mutual and profit-distributing insurance undertakings.

The difference in the loss ratio by age group is presented in the diagram below. The red line shows the average loss ratio for each base cover to which the add-on cover is added.

Diagram 1. Add-on cover for home (contents) insurance

Loss ratio



Source: FI. The red line shows the average loss ratio for home (contents) insurance.

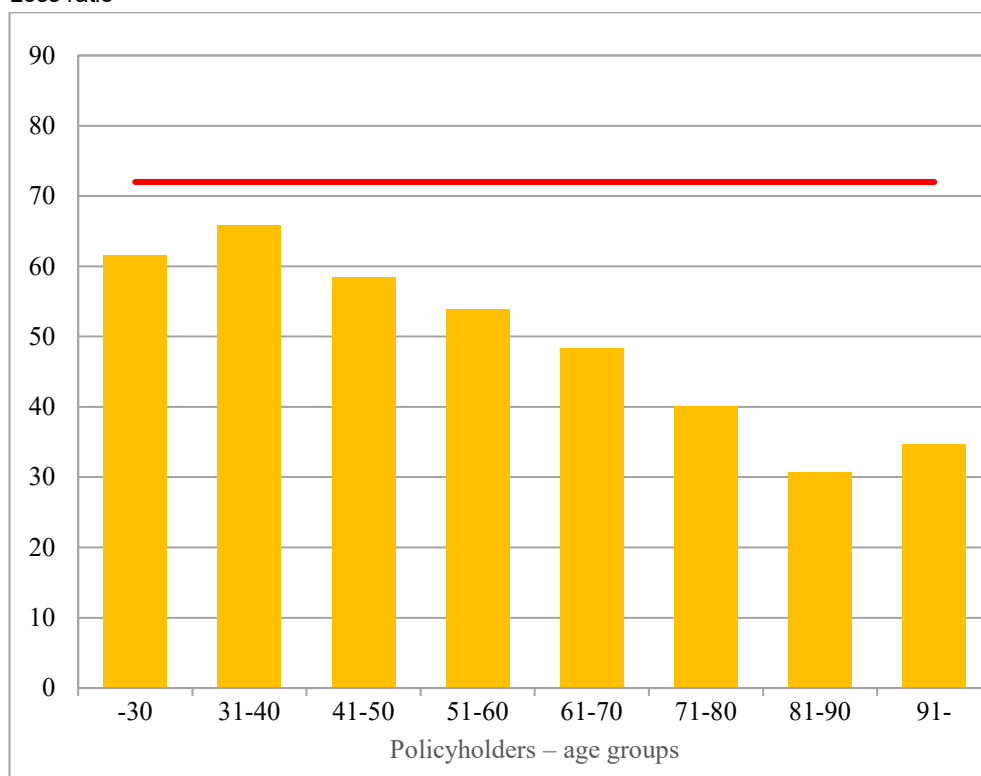
The results show that the loss ratio on average is 60 for all types of add-on cover that have been added to home (contents) insurance. This is somewhat higher than the average loss ratio for home (contents) insurance, which is 54 (Diagram 1). Policyholders receive on average SEK 60 in compensation for each SEK 100 they have paid in premiums for add-on cover. The loss ratio differs significantly, though, between age groups.

The age group 31–50 has a higher loss ratio than the average policyholder. Policyholders in the age group 31–40 have the highest loss ratio, and the age group 41–50 has the second-highest loss ratio. The compensation that these two age groups receive is approximately twice as large in relation to premiums paid than the compensation received by the two age groups 81–90 and 90–. The age group 90– has a loss ratio of 35, which is the lowest of all age groups.

The analysis also shows that the three age groups above the age of 70 receive only half as much in compensation in relation to premiums paid than the age group 31–40, which receives the most.

Diagram 2. Add-on cover for home (building) insurance

Loss ratio



Source: FI. *The red line shows the average loss ratio for home (building) insurance.*

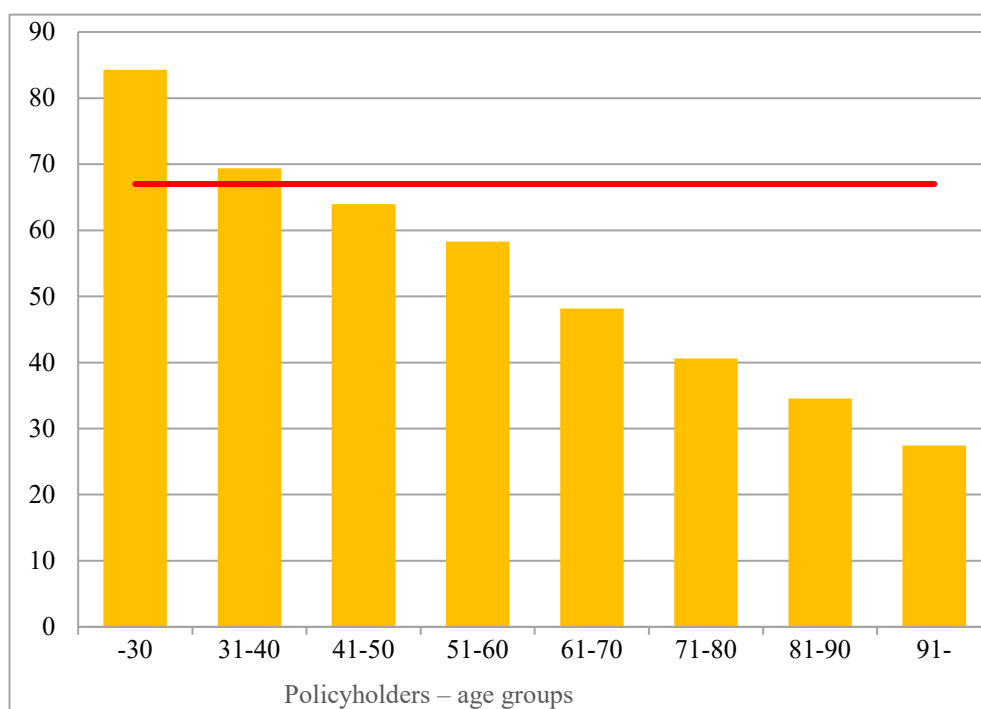
The results show that the loss ratio on average is just over 50 for all types of add-on cover added to home (building) insurance. This is lower than the average loss ratio for home (building) insurance, which is 72 (Diagram 2). Policyholders receive on average just over SEK 50 in compensation for each SEK 100 they have paid in premiums for add-on cover. The differences between the age groups are significant for these policies as well.

The three age groups that consist of those 50 and younger have a higher loss ratio than the average policyholder. The group with policyholders in the age group 31–40 has the highest loss ratio. This group has more than twice the loss ratio than those in the age group 81–90 which have the lowest loss ratio. Furthermore, the age group 31–40 has a loss ratio that is nearly twice as high as those older than 90 and that have the second-lowest loss ratio.

The age group that consists of those 30 and younger has the second-highest loss ratio. This group has a loss ratio that is twice as high as the age group 81–90 and almost twice as high as the age group 90–.

Diagram 3. Add-on cover for auto insurance

Loss ratio



Source: FI. *The red line shows the average loss ratio for auto insurance.*

The results of the analysis show that the loss ratio on average is 60 for all types of add-on cover to auto insurance. This is lower than the average loss ratio for auto insurance, which is 66 (Diagram 3). Policyholders receive on average just under SEK 60 in compensation for each SEK 100 they pay in premiums for add-on cover. The differences in the loss ratio are also large for the different age groups.

The age groups up to 50 have a higher loss ratio than the average policyholder. The age group up to 30 has the highest loss ratio, which is 85. This is approximately three times as large as the group that is 90– and has the lowest loss ratio. This is also more than twice as high as the average of the two age groups 71–90.

The loss ratio decreases gradually with age for this type of add-on cover. The youngest age group has the highest loss ratio, while the oldest age group has the lowest loss ratio.

Gadget insurance

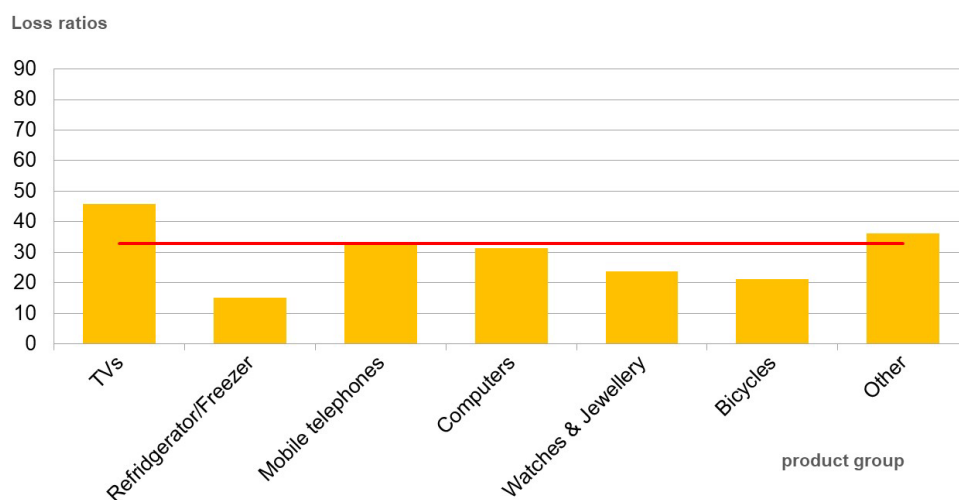
The data FI has analysed shows that the compensation policyholders receive from gadget insurance on average corresponds to just one-third of the premium that they pay (Diagram 4 below). The loss ratio is thus significantly lower for gadget insurance than it is on average for both the three base covers, as well as the add-on cover. The analysis also shows that the average loss ratio varies depending on the type of good that has been insured.

Is there a need for add-on cover and gadget insurance?

The results of the analysis do not vary notably between insurance undertakings.

The diagram below shows how the loss ratio varies between different types of gadget insurance. The red line shows the average loss ratio for all gadget insurance taken out for each good.

Diagram 4. Gadget insurance



Source: FI.

The red line shows the average loss ratio.

The types of gadget insurance that have a lower loss ratio than the average include insurance covering the product groups TVs and Other. The product group Mobile telephones in turn has a loss ratio of 33, which corresponds to the average loss ratio for all gadget insurance.

The results of the analysis show that gadget insurance covering the product group TVs has a loss ratio of 46, which is highest among the gadget insurance policies in the comparison. This means that policyholders receive SEK 46 per SEK 100 they pay in premiums. Insurance covering the product groups Computers (including tablets, etc.), Mobile telephones, and Other have a loss ratio of 30–40, which is second highest. Insurance covering the product groups Bicycles and Watches & Jewellery have a loss ratio of 20–25, which is second lowest. Insurance covering Refrigerator/Freezer has a loss ratio of 15, which is lowest.

We also note that insurance undertakings' costs to provide gadget insurance on average is almost 60 per cent of the premium income. The costs are almost twice as high as the compensation paid and consist largely of remuneration to the stores that provide the gadget insurance.

Responsibility of insurance undertakings

Insurance undertakings' responsibilities differ slightly when it comes to add-on cover and gadget insurance. However, one responsibility these products have in common is that the undertakings are responsible for clarifying consumers' demands and needs before offering an insurance.

Before a customer purchases an insurance product, for example add-on cover, insurance undertakings must clarify the customer's demands and need for insurance cover using the information the customer provides and present the customer with objective and clear information about the insurance product.⁷ The insurance undertaking should determine, for example by asking questions, if the customer has an insurance need and which of the policy or policies are aligned with the actual need.⁸ The insurance undertaking is also obligated to advise against that a customer sign up for an insurance if the policy is not suitable for the customer, for example if the customer has no need for it.⁹

The stores that provide the type of gadget insurance included in FI's analysis do so on behalf of various insurance undertakings. The stores thus act as an agent for the insurance undertakings and are called ancillary intermediaries or special agents. The insurance undertakings are responsible for ensuring that these agents consider the demands and needs of the customer before presenting a contract proposal.¹⁰ This entails in part that a special agent that sells gadget insurance must consider the cover of the insurance in question in relation to applicable consumer protection legislation and ask about the customer's existing protection through, for example, home insurance.¹¹

⁷ Chapter 5, section 11 of the Insurance Distribution Act (2018:1219).

⁸ Bill 2017/18:216 p. 489.

⁹ Chapter 4, section 1 of the Insurance Distribution Act.

¹⁰ Chapter 1, section 7 of the Insurance Distribution Act.
a. Bill p.458.

Conclusions

Consumers' need for add-on cover differs depending on their age. Younger consumers have a greater need for add-on cover, while older consumers often have little need for it. The need for gadget insurance is limited, and there is often no need for it at all.

Consumer aged 50 and younger in many cases have a need for add-on cover. The need for those older than 70, however, is small, and the need for add-on cover also decreases with the age of the consumer. Consumers have little need for gadget insurance; on average, customers receive only SEK 33 in compensation from each SEK 100 they pay in premiums. The stores that sell gadget insurance are paid significantly more from the insurance undertakings than what is paid out in compensation.

Gadget insurance as a rule covers more events than an all risks insurance. However, gadget insurance only covers one item, while all risks insurance covers basically all property included in the base cover it supplements. A consumer cannot receive compensation from two insurance policies for a single event. It is therefore unnecessary to have several insurance policies for the same object and event since this does provide overlapping insurance cover. Consumers who would like to extend their insurance cover therefore often have a greater need for all risks insurance than for gadget insurance.

It is important that insurance undertakings clarify, before a consumer signs up for add-on cover, whether the consumer has an insurance need and which of the policy or policies are aligned with the actual need. It is also important for insurance undertakings to ensure that their special agents consider consumers' demands and needs before offering gadget insurance. This decreases the risk that consumers will sign up for insurance that they do not need.

Consumers should regularly assess their need for insurance. This applies in particular to older consumers. Ultimately, however, the need for insurance cover depends naturally on each consumer's individual situation. In some cases it can be a good idea to have add-on cover, but it is unnecessary to have several insurance policies covering a single event.

Consumers should consider their needs particularly before they sign up for gadget insurance. Does the consumer already have an insurance that covers the item in question? Which events does the consumer want cover for, and is there a risk that the consumer will end up in such a situation? How much does the insurance cost, and would consumers consider paying for the damages or loss themselves if the item is uninsured? Often, the consumer does not need gadget insurance. In individual cases, for example for consumers or family members of consumers who

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face an elevated risk of experiencing certain events, there may be a need for gadget insurance.