Interview with Manuela Zweimueller, EIOPA's Head of Policy and Katja Wuertz, EIOPA's Head of Consumer Protection for the German Association of the Insured (Bund der Versicherten)

1. What are the main criteria for insurance based investment products (IBIPs)? Do IBIPs also include private pension insurance? What about hybrid products, for example long-term care annuity insurance ("Pflegerentenpolice")? (Katja Wuertz)

The criteria to define an insurance-based investment product are described in Article 2(17) of the Insurance Distribution Directive (IDD). There is an exemption for pension products which satisfy certain conditions, for example pension products which, under national law, are recognised as having the primary purpose to provide the investor with income for retirement needs. The decision regarding which products are within the scope of that exemption depends on the characteristics of the product and the circumstances of the individual case, and therefore it is not possible to provide a general judgement with regard to "Pflegerentenpolice".

2. The Insurance Distribution Directive (IDD) requires from insurance undertakings a product approval process (Article 25 of IDD). What are the main improvements for consumers? (Katja Wuertz)

The internal product approval process ensures that the interests of the customers are taken into account during the entire product cycle, starting from the time when the insurance product is designed and manufactured. For that purpose, the IDD requires manufacturers of insurance products to establish "product oversight and governance arrangements".

These include processes to identify the group of customers for whom the product is designed (target market), an appropriate product testing before the product is distributed, the selection of appropriate distribution channels, the continuous monitoring of the insurance products during their lifetime as well as the obligation to take appropriate action if problems with the insurance product arise at a later point in time.

The product oversight and governance arrangements emphasise the responsibility, in particular for the Boards of insurance undertakings manufacturing insurance products. This is a new concept, which supplements the existing conduct rules protecting the customer's interest at the point of sale.

3. What does "to act in the best interests of the consumer" mean? How can this be implemented in the distribution of products and is "best advice" in such cases necessary? What is the difference compared to the "suitable advice"? (Katja Wuertz)

The obligation to act in the best interests of the customer is a general principle, which is overarching and particularly comes into play when the IDD does not foresee specific regulatory requirements. With regard to advice, it should be noted that the IDD requires insurance undertakings and insurance intermediaries to propose insurance products which are consistent with the demands and needs of customers. Furthermore, the distributor needs to provide the customer with a personalised recommendation explaining why a particular product would best meet the customer's demands and needs.

Furthermore, for insurance-based investment products, distributors must conduct a suitability assessment, as laid down in Article 30 of the IDD, so that distributors are able to recommend suitable products. Hence, the IDD does not require a recommendation for the best product ("most suitable"), but only a product which is suitable for the customer.

4. In July 2016, EIOPA submitted to the European Commission a Technical Advice on the Pan-European Personal Pensions Product (PEPP). In October 2016 the European Commission started another public consultation. Can we interpret this as a further delay by the European Commission? What is EIOPA's response to that after EIOPA Chairman, Gabriel Bernardino, supported the PEPP so heavily? (Manuela Zweimueller)

Indeed, in July 2016 EIOPA provided its advice to the European Commission recommending the creation of an attractive PEPP in the form of an EU complimentary regime alongside national regimes.

On 29 June 2017, the European Commission published a proposed regulation on a pan-European personal pension product (PEPP). The proposal is accompanied by a recommendation to the Member States on the tax treatment of personal pension products including the PEPP. Going forward, the legislative proposal will now be discussed and assessed by the co-legislators, the European Parliament and Council.

PEPP is designed to become a truly European, safe, transparent and cost-effective long-term retirement savings product that will offer pensions savers an entirely new personal pensions framework for saving for adequate future retirement income. Due to this European nature, and the conceptually inherent requirements on standardisation and portability, EIOPA, as a European supervisory authority can ensure consistently high standards, including a high level of consumer protection, throughout Europe. EIOPA believes a central authorisation hub and a database with the information about all authorised PEPP products is crucial for the PEPP's success. According to the European Commission's proposal, EIOPA would take on the responsibility in ensuring fully consistent quality criteria for the authorisation, licensing and therewith pass-porting of PEPP. The PEPP database will for example include the information about main characteristics of each PEPP, costs and fees.

As highlighted in EIOPA's mandate to promote supervisory convergence throughout Europe, close cooperation with and amongst national supervisory authorities is of paramount importance for the proper functioning of the European internal market. EIOPA is of the view that a stronger coordination and collaboration in view of the development of supervisory plans and approaches for PEPPs is needed to support the initiative of a truly pan-European product.

5. In concrete terms, how should the PEPP in connection with the Capital Markets Union be designed for private investors, including retail investors? Does EIOPA believe that the protection of retail investors is adequately ensured? (Manuela Zweimueller)

PEPP is designed to become a truly European safe, transparent and cost-effective long-term retirement savings product that will offer pension savers an entirely new personal pensions framework to invest and, by that, to save for adequate future retirement income. The ambition of the PEPP proposal is to achieve both, encouraging personal pension savings for individuals and enabling important long-term investments in capital markets. Fostering sustainable, long term-investments will allow retail consumers to gain access to potentially higher yields and sustainable cash flows and consequently lead to positive outcomes for savers in form of increased capital that equally supports healthy economic growth and meets the objectives of the Capital Markets Union. In particular to mitigate investment risks, on the basis of EIOPA's advice, the PEPP introduces a relevant set of important safeguards to protect retail customers, for example, through a strong default investment option, enhanced transparency – both pre-contractual and during the savings period – as well as tested rules on conduct of business. The standardised features of PEPP, together with the cross-border perspective, are facilitators for efficient asset pools to reach a critical mass, in order to keep costs and charges low. In addition to that, risk mitigating techniques and collective protection designs shall safeguard accumulated capital, so it is safe to save in a PEPP - also for consumers with little available income allowing them to save for their future retirement income.

For providers, the PEPP framework will offer a single market that will allow pooling of assets and create economies of scale. Its portability across the European Union's Member States will be facilitating cross-border distribution.

6. As a result of Brexit, the European Banking Authority will need to leave their current location. While there are discussions of different locations for the European Banking Authority, there are also considerations about the fundamental reform of supervision in European, e.g. "Twin Peaks model? What should be understood under that and what is EIOPA's opinion about it? (Manuela Zweimueller)

EIOPA responded to the public consultation of the European Commission on the operations of the European Supervisory Authorities where we presented our view on the future direction of the authority. In particular, EIOPA emphasised the need for an integrated and holistic approach to prudential and conduct supervision. In the insurance business model, long-term promises and variable allocations of risks between insurers and policyholders strongly connect the profitability and solvency of the company and the fair treatment of its customers. Recent history has shown how conduct failures can lead not only to consumer detriment but also to solvency issues and contagion risks, or, that solely pursuing solvency in a crisis situation can put policyholder interests at risk. These interlinkages are reinforced by emerging disruption of business models and the trend towards digitalisation. Therefore, there is a need for a holistic and integrated assessment, which goes beyond the balance sheet to incorporate qualitative and conduct related information.

Also, EIOPA recommended further refinements in relation to supervisory convergence, and an enhanced approach to equivalence assessments which should be a high priority in the ESA's review. On 20 September, the European Commission published a proposal for a stronger and integrated supervision in Europe. EIOPA welcomed this proposal and stands ready to support the European Commission, the European Parliament and the Council in further discussions.