



SPEECH

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How EIOPA is “taking the lead” in consumer protection



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Ladies and Gentlemen,

It is a great pleasure to speak to you here in Geneva and to share with you EIOPA's priorities and plans related to consumer protection.

The protection of policyholders, pension scheme members and beneficiaries is one of our key objectives. But, consumer protection is not just a legal objective for us; it encompasses our entire philosophy. We are expected to take a "leading role" in promoting transparency, simplicity and fairness in the market for consumer financial products or services; that is why we aim to be ambitious in this area.

And we have taken a number of important steps in the right direction. The first step we took internally last year was to create a specialised Committee on Consumer Protection and Financial Innovation (CCPFI). This was not only to comply with a legal requirement under the EIOPA Regulation, but also to send out a message that we consider the issues of consumer protection and financial innovation to be important and closely inter-linked. Product innovation also has an important impact on the level of consumer protection.

The next step was to target key areas where we felt we could achieve tangible outcomes and to consider our strategy as a European Supervisory Authority. In that respect, I will start by outlining our achievements last year and then go on to talk about our strategic goals for this year and the years ahead.

Achievements in 2011

2011 was a very busy year for EIOPA as regards consumer protection:

- We prepared Guidelines and a Best Practices Report on Complaints-Handling by Insurers. We want to fill an existing regulatory gap at EU level and promote convergence of regulatory practice. We aim to do this by, first, clarifying the expectations relating to an insurance undertaking's internal control system and, second, giving guidance on the provision of information to consumers and procedures for responding to complaints. We consulted on the Guidelines and Best

Practices Report at the end of last year and they are due to be finalised in Q2 this year.

- We published at the end of last year a Report on Financial Literacy and Education Initiatives by national competent authorities; it was a stock-take of existing structures/processes in Member States. This was in line with a requirement under our empowering legislation to review and co-ordinate such initiatives.
- We collected data on consumer trends amongst our Members authorities. This helped us to prepare an Initial Overview, analysing and reporting on those trends, which was published in early February this year. We identified three key trends: (i) Consumer protection issues around Payment Protection Insurance (PPI) (ii) development of unit-linked life insurance and (iii) increased use of comparison websites by consumers. This is just the start of our on-going monitoring of consumer trends.
- We provided input into the Commission's revision of the Insurance Mediation Directive (IMD) by carrying out an extensive survey of national laws providing for sanctions (both criminal and administrative) for violations of the provisions of the IMD. The Commission's legislative proposal is expected at the end of April this year. I will talk about this again later.
- We focused on disclosure and selling practices of Variable Annuities. This exercise was brought about by the fact that some variable annuities products may achieve outcomes that are not easy for consumers to understand. We consulted on a draft Report at the end of last year and this is due to be finalised in Q2 this year.

Plans for 2012

We don't want to just stop there in 2012, however. We need to move forward given the need for us to be proactive. As mentioned, we have some ambitious objectives.

We will finalise existing projects, but we also initiate new projects such as developing training standards for the industry, ensuring transparency in national general good rules, enhancing the existing methodology we use for collecting data on consumer trends and analyzing the impact of Solvency II on product development.

All these initiatives will be carried out under the backdrop of the impending Commission legislative proposals on the revised IMD and Packaged Retail Investment Products (or PRIPs), which are expected at the end of April 2012. There will inevitably be a considerable workload for EIOPA in response to these proposals and work under the Joint Committee of the ESAs will be crucial to ensure cross-sectoral consistency. The proposals will contain requests for follow-up work in the form of advice on implementing measures, binding technical standards or common acts. Ensuring the appropriate level of remuneration disclosure and robust mitigation of conflicts of interest will be crucial to our ultimate objective of enhancing customer protection.

Strategic approach for the years ahead

But what about our strategic approach for the years ahead?

We have developed a strategic orientation on consumer protection and financial innovation, which underpins all the work we do. This states that we will seek to prevent consumer detriment in the following ways:

- First, we contribute to making sure that consumers in Europe are well informed. Information to consumers prior to purchasing an insurance contract and throughout the duration of the contract should encompass the risks and the costs of the products, relevant regulatory requirements and complaints-handling procedures.
- Second, advice to consumers should best suit their profile and their needs, taking into account the complexity of the contract and the risks involved, with a view to purchasing an appropriate product. As mentioned above, a good practices report concerning disclosure and selling of variable annuities is currently being finalised.
- Third, we want to contribute to the financial literacy and education of consumers *inter alia* by making available, through our website, information on the roles and responsibilities of national supervisors in these matters, and pointing to useful financial education material.
- Fourth, in order to ensure the quality of both the advice and the information a consumer receives, minimum standards for ensuring the training and

competence of relevant staff in contact with the clients should be set out both at the outset and on an on-going basis.

- Fifth, there should be effective redress procedures for consumers. Consumers should be able to complain, and their complaints should be heard. In this respect, as already noted above we are preparing guidelines on complaints handling in the insurance industry, which may be extended to cover intermediaries at a later point in time.
- Sixth, firms should also have in place appropriate claims-handling procedures to ensure effective and fair treatment of claims.

When following these strategic goals we need to reconsider the policy tools that we traditionally used to deal with information asymmetries, conflicts of interest and market inefficiencies. We need a paradigm shift.

On the information side we need to reinforce standardization and comparability. However, information should not be used to shift responsibility from the providers to consumers. We cannot take for granted that consumers always make rational decisions. Furthermore, it is not all about transparency. Disclosure is a relevant tool but alone cannot deliver the full results for consumers.

On the provision of advice we need to take a closer look at conflicts of interest. Unfair practices leading to consumer detriment in the insurance and pensions market are often due to situations of conflict of interest. Insurance is an industry where agency incentives can be the main driver of the kind of product to be sold. Sometimes this results in the sale of products which are not suitable for the consumers concerned. This necessarily entails that selling practices, whether through intermediaries or direct writers, should meet certain high standards.

We also need to pay further attention to product suitability. Insurers should implement as part of their governance system a framework for early detection of unfair products, clauses or selling practices. I believe that this can usefully include the request of an independent opinion on the product design and characteristics by the internal governance functions of the insurer.

Looking ahead, one of the most relevant powers of EIOPA is the possibility of issuing warnings when consumer protection is at risk. Furthermore, in the cases specified in

EU legislative acts and in emergency situations EIOPA may temporarily prohibit or restrict certain financial activities.

We need to use these powers within a robust governance framework, but they are there to be used.

This is a “whistle-stop” tour of EIOPA’s work in the area of consumer protection and financial innovation. I hope it has provided you with some food for thought.

Thank you for your attention.