



OPENING SPEECH

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“Reinforce consumer confidence in Europe’s insurance and pensions sectors”



2nd EIOPA Consumer Strategy Day
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Ladies and Gentlemen,

It is my pleasure to welcome you here today on the occasion of EIOPA's 2nd Consumer Strategy Day. I am happy to host this event for the second time after our inaugural event last year and I look forward to a continued sharing of experience and updating of each other on activities related to the protection of consumers in the area of insurance and occupational pensions.

I would like to warmly welcome our panellists: I am also sure that, thanks to your participation, we are going to have interesting and fruitful discussions in today's three sessions.

In my intervention today, I would like to start by setting out EIOPA's strategic objectives in the area of consumer protection and financial innovation, then talk about some of our achievements and finally, share with you some of the challenges, going forward.

Strategic objectives

As regards our strategic objectives, it is important to emphasise from the outset that EIOPA is expected to take a "**leading role**" in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market. In order to successfully perform this proactive role, we have developed strategic orientations for our work, with a specific focus on the protection of consumers.

First of all, we want to make sure that all the areas under EIOPA's remit will provide a basis for us making a tangible difference to consumers: to clearly improve and enhance their position and raise the awareness of consumer rights and obligations.

Secondly, we aim to contribute to the creation of a well-integrated market for insurance and pension products for the benefit of consumers. To do that, we will work towards the reinforcement of the level of harmonisation of EU regulatory regimes in the consumer protection area.

Last but not least, it is our aim to establish the “DNA” of consumer protection within EIOPA by focusing on a number of activities: identifying key consumer trends and acting on them, developing industry training standards, promoting cross-sectoral regulatory consistency, issue warnings in accordance with the EIOPA Regulation.

Based on the above, EIOPA will be adding real value for consumers of insurance and pension products. In addition, by establishing best practices for consumer protection, filling regulatory gaps that may exist in this area, and encouraging transparency in the way products and services reach the market, we will enhance the consumer protection agenda, not only at the individual national levels, but, together with supervisory authorities of Member States, also at the European level.

EIOPA achievements

As some of you may remember, last year, we “set the scene” for future consumer protection activities and I spoke about the need to reinforce the standardization and comparability of information; to take a courageous look at conflicts of interest and to pay more attention to product suitability. Today, I would like to tell you what we have done to make tangible differences in the protection of consumers.

Ensuring standardization and comparability of information

In February 2012, EIOPA took its first step towards standardization of information in our Final Advice on the Directive on institutions for occupational retirement provision (IORP Directive) review, where we suggested the introduction of the Key Information Document (KID). I am convinced that the KID will be a huge step towards more transparency and confidence in the area of occupational pensions.

To provide customers with high quality information at the point of sale is paramount in consumer protection. EIOPA welcomes the initiative by the European Commission to enhance point of sale disclosures by introducing through its legislative proposal on Packaged Retail Investment Products (PRIIPs) a Key investor Document for all retail investment products. We believe that the product manufacturer should be responsible for producing the KIID, while the distributors should be in charge of delivering it to investors.

As this initiative applies on a horizontal basis, the three ESAs have agreed to carry out their work under the auspices of the Joint Committee and have established a working group dedicated to PRIPs, which is chaired by EIOPA.

Furthermore, in April 2012, we published a Report on good practices for disclosure and selling of variable annuities (VAs). The aim of this Report is to identify which type of information customers should receive in order to be able to take informed decisions when considering buying a variable annuity. The Report also refers to good practices regarding advice to be given to customers in this context.

This report identifies how consumer interests can be better protected as regards the sales of variable annuities and shows EIOPA's commitment towards consumer protection. We expect that insurance companies will seriously take into consideration those good practices that are listed in the Report and incorporate them in their practices of the VAs disclosure and selling. From our side EIOPA plans to closely monitor and review this issue in the following years.

Ensuring fairness through appropriate redress mechanisms

EIOPA considers it of fundamental importance that consumers are treated fairly by financial institutions, in particular with regard to the manner in which their complaints are handled and the avenues available to them for redress. Among our achievements in 2012, I also would like to mention the first set of EIOPA Guidelines that are dedicated to complaints-handling by insurance undertakings. These Guidelines fill an important regulatory gap at the EU level.

Amongst other things, insurers are expected to put in place a complaints management policy and a complaints management function that would allow them to investigate complaints in a fair way and to identify and mitigate possible conflicts of interest. Competent authorities are expected to indicate by 15th January 2013 whether they will comply with the Guidelines or if not, explain the reasons for non-compliance, which we may choose to publish. In this way, we are seeking to enhance the level of supervisory convergence in this area.

Looking forward

It is clear that there has been a decline in consumer confidence in the financial services sector following the financial crisis and various mis-selling cases. I would like to tell you about how EIOPA is going to further contribute to rebuilding confidence through several targeted initiatives aimed at enhancing protection for policyholders and pension scheme beneficiaries.

Managing conflicts of interest

Conflicts of interest represent a subject where I believe we can afford to be more ambitious.

We welcome the publication of the Commission's proposal to recast the existing IMD ("IMD2") in July this year. We support the Commission's objectives of making retail insurance markets work better and promoting a more level playing field amongst all activities. Indeed, preventing regulatory arbitrage and guaranteeing a level playing field are key objectives for EIOPA too.

It is important, however, from my perspective, that the final legislative text creates a regulatory regime in the retail insurance market that can be effectively supervised both from a national and a European perspective, bearing in mind the wide variety of existing structures at national level for supervising insurance intermediaries. In addition, while intermediaries' professionalism should be reinforced, IMD2 needs to respect proportionality as regards the objectives to be achieved and full consideration of existing market specificities such as a diverse range of distribution channels at national level and any related costs and benefits.

I believe the current provisions in IMD could be significantly improved and a separate article on conflicts of interest could be introduced, together with a general "duty of care". A general duty to act honestly, fairly and professionally in the best interests of clients should be included, but we need to be careful in ensuring that the specificities of the intermediary distribution channels are properly taken into account.

As regards the concrete management of conflicts of interest, I believe the intermediary should be required to systematically identify and manage conflicts of interest (disclosure for example could also be used as a form of managing the conflicts of interest). But, if the conflict of interest is not manageable or avoidable, the

intermediary should consider, whether he is able to act in the customer's best interest or it would be better to refuse the business. In order to guarantee a level playing field in this area, we think that the provisions regarding the level of disclosure of remuneration should be the same for both intermediaries and insurance undertakings.

Ensuring that those who sell insurance products are adequately trained and competent to do so

Ensuring distributors of insurance products have adequate knowledge and ability from the outset, understand the products they are selling to consumers and update their knowledge and ability on a regular basis is crucial to enhancing consumer protection. This is particularly important given the increasing complexity of product offerings.

In that respect, we recently published a Report on Industry Training Standards applied by national competent authorities. The report looks at different requirements as regards knowledge and ability for insurance intermediaries, laid down by National Competent Authorities. The Report clearly showed a very wide diversity of national rules in place, arising out of the national implementation of IMD1, a minimum harmonising directive.

The publication of the Report provides us with a suitable evidence base for further work on enhancing the level of supervisory convergence in this area. In that respect, we will be working on a Report on good supervisory practices applicable to knowledge and ability requirements for distributors of insurance products, with a view to publishing the report for public consultation in 2013. This work is also a very useful starting point for any follow-up work there might be on IMD2.

Reinforce product oversight and governance

This is an area where progress needs to be made. I think that regulators need to look at the basic steps required in the development of products and not to focus only on disclosure and product complexity. We need to assure that financial institutions develop appropriate internal processes and controls for product development. This work is being done at the level of the Joint Committee and I have clear expectations on its outcome.

At the same time, I would like to call on insurance companies to consider a basic minimum structure of products and to offer very clear and simple policies. The benefits of this approach are mainly twofold:

On one hand, it will help to prevent the mis-selling of products. We all know that product complexity is one of the reasons of mis-information to consumers.

On the other hand, simple policies can also be beneficial for product providers and distributors by reducing the potential for complaints. I am convinced that simple products can consequently reduce the costs for litigations and claims that are currently quite high. Therefore this is something that companies should consider.

Towards an EU framework for retirement savings products

From a consumer protection perspective, there is an evident need to look at the individual retirement savings in the EU. The current framework applicable to 3rd Pillar products is very much fragmented with a number of different vehicles on which different types of EU regulations are applied. Consequently, different levels of protection are in place for products that have basically the same objective.

I believe that there are merits in developing an EU-wide framework for the activities and supervision of individual retirement savings, containing both prudential and consumer protection measures. Improving consumer information and protection is necessary to enhance citizens' confidence in financial products for retirement savings.

EIOPA will work on the basic characteristics that an "EU retirement savings product" should comprise. They could be developed to finance individual or collective defined contribution plans and should clearly differentiate from other types of investment products by being focused on the long-term nature of their objective, avoiding the traps of the short term horizon.

They should be based on a simple framework, allowing for reduced cost structures and be managed using robust and modern risk management tools. They should rely on a clear and transparent governance structure and provide full transparency to its members and beneficiaries. They should have access to a European passport allowing for cross-border selling. An EU certification scheme should ensure EU citizens the quality of all marketed "EU retirement savings products".

These products could also play an important role in the EU economy by assuring a focus on long-term investments thus contributing to foster sustainable economic growth.

Bans and restrictions

Finally, I also would like to use this opportunity to mention the necessity for EIOPA to have a power to issue temporary prohibitions and restrictions of those financial activities that might threaten the orderly functioning or stability of financial markets. At the moment there is no sectoral legislation in the insurance and occupational pension, which would set the specific boundaries enabling EIOPA to do so. However, the powers to issue temporary measures are as such laid foreseen by the Regulation establishing EIOPA!

We already raised this issue with the relevant EU institutions. In letters to the Parliament, the Council and the Commission we emphasized that such EIOPA powers would help avoiding regulatory arbitrage and, at the same time, would ensure an effective way to deal with situations of flawed product design or with governance that could lead to severe consumer detriment.

EIOPA has suggested including a respective provision in the IMD2 proposal and the European Commission has welcomed our suggestion. We are convinced that the powers to temporary prohibit and restrict certain financial activities will help EIOPA to better protect consumers of insurance and pensions' products.

Finally, I would like to assure you that EIOPA is committed to these ambitious plans that were put in place when our Authority was founded. We will continue to work on the enhancement of consumer protection in the areas of insurance and pensions. And, of course, we will be doing it in close cooperation with all stakeholders.

The EIOPA Consumer Strategy Day is just another element of this policy. So I would like to encourage you to fully use the opportunities that this event provides. Please help us to make this a day that will bring tangible differences to consumers and enhance confidence and trust in financial services.

Thank you for your attention.