



## **SPEECH**

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### **Towards a new virtuous cycle in consumer protection in insurance**



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Good morning Ladies and Gentlemen,

First of all, let me say that it is a great pleasure to come to Bucharest and be able to address some thoughts to such an important audience. My special thanks to the organisers of this European conference. And it is a particular pleasure to be able to talk to you about consumer protection as this has been one of the strategic priorities of EIOPA since the beginning.

Consumer protection as we know it today is a recent phenomenon. Before the 1960's, legal consumer rights were practically non-existent. In 1972, consumer rights were first mentioned in official EU papers. From that moment on, consumer protection accelerated, especially in the financial area. In the New European Consumer Agenda, published by the Commission in 2012, finance is one of the key sectors.

In today's society, consumer satisfaction is taken as the best guarantee for any company's continuity. "Rule number one" in the financial sector business should be: the consumer should be at the heart of the provider's business, not the other way round. That's a clear prerequisite for being trusted by the consumer. Trust is an essential element of society and a major determinant of economic success. Trust affects how the legal system works, which affects the economy, due to its overall effect on transaction costs. This is key for a modern economy.

The recent financial crisis created a huge lack of trust in the financial sector. So how can we restore trust and confidence? First and foremost, it is the responsibility of the firm itself: by doing business in a decent and honest way, having good governance arrangements, offering transparent products and having a company culture that is built on integrity.

Of course, regulation and supervision also play an important role in ensuring that consumers have trust and confidence. Strong regulation and supervision add credibility to the market and can be a catalyst for a healthy market development.

But let me now turn to EIOPA's work on consumer protection, which has been one of our main priorities. For me, consumer protection has two main dimensions:

Firstly, it is about ensuring that undertakings are soundly managed and have a robust solvency position in order to fulfil, on an on-going basis, all the commitments made to their customers.

Secondly, it is about making sure that customers receive the information they need on conditions, costs and risks of the products, that they are treated fairly and that they get value for money.

The first objective is at the centre of the Solvency II project and I believe it will be a major development from a policyholder protection perspective.

Regarding the second objective, our agenda is focused on ensuring a paradigm shift towards much better transparency for consumers and reinforced fairness in selling practices. For this, we need further certainty on the EU regulatory framework. Projects like IMD2 and PRIPS need to be finalised in order to set new improved standards for transparency and selling practices in the insurance market at an EU level.

But these two main dimensions of consumer protection are interrelated, and conduct and consumer risks need to be fully taken into account within insurer's overall governance systems.

Product governance, product suitability and appropriate selling practices need to be at the top of the agenda of boards of insurance companies. Board members need to make sure that product characteristics are suitable for the target market, that distribution channels are appropriate for that market segment and that full transparency on costs is provided to consumers.

The insurance market needs to learn the lessons from the miss-selling cases that occurred in the past in the different countries and reflect on the huge reputational and financial consequences stemming from the unacceptable misconduct behaviour of some financial institutions.

We are living in a period of rapid transformation on the consumer side. Consumers are more demanding, more aware of their rights. The “Web generation” demands greater transparency, comparability and flexibility. Consumers demand more integrity and they don’t trust so easily anymore. The perception of poor quality service is rapidly transmitted and exposed through social media networks.

Financial institutions need to provide an adequate answer to this change. They need to develop simpler and more understandable products, devote further attention to the fairness of contractual conditions and they definitely need to review the charges and commissions applied, ensuring that they are not disproportionate and that they are clear to the consumer.

This needs to be seen in a positive way by insurance companies and intermediaries. Simpler products targeted on consumer needs can simplify cost structures, provide more competitive pricing and reduce the potential for mis-selling. By improving selling practices and avoiding conflicts of interest, insurers will serve their customers better and will be compensated for it.

All in all, financial service providers “should go beyond what is legal and start doing what is legitimate”.

The concept of what is right or fair in the relationships between insurers, intermediaries and customers is evolving. What seen as fair some years ago is not seen like that anymore. This calls for a critical look from the insurance companies and intermediaries at current products and practices in order to ascertain what needs to be changed. Only a proactive critical attitude can prevent future mis-selling cases, help to develop better new products and reinforce the confidence of consumers overall.

### Consumer trends

One of the key tasks of EIOPA is to collect, analyse and report on consumer trends. The aim is to identify vulnerabilities in the relevant markets which could provide the basis for targeted policy proposals or other supervisory actions. In our recent Report on Consumer Trends, issued in December, we identified a number of issues such as the lack of, or misleading, disclosure of

information and poor advice given to consumers, potentially leading to the mis-selling of various insurance products, in particular life products such as unit linked life insurance; the sale of complex products to retail investors and the governance rules for the development of these products; and consumers focussing more on the price than the protection provided by some simpler products.

Going forward, it is clear to me that data collection on consumer trends needs to be improved, both at central and national levels. Furthermore, we are exploring the use of social media monitoring tools for our consumer trends analysis and would need further involvement from consumer representatives in order to better reflect their major concerns. Here there is an important role for EIOPA's stakeholder groups.

EIOPA analyses the trends and areas highlighted and, where appropriate, develops targeted policy and supervisory proposals to enhance consumer protection in the EU. We have different tools at our disposal.

Let me give you three examples.

### *Complaints-handling*

EIOPA identified a lack of EU rules on complaints handling by insurance companies and insurance intermediaries, leading to a diverse number of national approaches and a potentially un-level playing field. We decided to issue Guidelines to seek to promote a more convergent approach.

EIOPA's Guidelines on complaints-handling by insurers have been implemented by national supervisory authorities. I am glad to mention that Romania complied with the Guidelines. As a result of our Guidelines, many insurers in the EU are updating their complaints management systems. This will help consumers to receive a better service and to resolve problems in a quicker and a more efficient way. At the end of last year, we issued similar guidelines relating to complaints handling by insurance intermediaries.

### *Payment Protection Insurance*

Having identified significant consumer detriment in the market for Payment Protection Insurance (PPI), including miss-selling practices, market imperfections and disproportionate levels of commissions, we issued an Opinion, in which we provide a framework for supervisory analysis of the issue, recommending National Competent Authorities (NCAs) to use it and to report back to EIOPA. Based on the information received from NCAs, EIOPA is now deciding if and what kind of further action is needed at EU level.

### *Comparison websites*

We have identified comparison websites as a, key emerging consumer trend. While comparison websites help to enhance the transparency and comparability of information available to consumers, there are a number of elements that need to be carefully dealt with in order to avoid detriment to consumers.

As a first initiative in this area, we recently published a report outlining good practices for websites that compare insurance products.

The Report gives guidance on topics such as information about the comparison website itself, the market coverage of the website, how the website deals with conflicts of interest, the criteria used to make the ranking of providers and products and the presentation and frequency of updating of the information.

Our report aims to promote transparency, simplicity and fairness for consumers and we expect that the good practices put forward will be adopted by the relevant market players and assessed by NCAs.

Ladies and Gentlemen,

The development of a single rule book of harmonised regulation is a huge step forward for the single market, but let's be honest: good regulation is just a first step. The real challenge will be to ensure that regulation is implemented in a consistent way throughout the EU. This requires effective and convergent supervision in all Member States in order to ensure strong supervision

throughout Europe and to prevent regulatory arbitrage and guarantee a level playing field in the internal market.

That's the reason why EIOPA puts a strong emphasis on the promotion of supervisory convergence and the establishment of a common supervisory culture.

Strong and credible supervision is needed across the EU. Preventive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

All Member States in the EU shall ensure that the supervisory authorities are provided with the necessary means, and have the relevant expertise, capacity, and mandate to achieve the main objective of supervision, namely the protection of policyholders and beneficiaries. Going forward, EIOPA will perform an important role, as stated in its regulation, by reviewing the convergence of supervisory practices, but also the capacity of supervisors to achieve high quality supervisory outcomes, as well as their independence.

In this context, as is mentioned in the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS), it is fundamental that the supervisor, in the exercise of its functions and powers, is operationally independent, accountable and transparent and that the supervisor and its staff is free from undue political, governmental and industry interference in the performance of supervisory responsibilities.

The insurance industry plays an important role in protecting citizens in their daily life and in helping businesses to develop and expand. A credible and stable insurance industry is one of the pre-conditions for a functioning economy. In order to perform this role and develop sustainable businesses, the insurance industry needs to put consumer protection at the heart of its purpose.

In this context, the regulatory improvements introduced by Solvency II are a tremendous opportunity for positive changes:

A change for market participants because they need to enhance the understanding and management of risks, to better price them, to maintain capital levels commensurate with those risks and to be much more transparent.

It is up to insurance companies to realise that Solvency II is much more than a capital regime and it is definitely not a compliance exercise. Solvency II is about making sure that a risk culture is embedded in the day-to-day operations of the undertaking.

A change for supervisory authorities that need to implement a risk-based supervisory process, ensuring that all market participants follow sound governance and risk management practices, maintain adequate technical provisions and own funds and disclose proper information to the public.

This change is essential to reinforce financial stability and increase consumer protection. It is a challenging journey for everybody, but it needs to be undertaken.

EIOPA will be attentive and it will use its powers to make sure that we reach a happy end, for the benefit of the EU's citizens and businesses.

Thank you for your attention.