



SPEECH

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The road to a true single market in financial services



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Ladies and Gentlemen,

Thank you for inviting me and thank you particularly for giving me the opportunity to set out my vision of how a true European single market in financial services will become a reality. In fact, we have made some good progress in recent years, though we should speed up the pace. The first thing to do is to remove the remaining obstacles. That would be beneficial for the European consumer, for the European economy, and for the European insurance industry as well.

First I would like to address the main obstacles, then show you how regulation and supervision foster the single market, I will give you some insights in what EIOPA's current role and actions are, and I will conclude by looking at the challenges going forward.

The main remaining obstacles

In terms of the retail insurance market, there are a number of significant obstacles to cross-border business, which are typically cited, such as tax, language, culture, lack of a harmonised contract law, difficulties in cross-border claims management etc. These, in part, explain the low consumer demand for products sold across borders. It is a truism that consumers prefer to shop locally and rely on local providers and distribution channels they are familiar with. However, a number of consumers these days are also expatriates so local demand can also in reality be cross-border demand. This trend will increase.

I would like to go into more detail about some of the key obstacles to cross-border business we are aware of:

Lack of a harmonised insurance contract law: The buying and selling of insurance in the EU is subject to national contract laws. Therefore, if an insurer wants to market its products in other Member States, it nearly always has to devise different products. This is costly and might in consequence hinder insurers from offering their products on a cross-border basis. This situation also deters potential customers from concluding contracts, as they may not know the differences between Member States.

The fact that many laws and practices actually differ significantly between Member States, affects both the insurer and the consumer on a mass scale. We have seen this

in our Report on **personal pensions**, which we issued in February to the European Commission. To create a single market in this area we have to deal with significant hurdles, all of them being national prerogatives, such as taxation and social and labour law.

Consumer inertia can also be explained by the lack of **good quality comparable information** in relation to price and product features between domestic and cross-border providers. Comparison websites have sought to fill this breach. They are without doubt a key emerging consumer trend in the current “web generation”. They can increase competition and improving consumer understanding and literacy. However, there are a number of elements that need to be carefully dealt with in order to avoid detriment to consumers. I will outline these later.

One of consumers’ key concerns is the **availability of effective redress mechanisms** if something goes wrong, especially due to the diversity of current national approaches in this area. The recent Directive on alternative dispute resolution (ADR) for consumer disputes and the Regulation on online dispute resolution (ODR) for consumer disputes, should lend some much-needed succour in this area.

Regulation can also constitute an obstacle to cross-border business. All too often, we see that most regulatory/supervisory decisions are taken at a national level, leading to a patchwork of different rules and regulations. **General Good rules**, which are part of the legal system of the host Member State, are a good example of this. They can pose a significant barrier to cross-border provision of insurance, particularly if they are disproportionate and discriminatory in their effect.

Of course, regulation and supervision can 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 development of a healthy single market. I will deal with each of these points now in turn:

Regulation as a driver to foster the single market

At EIOPA, we believe that regulation can be a key driver in fostering a true single market for insurance. As we have seen above with the general good, it can also constitute a barrier so there is always a tricky balance to strike.

Of course, this is not a matter of building Regulation for Regulation's sake. The aim here is hit two targets at once. The first is consumer protection, because without strong consumer protection trust will vanish and markets will wither. The second is consistency and a stronger convergence in Rules across Europe, the so-called 'level playing field'. I will mention two instances: the Insurance Mediation Directive (IMD) and measures on Conflicts of Interest.

The Insurance Mediation Directive is very relevant for EIOPA, because this directive affects almost all our stakeholders. Intermediaries are, and will continue to be, a key link in the retail distribution chain. The IMD states that the "the inability of insurance intermediaries to operate freely throughout the Community hinders the proper functioning of the single market in insurance". The IMD has sought to break down the barriers to pursuing the activity of insurance mediation, but more needs to be done.

This is why we fully support the review of IMD ("IMD2") and the Commission's objectives of making retail insurance markets work better and promoting a more level playing field by, for example, extending the scope of the Directive to include direct sales. However, it's a tricky "balancing act" of enhancing the possibilities for cross-border retail trade, but at the same time, raising the bar in terms of adequate safeguards for consumers. The approach needs to be proportionate given the very diverse range of distribution channels at national level, from high street brokers to multi-nationals.

Another area where regulation has the power to effect change is in relation to **conflicts of interest**. The recently agreed changes to the IMD through MiFID II include a framework for addressing conflicts of interest, including an empowerment for the Commission to set more detailed measures. This will lead to some important work for EIOPA to develop a common approach across Europe on what firms are expected to do on the identification, measurement, avoidance and management of conflicts. The goal is to make sure those selling insurance investment products can be trusted always to put the consumer's interest first. National authorities currently look at these issues in an uncoordinated way, leading to fragmentation and creating

barriers to the single market. This is important, vital work, and EIOPA is keen to ensure the specific conflicts that can arise when selling insurance investments products are taken into account. It will also be necessary to take into account the different distribution and sales processes found across the Union, to ensure all consumers receive strong protection.

Does strong consumer protection in EIOPA's opinion include a **ban on commissions for independent advice**? To put it frankly: the work on conflicts of interest underlines how often problems with commissions can lead to problems for consumers. So you can see that a ban on commissions across the board is an attractive regulatory idea. You will know that this was not what was decided during the MiFID negotiations, which opted against an outright ban, sticking instead to a ban for advice labelled as independent, but allowed Member States to go further where they wanted.

From a single market perspective, you can see this is not ideal – the European markets threaten to get more complicated, more fragmented, not less. We will have to see how this evolves. But we should not be complacent: in my view, commissions do create conflicts of interest, and while banning commissions may not be a panacea, thinking we can carry on as before is not acceptable either.

Consumers in Europe need to be well informed. Information to consumers prior to purchasing an insurance contract and throughout the duration of the contract, should cover the basics about the contract – what it is, its risks, rewards and costs, particularly if it has a savings or investments element, the insurance benefits, complaints-handling procedures. The information needs to be prepared so consumers can understand. Care should be taken in targeting essential consumer information. Too much information is as bad as too little.

There is much to be done. We all know the challenges consumers face understanding investments and savings and other complex products, particularly when information provided is overly lengthy, legalistic and full of jargon: regulators and firms must take this chance to do better to protect them in this area. This means simplifying information as far as possible. But this is a challenge that should not be underestimated; as Mark Twain so memorably put it "I didn't have time to write a short letter, so I wrote a long one instead." This is where the recently agreed PRIIPs Regulation comes into play. For its part EIOPA and the other ESAs are already working

together to prepare for detailed practical work on implementing measures to help address these challenges. We will – and this is vital – take the input of consumer testing experts into account. Regulators are not necessarily good communicators. We need to listen to consumers to develop disclosures that stand a chance of being used.

The challenges in building a strong single market are now moving into other areas too, not just bringing convergence in disclosure and sales rules and standards. Now the focus shifts also to ensuring conduct and consumer risks are fully taken into account into the overall governance system of insurers. **Product governance, product suitability and appropriate selling practices** need to be on top of the agenda of the 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 that proper incentive structures are in place and that full transparency on costs is provided to consumers. Together with the other ESAs we produced some high-level principles on product oversight and governance last year and now we are moving forward with developing more detailed rules for the insurance and pensions sectors.

But 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.

Adapting supervision to the market

Strong and efficient supervision and timely enforcement of the insurance and pension markets can help to avoid regulatory arbitrage, create a level-playing field and enhance the long-term potential of the market.

In that respect, all Member States in the EU should 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.

Take IMD2, for example. This will only achieve its goals if 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 very

wide variety of existing structures at national level for supervising insurance distribution.

Problems need to be addressed early enough and the supervision of conduct of business needs to be strengthened. I'm pleased to see that in the recent agreement reached on the PRIIPs Regulation, our power to ban or restrict financial activities will be finally brought to life.

EIOPA's current role and actions

So what can EIOPA do? As mentioned previously, consumer protection and ensuring level playing field are part of EIOPA's DNA. EIOPA is taking a "leading role" in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market. EIOPA is also expected under its empowering Regulation to prevent regulatory arbitrage and promote equal conditions of competition.

I will give some examples of how are addressing the obstacles to cross-border business, previously mentioned:

As regards **comparability of information**, we recently published a Report on good practices in relation to comparison websites, which aims to give guidance on topics such as the market coverage of the website and the criteria used to make the ranking of providers and products.

As regards making available **effective redress** mechanisms, we have sought to specifically address this through two sets of Guidelines on complaints handling by insurance companies and insurance intermediaries. Both Guidelines seek to promote a more convergent approach.

As regards **general good rules**, our own survey has shown a wide diversity of different national approaches. We have recently published tables with examples of key national general good provisions to be observed by insurers and intermediaries that intend to do cross-border business. The tables are a start but clearly more needs to be done to ensure a truly level playing and facilitate greater cross-border business.

The Challenges Going Forward

What will be the main challenges going forward then? It is clear that EIOPA cannot contribute to creating a true single market without proper powers and resources.

Firstly, an appropriate budget framework that will ensure the overall efficiency of the Authority, reinforce its operational independence and ensure the necessary human and financial resources.

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. Therefore, **secondly**, the current power of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct, should be extended.

This power should not be confined to situations of potential threats to the stability of the financial system but should be used more generally to support the independent assessment of supervisory practices. This independent assessment is a key component for the development of consistent supervisory practices in the EU and to ultimately build an EU supervisory culture. And I believe this will be to all our benefit in the long run: industry, supervisors, and above all the European consumers.

Thank you for your attention.