



SPEECH

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From cradle to grave - EIOPA's dynamic approach to restoring consumer confidence in the sale of general insurance products.



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Ladies and Gentleman,

I have entitled this speech today, "From cradle to grave - EIOPA's dynamic approach to restoring consumer confidence in the sale of general insurance products". The reason for this is that consumer protection, in my view, needs to be taken into account by firms, not just at the point of sale, but right from the point of designing of a product to the end of the product's lifecycle. The consumer should be at the heart of the firm's business. This is a clear prerequisite for engendering more consumer trust.

I know I am, to a large extent, "preaching to the converted" as you have had a "Treating Customers Fairly" (TCF) initiative for many years in the UK and you have also already initiated a debate on greater product intervention.

It all starts with restoring trust

I recognise that restoring trust is not easy. We are witnessing a profound transformation on the consumer side. Consumers are more aware of their rights; a clear evolution can be seen. They:

- Demand greater transparency, comparability and flexibility.
- Demand more integrity.
- Don't trust so easily anymore, and
- Rapidly transmit and expose their perception of poor quality through social media.

The concept of what is right or fair in the relationships between insurers, intermediaries and customers is evolving as well. What was considered fair some years ago is not seen like that anymore. This calls for a critical look from the insurers and intermediaries at current products and practices. It is time for financial service providers "to go beyond what is legal and start doing what is legitimate". Changes might be needed. Only a proactive critical attitude can reinforce the trust and confidence of consumers. EIOPA is keen on promoting this reflection and analysis.

Regulation and supervision enhance the financial market's credibility and foster trust

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.

Preventive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

The main objective of supervision is the protection of policyholders and beneficiaries. To be able to achieve this objective, all supervisory authorities should have the necessary means, the relevant expertise, capacity, and mandate. EIOPA will not only review the convergence of supervisory practices within Europe, but also the capacity of supervisors to achieve high quality supervisory outcomes, as well as their independence.

Topics to be addressed today

I would like to address a number of subjects today such as product oversight and governance both from a conduct of business perspective and a risk management perspective as well as distribution issues such as addressing conflicts of interest in the sale of general insurance products.

EIOPA's work on consumer protection: A key strategic goal

Going forward, consumer protection is EIOPA's strategic goal number 1. We are pursuing our leading role in promoting transparency, simplicity and fairness in the market for consumer financial products and services. For EIOPA, consumer protection has two dimensions:

- Firstly, undertakings are soundly managed and have a robust solvency position to fulfil all their commitments.
- Secondly, customers receive the information they need, are treated fairly and get value for money.

The first objective is at the centre of the Solvency II project. It is a major development from a policyholder protection perspective.

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

A. 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 on their balance sheets that will allow supervisors to identify and quantify, in a timely manner, possible risks for insurers.

It is up to insurers 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.

B. A change for supervisory authorities that need to strive for consistent application of EU regulation and further on 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;
- Disclose proper information to the public; and
- Ensuring high-quality supervisory outcomes.

Regarding the second objective, customers receive the information they need, are treated fairly and get value for money, our agenda is focused on ensuring a paradigm shift. A shift towards:

- Much better transparency for consumers and
- Reinforced fairness in selling practices.

Further certainty is needed on the EU regulatory framework. Projects like IMD2 need to be finalised in order to set new improved standards for transparency and selling practices in the insurance market at an EU level. I will talk about this later.

Product Oversight and Governance will become topic #1 on the regulatory agenda

“Product Oversight and Governance” is a subject very close to my heart. I think this should be at the top of the agenda of all boards of insurers. As mentioned before, this needs to be an iterative process throughout the life of the product.

It is not enough for firms to design products and wash their hands of all responsibility once the product is in the hands of the distributor. There are limits to the responsibility that consumers can be expected to bear, however, there also needs to be a balance in the shift of responsibility to firms and distributors. It is nonetheless key that insurers put themselves into the shoes of the consumer when designing products. This demands a change in attitude and perspective how to integrate the assessment of “consumer risks” into sound risk management practices.

For example, board members need to make sure that:

- The product characteristics are suitable for the target market.
- Distribution channels are appropriate for that market segment, and
- Full transparency on costs is provided.

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 unacceptable misconduct behaviour.

Financial institutions need to provide an adequate answer to this change. How can they do that?

- Develop simpler and more understandable products;
- Ensure products are targeted at and distributed to the right customers;
- Devote further attention to the fairness of contractual conditions; and
- Definitely review the charges and commissions applied, ensuring that they are not disproportionate and that they are clear to the consumer.

I firmly believe product governance is an essential part of the Enterprise Risk Management (ERM) in any insurer. Conduct issues may also need to be taken into account in the future.

So what have we and the other ESAs been doing to promote Product Oversight and Governance? Last year, the three ESAs, under the umbrella of the Joint Committee, produced some high-level principles on product oversight and governance. We are moving forward with developing more detailed rules for the insurance sector and are aiming to launch a public consultation in the autumn. Notwithstanding the groundwork you have done in the UK, this is a subject which is very new to most insurance supervisors, but it has the potential to make a real difference.

So far I have focussed very much on the role of the product manufacturer, but the distributor also has a crucial role to play as they are the key interface with the consumer.

EIOPA's role in regulating distribution of general insurance products is manifold and far-reaching

Distributors take many forms – direct sellers, agents, brokers and even, comparison websites – each with differing legal duties and responsibilities. The way insurance products are distributed to consumers is fundamental. By improving selling practices and avoiding conflicts of interest, insurers will serve their customers better and will be compensated for it.

What is clear from the surveys we have carried out in EIOPA on distribution in Europe is that it is extremely diverse, both in terms of demographics & channels, but also in terms of regulatory approaches.

This is not surprising because the original IMD1, which dates back to 2002, was a minimum harmonising directive and has led to a lot of divergent approaches and market fragmentation.

It is in this context that we support the European Commission's efforts here to make retail insurance markets work better. Its IMD2 proposal seeks to promote a more level playing field by extending the scope of the existing Insurance Mediation Directive to include direct sales. IMD2 seeks to perform a very tricky "balancing act". It tries to enhance the possibilities for cross-border retail trade, but, at the same time, to raise the bar in terms of adequate safeguards for consumers. It is important that IMD2 creates a regulatory regime that can be effectively supervised both from a national and a European perspective.

But IMD2 also needs to adopt a proportionate approach as regards the objectives to be achieved. There needs to be proper consideration of existing market specificities such as a very diverse range of distribution channels at national level. We feel that EIOPA can play a pivotal role in bringing about the objectives of IMD2.

The FCA's recent thematic Report on how general insurance intermediaries identify and manage conflicts of interest where they receive revenue from their customers and insurers, has also been discussed today. The debate around whether SME customers may need similar levels of protection to retail consumers is something we too have discussed in EIOPA. We have looked at whether client classification would assist in non-life insurance. EIOPA has a duty to "enhance customer protection" by "fostering the protection of policyholders". If you take a broad interpretation of "customer", then EIOPA has a duty to protect all policyholders whether they are natural or legal persons.

As you know, client classification is contained in MiFID and the European Commission has proposed in its IMD2 proposal to introduce such a client classification for the purposes of a differentiated approach to information disclosure and advice by intermediaries. To date, our position has been that the professional customers of insurance intermediaries were sophisticated enough not to require additional protections regarding information disclosure

and advice, but the results of the FCA's survey are certainly very thought-provoking. There will need to be further debate around this topic.

Generally, as regards the issue of properly managing and mitigating conflicts of interest, we also believe that disclosure is not a panacea. We support the introduction of a general "duty of care" and the implementation of proportionate and robust administrative and organisational arrangements to help systematically identify and manage conflicts of interest.

As regards transparency of remuneration, the European Commission's proposal introduces a mandatory disclosure of the full amount of remuneration for life insurance products and a 5-year transitional period allowing for an "on request" disclosure regime for non-life products; at the end of the 5-year period, mandatory disclosure would apply.

Furthermore, insurance undertakings are only required to inform the customer about the nature and the basis of the calculation of any variable remuneration received by any employee of theirs i.e. not disclosure of the full amount.

For non-life insurance, we consider an "on request" regime as a better way to move forward at an EU level, while maintaining the possibility for Member States to impose stricter requirements. In our view, this would be the best possible and balanced solution to improve the transparency of remuneration in non-life insurance.

Furthermore, we are of the view that both insurance undertakings and insurance intermediaries should have to comply with the same high-level principles as regards information requirements and conflicts of interest provisions, to ensure a level playing field.

Product Disclosure will help to tackle information asymmetry and foster sound decision making for consumers

Disclosure of the costs of the service being provided by the distributor is not the only subject on the table at the moment. Product disclosure is equally relevant. The European Parliament has proposed in its discussions on IMD2 to introduce a "product information document" (PID) for non-investment insurance products. This would involve "providing the customer with the relevant information about the insurance product in a comprehensible form to allow the customer to make an informed decision, while taking into account the complexity of the insurance product and the type of customer".

Information asymmetry is a key source of consumer detriment in the sale of general insurance products. Consumers are typically at an informational disadvantage and face higher search costs. We all tend to focus on price as consumers, rather than read a 10-page policy document. This is something we are looking at in our work programme this year by assessing the benefits of a

standardised product disclosure document for non-life products such as motor insurance. We recognise, however, that this type of document can only work if the details of the document are properly tested on consumers first. We are aware that you have also given some thought to this issue in the UK and look forward to further dialogue on this issue.

Knowledge and ability: Calling for ethical and professional conduct at all times

Professionalism of distributors of insurance products is very important to us. Distributors need to fully understand the products they are selling to consumers. EIOPA is expected under its empowering Regulation to take a "leading role" in "developing training standards for the industry".

In that respect, EIOPA published at the end of last year a Report on knowledge & ability requirements for distributors of insurance products.

The Report sets out some high-level principles which competent authorities would apply to distributors. And it allows for flexibility to adopt a proportionate approach at national level.

The report promotes the demonstration of ethical and professional conduct at all times because training and competence is only effective when distributors demonstrate true ethical behaviour as well. The Report also suggests a minimum level of continuous professional development (or CPD), which is backed up by the European Parliament in their proposals.

However, it is unfortunate that under the current negotiations on IMD2, further work on specifying professional standards should only remain in the remit of Member States. We would like to see a more explicit role for EIOPA here. This will help to foster more regulatory convergence in an area where very diverse national approaches have arisen out of the implementation of the IMD. It will also help to enhance opportunities for cross-border business by distributors of insurance products, thereby bolstering the single market in insurance.

Comparison websites: Price is only one element amongst others

Comparison websites are, without doubt, a key emerging consumer trend. These sites help to enhance the transparency and comparability of information available to consumers. But there are a number of aspects that need to be carefully dealt with in order to avoid detriment to consumers. These include the market coverage of the site, how the site deals with conflicts of interest, the criteria used to make the ranking of providers and products and the presentation and the frequency of updating the information.

As a first initiative in this area, we recently published a Report outlining good practices for websites that compare insurance products. The Report provides that comparison websites should:

- Clearly disclose those providers with whom the website has a commercial or contractual relationship;
- Not use price as the sole criterion for comparison; and
- Avoid jargon and unnecessary technical terms.

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 competent authorities.

I am aware that the FCA recently began a thematic review looking into insurance price comparison websites and we would be interested to discuss the outcome of this thematic review with you.

Conclusion: Consumer protection becoming integrated over time into the firm's DNA

I have completed my "whistle-stop tour" of what EIOPA is currently doing, and aiming to do, to restore consumer confidence in general insurance products. I hope it has been interesting and thought-provoking. I recognise that we are still a young authority with a challenging mandate, but I believe, in close co-operation with our national member authorities, we can continue to make a real difference in the consumer space.

As London is the cradle of insurance, it is fitting to stand here to pass the message that consumer protection must be integrated into the firm's risk management DNA going forward.

Thanks you for your attention.