



## **KEYNOTE ADDRESS**

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## **MAKING A DIFFERENCE FOR EUROPEAN CONSUMERS**



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Ladies and Gentlemen,

First of all let me congratulate the organizers for putting forward this European Consumer Protection Conference and thank them for the invitation to be one of the speakers. It is really a great pleasure to be here today.

For EIOPA consumer protection is and will continue to be a key strategic priority. It is at the centre of our work through both prudential and conduct of business regulation and supervision. Our objective is to ensure that market players put in place sound governance mechanisms, have a robust solvency position and treat consumers fairly. Our aim is to protect consumers from unfair and abusive business practices by identifying tangible risks at an early stage and to ensure that these risks are adequately tackled before fully materialising. Our approach is to promote the orderly functioning of markets resulting in a level playing field, healthy competitive and innovative environment, increased consumer confidence and guaranteeing financial stability.

My speech today will be divided in three parts:

- *In the first part, I will focus on **EIOPA's strategy to strengthen conduct of business supervision***
- *In the second part, I will elaborate on **EIOPA's current activities that will bring tangible and positive outcomes for consumers***
- *I will conclude addressing the **challenges of the digitalisation era.***

***My first point: EIOPA's strategy to strengthen conduct of business supervision***

Conduct of business supervision is highly fragmented in the European Union and Member States are at different stages of development as regards their approach to consumer protection.

An effective and efficient conduct of business supervisory framework contributes to a credible deterrence of market mis-conduct and allows for pre-emptive and proactive supervision by acting before a developing issue becomes widespread.

There has been significant reputational and financial damage as a result of consumer mis-selling events in the European Union. Moreover, there has been a material loss in consumer confidence, compounded by existing information asymmetry and lack of financial education on the part of consumers.

In order to ensure transparency, simplicity, accessibility and fairness across the internal market that provides good and right outcomes for consumers, EIOPA developed a strategy **to strengthen conduct of business supervision**.

Traditional approaches as regards the conduct of business regulation and supervision used to be focused on disclosure, selling practices and were following a more tick-box approach. This proved to be insufficient in particular in preventing mis-selling but also created the foundation for a culture of formal compliance. So, firstly, we believe that it is of utmost importance for consumers and for the European Union as a whole to move away from such a tick-box approach. The aim is to create a **consumer-centric culture** which goes beyond compliance, a culture where undertakings senior management needs to take on more responsibility to prevent poor product oversight and misaligned incentives for sales staff.

To strengthen conduct of business supervision, EIOPA is using a **number of tools** such as **thematic reviews** to target specific financial activities or products causing consumer detriment or creating a barrier to the effective functioning of the market. Furthermore, we will be gathering information on emerging risks to consumer protection by using **retail risk indicators** and identify market areas that need to be monitored.

The implementation of retail risk indicators will be gradual and proportionate. In first instance we are focusing our attention on **commission rates, lapse rates, claims ratios and consumer complaints**. The joint analysis of these key indicators will help us to identify potential sources of consumer detriment and detect areas that could warrant further in-depth scrutiny.

Furthermore, EIOPA will also continue to publish our annual Consumer Trends Reports and ad hoc surveys to provide a snapshot of existing cases of consumer detriment in the insurance and pensions markets.

***Coming to my second topic, EIOPA's current activities and significant projects that will bring tangible and positive outcomes for consumers***

Let me start with the Insurance Distribution Directive (IDD). Last week, EIOPA submitted its technical advice to the European Commission on the **implementation of the Insurance Distribution Directive**. We consider this advice to be a significant milestone in further promoting consistent consumer protection across Europe regarding the distribution of insurance products.

We recommend concrete policy proposals on issues such as **Product Oversight and Governance, Conflicts of Interest, Inducements and Assessment of suitability and appropriateness**. Our overall objective is to ensure that the interests of the customers are taken into consideration throughout the life cycle of a product, that distribution activities are carried out in accordance with the best interests of customers and that customers buy insurance products which are suitable and appropriate for them.

In the area of **Product Oversight and Governance** we used our Preparatory Guidelines issued last year as a basis for the advice. EIOPA recommends that manufacturers of all types of insurance products establish processes to ensure that all phases of the production cycle are undertaken having the consumer's needs in mind.

Our advice further defines potential situations in which **conflicts of interests** may arise between distributors and their customers in the course of the distribution of insurance-based investment products. Distributors are required to take appropriate measures to prevent, manage and, as a measure of last resort, to disclose conflicts of interest to avoid any harm to customers.

Let me now turn to a much-discussed topic - third party payments (also known as "**inducements**") and we all know that in this area the IDD set a different standard compared to MiFID II.

EIOPA's advice specifies the criteria to assess whether **inducements** have a detrimental impact on the quality of services to customers. Our starting point was that a detrimental impact occurs when an inducement is of such a nature and scale that it provides an incentive to carry out the insurance distribution activities in a way which is not in accordance with the best interests of the customer. It is then fundamental to identify all criteria to assess if and when

inducements are considered to have a high risk leading to a detrimental impact on the quality of the relevant service to the customer.

The purpose of these criteria, which include practices such as quantitative thresholds and upfront commissions and which are **based on concrete national supervisory experience**, is to **provide guidance to the market** on when detrimental impact might occur. **They are not and should not be considered as a "blacklist"**.

In addition, we are well aware of the legislative decisions already reached on the IDD. **These criteria do not amount, in any way, to a de facto prohibition** on the receipt or payment of commissions. Furthermore, **EIOPA has an impartial view** on the business models of insurance distributors and does not advocate for the establishment of a fee-based distribution over a commission-based distribution model.

At the same time it very important not shy away from this issue given the national experiences mentioned and the crucial aspect of adequately protecting consumers when purchasing insurance-based investment products.

Finally on the technical advice, it is important for insurance intermediaries or undertakings to gather the appropriate information from their customers for the conduct of **appropriateness or suitability assessments** of insurance based investment products. This approach helps to ensure that insurance intermediaries or insurance undertakings do not request more information from the customer than needed to provide good quality advice to the customer or information requests are not duplicated.

Another **significant project** within the overall work of EIOPA on the IDD is the **Insurance Product Information Document (IPID)**. Its objective is to ensure that the customer has the relevant information about a non-life insurance product to allow him to easily compare between different product offers and to make an informed decision. EIOPA developed a **standardised template** for the Insurance Product Information Document (IPID) where the key features of non-life insurance products are presented in a simple and easy to understand Questions & Answers format. **Importantly, the proposed design takes into account how information will be presented via digital media**, for instance by allowing the layout of the information to adjust on the small screen of a mobile device. It is based on extensive consumer testing and on the input from different stakeholders obtained via public consultation.

**This is a big step in making a difference for consumers.** Consumers, who typically might not read lengthy pre-contractual information, will now be empowered to compare different non-life insurance products and to make informed decisions.

Going forward, with the implementation of the IDD, a stronger and more effective supervision of intermediation activities is needed throughout the EU. In Austria, for example, it is my opinion that appropriate consideration should be given to reinforce the Financial Market Authority (FMA) powers and competences on the supervision of the intermediation activities which are now quite fragmented.

### ***To my last topic: Challenges of the Digital Era***

Fast-evolving technologies are changing our lives, the way we communicate and purchase products. **Industry and regulators need to constantly adapt** to the global environment in which consumers live. These changes will namely have an impact on the whole value chain - insurers, intermediaries, distributors and service providers. We will see business models being threatened and new entrants implementing business models that will dramatically reduce the traditional frictional costs.

The use of **Big Data and telematics, comparison websites and automated advice tools** will impact the ways providers interact with consumers. The increasing amount of personal data available and the power of data analytics will inevitably change insurance underwriting models. We need to be aware of potential risks associated with **Big Data** such as access issues for consumers being classified as undesirable due to abilities to undertake more granular analyses.

**Big Data**, on the one hand, and digitalisation, on the other hand, will also bring a number of **benefits to both insurers and consumers**. Better analytics mean companies can profile customers in order to personalise products and services, enhance their own internal processes and improve their fraud detection capabilities. This change has the potential to produce better outcomes for customers and better management of risks or fraud situations.

In December last year, **EIOPA launched together with the two other European Supervisory Authorities a Public Consultation on Big Data** to

address this phenomenon and invited all stakeholders to share their views. I hereby **invite you all** to make use of this consultation and provide your feedback until mid-March.

Existing European Union legislation on data protection, competition and consumer protection, which share the common goals of promoting economic growth, innovation and the welfare of individual consumers, are relevant for insurers but are not explicitly addressing Big Data therefore further steps in this area are needed. After the consultation period is closed, EIOPA will decide whether any regulatory or supervisory action is needed in the field of Big Data and within the insurance and pensions sector.

This year EIOPA will also **organise roundtables dedicated to “Insurtech”**. The first of these is currently planned for end of April 2017. Our objective is to learn from different stakeholders about the evolutions in this field, the benefits and risks for the industry and consumers and the potential obstacles to good innovation practices.

In particular, EIOPA wants to evaluate the impact of digital technologies in the insurance value chain, to gain a further insight into Insurtech start-ups, Big Data, consumer analytics and cyber risk. It is of utmost importance to EIOPA that consumers’ expectations and behaviour in a digital economy will be adequately captured and their rights fully respected.

Ultimately, this will contribute to the development of a regulatory framework that promotes the highest standards of consumer protection while not hindering innovation.

## **Conclusion**

Today is more important than ever to ensure that the European Union respond to the real problems and concerns of Europe’s citizens. The lack of public confidence in the financial markets needs to be overcome and EIOPA is working with all National Supervisory Authorities to **strengthen preventive conduct of business supervision** and to ensure that all policyholders are protected by high quality supervision.

We are committed to continue **making a difference for consumers** of insurance and pension products. The internal market should not be a partial reality for European consumers, the products offered to them should be fair

and consumers should have appropriate information for taking informed decisions.

EIOPA will **lead the way** in promoting the highest standards needed to protect consumers of insurance and pension products while embracing good innovation that delivers better outcomes to citizens. To implement sustainable choices and to develop a consumer-centric mind-set, we need the involvement and support of the industry and the consumers. **Together we will make tangible progress and turn challenges and risks into opportunities.**

Thank you for your attention.