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KEYNOTE SPEECH



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Ladies and Gentlemen,

thanks to the organisers for inviting me.

Since the very start of EIOPA we have said that consumer protection is at the heart of our work. Indeed, I think strong and positive consumer outcomes will always be the most fundamental measure of our success.

In getting these outcomes, ensuring prudentially sound insurance and pensions markets across the European Union is only part of the solution – though solvent firms that you can rely on to do the right thing, whether they are local and known to you, or foreign and unknown, are the basic foundation on which we build. Perhaps the most critical part of getting these outcomes, however, is what we term ‘conduct of business’ – that is, how insurance undertakings and pension providers do business. How they design products and services. How they market those products. And how those who sell or provide financial advice go about their business. On conduct of business I think much remains to be done.

The outcome we seek is easy to define: fair treatment of consumers. Put simply this perhaps sounds obvious and easy. Making the customer happy should be a proverbial ‘win-win’ for firms.

And on paper I think everyone is (more or less) signed up to the core principles that drive fair treatment, such as acting in the best interest of customers and avoiding or mitigating conflicts of interest. Yet in practice, this is much harder than it seems.

Today, I will touch on our work in this area both from the regulatory and from the supervisory perspectives, to give a sense of where EIOPA is heading on these two levels and why.

First, the regulatory side.

Here there has been much done in the last years, and when taken together I think this amounts to a revolution – Solvency II, Insurance Distribution Directive (IDD), Regulation on Packaged Retail Insurance-based Investment Products (PRIIPs).

The new regulation ensures coherence and consistency in the same broad

principles across the whole European Union, addressing such areas as the avoidance and management of conflicts of interest, transparency of services and products, product oversight and governance, fair remuneration and commissions, and strong rules on the quality and substance of financial advice.

Of course, there is much still to do to finish this work, to bed the new regulatory structure down, and to find and address the practical issues that arise in implementing it. However, for now the policy design work has been mostly completed, and a common regulatory framework is mostly in place.

From our perspective, we strive now for convergence in interpretation and implementation. We anticipate material divergences that are not always justified by differences between national markets or in line with the flexibility foreseen in the regulation for the specifics of national implementation. The consequence we are concerned about is divergences in consumer protection standards, putting consumers at risk and undermining the single market. For this reason, we are and will continue to put significant resources working alongside national competent authorities (NCAs) in convergence, for instance through developing so-called 'Q&As' on technical issues, but also more behind the scenes in brokering exchanges of view and convergence in interpretation amongst NCAs. Ultimately, this should filter down to the industry and the consumer – more consistency in understanding the rules, more predictable and reliable implementations. This is hard, practical work towards the so-called 'single rule book', which will dominate our agenda on the regulatory side of conduct of business for the coming years.

Examining this work in detail, you will see however, already our shift in focus begins from 'regulation' to 'supervision', my second theme.

When I think of regulation, it is important to underline that I am not thinking only about how to read and apply detailed rules but also about outcomes and overarching principles. The new frameworks such as the IDD recognise – though they still contain a mixture of measures - a general shift away from so-called 'tick box' approaches towards a focus on 'outcomes' and principles-based regulation. This latter foregrounds high-level concepts and outcomes aimed to ensure that firms systematically take responsibility for the end consumer and ensure the right products are being sold to the right consumers. In short, there is no 'one size fits all' solution, no regulatory silver bullet, but rather a common framework or toolbox, which also places a greater and much stronger emphasis on practical implementation and judgement - both for firms and for supervisors. The new

regulatory framework puts new challenges on NCAs, just as firms.

In this context, EIOPA has already placed a stronger emphasis on building supervisory capacity and convergence in practical conduct supervision. This is both because of the challenges of the new framework, but also because of the specific challenges supervisors face in identifying and reacting to conduct risks before these mushroom and have deeper and wider consequences. The financial crisis was born in part from the misunderstanding of conduct risks – such as poor lending decisions – and how these can accumulate to systemic levels. This needs to be avoided in the future.

For EIOPA this means focusing on embedding across all markets a strong risk-based and preventative approach at NCAs. This by its nature needs to be led by and rooted in market and product expertise and intelligence: NCAs that know their markets deeply and understand how evolving business models can lead to sudden eruptions in conduct risk. This is perhaps a shift from recent times, where the focus has been rather more on prudential issues without looking carefully at what business models mean in terms of practical products and services and the value these bring to consumers. We recognise that this is demanding. Further development is needed and supervisory capacities need building. Market monitoring and market intelligence has to improve, and there needs to be much better transparency from a conduct perspective. We also need better common ways of talking about conduct risk, of where these are and what they are. We have to put in place stronger ways of assessing them, more sophisticated techniques. We have to have better data and the analytic capacity to know what it is telling us, and what it cannot say.

To help get there, I believe we should require a fuller use by NCAs of the full range of supervisory tools for conduct purposes – routine conduct risk assessments, targeted use of thematic reviews and deep-dives, use of mystery shopping, onsite conduct supervision, where this is relevant. And indeed, we have to execute enforcement: reliable, predictable action when issues arise. EIOPA is committed to do its part, to support NCAs in building their capacity in this area, including by visiting NCAs, country by country, to solely focus on conduct aspects, and including by fostering greater information and experience sharing amongst NCAs. EIOPA is also committed to building analytic tools and perspectives to improve transparency, building on its annual consumer trends work, but also its work on thematic reviews and on retail risk indicators.

This may seem like a lot of work given the real risks for consumers. But the real impact for consumers of conduct failings can be life changing in a negative way, in view of the central role that the insurance and pensions sectors have in personal financial risk management and the increased exposure we all have personally to the impacts of the decision we make. In addition, a failure to properly and demonstrably reduce conduct risks is likely to mean continued fragmentation in the single market, continued higher costs across the European Union, continued poor trust in financial services, and all of the inefficiencies in capital markets that flow from this. Europe will continue to fail to fulfil its potential, and in an increasingly competitive global market this is not sustainable.

I would like to finish with a few words on Insurtech and Brexit, because both underline, as specific examples, how important our work on conduct risk assessment and practical supervisory convergence are.

First Insurtech.

The need for a strengthened commitment across the European Union to credible conduct supervision has particular importance in the context of an environment of disruption. It may well be that we move from a period in which regulatory change was the main engine of disruption to one in which changes in business models are the main engine of disruption.

This can be both good and bad for consumers: new business models and the technologies that enable them may well mitigate some of the conduct risks we have struggled with in the past. But you can be certain they will bring new conduct risks with them as well.

EIOPA does not have the answers – yet. But EIOPA is committed to ensuring European Union NCAs are not ‘behind the curve’ and are well placed to understand and react in a coordinated way to the new emergent challenges. We have a specific task force aimed at Insurtech. We also have begun, and will continue, a programme of engagement with all relevant stakeholders. You will hear more on this over the coming years.

Second Brexit.

This raises particular stresses and strains, on issues such as contract continuity,

but also in view of the impact it can have on the single market and the dangers of regulatory arbitrage arising should firms decide to relocate and start jurisdiction shopping. In such a situation coordination and convergence are even more critical, as conduct risks can quickly escalate to widespread consumer detriment. EIOPA is therefore already working hard with NCAs to ensure consumers are not the ones to pay the price of Brexit through broken promises or falling standards.

Thank you very much for your attention.