

CONDUCT RISKS INDICATORS

Actuarial Association of Europe Position Paper

IRSG meeting, Frankfurt, June 2014

CONDUCT RISKS INDICATORS

- Purpose : to identify in the field of insurance areas of potential consumer detriment and indicators which may suggest a potential source of consumer detriment.
- Some of these indicators might be applicable to pensions and banking products.
- Overview of risk to customers and link between various indicators and their associated risks.

Main risks for consumers when purchasing a financial product

- A. Products are not developed and marketed in a way that pays due regard to the interests of customers
- A. Customers are not provided with clear information before, during and after the point of sale
- C. Customers are sold products which are not appropriate to their needs

Main risks for consumers when purchasing a financial product

- D. Customers receive poor quality advice
- E. Customer complaints and disputes are not dealt with in a fair manner
- F. The privacy of information obtained from customers is not correctly protected
- G. The reasonable expectations of customers are not met.

Indicators of Potential Conduct Risk

Three characteristics :

- Consumer risk
- Timing
- Data availability

Indicator	Consumer Risk	Timing	Data availability
Profit	A,C,F	Coincident Lagging	Lack of granularity Use of internal metrics
Growth	A,C,D,F	Coincident Lagging	idem
Complaints	A,B,C,D,F	Coincident Lagging	Some public disclosure Ombudsman
Lapses/Surrenders	A,B,C,D,	Lagging	Some public reporting.

Indicator	Consumer Risk	Timing	Data availability
Cost Cutting	F	Leading	Identified through public announcements
Claims Ratios	A,C	Coincident	Not available at a sufficient granular level
Impact of charges	A,B,C	Leading/Coincident	Disclosed in some markets

Indicator	Consumer Risk	Timing	Data availability
Probability distribution of potential customer outcomes	A,C	Coincident	Not generally available
Policy size by contract type	C	Lagging	Some data available from regulators

Indicator	Consumer Risk	Timing	Data availability
Deviation of returns for different groups of similar contracts	G	Lagging	Some public Reporting of the level of remuneration
Commission level/sales incentives	A,C,D	Leading/Coincident	Public disclosure imposed by regulation in some cases

Indicator	Consumer Risk	Timing	Data availability
Illustration growth rate	B,D,F	Leading Coincident	Regulation apply in many markets
Number of waivers agreed by clients for a product advised as not suitable	B	Leading	Internal data where the adequacy questionnaire exist

