

EIOPA's Approach to Conduct of Business Regulation and Supervision

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Presentation to the 13th Annual Roundtable of Chief Risk Officers, The Geneva Association, 14 April 2016, Copenhagen

- What more **needs to be done** in the area of consumer protection?
 - EIOPA's **role**
 - Key Regulatory Issues:
 - **Product Oversight & Governance**
 - **Insurance Distribution - IDD**
 - Change in Focus: "From Regulation to Supervision"
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**What more needs to be
done in the area of
consumer protection?**

What more needs to be done?

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- Restore **consumer confidence** - learn the lessons of mis-selling:
 - o Good **governance** arrangements
 - o **Customer needs** at the centre of sales
 - o Better **transparency**
 - o **Culture** built on integrity/board responsibility
- **Product intervention** as a last resort



EIOPA's role

Consumer Protection VS. Competition/financial innovation

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EIOPA shall:

- o "Take a **leading role**"
- o "Promote **transparency, simplicity and fairness**"

EIOPA may:

- o "Issue **warnings** where a product poses a **serious threat**"
- o "**Temporarily ban certain** types of products"

but EIOPA shall also:

- o "Prevent **regulatory arbitrage** and promote **equal conditions of competition**"

FAIRNESS
SIMPLICITY
TRANSPARENCY

Product Oversight & Governance

Product Oversight and Governance: Current State of Play



“POG”

- About:
 - **Designing & bringing** products to market
 - **Reviewing** products over the whole **life cycle** (“from cradle to grave”)
- Few countries have regulatory requirements in place
- POG is NOT about regulatory pre-approval, but rather **internal** product sign-off
- **Objective:** Consumer protection issues addressed holistically

→ Mis-selling of unsuitable products + poor product design



Product Oversight and Governance: Key features



- Identify **target market**
- Carry out **product analysis** to assess **performance in stress scenarios**
- Carry out **product reviews**
- Identify the relevant **distribution channels**
- Verify that distribution channels act in **compliance with manufacturer's POG arrangements**
- Ensure effective **exchange of information** between manufacturer & distributor

Product Oversight and Governance: Work by EIOPA



- **Preparatory Guidelines** on Product Oversight & Governance by Insurers and Distributors

- Objectives:

- **Minimise risks of consumer detriment** arising from mis-selling
- **Foster cultural change** – “tone from the top”
- **Provide “bridging mechanism”** until IDD applies (Feb 2018) - early guidance and support with the implementation

- Tools:

- **Strengthen process controls by “manufacturers”** before product launch
- Strengthen **exchange of information** between manufacturer and distributor



**Cultural change
required**

Insurance Distribution - Where does IDD fit in?

*"The **European insurance market remains very fragmented**"*

*"There is a need to **promote a true internal market for insurance products and services**"*

*"It is appropriate to **make regulatory treatment of the distribution of insurance products more uniform** in order to ensure an adequate level of customer protection across the EU"*

What are the objectives of the IDD?



IDD seeks to:

- o **Improve regulation** in the retail insurance market
- o Create **more opportunities for cross-border business**
- o **Establish a level playing field** for all distribution channels:
 - Extension of the Directive to direct sales
- o **Strengthen consumer protection**, in particular with regard to insurance-based investment products (IBIPs)

- Entry into force - **23 February 2016**
- Transposition deadline - 24 months (**i.e. 23 February 2018**)
- **Key Aspects:**
 - Minimum **harmonisation**
 - Broader **scope**
 - Overarching “**duty of care**”
 - More **transparency** on price/costs
 - Appropriate **professional qualifications**
 - Product **Oversight & Governance**
 - Rules on **tying and bundling**
 - Stronger protection when buying **complex life insurance products**

Where does EIOPA come in?



- **Technical advice** on four Delegated acts:

- **Product Oversight & Governance** – ALL products
- **Conflicts of Interest** – only IBIPs
- **Inducements** – only IBIPs
- **Suitability, Appropriateness and Reporting to customers** – only IBIPs

- o **Formal Call for Advice** from COM received on 24th February 2016

- o Deliver technical advice by **1 February 2017**

Where does EIOPA come in?(cont.)



- **Implementing Technical Standards** on the “Insurance Product Information Document (PID)” for non-life products
 - o Regarding “standardised presentation format”
 - o Consumer testing required
 - o Submit 12 months after entry into force i.e. **23 February 2017**
- **Guidelines** on IBIPs not fit for execution-only business (non-advised sale):
 - o Issue Guidelines 18 months after entry into force i.e. **23 August 2017**

Key overarching issues



- **Consistency** with MiFID II
- **Cumulative effect** of general conduct of business rules and special rules for IBIPs
- **Minimum harmonisation** at L1 vs. Delegated Acts
- **Proportionality** - diversity of products/distribution channels

Change in Focus – “From Regulation to Supervision”

Creating a Conduct Supervision Framework



- **More pre-emptive, risk-based conduct of business supervision**
 - **Risk-based**
 - **Focus priorities/resources** where they matter most
 - Build **common European supervisory perspective/approach**
 - **Preventive**
 - **Address problems of future**, not past - forward-looking approach
 - Identify and **tackle emerging risks**
- **What tools are envisaged?**
 - Consumer Trends Report/ *ad hoc* surveys
 - Deep and effective market monitoring
 - Retail risk indicators
 - Thematic reviews



Retail Risk Indicators

Objective:

- **Framework for** determining when an issue should be **tackled on a European level** – about bringing added value

Process:

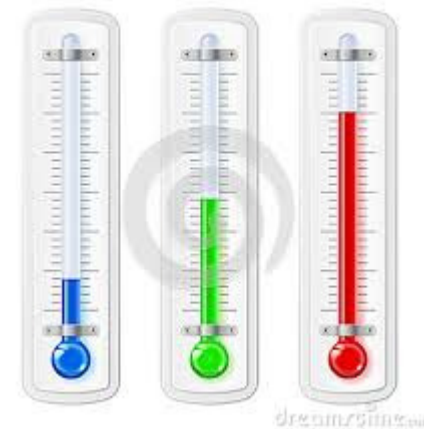
- Gain overview of **national triggers** for consumer protection activity
- **Identify indicators** which may suggest a potential source of consumer detriment
- **Establish analytical framework** for interpreting indicators
- **Promote transparency** by publishing indicators



Retail Risk Indicators

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- What are the classic types of indicators?
 - **Complaints**
 - **Claims Ratio**
 - **Combined Ratio**
 - **Lapses/Surrenders**
 - **Commission Rates**
- Indicators of **consumer detriment**, not financial innovation!
- Not one single indicator, but **combination of indicators** provides a picture!



Deep and effective market monitoring

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- EIOPA shall “**monitor new and existing financial activities**”:
 - Linked to power to issue warnings
- New requirement under **PRIIPs Regulation and IDD**:
 - EIOPA monitors whole EU market – co-ordination function
 - NCAs monitor national markets
- Can only work through **greater sharing of data/analysis**
- Need to monitor potential for innovation to **spread into other sectors**:
 - Product intervention can have a **cross-sectoral impact** so close co-operation between ESAs needed



Thematic Reviews

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- Tackle **new/emerging risk(s)** allowing for deeper analysis than through normal tools
- **Use Consumer Trends Report** as a source/criteria for selecting topic e.g. number of complaints
- **Facilitate roll-out of thematic reviews** at national level:
 - Not intention to repeat reviews already carried out at national level
- First review to focus on **monetary incentives between asset managers and insurers**



Questions?

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