

## **INSURANCE EUROPE COMMENTS TO JULY IAIS PAPER ON CONDUCT OF BUSINESS RISK**

<b>IAIS paper paragraph</b>	<b>Insurance Europe draft comment</b>
<b>General remarks</b>	<p>Insurance Europe welcomes the opportunity to provide feedback on the International Association of Insurance Supervisors (IAIS) Draft Issues Paper on Conduct of Business Risk and its management</p> <p>As a general remark, Insurance Europe wishes to stress that the European insurance industry supports the overall aim of the IAIS to raise awareness about conduct of business risks. In this context, Insurance Europe duly acknowledges that the list of the conduct of business risk presented in the paper is comprehensive.</p> <p>However, while the draft paper constitutes a catalogue of theoretical problems associated with the conduct of business, it gives little consideration to the measures that supervisors, insurers and intermediaries already apply to mitigate these risks or the natural tendency in free markets for consumers to gravitate towards producers offering better-quality products and services. Additional examples, initiatives, evidence and statistics would make the paper stronger.</p> <p>The insurance sector supports the aim of maintaining a high level of consumer confidence in the market. In order to do so, Insurance Europe is of the view that (1) a proportionate regulatory action and (2) a stable legal framework are key. Indeed, disproportionately negative and one-sided regulatory actions and external communications do not serve the aim of ensuring a high level of consumer trust.</p>
<b>Paragraph 24</b>	Insurance Europe welcomes the general message on the need for appropriate coordination between conduct and prudential supervisors. Insurance Europe wishes to point out, however, that responsibility for such coordination lies with national supervisors.
<b>Paragraph 27</b>	Insurance Europe welcomes the fact that the paper acknowledges differences in local markets, notably because supervisors in each jurisdiction should thoroughly assess their own regulatory, structural and cultural environment, as well as their existing powers, before considering any

	<p>new regulation. Any regulation needs to be effectively assessed in the context of the broader national regulatory framework. It must be cost-effective, balanced and in tune with the needs of each jurisdiction. The paper states that "<i>monitoring of conduct of business risks needs to recognise the social and legal context of the market and the nature, scale and complexity of insurers' and intermediaries' businesses from a consumer perspective</i>". Insurance Europe welcomes this statement and would invite the IAIS to put greater emphasis of this point throughout the paper.</p>
<b>Paragraph 32</b>	<p>Paragraph 32 shows the example of miss-selling of payment protection plans (PPI) in the UK as having a market-wide impact, which is then detailed in Annex II. This emphasizes the misconduct of some 'firms' who sold PPI, not specifying whether they were insurers or banks: it should be clarified that the firms in question were banks.</p>
<b>Paragraph 35</b>	<p>This paragraph views the "benefits of insurance products" narrowly, in terms of financial pay-outs received. A key benefit of purchasing insurance is peace of mind: the purchaser knows that they have protection against the financial consequences of loss. This benefit arises immediately on purchase and remains even if the policyholder never needs to make a claim. Paragraph 35 says that "<i>the benefits of insurance products are only realised a considerable time (sometimes many years) after the purchase</i>". This is not true, for example for non-life policies, which are taken out for one year only and where claims will usually arise and be settled within that period.</p>
<b>Paragraph 36</b>	<p>Insurance Europe believes that the paper makes broad statements which are not fully substantiated by evidence, such as:</p> <ul style="list-style-type: none"> <li>- "<i>insurers have adopted various distribution strategies to overcome the lack of inherent consumer demand</i>".</li> <li>- "<i>commission as a form of remuneration is seen as introducing inherent conflicts of interest</i>"</li> </ul> <p>In addition, Insurance Europe wishes to propose an alignment with the description in the paper's Annex I of the risk indicator 2.7 (ie. quality of conflict of interest management) which states that if adequate procedures and governance are put in place, there will be no negative consequences resulting from conflict of interests. Insurance Europe supports the balanced approach taken in the Annex 1 which acknowledges that conflict of interests is not an inherent risk, if properly managed.</p> <p>Lastly, Insurance Europe wishes to raise that, at EU level, the new insurance distribution directive introduces the adoption and regular review of the procedures relating to conflicts of interest, in order to ensure that any fees or commission does not have a detrimental impact.</p> <p>This paragraph suggests a lack of demand of general insurance products. It makes a series of statements about consumers' alleged reluctance to purchase insurance, implying that insurers use questionable sales techniques to persuade consumers to purchase cover that they don't want.</p>

	Contrary to what is stated, many consumers (who include businesses and professional consumers) appreciate the benefits of insurance and initiate its purchase without sales pressure from insurers. Insurance Europe would suggest the removal of paragraph 36.
<b>Paragraph 37</b>	Insurance Europe believes that the paper would benefit from a more neutral wording including: " <i>persuade consumer of the need for</i> ".
	In addition, Insurance Europe believes that the paper would benefit from more evidenced statements in some instances such as: " <i>In most cases, intermediaries approach prospective customers (including visiting them at their own homes)</i> ". The European insurance sector would like to stress that such an approach should not be presented as a general feature of intermediary practices.
<b>Paragraph 39</b>	Insurance Europe believes that the paper would benefit from a more neutral wording including: ' <i>significant source of conduct of business risk</i> '.
	In addition, this paragraph fails to mention that, in other jurisdictions (ie. EU), intermediaries must ensure that the sale of any insurance products is in line with demands and needs
<b>Paragraph 40</b>	Insurance Europe believes that the paper would benefit from a more neutral wording including: " <i>pressured into</i> ".
	This paragraph fails to acknowledge the benefits of bundling. Bundling of insurance products with other products or services can offer more choice for consumers, give them cost-effective access to insurance cover, and provide additional protection.
<b>Paragraph 42</b>	As far as information asymmetry is concerned, the paper does not take account of the fact that information asymmetry occurs on both sides when an insurance cover is provided. Although the insurance pricing has become increasingly refined, it remains based on the general characteristics of the risks insured and insureds are better placed than insurers to understand their circumstances and the risks they want to cover themselves against.

<b>Paragraphs 44 and 45</b>	Insurance Europe would welcome more emphasis on the fact that the industry's conducts and market structures also bring benefits to consumers: notably regarding access to more data and technology. Wider availability of data enables insurers to match pricing more closely to risk, itself an advantage to consumers. It also enables consumers to compare the prices that competing insurers charge, an important consumer benefit. This also refers to " <i>the growing complexity of insurance products</i> ". Evolution in distribution channels reflect consumer preferences over the purchase of insurance and should not be presented as a problem. Insurance Europe, therefore, questions the statement in paragraph 45 that " <i>In view of these complexities, disclosure alone may not be sufficient to address conduct risks arising from asymmetry</i> ". This requires justification. Explicit product standards and the prohibition or limitation of certain types of distribution models are likely to deter innovation and freeze insurance markets at particular stages of development, benefiting firms with established market positions and harming new entrants and, ultimately, consumers.
<b>Paragraph 53</b>	Insurance Europe believes that the paper would benefit from a more neutral wording including: " <i>take advantage of</i> ".
<b>Paragraph 72 and 73</b>	These paragraphs fail to acknowledge the benefits of bundling. Bundling of insurance products with other products or services can offer more choice for consumers, give them cost-effective access to insurance cover, and provide additional protection.
<b>Paragraph 77</b>	Assessment of poor underwriting practices must consider the inherent prudential element. Underwriting is an intrinsic part of an insurer's operations and underwriting risk is an important element of prudential regulation.
<b>Paragraph 78</b>	This paragraph fails to acknowledge that not all consumers need or want advice. It is important that consumers should be able to continue to purchase any insurance products without advice. In many cases, consumers do not need or want advice and any restrictions could interfere with consumer choice, and hamper their ability to access products if they were not in a position to afford such advice. In any event, even where sales are carried out without advice, all relevant information requirements will still be followed.
<b>Paragraph 82</b>	Insurance Europe wishes to point out that some of the risks listed can, in some instances, be intensified by the regulators and supervisors. For instance, a number of EU regulations currently debated at EU level, risk providing consumers with information that provides no benefit to them (e.g. duplications for instance) when choosing insurance products.
<b>Paragraph 98</b>	Insurance Europe would welcome more emphasis on the benefits of competition for consumers.

<b>Paragraph 106</b>	Insurance Europe would welcome more emphasis on the fact that the industry's conducts and market structures also bring benefits to consumers notably regarding innovative digital practices.
<b>Paragraph 107</b>	This paragraph fails to acknowledge that not all consumers need or want advice. It is important that consumers should be able to continue to purchase any insurance products without advice. In many cases, consumers do not need or want advice and any restrictions could interfere with consumer choice, and hamper their ability to access products if they were not in a position to afford such advice. In any event, even where sales are carried out without advice, all relevant information requirements will still be followed.
<b>Paragraph 126</b>	This paragraph seems to be promoting granular market surveillance. There needs to be an acknowledgement that, while this may be appropriate in some cases, it will not be in others. This paragraph should rather be arguing for a risk-based approach.
<b>Paragraph 127</b>	Insurance Europe welcomes the general message on the need for appropriate coordination between conduct and prudential supervisors. Insurance Europe, however, wishes to point out that responsibility for such coordination lies with national supervisors.
<b>Paragraph 140</b>	Insurance Europe believes that the paper would benefit from a more neutral wording including: <i>"generate major consumer detriment"</i> .
<b>Annex I</b>	Insurance Europe supports the caveat included at the forefront in Annex I on conduct of business risk indicators. Insurance Europe would welcome the IAIS paper to highlight the difficulty of identifying and promoting any one element as a definitive risk indicator or metric even further throughout the document. Within each of the risk indicators listed, it would be also useful to have further caveats added either in Annex 1.
	As a particular example, in the "profitability" section, it should be highlighted that only in some circumstance, could high profit indicate products which may (or may not) offer poor value. The approach currently taken in the paper implies the existence of a "fair return" on insurance, which, if exceeded, means that profits are excessive, an approach which does not really suit the free markets functioning. For some product lines, such as catastrophe insurance, profitability cannot be judged on the basis of a single year, but has to be assessed over a much longer period.

	Another example is the description of the “use of “big data” indicator which does not consider the advantages that big data analytics could bring both to insurers and consumers. In the insurance sector, big data analytics allow for new service propositions, better personalisation of services and better understanding/management of risks which in turn allows insurers to better address consumers’ needs. It is Insurance Europe’s view that this should be acknowledged.
	The inappropriateness of some of the business risk indicators in Annex 1 to wholesale insurers and reinsurers should also be noted.
<b>Annex II</b>	Paragraph 32 shows the example of miss-selling of payment protection plans (PPI) in the UK as having had a market-wide impact, which is then detailed in Annex II. This emphasizes the misconduct of some “firms” who sold PPI, not specifying whether they were insurers or banks: it should be clarified that the firms in question were banks.

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monolins, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe’s economic growth and development. European insurers generate premium income of more than €1 110bn, employ almost one million people and invest over €8 500bn in the economy.