EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

SPEECH

Gabriel Bernardino
Chairman

Smarter regulation will benefit consumers

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Ladies and Gentlemen,

I want to thank for the invitation to speak at the AMICE Congress and especially for the opportunity to share with you some thoughts on how regulation can benefit consumers.

In today's society consumer satisfaction is taken as the best guarantee for any company's continuity. Rule number one in the financial sector business should be: the consumer is always at the heart of the provider' business.

Consumers need to trust in the financial services providers. For this to happen any firm should do business in a decent and honest way, have good governance arrangements, offer transparent products and have a company culture built on integrity.

This is first and foremost the responsibility of the firm itself, but regulation and supervision can also play an important role. Proper regulation and supervision add credibility to the market and can be a catalyst for a healthy market development.

For me consumer protection in the insurance sector has two main dimensions:

First, it is about ensuring that undertakings are soundly managed and have a robust solvency position in order to fulfil, on an on-going basis, all the commitments made to their customers.

Second, it is about making sure that customers receive the information they need on conditions, costs and risks of the products, that they are treated fairly and that they get value for money.

The EU regulatory framework has always captured these two dimensions. They were improved and adapted to the new developments in the economy and society, with a clear objective of increasing consumer protection.

Proportionality and Solvency II

I am sure you will agree that consumers should be granted the same level of protection irrespective whether he chooses a big or smaller company, a commercial provider or a mutual.

Generally mutuals have the advantage of being closer to the customer, allowing them to provide more specific and tailored products. Mutuals broaden the choice for a consumer which is an important trend in consumer protection.

But there is no one size fits all for mutuals as they are very different when it comes to size, risks, complexity and structure.

Depending on size and risk mutuals will benefit from the principle of proportionality. EIOPA has given specific attention to proportionality. But proportionality does not mean 'no application'. It means to apply the principles in a way that we achieve the same outcomes with a 'tailor made' solution.

There are many examples of proportionality in Solvency II. Let me just mention two of them.

Firstly they can be found in the reporting requirements:

- ✓ Implicit proportionality is embedded in the regulatory templates. Companies with simple business models, few business lines, and simple investment strategies will see their reporting requirements significantly diminished.
- ✓ SME's will see reduced frequency in reporting, with quarterly reporting concerning only some core elements.
- ✓ The concept of materiality is embedded in the reporting requirements.

I would say that most of the Solvency II reporting requirements include data which are fundamental for management purposes and that will increase risk awareness and ultimately benefit the business and consumers.

Secondly we see examples in the governance requirements:

The sound governance principles of Solvency II are also subject to proportionate implementation, for example on the key functions.

Simpler organisations will need simpler arrangements to implement risk management, actuarial, internal audit and compliance functions. Outsourcing can and should be used. It will be possible to accommodate more than one function if no conflict of interest arises.

But, governance requirements are fundamental, also to mutuals. We should not forget that a good part of the problems in insurers financial position in the past were due to inappropriate governance structures and practices.

Let me summarise the benefits of Solvency II for consumers:

- ✓ More sustainable promises and products.
- ✓ More accurate and fair pricing coming from better knowledge of risks and better data used.
- ✓ Better governance ensuring more balance and fair decisions.
- ✓ More transparency and disclosure by insurers.
- ✓ Better supervision through reporting requirements more adapted to risks.

A new kind of regulation

On the conduct of business side the changes in the EU regulatory framework are finally coming, and they are needed. A new kind of regulation is needed. The traditional approach to conduct of business at the point of sale and disclosure did not work well.

A few examples: conflicts of interest and the Key Information Document.

EIOPA is already working on conflicts of interest in the selling of insurance investment products. We have clear lessons to learn from some miss selling cases that cause consumer detriment, and conflicts of interest were at the core of those cases.

Another example is the KID. What is the current reality? Current disclosures typically are over long, use jargon and legal phrasing and are seldom read by consumers. They function not as communication documents but as way of delimiting contractual liabilities.

This is not good enough. We need disclosure documents that consumers actually use. So we are developing the KID in a new way, which means:

- ✓ Standardisation of ‘look and feel’.
- ✓ Use of consumer testing to design the document.
- ✓ Plain language, standardised information on risks and costs.

This new paradigm on disclosure is 'smart regulation'. Less is more. There is massive room for improvement, but it is easier to say it than to do it.

Let me now turn to product oversight and governance. The aim of product oversight and governance arrangements should be to:

- ✓ Minimise possible consumer detriment.
- ✓ Avoid conflict of interest.
- ✓ Ensure that the interests of the consumer are at the centre of the company's culture and strategies.

This seems to be common sense but it is important to emphasise that trust and confidence by consumers is gained by doing business in a honest way, having good governance arrangements, and offering transparent products.

Actually it is all about good governance, good risk management, and good business practices.

What is expected from the industry? We need leadership; a tone from the top. It is the Board responsibility to make sure that adequate product oversight and governance is established within the undertaking. And it needs to be there throughout the life cycle of the product, covering its design, testing, the identification of the target markets, the choice of distributors, the setting up of commissions and incentives and the claims management.

We don't want to see more bureaucracy, more paper. We want to see factual evidence of appropriate product oversight and governance implementation. We want to be sure that some products are not sold to some consumers, because they don't need them or are too complex for them.

In this way we will get a win-win situation. It is in the industry's own interest to have satisfied consumers, because this will lead to a long term relationship, enlarge the commercial relationship, and spread positive information to potential clients, for instance via social media.

Another possible win-win situation can be achieved by 'simplified products'. Products which are well-targeted at consumer needs, bring simpler cost structures, enable more competitive pricing, and reduce the potential for miss selling.

Conclusion

To conclude I like to put forward a question: have we lost regulatory balance? I don't think so. Among regulators there is the general consciousness of the possibility of unintended consequences of regulation. And there is the recognition of the need to pause and let the new regulatory approaches settle to see what needs adjusting, what needs to be calibrated. Ceaseless change should not become the 'new normal'.

What we need is not more (or less) regulation, but smarter regulation. Smart regulation:

- ✓ Takes consumer behaviour into account: the 'homo economicus' has never lived, we have to put the consumer as they really are at the heart of regulation, rather than the consumer regulators wish for.
- ✓ Recognises the limitations and biases in consumer decision making.
- ✓ Is proportionate: regulation that reflects the evidence of what works and what doesn't.
- ✓ Looks forward: regulation that looks to anticipate problems, rather than address only the problems of the past.

Our aim is to have smart regulation and not killing industry with unnecessary rules. Please continue to engage with us in a constructive dialogue. We want to maintain diversity in the insurance markets. Let's build together better and smarter regulation that brings more stability and confidence from consumers.

Thank you.