

1. *Which are the main consumer trends throughout Europe at this moment? How was the consumer's perception about insurance products affected by the financial crisis?*

The main consumer trend is the lack of or misleading disclosure of information and poor advice given to consumers. This could potentially lead to the mis-selling of in particular life products such as unit-linked ones. Mystery shopping was in some cases the method of choice for investigating whether essential information on insurance contracts was disclosed.

We identified new or emerging products as well, for example, mobile phone insurance and packaged bank accounts bundled with the sale of insurance. A number of issues were identified including the consumer receiving insufficient information both on their contract as well as in the case of a claim or complaint and poor advice on the scope of the guarantee being provided.

Sale of complex products to retail investors and lack of adequate governance rules relating to the development of these products were trends we found. We recognized new or evolving channels for sales and marketing including social media, increasing advertising especially via the Internet, and the rise in the use of comparison websites, particularly where price competition could be acting as a driver of poor practice. Other trends are the unilateral changes in the terms of the contracts by insurance undertakings, the development of business models to reduce pressure of high guarantees for insurers, during the life of the contract, and the use of telematics (also known as 'black box' technology) by insurers in the sale of motor insurance.

Overall, the consumer's perception about insurance products has been affected by the financial crisis. It has led to a loss of consumer confidence. The mis-selling events occurred in a number of countries, for example in the payment protection insurance (PPI) market, have led to considerable consumer detriment and negatively affected the reputation of the insurance sector as a whole.

We have observed in certain countries business models where market power of distributors led to levels of commissions as high as 80% of premiums paid. This is clearly not proportionate and needs to be ended.

Last year we issued an Opinion to obtain a clear picture of the reality in all EU countries in order to better protect consumers and promote regulatory and supervisory convergence in Europe. We are in the process of evaluating feedbacks to the EIOPA Opinion, and we could see that a number of countries have decided to take action in their national PPI markets. We will review these actions in the first half of this year.

Very importantly, EIOPA has been creating the necessary basis conditions to identify consumer protection issues as they arise. In this context we developed an enhanced methodology for collecting, analysing and reporting on consumer trends and we are exploring the use of social media monitoring tools for our consumer trends analysis.

2. *Do you believe that there is a gap between the levels of financial education of consumers in the CEE and those of Western Europe? If so, how can it be decreased?*

That is difficult to say. I don't think we can generalise on that point. In any event, financial education of consumers only really works well if it is implemented at an early stage both in primary, secondary and tertiary education. We published a Report on Financial Literacy and Education Initiatives by national authorities. What we found was that most Member States do not have a national strategy on financial education or have one under preparation and those that do have national strategies, are

at different stages of development with regards to the processes they use to evaluate their financial education programmes. This does not mean that the issue of financial education and literacy is not gaining importance in the scope of Member States, but more work certainly needs to be done.

3. *In a report published by EIOPA about training standards used by the insurance industry in different European countries it is revealed that Member States have considerably different approaches. What is your opinion on this matter and how does it influence customer care and consumer protection?*

The reason we have very different national approaches at present is that this derives historically out of the “minimum harmonisation” approach envisaged in the Insurance Mediation Directive (IMD1). The legislation was reluctant to impose a higher level of harmonisation and this left it to Member States to determine at national level what “knowledge and ability” means. By listing, in our Report, what we considered good supervisory practice in the area of knowledge and ability requirements for distributors of insurance products, we are seeking to promote more convergence amongst national authorities in this area. One practical initiative should be to include in the different exam levels some material about the concept of risk and the role of insurance mitigating risk.

I think it is fundamental that distributors deeply understand the products they are selling, in order to assess if they are appropriate for the different consumers, particularly if they are selling a complex product. In that respect, the rules on knowledge and ability should be commensurate to the level of complexity of products the distributor is selling. It is also very important that distributors regularly update their knowledge and ability. Ultimately, however, training and competence standards are no good unless they are accompanied by codes of conduct/provisions on ethical behaviour and appropriate sanctions in case of breach of legal requirements. Rules on knowledge and ability apply to all levels of staff hierarchy and senior management have ultimate responsibility for ensuring the knowledge and ability of staff members is at the requisite level. We need a fundamental change in culture to influence customer care.

4. *Does consumer protection begin when selling an insurance product? Are misinforming and lack of transparency issues throughout the industry? What can there be done, from a supervisory point of view, to have a better informed client about his rights and obligations from the beginning?*

I would start by saying that I think consumer protection begins even earlier than the sale, as insurance undertakings need already to be thinking about the needs of consumers when they are designing products. We have done some initial thinking already jointly with the European Supervisory Authorities for the banking and securities sectors on this. Consumer protections then moves on to sales processes – to ensure customers get quality advice that is motivated by the interests and needs of the customer. Here the focus has to be on removing or managing conflicts of interest. It also needs to be on ensuring those selling know and understand their customer’s needs, and the products they have to offer, as I just outlined under the previous question. Next comes transparency for the customer about what is being proposed: tackling poor quality information and getting rid of unnecessary jargon or overly legalistic information is a crucial measure across all areas of the financial services. Different approaches might be needed for different products: for the more complex ones, we are already starting work on standardised key information documents (KIDs) to improve information and comparisons. For simpler products, issues might be different, warranting a different approach. Much better disclosure should help customers’ understanding where they stand, but of course it is not a magic bullet. It will be important too to ensure customers are aware in

general of their rights when making complaints and seeking redress at the national level. Recent European legislation on alternative dispute resolution could well help here, as also steps on collective protection schemes when things go wrong.

5. *Does the distribution of insurance products over the Internet pose any threats for consumers? Which are the main measures to be taken to increase the degree of consumer protection in this field?*

The internet as a way of distributing insurance products can offer benefits as well as threats. It can help consumers compare different options and gather information quickly and efficiently. This could increase competition and also be a way of improving consumer understanding and literacy. But distribution over the internet also has a downside: such distribution could lead to consumers focusing on one part of the offering (e.g. price) to the exclusion of others, and ultimately to a reduction in the quality of the products on offer. Also, providing advice over the internet may be particularly difficult. I think it is important to be proactive as new distribution methods evolve, and so it will be important to keep an eye on developments and see how these benefits and threats evolve, and see whether more needs to be done. We have already done some work on comparison websites.

6. *What rules are to be enforced in order to enhance consumer protection throughout Europe? Which types of products are the most customer “unfriendly” and need to be addressed in the near future?*

There are of course many rules aimed at consumer protection, at national and European level, and the proper enforcement of these is a crucial step. EIOPA was created in part to help improve this situation, to ensure consumers throughout Europe can be confident of strong consumer protection measures and the enforcement of these. More is also coming, as I have already mentioned in these answers. For instance, rules on transparency and sales will be tightened, and more will be done on financial literacy. The responsibilities of those designing products for the consumer market also become increasingly important. This points to a further area of focus for supervisors and regulators: product oversight and governance and even product intervention. Financial innovation is important in building products suited to consumer needs, but it also can lead to complex products that are not well suited to most consumers. Some of these are very complex, niche products that are not suited for almost any consumer. There are debates underway at the European level on ensuring supervisors always have the powers to intervene when needed, the ultimate ‘backstop’ to protect consumers. This shows how central consumer protection is now to regulatory thinking.