

Peer Review on Product Oversight and Governance (POG)

Peer Review Report

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EXECUTIVE SUMMARY

Background and scope

The European Insurance and Occupational Pensions Authority (EIOPA), with the support of National Competent Authorities (NCAs), has conducted a peer review¹ on requirements on product oversight and governance (POG), based on the EIOPA's two-year peer review work plan 2020-2022 and in line with Article 30 of EIOPA Regulation².

This peer review, the first in the area of supervision of conduct of business, assessed the overall maturity of the supervisory framework on POG developed by NCAs to supervise the application of POG requirements by insurance manufacturers.

It is noteworthy that before and simultaneously with the peer review on POG, EIOPA has developed significant supervisory convergence work related to POG. In April 2020, EIOPA issued the Chapter on Product Oversight and Governance (POG) within its Supervisory Handbook³. While this Chapter is non-binding, it provides guidance on issues which NCAs should look at when assessing POG implementation by manufacturers and distributors and recommendations on how to carry out day-to-day work in the supervision of POG requirements.

Furthermore, in October 2020, EIOPA published its approach to the supervision of product oversight and governance requirements in the insurance sector in EU⁴.

In addition, in the context of the Union-wide Strategic Supervisory Priorities (USSP)⁵ defined for the period 2021-2023⁶ the adequate product design, including via a close monitoring of POG, was identified as one of the two priorities to be discussed with NCAs during the engagements in 2021, 2022 and 2023.

¹ EIOPA regularly performs peer reviews, working closely with NCAs, with the aim to strengthen consistency of supervisory practices across Europe and NCAs' approach to an effective and high-quality supervision.

² Regulation (EU) No 1094/2010 of the European Parliament and of the Council on 24 November 2010, establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC.

³ The Supervisory Handbook is publicly disclosed only partially, but it is made available in full to NCAs.

⁴ [EIOPA's approach to the supervision of product oversight and governance](#).

⁵ In accordance with Article 29(a) of Regulation (EU) No 1094/2010, EIOPA shall, at least every three years, by 31 March, identify up to two strategic priorities of Union-wide relevance which shall reflect future developments and trends. NCAs shall take those priorities into account when drawing up their work programs and shall notify EIOPA accordingly.

⁶ [Union-Wide Strategic Supervisory Priorities](#).

Methodology and approach

The basis of this peer review was a self-assessment questionnaire which was followed up by field work to further clarify the responses to the self-assessment questionnaire. The ad hoc Peer Review Committee (PRC) assessed the information gathered from 30 NCAs⁷ participating in the exercise. This report summarises the findings and recommended actions addressed to NCAs, considering the following areas of assessment in relation to POG supervision:

- ▶ Organisation and resources of POG supervision;
- ▶ Risk-based approach;
- ▶ Setting and communicating supervisory expectations;
- ▶ Supervisory methodologies and tools;
- ▶ Supervisory activities.

Main findings

Overall, it is concluded that most NCAs have adapted their internal processes to include the supervision of POG requirements introduced by the Insurance Distribution Directive (IDD)⁸ and by the relevant Commission Delegated Regulation⁹. A few NCAs have done this to the extent EIOPA considers to be sufficient for achieving the outcome sought by POG requirements – insurance products, such as Insurance-Based Investment Products (IBIPs), are designed and distributed with the consumer's interest placed first and foremost. Some NCAs were in the process of improving their supervisory POG framework to ensure good consumer outcomes for complex life products during the peer review's reference period, while a few NCAs were still in the process of building their supervisory POG framework. There were, however, significant differences between NCAs as to the level of maturity of POG supervision.

The peer review also found that, in a number of jurisdictions, NCAs have started or have already planned to review their approach to POG supervision with the view of improving it by embedding POG into their mid-term strategies, in line with EIOPA Union-wide Strategic Supervisory Priorities, adapting internal processes and integrating their supervisory work plans with an increase in dedicated supervisory activities on POG. In some cases, material developments were already implemented and observed in the period between the end of the reference period and the date of

⁷ European Economic Area – EU Member States and Iceland, Liechtenstein and Norway.

⁸ Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

⁹ Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council regarding product oversight and governance requirements for insurance undertakings and insurance distributors.

development of this report (i.e. outside the reference period of the peer review) and these will be further assessed during the follow-up of the peer review¹⁰.

Although EIOPA's Supervisory Handbook provides guidance on how NCAs can perform POG supervision, several NCAs reported challenges in supervising the application of POG requirements by insurance manufacturers. In particular, the principle-based nature of the POG Regulation has led to difficulties for some NCAs in formulating supervisory expectations on the way POG requirements have to be operationalised by manufacturers resulting in challenges when performing supervisory activities and, in some cases, in issuing sanctions. In addition, some NCAs experienced challenges in integrating POG-specific risks in their risk-based supervisory approaches and in allocating experienced resources to POG supervision. Finally, the concept of "significant adaptation" for existing insurance products (manufactured before 1 October 2018, the date of the entry into force of the IDD) has brought doubts for some NCAs regarding the application of POG requirements to such products¹¹.

The assessment resulted in relevant findings during the peer review's reference period (1 October 2018 to 31 March 2022) and in the need for further developments. Improvements on the framework and supervisory activities carried out by NCAs after the reference period are also relevant but were not considered in the assessment, in line with EIOPA Decision on Peer Reviews (framework and methodology for peer reviews)¹² approved in February 2022. However, these will be considered in the follow-up to the peer review and the NCAs may also update EIOPA on relevant progress on the implementation of the recommended actions addressed to them at any time.

¹⁰ The follow-up of the review by peers shall be initiated no later than two years after the publication of the final report of the review by peers

¹¹ [Q&A on IDD, Question 2266](#).

¹² [EIOPA Decision on Peer Reviews \(framework and methodology for peer reviews\)](#).

Recommended actions

The current report outlines the recommended actions (110) that were issued to the 30 participating NCAs, highlighting the main findings and areas for improvement.

NCAs can be grouped into the following 4 groups according to the extent to which they meet the expectations of the peer review:

- ▶ NCAs broadly meeting expectations: 6 NCAs (BE, FR, IE, IT, MT, NL) with 1 recommended action each;
- ▶ NCAs meeting most expectations: 2 NCAs (CZ, PL) with 2 recommended actions each;
- ▶ NCAs meeting some expectations: 4 NCAs (HR, LI, RO, SE) with 3 recommended actions each;
- ▶ NCAs meeting few expectations: 18 NCAs (AT, BG, CY, DE, DK, EE, EL, ES, FI, HU, IS, LT, LU, LV, NO, PT, SI, SK) with 4 or 5 recommended actions each.

The table below provides an overview of the individual recommended actions addressed to NCAs. Some recommended actions have been adapted to take into account NCAs' specificities.

Table 1 – Individual recommended actions

Area of recommended action	Recommended action addressed to the following NCA(s):
Organisation and resources of POG supervision	
<p>The Authority is recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, the Authority is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the Authority's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organisation.</p> <p>In addition, the Authority is recommended to allocate adequate resources with the necessary skills, knowledge and expertise on POG supervision. The resources should be proportionate to the complexity and risk levels of IBIPs and/or other life insurance</p>	<p>ICCS (CY) BaFin (DE) DFSA (DK) EFSRA (EE) BoG (EL) DGSFP (ES) FIN-FSA (FI) HANFA (HR) MNB (HU) FSA (IS) FMA (LI) BoL-LT (LT) CAA (LU) NFSA (NO) ASF-PT (PT) AZN (SI)</p>

products, to the characteristics of the domestic insurance market and to the nature, scale and complexity of business models.	NBS (SK)
FMA is recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, FMA is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the FMA's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organization.	FMA (AT)
FSC is recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, FSC is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the FSC's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organization.	FSC (BG)
Area of recommended action	Recommended action addressed to the following NCA(s):
Risk-based approach	
The Authority is recommended to have in place a systematic and effective risk-based and proportionate supervisory framework for conduct supervision that fully incorporates POG requirements. The framework should include both product-specific and undertaking-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory action. The framework is to be integrated and aligned with the Authority's strategy.	FMA (AT) FSC (BG) ICCS (CY) BaFin (DE) DFSA (DK) EFSRA (EE) BoG (EL) DGSFP (ES) FIN-FSA (FI) HANFA (HR)

<p>The framework should rely on measures (quantitative and qualitative) to assess how products impact consumers and the likelihood of the materialisation of risks. The Authority should identify and document a comprehensive set of product risks it expects manufacturers to manage by their POG arrangements and monitor these to ensure that POG policies and procedures lead to good consumer outcomes. The Authority should, furthermore, define undesired consumer outcomes and assess whether supervised entities have in place their own notion of good consumer outcomes.</p>	<p>MNB (HU) FSA (IS) BoL-LT (LT) CAA (LU) BoL-LV (LV) NFSA (NO) ASF-PT (PT) AZN (SI) NBS (SK)</p>
<p>ACPR is recommended to have in place a supervisory framework for conduct supervision that, in addition to undertaking-specific risk assessment, includes product-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory actions also taking into account customer outcomes. The framework should rely on quantitative and qualitative measures.</p>	<p>ACPR (FR)</p>
<p>AFM is recommended to have in place a systematic and effective risk-based and proportionate supervisory framework for conduct supervision of life insurance that fully incorporates POG requirements. The framework should include both product-specific and undertaking-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory action also taking into account customer outcome.</p>	<p>AFM (NL)</p>
<p>Area of recommended action</p>	<p>Recommended action addressed to the following NCA(s):</p>
<p>Setting and communicating supervisory expectations</p>	
<p>The Authority is recommended to formulate and communicate to the market a comprehensive set of supervisory expectations covering all the elements of POG requirements applied to IBIPs.</p>	<p>FMA (AT) FSC (BG) ICCS (CY) CNB (CZ) BaFin (DE)</p>

<p>Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory dialogues (through off and on-site inspections or other supervisory actions) to clearly establish how POG requirements should be applied in day-to-day business.</p> <p>The Authority is recommended to follow-up on these expectations by challenging the effectiveness of POG arrangements by supervised entities based on these expectations.</p>	DFSA (DK) EFSRA (EE) DGSFP (ES) FIN-FSA (FI) MNB (HU) CBI (IE) FSA (IS) FMA (LI) BoL-LT (LT) CAA (LU) BoL-LV (LV) NFSA (NO) KNF (PL) ASF-PT (PT) ASF-RO (RO) FI (SE) AZN (SI) NBS (SK)
<p>Area of recommended action</p>	<p>Recommended action addressed to the following NCA(s):</p>
<p>Supervisory methodologies and tools</p>	
<p>The Authority is recommended to have in place well-structured supervisory processes to establish that POG requirements are adequately and correctly implemented.</p> <p>In particular, the Authority is recommended to have in place fit-for-purpose internal supervisory processes on POG supervision, most notably for IBIPs and more generally for life insurance products. The processes should take into consideration the Chapter on POG of the EIOPA’s Supervisory Handbook and EIOPA’s Approach to the Supervision of Product Oversight and Governance, developing national specific documentation if adequate. The processes should provide practical guidance on procedures and instructions to support supervisors in off-site and on-site supervisory activities and incorporate the specificities of the national IBIPs market and</p>	FMA (AT) FSC (BG) ICCS (CY) CNB (CZ) BaFin (DE) DFSA (DK) EFSRA (EE) BoG (EL) DGSFP (ES) FIN-FSA (FI) MNB (HU) FSA (IS) IVASS (IT) FMA (LI) BoL-LT (LT) CAA (LU) BoL-LV (LV)

the Authority's framework regarding POG supervision and other supervisory tools.	MFSA (MT) NFSA (NO) ASF-PT (PT) ASF-RO (RO) FI (SE) AZN (SI) NBS (SK)
Area of recommended action	Recommended action addressed to the following NCA(s):
Supervisory activities	
<p>The Authority is recommended to carry out systematic supervisory activities, such as on-site inspections, off-site inspections, and thematic reviews on an adequate number of IBIPs and entities manufacturing IBIPs.</p> <p>The supervisory activities should aim to assess the application of POG requirements in practice, specifically whether undertakings have effective and comprehensive POG policies and procedures in place that are adequately internalized and whether insurance undertakings take a “customer-centric” approach to their product approval, distribution, and monitoring and review processes to avoid conflicts of interest.</p> <p>Specifically for on-site and off-site inspections, the Authority is recommended to carry out analyses focused on POG requirements to ensure that when these cover other conduct aspects or prudential aspects, POG requirements are given substantial emphasis.</p>	FMA (AT) FSC (BG) ICCS (CY) BaFin (DE) DFSA (DK) EFSRA (EE) BoG (EL) DGSFP (ES) FIN-FSA (FI) HANFA (HR) MNB (HU) FSA (IS) BoL-LT (LT) CAA (LU) BoL-LV (LV) NFSA (NO) KNF (PL) ASF-PT (PT) ASF-RO (RO) FI (SE) AZN (SI) NBS (SK)

<p>The Authority is recommended to carry out systematic supervisory activities which should be prioritized taking into account the risks identified in the risk model.</p> <p>The supervisory activities should aim to assess the application of POG requirements in practice, specifically whether undertakings have effective and comprehensive POG policies and procedures in place that are adequately internalised and whether insurance undertakings take a “customer-centric” approach to their product approval, distribution, and monitoring and review processes to avoid conflicts of interest.</p> <p>Specifically for on-site and off-site inspections, the Authority is recommended to carry out analyses focused on POG requirements to ensure that when these cover other conduct aspects or prudential aspects, POG requirements are given substantial emphasis.</p>	<p>FSMA (BE)</p>
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Next steps

As follow-up of this peer review, NCAs’ compliance with the recommended actions will be monitored and assessed, as foreseen in EIOPA’s peer review methodology, starting no later than two years after the publication of this report¹³. NCAs may also update EIOPA on relevant progress of implementation of the recommended actions addressed to them at any time.

EIOPA will consider how to best reflect the overall results (findings, recommended actions and observations) of this peer review in its work on supervisory convergence.

¹³ As envisaged by Article 32 of EIOPA Decision on Peer Reviews (framework and methodology for peer reviews), EIOPA might start the monitoring of the progress in the implementation of the recommended actions addressed by NCAs.

1. BACKGROUND, SCOPE, METHODOLOGY AND PROCESS

1.1. BACKGROUND

Product Oversight and Governance (POG) by insurance undertakings¹⁴ plays a key role in consumer protection by ensuring that the objectives, interests and characteristics of customers are duly taken into account through the lifecycle of products, thus mitigating the risk of detrimental effects on customers. Supervision of POG enables National Competent Authorities (NCAs) to understand and assess the processes which are behind the products manufactured and distributed by insurance undertakings in order to mitigate the risk that products do not meet the interest of consumers¹⁵.

Accordingly, it is key to conduct a thorough analysis of NCAs' approach to POG supervision in relation to how insurance undertakings apply POG requirements,¹⁶ specifically with regard to target market assessment, product testing and product monitoring and review of Insurance-Based Investment Products (IBIPs).¹⁷

The focus of this peer review has been on IBIPs for several reasons. Firstly, the IBIPs market across the EU represents a very significant portion of the insurance sector (around 23% at the end of 2021)¹⁸, although it must be recognised that the importance of IBIPs markets shows some heterogeneity across Member States. Secondly, these products can be complex for consumers to understand, and the impact of mis-selling can be very high for individual consumers, given these products are often a key component in ensuring household financial resilience. In the absence of

¹⁴ Insurance undertakings as well as intermediaries which manufacture any insurance product for sale to customers (Article 25(1) of Directive (EU) 2016/97).

¹⁵ The set of rules on POG are addressed not only to insurance undertakings and distributors but also to the supervisory authorities.

¹⁶ Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution. Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.

¹⁷ While the focus of the peer review is on IBIPs, in absence of material IBIPs market, NCAs have also referred to POG supervision of other complex life insurance products.

¹⁸ Source: Solvency II Database, Annual reporting Solo, Year-end 2021. Template S.05.01.01, R0110, for each Line of Business non-life (GWP) and template S.05.01.02, R1410 for each Line of Business life and health (Gross Written Premiums).

sufficient application of POG requirements, such products can deliver poor value to consumers if not aligned with the target markets' needs, objectives and characteristics. These risks have been identified in the EIOPA market monitoring of consumer risks (e.g. in the annual consumer trends reports¹⁹, market monitoring activities and cooperation platform work on value for money).

In addition, this exercise is deemed to be beneficial to further strengthen convergence and effectiveness in supervisory outcomes by exchanging information, identifying areas for improvement, and exchanging best practices.

In this regard, it is worth mentioning that EIOPA has developed significant supervisory convergence work related to POG.

In April 2020, EIOPA issued the Chapter on Product Oversight and Governance (POG) within its Supervisory Handbook, setting out key elements that NCAs should consider when carrying out assessments of whether insurance manufacturers and insurance distributors have adequate and proportionate POG arrangements, including whether such arrangements can effectively ensure good consumer outcomes.

While this Chapter is non-binding, it provides guidance on issues which NCAs should look at when assessing POG implementation by manufacturers and distributors and recommendations on how to carry out day-to-day work in the supervision of POG.

Furthermore, in October 2020 EIOPA published its approach to the supervision of product oversight and governance requirements in the insurance sector. In the document EIOPA takes a consumer-centric approach to supervision based on the requirements of the IDD²⁰. This document aims to provide clarity for insurance manufacturers and distributors on what to expect from the supervisory approach to POG requirements, as well as to support insurance manufacturers and distributors when implementing their own POG policies, so they can better engage with supervisors²¹.

In addition, it is worth mentioning the exercise conducted by EIOPA and its follow-up regarding the Union-wide Strategic Supervisory Priorities (USSP) defined for the period 2021-2023²² and, in this context, that one of the two priorities of Union-wide relevance for the period 2021-2023, approved

¹⁹ [Consumer Trend Report 2022](#).

²⁰ Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.

²¹ [EIOPA'S approach to the supervision of product oversight and governance](#).

²² In accordance with Article 29a of Regulation (EU) No 1094/2010 (the Regulation), EIOPA shall, at least every three years, by 31 March, identify up to two priorities of Union-wide relevance (USSP) which shall reflect future developments and trends. NCAs shall take those priorities into account when drawing up their work programs and shall notify EIOPA accordingly.

on 3 February 2021 by EIOPA's Board of Supervisors, was the adequate product design, including via a close monitoring of POG. The exercise involved engagements with NCAs already in 2021 and in 2022 through bilateral dialogues, surveys launched via the Committee on Consumer Protection and Financial Innovation (CCPFI) and discussions in dedicated platforms on areas of focus in NCAs' supervisory activities.

EIOPA activities in 2023 in the context of the USSP shall follow-up on the 2022 focus areas and in particular on the analysis of the value for money (VFM) aspects, in line with EIOPA's methodology to assess value for money in the unit-linked market²³. Indeed, VFM in the Unit-Linked market was identified as a priority area in 2022 for the vast majority of NCAs in relation to "Adequate product design, including via a close monitoring of POG".

Furthermore, EIOPA and the European Commission's Directorate-General for Structural Reform Support (DG REFORM) provided technical support to enhance insurance supervision in three European countries in 2019-2022²⁴ through the Technical Support Instrument²⁵. In particular, these technical support projects aimed at strengthening the NCAs' supervisory capacity and regulatory environment to enhanced consumer protection and contribute to a more efficient, resilient, and stable financial sector. EIOPA activities and project outputs focused on conduct of business area and consisted of the development of tailored guidance, processes and tools for the identification, monitoring, prioritisation, and mitigation of conduct risks, including product oversight and governance aspects, that could emerge from insurance market activities. It should be noted that the full implementation of the technical support projects occurred outside the reference period and were not considered in the assessment, in line with EIOPA Decision on Peer Reviews (framework and methodology for peer reviews)²⁶. These will be further assessed during the follow-up of the peer review.

1.2. SCOPE

The peer review aimed at assessing how NCAs supervise POG requirements and the application of such requirements in practice with regard to the target market assessment, product testing and product monitoring and review phase for IBIPs.

²³ [EIOPA's methodology to assess value for money in the unit-linked market](#).

²⁴ Enhancing the supervision function of the Romanian insurance market in respect of market conduct (Romania); Insurance supervision of conduct and product risks (Greece); Enhancing conduct supervision and new challenges in insurance supervision (Portugal).

²⁵ The Technical Support Instrument (TSI) is the EU program that provides tailor-made technical expertise to EU Member States to design and implement reforms.

²⁶ [EIOPA Decision on Peer Reviews \(framework and methodology for peer reviews\)](#).

The peer review was conducted among all 30 countries represented at EIOPA²⁷ on the basis of the EIOPA Methodology for Conducting Peer Reviews.

The reference period for the peer review was from the IDD's application date (1 October 2018) till the launch of the self-assessment questionnaire (31 March 2022).

The improvements implemented by NCAs after the reference period are relevant but were considered to be outside the scope of this peer review. In some cases, material developments were already implemented and observed in the period between the end of the reference period and the publication of this report. These developments will be further assessed during the follow-up of the peer review²⁸, to be performed in two years. According to the methodology, these cannot however be considered for the purposes of the recommended actions.

The scope of the peer review was limited to the supervision of POG at the product manufacturer's level. The supervision of POG regarding insurance intermediaries was not included in the scope.

1.3. METHODOLOGY AND PROCESS

The peer review started in January 2022 and was carried out by the ad hoc Peer Review Committee (PRC), led by EIOPA and included representatives from EIOPA and the NCAs of France, Greece, Italy, Netherlands, Poland and Slovakia.

The peer review was conducted using the assessment criteria and supervisory expectations, included in the peer review's terms of reference, to assess how NCAs supervise POG requirements and their application in practice.

1.3.1. ASSESSMENT CRITERIA AND SUPERVISORY EXPECTATIONS

According to the peer review methodology, the assessment criteria is set to provide for a common understanding of expected supervisory approaches and outcomes. The assessment criteria and supervisory expectations were used to draft the recommended actions addressed to the NCAs and to present the findings of the assessment.

²⁷ EU Member States and Iceland, Liechtenstein and Norway.

²⁸ A follow-up of the review by peers, shall include, without limitation, an assessment of the adequacy and effectiveness of the implementation measures enacted to address the recommended actions set out in the peer review report, resulting in a follow-up report (cfr. Article 12 of EIOPA Decision on new methodology for peer review).

The assessment criteria and supervisory expectations on the supervisory practices on POG have been developed on the basis of provisions in the IDD, the POG Delegated Regulation and the Supervisory Handbook Chapter on POG supervision, specifically:

- ▶ Article 25(1) of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution;
- ▶ Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors, in particular Articles 4, 5, 6, 7 and 9. As mentioned in the scope, the peer review focusses on insurance undertakings in their role as manufacturers, i.e. Chapter II of the POG Delegated Regulation;
- ▶ Supervisory Handbook Chapter on POG supervision;
- ▶ The key characteristics of high quality and effective supervision as defined by EIOPA are also relevant.

Expectations set out what would be reasonable to expect from NCAs, namely regarding supervisory practices and governance arrangements, considering the regulatory framework applicable to POG but also the proportionality principle and a risk-based approach to conduct of business supervision.

The supervisory approach to POG requirements by insurance undertakings should allow NCAs to effectively and continuously supervise internal processes, functions and strategies for designing, distributing, monitoring and reviewing insurance products over their lifecycle. Ultimately, such requirements should prevent and mitigate customer detriment, support a proper management of conflicts of interests and should ensure that insurance products are aligned with the interests, objectives and characteristics of the customers belonging to the target market.

The supervisory expectations were grouped in the following areas where recommended actions to NCAs have been identified.

Table 2 – Areas of assessment considered

Areas:
Organisation and resources of POG supervision
Risk-based approach
Setting and communicating supervisory expectations
Supervisory methodologies and tools
Supervisory activities

The supervisory expectations were used to draft a self-assessment questionnaire, which all 30 participating NCAs answered, and to assess the answers received. Taking into account the preliminary findings following the assessment of the responses to the self-assessment questionnaire, additional fieldwork was carried out via teleconferences, on-site visits and written procedures.

1.3.2. FIELDWORK ACTIVITIES

Three different levels of engagement with NCAs during the fieldwork were selected based on the following criteria:

- ▶ Extent of the experience in a particular area with a view to exploring any potential best practice;
- ▶ Potential extent of the misapplication of any measures set out in the EU regulatory framework;
- ▶ The relative significance of the competent authority as regards the topic under review, which can be assessed, among other criteria, through relevant market size and level of activity;
- ▶ Relevance of the issue subject to peer review at national level and from a cross-border perspective, affecting more than one EEA jurisdiction;
- ▶ Non-contribution, insufficiency of responses to the self-assessment questionnaire or information requested;
- ▶ Inconsistency or lack of clarity of responses provided in the self-assessment questionnaire.

These fieldwork activities allowed to confirm the understanding of the answers provided to the self-assessment questionnaire, to assess the effective implementation of processes and procedures and to further assess the supervisory practices by NCAs.

Table 3 – Communication means during fieldwork

Communication means	Number of NCAs	NCAs
Written procedure	17	BG, CY, DK, EE, EL, ES, FI, HU, IS, LI, LT, LV, NO, PT, RO, SI, SK
Tele conference	9	AT, BE, CZ, HR, IT, LU, MT, NL, PL
Visit	4	DE, FR, IE*, SE

*Virtual visit

After the completion of this phase, the supervisory processes and practices of the 30 NCAs were compared with the expectations set and among each other and Draft Assessment Letters, including

main finds and recommended actions were sent to Board of Supervisors representatives, with the request to agree or disagree with the recommended actions²⁹.

The explanations and further evidence provided by NCAs which disagreed with the proposed recommended actions have been carefully analysed. There were relevant explanations and positive developments explained, but some occurred already outside the reference period, while in other cases did not address the concerns in full and improvements are still expected. The main findings highlighted during the first assessment have been confirmed for the majority of NCAs, leading, in general, to no changes in the recommended actions, but to corrections in the findings where relevant. When replies by NCAs provided new, relevant and clear evidence and justifications the findings, if relevant, were adjusted and the recommended actions amended or deleted.

During the process ensuring the consistency of recommended actions across NCAs was deemed critical. This implied issuing the same recommended action when the assessment of supervisory practices is the same.

²⁹ The phases of the peer review are 5: 1) establishment phase, 2) preparatory phase, 3) self-assessment phase, 4) review phase, 5) final outcomes phase, 6) monitoring phase (cfr. Articles 13-28 of EIOPA Decision on new methodology for peer review).

2. RESULTS OF THE ASSESSMENT

This section contains a description of the results of the assessment following the structure of the assessment criteria and supervisory expectations illustrated in the previous section.

2.1. MAIN FINDINGS

Widely diverse levels of maturity of POG supervision were observed in the peer review. A few NCAs did have in place an effective and mature approach to POG supervision which was clearly aimed at minimising risks to consumers by ensuring that insurance products, such as IBIPs, are designed and distributed with the consumer's interest placed first and foremost. Yet, some NCAs were in the process of improving their supervisory POG framework to ensure good consumer outcomes for complex life products during the peer review's reference period, while a few NCAs were still in the process of building their supervisory POG framework.

Significant areas for improvement were identified with regard to the general POG supervision framework, the adoption of a risk-based approach to identify significant product-related risks for consumers and leading to concrete supervisory plans, in setting and communicating supervisory expectations and in establishing internal processes and procedures. Furthermore, it was observed that in some NCAs the supervisory activities need to be strengthened in their scope, cover more aspects of POG, and need to be enhanced in the effectiveness, since they appeared to be limited to the assessment of the formal compliance with the regulation.

EIOPA had set out in its expectations that supervisors not only supervise whether POG arrangements have been formally put in place, but also supervise their implementation and ensure they are effective in ensuring good consumer outcomes. This, in turn, requires each NCA to formulate what it considers to be good consumer outcomes and, in relation to POG, to set out supervisory expectations such as what is considered to be a sufficiently granular and appropriate definition of the target market for IBIPs, how products should be tested and reviewed and what outcomes in these processes are considered adequate.

Challenges faced by some NCAs in supervising POG requirements were reported in the questionnaire and during the fieldwork regarding a) the principle-based nature of the POG Regulation; b) the difficulty in modelling POG supervision by embedding it in the NCAs' risk-based approach in the consumer protection supervision; c) the correct interpretation of the "significant adaptation" concept for products manufactured before the application of the IDD; d) the lack of an adequate number of experienced resources to allocate to POG supervision.

In particular, although EIOPA's Supervisory Handbook provides guidance on how NCAs can perform POG supervision, the difficulty of some NCAs in transposing the principles governing POG requirements into concrete supervisory expectations was observed, for instance on processes and tools manufacturers are expected to implement in the target market identification, product testing and monitoring and review processes for IBIPs. This might have led to reduced supervisory activities and measures (e.g. sanctions) on POG requirements. In addition, some NCAs struggled in identifying specific risk indicators for POG and in general in embedding POG related "alerts" in their risk-based conduct supervision in order to identify supervisory priorities and consequent supervisory activities on POG³⁰.

Some NCAs also experienced challenges in allocating human resources to POG supervision.

An additional reported issue by some NCAs was the application of POG requirements to products manufactured before 1 October 2018 (the date of application of IDD) "*due to the absence of the qualification of the significant adaptation*" (significant change) of such a product even if a Q&A on the matter was provided³¹.

EIOPA provided the NCAs with recommended action per key area, where appropriate.

2.2. ORGANISATION AND RESOURCES OF POG SUPERVISION

2.2.1. SUPERVISORY EXPECTATIONS

NCAs are expected to have in place a comprehensive framework to capture product-related conduct signals and identify which products may require a closer monitoring from a POG perspective to ensure the adequate and correct implementation of POG requirements established by article 25 of IDD and further specified by articles 2 and 3 of POG-Delegated Regulation and ensure that POG policies and procedures set out by insurance undertakings, as well as by intermediaries which manufacture insurance products for sale to customers, lead to good consumer outcomes. In other

³⁰ On April 2020 EIOPA approved the chapter on POG supervision, within EIOPA's Supervisory Handbook, setting out key elements that NCAs should consider when carrying out assessments of whether insurance manufacturers and insurance distributors have adequate and proportionate product oversight and governance (POG) arrangements including whether such arrangements can ensure good consumer outcomes.

³¹ According to article 1 of the POG delegated Regulation, POG requirements shall apply [...] for significant adaptations to existing insurance products before those products are brought to the market or distributed to customers. In this regard the European Commission in the context of the application of the IDD and POG Delegated Regulation clarified in the Q&A n. 2266 that: "*(...) An adaptation of an existing insurance product may concern essential features of the product, such as the risk coverage, the price and costs of the insurance product, the risks resulting from the underlying investments of an insurance-based investment product, a change to the target market identified by the insurance manufacturer, and possible compensation and guarantee rights for the benefit of the customers.(...)*."

words, supervision of POG should ensure that insurance products are aligned with the needs, objectives, and characteristics of a sufficiently granular target market.

NCA's are expected to have defined objectives and a strategy for POG supervision, in line with the NCA's overall conduct supervisory strategy. In particular, NCA's must establish internal procedures and arrangements through their organisation and provide internal guidance to embed POG supervision in day-to-day supervision.

In line with recital 23 of IDD, NCA's are expected to have at their disposal all means necessary (human and financial), the relevant expertise and the capacity to ensure the orderly pursuit of business by insurance and reinsurance undertakings, insurance intermediaries and ancillary insurance intermediaries throughout the Union. This includes POG arrangements, as these relate to the implementation of the fundamental objective of insurance supervision: protection of policyholders and beneficiaries.

Finally, POG supervisory policies and processes as well as the level of engagement of NCA's staff shall be appropriate and proportionate to the nature and characteristics of local markets and the level of complexity of products.

2.2.2. FINDINGS

Following the implementation of IDD at the end of 2018, most NCA's made adjustments to their organisation and – albeit to a lesser extent – their strategic approach. The adjustments varied strongly.

While a number of NCA's had established clear responsibilities for POG supervision in their organisations, some with dedicated supervisors or even supervisory teams, many NCA's only dedicated marginal resources to POG supervision and consequently they had not fully integrated POG supervision into their supervisory approach by early 2022. Adequate adjustments were more visible at the NCA's that created specific organisational structure dedicated to conduct supervision including POG, while at those NCA's where there was no specific organisational structure dedicated to conduct supervision, the implementation of POG supervision only saw minor adjustments to the supervisory model.

During the reference period, the responses indicate that:

- ▶ Some NCA's incorporated POG into their supervisory approach by: prioritising POG supervision within conduct of business supervision, as reflected in their supervisory strategic plans and operational plans, integrating POG supervision in the internal processes and procedures, embedding POG supervision in their on-going supervisory activities and allocating experienced resources to POG supervision (e.g. BE, CZ, FR, IE, IT, MT, NL, PL).

- ▶ In a large number of NCAs, POG supervision was not reflected in the NCAs supervisory strategy/priorities, nor embedded structurally in on-going supervision. However, it was considered in some cases in specific supervisory activities. In these cases, POG supervision was not explicitly part of the authority's governance and organisation.

2.2.3. RECOMMENDED ACTION

Individual recommended action regarding organisation and resources of POG supervision

The Authority is recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, the Authority is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the Authority's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organisation. In addition, the Authority is recommended to allocate adequate resources with the necessary skills, knowledge and expertise on POG supervision. The resources should be proportionate to the complexity and risk levels of IBIPs and/or other life insurance products, to the characteristics of the domestic insurance market and to the nature, scale and complexity of business models.

This recommended action is addressed to ICCS-CY, BaFin-DE, DFSA-DK, EFSRA-EE, BoG-EL, DGSFP-ES, FIN-FSA-FI, HANFA-HR, MNB-HU, FSA-IS, FMA-LI, BoL-LT, CAA-LU, NFSA-NO, ASF-PT, AZN-SI, NBS-SK.

The recommended action on organisation and resources of POG supervision was tailored for AT and BG, to take into account national specificities.

FMA-AT and are recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, FMA/FSC is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the FMA's/FSC's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organization.

FSC-BG is recommended to have in place a well-defined and comprehensive structure for POG supervision which is proportionate to the (current and expected) risks in the insurance market. POG supervision must have clearly defined purposes and objectives. Moreover, FSC is recommended to ensure that POG supervision is embedded in on-going supervisory activities and is fully reflected in the FSC's strategy. The above should be set out in documentation, which is known, understood and applied throughout the organization.

2.3. RISK-BASED APPROACH

2.3.1. SUPERVISORY EXPECTATIONS

NCAAs are expected to adopt a supervisory approach based on a conduct risk assessment framework that translates into supervisors targeting those manufacturers and products where the risk to consumers is considered relevant. For that, NCAAs should embed the supervision of POG requirements into such risk-based general framework, where material risks stemming from products are identified. In addition, the allocation of an adequate number of resources should be consistent with the supervisory priorities set in a risk-based way.

An adequate supervisory approach is proportionate to the nature, scale and complexity of the risks. While POG is a process-oriented requirement, the focus on products means that the objective of POG requirements is to ensure that product-related risks identified across a product's lifecycle are sufficiently addressed and mitigated by ensuring that insurance undertakings have developed adequate processes to avoid, identify and mitigate such risks for the products they manufacture in order to avoid or mitigate consumer detriment.

In light of the guidance provided in the POG Chapter of EIOPA's Supervisory Handbook and its public version³², and in order to have a structured and a risk-based approach to POG supervision, NCAAs are expected to have in place a market monitoring system to identify those issues and/or products, which, from a risk perspective, may have the highest detrimental impact on consumers.

Overall, while addressing the processes and procedures implemented by manufacturers and distributors, the objective of POG supervision is to ensure that insurance manufacturers and distributors take a 'customer-centric' approach to their product approval, distribution, monitoring and review process. This to ensure that products produce good consumer outcomes (EIOPA's Supervisory Handbook – Chapter on POG).

2.3.2. FINDINGS

It was observed that a few NCAAs had fully introduced POG elements in the risk assessment framework translating into the identification of supervisory priorities during the reference period of the review. For these NCAAs reporting risk-based frameworks, encompassing both product-specific and undertaking risks assessment, it was observed that the use of quantitative indicators accompanied by qualitative analyses has led to the identification of the main risks for consumers and to the prioritisation of supervisory activities and different supervisory actions (e.g. CZ, IE, IT,

³² [EIOPA's approach to the supervision of product oversight and governance](#).

MT, PL, SE). In these cases, the risk-based framework has been continuously reviewed and improved on the basis of the carried out supervisory activities and conclusions.

Regarding the NCAs receiving recommended actions on this area, different situations have been identified:

- ▶ NCAs did not tailor the risk-based assessment frameworks to POG in relation to life or complex insurance products;
- ▶ NCAs tailored the risk-based assessment frameworks to POG, but used limited POG specific indicators and, in general, a systematic product-specific risk assessment was not in place during the reference period;
- ▶ NCAs where a limited number of supervisory activities focusing specifically on POG have been initiated following the risk-based perspective;
- ▶ NCAs where improvements on the link between the risk-based framework in place and the performance of concrete supervisory actions was needed.

Consequently, these NCAs were unable to prioritise the supervision of POG arrangements for those manufacturers and products which were the most likely to have a considerable, negative impact on consumers.

Some developments were already implemented by some NCAs after the reference period in this area. Improvements on the framework and supervisory activities carried out by NCAs after the reference period are relevant but were not able to be considered in the assessment. However, these will be considered in the follow-up to the peer review and the NCAs may also update EIOPA on relevant progress of implementation of the recommended actions addressed to them at any time.

2.3.3. RECOMMENDED ACTION

Individual recommended action regarding risk-based approach

The Authority is recommended to have in place a systematic and effective risk-based and proportionate supervisory framework for conduct supervision that fully incorporates POG requirements. The framework should include both product-specific and undertaking-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory action. The framework is to be integrated and aligned with the Authority's strategy.

The framework should rely on measures (quantitative and qualitative) to assess how products impact consumers and the likelihood of the materialisation of risks. The Authority should identify and document a comprehensive set of product risks it expects manufacturers to manage by their POG arrangements and monitor these to ensure that POG policies and procedures lead to good consumer outcomes. The Authority should, furthermore, define undesired consumer outcomes and assess whether supervised entities have in place their own notion of good consumer outcomes.

This recommended action is addressed to: FMA-AT, FSC-BG, ICCS-CY, BaFin-DE, DFSA-DK, EFSRA-EE, BoG-EL, DGSFP-ES, FIN-FSA-FI, HANFA-HR, MNB-HU, FSA-IS, BoL-LT, CAA-LU, BoL-LV, NFSA-NO, ASF-PT, AZN-SI, NBS-SK.

This recommendation was tailored for FR and NL to take into account national specificities.

ACPR-FR is recommended to have in place a supervisory framework for conduct supervision that, in addition to firm-specific risk assessment, includes product-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory actions also taking into account customer outcomes. The framework should rely on quantitative and qualitative measures.

AFM-NL is recommended to have in place a systematic and effective risk-based and proportionate supervisory framework for conduct supervision of life insurance that fully incorporates POG requirements. The framework should include both product-specific and undertaking-specific risk assessments leading to a clear identification of risks impacting consumers and to the prioritisation of supervisory action also taking into account customer outcome.

2.4. SETTING AND COMMUNICATING SUPERVISORY EXPECTATIONS

2.4.1. SUPERVISORY EXPECTATIONS

NCA's are expected to have formulated supervisory expectations and communicated these to the market. This is aimed at ensuring that manufacturers have a clear understanding of the supervisory expectations for customer-centric POG arrangements. A clear communication strategy by NCA's must ascertain that these expectations are sufficiently known by the relevant stakeholders in order to foster market discipline. For more complex products with a higher risk of consumer detriment, more rigorous supervisory expectations should be formulated, leading to more demanding POG measures.

2.4.2. FINDINGS

It was observed that a few NCA's set and communicated expectations to the market. Those NCA's engaged with the market even before the application of the IDD, for example organising thematic meetings where the NCA presented the new framework on POG and expectations on POG application (FR) or provided on the Authority's website a separate section solely dedicated to POG, guidance on expectations on POG implementation and a practical interpretation of the concept of good consumer outcome (NL).

Some NCAs also adopted formal recommendations to the market, issuing circulars and statements, and communicated the same expectations during the follow-up of on-site inspections, in the context of the supervisory dialogue with undertakings (e.g. BE, FR, NL, MT).

However, most NCAs have not translated the principles of the POG Regulation in concrete market specific supervisory expectations for product manufacturers. Consequently, for these NCAs there was limited or no specific guidance and dialogue with the market on matters such as on the granularity of the target market and how to perform product testing with regard to consumer outcomes.

In particular, it was found that even when NCAs used some communication tools, also embedding some aspects of POG requirements (e.g. public events with undertakings, circulars, high-level guidance, letters to remind manufacturers to comply with POG requirements, broad communication on different IDD requirements or product design), these communications were very limited in the scope and in frequency and did not set out any view on what is expected from manufacturers to ensure an effective implementation of POG requirements. More often these communications were of a general nature (e.g. focused on the potential conflicts of interests between manufacturers and distributors, or providing high-level supervisory expectations regarding potential risks for consumers). Apart from these, it was noticed that the majority of NCAs did not provide any guidance nor used any other tool or engaged in supervisory dialogue covering their supervisory expectations regarding all the elements of POG requirements applied to IBIPs.

Furthermore, the review also revealed that some NCAs have not engaged in bilateral dialogue with insurance undertakings to address the shortcomings or non-compliance situations regarding POG identified during supervisory activities.

The absence of practical supervisory expectations results in efficiency and effectiveness limitations in POG supervision. Without these expectations, POG supervision could not go beyond merely assessing that POG arrangements were formally in place. The adequacy and effective implementation of the POG arrangements can only be assessed once the principles of the POG Regulation are translated into supervisory expectations and duly communicated to the market.

2.4.3. RECOMMENDED ACTION

Individual recommended action regarding setting and communicating supervisory expectations

The Authority is recommended to formulate and communicate to the market a comprehensive set of supervisory expectations covering all the elements of POG requirements applied to IBIPs.

Communication should be carried out in a formal manner (e.g. guidelines, circulars, letters to the market, publications on websites, other type of publication) or via supervisory dialogues (through

off and on-site inspections or other supervisory actions) to clearly establish how POG requirements should be applied in day-to-day business.

The Authority is recommended to follow-up on these expectations by challenging the effectiveness of POG arrangements by supervised entities based on these expectations.

This recommendation is addressed to: FMA-AT, FSC-BG, ICCS-CY, CNB-CZ, BaFin-DE, DFSA-DK, EFSRA-EE, DGSFP-ES, FIN-FSA-FI, MNB-HU, CBI-IE, FSA-IS, FMA-LI, BoL-LT, CAA-LU, BoL-LV, NFSA-NO, KNF-PL, ASF-PT, ASF-RO, FI-SE, AZN-SI, NBS-SK.

2.5. SUPERVISORY METHODOLOGIES AND TOOLS

2.5.1. SUPERVISORY EXPECTATIONS

NCA should rely on a range of internal supervisory processes which are documented in internal policies and procedures, off-site and on-site supervisory manuals, and methodologies.

Using the above supervisory processes to guide the supervisors in their assessment of POG policies and procedures adopted by undertakings would, for example:

- ▶ Improve the effectiveness and efficiency of the supervisory activity and ensure customer-centricity;
- ▶ Increase the likelihood that the supervisors will engage with the undertakings focusing on the areas carrying more risks;
- ▶ Facilitate the compliance review of the relevant documentation (such as: the definition and identification of target markets, determination of the complexity of an IBIP, evidence of product testing, documentation of the product approval process, distribution strategy and arrangements, product monitoring and review) giving more time for supervisors to focus on the riskiest areas when carrying out off-site supervision or on-site inspections.

The lack of use of such processes could result in a less structured approach to the supervision of POG, which might have impacts (i) on the effective allocation of resources to the supervision of POG; (ii) on the quality of the supervisory activities and on their capacity to provide proper risk detection and prevention; and (iii) on the efficiency when supervisors are off-site and on-site with the insurance undertakings hampering the results of the supervisory activities in this area.

2.5.2. FINDINGS

It was observed that some NCAs had in place formal supervisory processes to ensure that POG arrangements at IBIP manufacturers are adequate. Those NCAs have elaborated detailed internal procedures and manuals to assist supervisors in their reviews, in adherence with the EIOPA's

Supervisory Handbook. These internal manuals provide explanatory information to assist supervisors by the means of expectations, best practices, examples and insights (FR, IE, NL). They also provide insights on how the customers interests should be considered in the decision-making process of the undertaking, whether the risks and dilemma's regarding customers' interest are sufficiently identified and whether they have been sufficiently weighed (NL).

Most NCAs, however, had not yet fully developed and implemented such processes during the reference period of this review. The majority of NCAs indicated that the Supervisory Handbook Chapter on POG was used in their approach to POG Supervision. However, only very few were able to provide concrete evidence of its implementation.

In particular, the peer review revealed that the majority of NCAs did not have in place well-structured supervisory processes to perform POG supervision and support supervisors in their off-site and on-site supervisory activities. The existing documentation and internal supervisory methodology did not contemplate practical guidance for the internal processes of POG supervision, which translate the EIOPA's Supervisory Handbook and EIOPA's approach to product supervision, or they needed to be further integrated.

2.5.3. RECOMMENDED ACTION

Individual recommended action regarding supervisory methodology and tools:

The Authority is recommended to have in place well-structured supervisory processes to establish that POG requirements are adequately and correctly implemented.

In particular, the Authority is recommended to have in place fit-for-purpose internal supervisory processes on POG supervision, most notably for IBIPs and more generally for life insurance products. The processes should take into consideration the Chapter on POG of EIOPA's Supervisory Handbook and EIOPA's Approach to the Supervision of Product Oversight and Governance, developing national specific documentation if adequate. The processes should provide practical guidance on procedures and instructions to support supervisors in off-site and on-site supervisory activities and incorporate the specificities of the national IBIPs market and the Authority's framework regarding POG supervision and other supervisory tools.

This recommended action is addressed to: FMA-AT, FSC-BG, ICCS-CY, CNB-CZ, BaFin-DE, DFSA-DK, EFSRA-EE, BoG-EL, DGSFP-ES, FIN-FSA-FI, MNB-HU, FSA-IS, IVASS-IT, FMA-LI, BoL-LT, CAA-LU, BoL-LV, MFSA-MT, NFSA-NO, ASF-PT, ASF-RO, FI-SE, AZN-SI, NBS-SK.

2.6. SUPERVISORY ACTIVITIES

2.6.1. SUPERVISORY EXPECTATIONS

POG supervision should aim at assessing whether POG policies and procedures have been developed in a proportionate, adequate, and appropriate manner by insurance undertakings. Supervisory activities need to consider the relevant circumstances of individual undertaking, such as the nature, scale and complexity of the relevant business and the risks related to the products.

Assessing the formal existence of POG policies and processes is insufficient.

POG supervision should also assess if such POG policies and processes are effectively applied for the approval and monitoring of new, or significantly adapted, products and adequate, considering the types and ranges of products manufactured and distributed and the target markets towards which such products are aimed. Moreover, POG policies and processes must account for the business model, level of product complexity, and target market(s)' characteristics and must ensure that new products or significantly adapted ones meet the target market's needs, objectives and characteristics, throughout their lifecycle and produce good consumer outcomes.

NCA's are expected, within the context of risk-based supervision, to check whether manufacturers have rightly pursued the above-mentioned aspects and use a range of tools both for off-site and on-site activities. NCA's must contemplate when the off-site analyses need to be complemented by thematic reviews and on-site inspections.

2.6.2. FINDING

NCA's used a range of supervisory activities to check and verify that POG arrangements at manufacturers of complex life insurance products were adequate.

It was observed in some jurisdictions that the NCA adopted different supervisory tools to monitor and challenge the effective implementation of POG arrangements by manufacturers (on-site inspections, off-site analyses, thematic reviews, meetings). A number of NCA's carried out deep-dives, follow-up actions and/or market wide and undertaking-specific assessments (e.g. CZ, FR, IE, IT, LI, MT, NL).

A few NCA's dedicated significant parts of on-site inspections to POG. A large number of NCA's used a questionnaire or a limited part of general on-site inspections to check the existence of comprehensive POG arrangements. However, in some cases this was not performed in a systematic way or in the absence of specific supervisory expectations and their communication to the market, most of these activities had efficiency and effectiveness limitations.

The use of different tools in supervision can complement an overall understanding of practices used in the market and plays an important role in the supervision of POG arrangements by manufacturers.

2.6.3. RECOMMENDED ACTION

Individual recommended action regarding supervisory activities on POG

The Authority is recommended to carry out systematic supervisory activities, such as on-site inspections, off-site inspections and thematic reviews on an adequate number of IBIPs and entities manufacturing IBIPs.

The supervisory activities should aim to assess the application of POG requirements in practice, specifically whether undertakings have effective and comprehensive POG policies and procedures in place that are adequately internalised and whether insurance undertakings take a “customer-centric” approach to their product approval, distribution, and monitoring and review processes to avoid conflicts of interest.

Specifically for on-site and off-site inspections, the Authority is recommended to carry out analyses focused on POG requirements to ensure that when these cover other conduct aspects or prudential aspects, POG requirements are given substantial emphasis.

This recommended action is addressed to: FMA-AT, FSC-BG, ICCS-CY, BaFin-DE, DFSA-DK, EFSRA-EE, BoG-EL, DGSFP-ES, FIN-FSA-FI, HANFA-HR, MNB-HU, FSA-IS, BoL-LT, CAA-LU, BoL-LV, NFSA-NO, KNF-PL, ASF-PT, ASF-RO, FI-SE, AZN-SI, NBS-SK.

This recommendation was tailored for BE to take into account national specificities.

FSMA-BE is recommended to carry out systematic supervisory activities which should be prioritized taking into account the risks identified in the risk model.

The supervisory activities should aim to assess the application of POG requirements in practice, specifically whether undertakings have effective and comprehensive POG policies and procedures in place that are adequately internalised and whether insurance undertakings take a “customer-centric” approach to their product approval, distribution, and monitoring and review processes to avoid conflicts of interest.

Specifically for on-site and off-site inspections, the Authority is recommended to carry out analyses focused on POG requirements to ensure that when these cover other conduct aspects or prudential aspects, POG requirements are given substantial emphasis.

2.7. OVERVIEW OF RECOMMENDED ACTIONS TO NCAS

EIOPA sent a total of 110 final recommended actions to the 30 participating NCAs.

NCAs can be grouped into the following 4 groups according to the extent to which they meet the expectations of the peer review:

- ▶ NCAs broadly meeting expectations: 6 NCAs (BE, FR, IE, IT, MT, NL) with 1 recommended action each;
- ▶ NCAs meeting most expectations: 2 NCAs (CZ, PL) with 2 recommended actions each;
- ▶ NCAs meeting some expectations: 4 NCAs (HR, LI, RO, SE) with 3 recommended actions each;
- ▶ NCAs meeting few expectations: 18 NCAs (AT, BG, CY, DE, DK, EE, EL, ES, FI, HU, IS, LT, LU, LV, NO, PT, SI, SK) with 4 or 5 recommended actions each.

Overall, the final recommended actions follow a standard structure, i.e. they were drafted and applied in the same manner to most NCAs, albeit some differences between NCAs reflected in the motivation being specific to each NCA. In addition, to take into account NCA's specificities:

- ▶ The recommended action on organisation and resources of POG supervision was tailored for AT and BG;
- ▶ The recommended action on risk-based approach the recommendation was tailored for FR and NL;
- ▶ The recommended action on supervisory activities on POG was tailored for BE.

The final recommended actions focus on five areas where improvements regarding POG supervision are expected to ensure that POG requirements are concretely implemented by manufacturers.

The table below provides an overview of the recommended actions for each NCA.

Table 4 – Overview of recommended actions

	AT	BE	BG	CY	CZ	DE	DK	EE	EL	ES	FI	FR	HR	HU	IE	IS	IT	LI	LT	LU	LV	MT	NL	NO	PL	PT	RO	SE	SI	SK	Tot.	%	
1) Organisation and resources of POG supervision	X		X	X		X	X	X	X	X	X		X	X					X	X				X	X				X	X	19	17%	
2) Risk-based approach	X		X	X		X	X	X	X	X	X	X	X	X		X			X	X	X			X	X		X			X	X	21	19%
3) Setting and communicating supervisory expectations	X		X	X	X	X	X	X		X	X			X	X	X			X	X	X	X		X	X	X	X	X	X	X	X	23	21%
4) Supervisory methodologies and tools	X		X	X	X	X	X	X	X	X	X			X		X	X	X	X	X	X	X		X		X	X	X	X	X	X	24	22%
5) Supervisory activities	X	X	X	X		X	X	X	X	X	X		X	X		X			X	X	X			X	X	X	X	X	X	X	23	21%	
Total RAs	5	1	5	5	2	5	5	5	4	5	5	1	3	5	1	5	1	3	5	5	4	1	1	5	2	5	3	3	5	5	110	100%	

2.8. ONGOING AND FUTURE DEVELOPMENTS

In a number of jurisdictions NCAs have started or planned to enhance their supervisory approach to POG.

Overall, NCAs were during 2022 and onwards still in the process of strengthening POG supervision by prioritising POG in their supervisory strategic plans, allocating more resources and adapting internal processes. Supervisory actions and an increased number of concrete activities have been also identified for 2023 and are expected in the future. All these actions are welcomed and contribute to the improvement of supervision of POG requirements. Some of these actions are indicated below:

- ▶ Several NCAs indicated that POG supervision has been embedded in their medium-term strategy (e.g. BG, DE, DK, IS, LT, LU, PL, SI, SK).
- ▶ Most NCAs are employing/envisage to employ more supervisory tools (such as on-site inspections) and also to conduct thematic reviews and establish a closer link between the tools used and the outcome of the risk-based framework (e.g. AT, BE, BG, EE, EL, IS, IT, LU, LV, PL, PT, RO, SE, SI, SK).
- ▶ Several NCAs are in the process of integrating their risk-based assessment framework by adopting more indicators (e.g. DE, EL, ES, IS, LV, LT, NO, SI).
- ▶ Many NCAs are integrating EIOPA's Methodology on Value for Money in their supervisory approach (e.g. AT, BE, DE, HU, HR, IT, LI, LT, LU, LV, MT, PL, PT, SK).
- ▶ Several NCAs are working on or plan to supplement the internal processes of POG supervision by increasing the existing documentations and guidelines, which reflect EIOPA's Supervisory Handbook and EIOPA's approach to product supervision (e.g. CZ, DK, EE, IS, LU, SE).
- ▶ Some NCAs are planning to set and communicate to the market clearer expectations on POG through publications and supervisory dialogue with insurance undertakings (e.g. DE, IE, IS, LV, SI).

These measures were outside the reference period of the peer review and their progress will be considered during the follow-up phase, in agreement with the EIOPA methodology for peer reviews. Accordingly, actions and future plans outside the reference period of the peer review have not been taken into account when setting the recommendations.

ANNEX 1. COUNTRIES AND COMPETENT AUTHORITIES PARTICIPATING IN THIS PEER REVIEW AND THEIR ABBREVIATIONS

Country	Abbreviation	Name of concerned Competent Authority	Abbreviation used in the report (if any)
Austria	AT	Finanzmarktaufsicht (Financial Market Authority)	FMA
Belgium	BE	Autorité des services et marchés financiers (Financial Services and Markets Authority)	FSMA
Bulgaria	BG	Комисия за Финансов Надзор (Financial Supervision Commission)	FSC
Cyprus	CY	Αρμοδιότητα της Υπηρεσίας Ελέγχου Ασφαλιστικών Εταιρειών (Cyprus Insurance Companies Control Services)	ICCS
Croatia	HR	Hrvatska agencija za nadzor financijskih usluga	HANFA
Czech Republic	CZ	Ceska Narodni Banka (Czech National Bank)	CNB
Denmark	DK	Finanstilsynet (Danish FSA)	DFSA
Estonia	EE	Finantsinspektsioon (Estonia Financial Supervision Authority)	EFSA
Finland	FI	Finanssivalvonta (Finnish Financial Supervisory Authority)	FIN-FSA
France	FR	Autorité de Contrôle Prudentiel et de Résolution	ACPR
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht	BaFin
Greece	EL	Τράπεζα της Ελλάδος (Bank of Greece - Department of	BoG

Country	Abbreviation	Name of concerned Competent Authority	Abbreviation used in the report (if any)
		Private Insurance Supervision)	
Hungary	HU	Magyar Nemzeti Bank (The Central Bank of Hungary)	MNB
Iceland	IS	Fjármálaeftirlitið (Financial Supervisory Authority)	FSA
Ireland	IE	Central Bank of Ireland	CBI
Italy	IT	Istituto per la Vigilanza sulle assicurazioni	IVASS
Latvia	LV	Latvijas Banka (until 31.12.2022. – Financial and Capital Market Commission (FCMC))	BoL-LV
Liechtenstein	LI	Finanzmarktaufsicht (Financial Market Authority)	FMA
Lithuania	LT	Lietuvos Bankas (Bank of Lithuania)	BoL-LT
Luxembourg	LU	Commissariat aux Assurances	CAA
Malta	MT	Malta Financial Services Authority	MFSA
Netherlands	NL	De Autoriteit Financiële Markten (Dutch Authority for the Financial Market)	AFM
Norway	NO	Finanstilsynet	NFSA
Poland	PL	Komisja Nadzoru Finansowego	KNF
Portugal	PT	Autoridade de Supervisão de Seguros e Fundos de Pensões	ASF-PT
Romania	RO	Financial Supervisory Authority	ASF-RO
Slovakia	SK	Narodna Banka Slovenska (National Bank of Slovakia)	NBS
Slovenia	SI	Agencija za Zavarovalni Nadzor (Insurance Supervision Agency)	AZN

Country	Abbreviation	Name of concerned Competent Authority	Abbreviation used in the report (if any)
Spain	ES	Dirección General de Seguros y Fondos de Pensiones	DGSFP
Sweden	SE	Finansinspektionen (Financial Supervisory Authority)	FI

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