



SPEECH

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Back to basics in consumer protection: a fair treatment



Better Finance for All

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Ladies and Gentlemen,

Let me start by thanking Better Finance for All for the invitation to speak at this important event and congratulate you not only with the event in itself but also for doing it in this magnificent and unique building in a unique landscape as Iceland.

My working life has been dedicated to regulation and supervision in the financial sector. If there is one element that I have learned by doing it is the extreme importance of communication and dialogue with all stakeholders during the different phases of the regulatory process.

It is fundamental for a sound and proper balance of regulation that all interests are heard and the different views are considered. Industry stakeholders are usually well organised and have at their disposal means and resources to transmit their legitimate positions and interests.

It is traditionally much more complex, as a regulator, to have access to the voice of consumers and interested citizens. That's why I believe that organisation's like yours are fundamental to keep the right balance in the regulatory landscape, and to keep it fit for the public interest.

So my presence here is also a word of encouragement for your work. As citizens we will all benefit from it and as a European institution EIOPA will continue to engage with your institution in a constructive and fruitful dialogue.

My speech today touches on the EIOPA priorities for consumer protection. Consumer protection is at the centre of EIOPA's strategic objectives and goals. For me consumer protection has two main dimensions:

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

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

This is reflected in our strategic goals:

- To ensure the transparency, simplicity, accessibility and fairness across the internal market for consumers.
- To lead the development of sound and prudent regulation supporting the EU internal markets.
- To improve the quality, efficiency and consistency of the supervision of EU insurers and pension funds.

On the solvency side, Solvency II is a major step forward and EIOPA played a key role.

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 also needed. The traditional approach to conduct of business at the point of sale and disclosure did not work well.

A few examples of on-going work by EIOPA: Conflicts of Interest, the Key Information Document (KID), and Product Oversight and Governance.

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.

Furthermore, we put a strong focus on product oversight and governance with the aim 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 expect 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.

So our agenda is focused on 1) ensuring a paradigm shift towards much better transparency for consumers, 2) reinforced fairness in selling practices, and 3) product oversight and governance.

Product governance, product suitability and appropriate selling practices need to be at the top of the agenda of Boards of insurance companies. Board members need to make sure that product characteristics are suitable for the target market, that distribution channels are appropriate for that market segment and that full transparency on costs is provided to consumers.

The insurance market needs to learn the lessons from the miss-selling cases that occurred in the past in the different countries and reflect on the huge reputational and financial consequences stemming from the unacceptable misconduct behaviour of some financial institutions.

We are living in a period of rapid transformation on the consumer side. Consumers are more demanding, more aware of their rights. The "Web generation" demands greater transparency, comparability and flexibility. Consumers demand more integrity and they don't trust so easily anymore. The perception of poor quality service is rapidly transmitted and exposed through social media networks.

Financial institutions need to provide an adequate answer to this change. They need to develop simpler and more understandable products, devote further attention to the fairness of contractual conditions and they definitely need to review the charges and commissions applied, ensuring that they are not disproportionate and that they are clear to the consumer.

This needs to be seen in a positive way by insurance companies and intermediaries. Simpler products targeted on consumer needs can simplify cost structures, provide more competitive pricing and reduce the potential for miss-selling. By improving selling practices and avoiding conflicts of interest, insurers will serve their customers better and will be compensated for it.

Back to the basics

All in all, financial service providers "should go beyond what is legal and start doing what is legitimate".

The concept of what is right or fair in the relationships between insurers, intermediaries and customers is evolving. What was seen as fair some years ago is not seen like that anymore. This calls for a critical look from the insurance companies and intermediaries at current products and practices in order to ascertain what needs to be changed. Only a proactive critical attitude can prevent future mis-selling cases, help to develop better new products and reinforce the confidence of consumers overall.

Consumer trends

One of the key tasks of EIOPA is to collect, analyse and report on consumer trends. The aim is to identify vulnerabilities in the relevant markets which could provide the basis for targeted policy proposals or other supervisory actions. In our last Report on Consumer Trends we identified a number of issues such as the lack of, or misleading, disclosure of information and poor advice given to consumers, potentially leading to the miss-selling of various insurance products, in particular life products such as unit linked life insurance; the sale of complex products to retail investors and the governance rules for the development of these products; and consumers focussing more on the price than the protection provided by some simpler products.

Going forward, it is clear to me that data collection on consumer trends needs to be improved, both at central and national levels. Furthermore, we are exploring the use of social media monitoring tools for our consumer trends analysis and would need further involvement from consumer representatives in order to better reflect their major concerns. Here there is an important role for EIOPA's stakeholder groups.

EIOPA analyses the trends and areas highlighted and, where appropriate, develops targeted policy and supervisory proposals to enhance consumer protection in the EU. We have different tools at our disposal.

Let me give you a few examples.

Complaints-handling

EIOPA identified a lack of EU rules on complaints handling by insurance companies and insurance intermediaries, leading to a diverse number of national approaches and a potentially un-level playing field. We decided to issue Guidelines to seek to promote a more convergent approach.

EIOPA's Guidelines on complaints-handling by insurers have been implemented by national supervisory authorities. As a result of our Guidelines, many insurers in the EU are updating their complaints management systems. This will help consumers to receive a better service and to resolve problems in a quicker and a more efficient way. At the end of last year, we issued similar guidelines relating to complaints handling by insurance intermediaries.

Payment Protection Insurance

Having identified significant consumer detriment in the market for Payment Protection Insurance (PPI), including miss-selling practices, market imperfections and disproportionate levels of commissions, we issued an Opinion, in which we provide a framework for supervisory analysis of the issue, recommending National Competent Authorities (NCAs) to use it and to report back to EIOPA. One year further it is encouraging to see that our Opinion triggered significant developments in a number of Member States reinforcing consumer protection.

Ladies and Gentlemen,

The development of a single rule book of harmonised regulation is a huge step forward for the single market, but let's be honest: good regulation is just a first step. The real challenge will be to ensure that regulation is implemented in a consistent way throughout the EU. This requires effective and convergent supervision in all Member States in order to ensure strong supervision throughout Europe and to prevent regulatory arbitrage and guarantee a level playing field in the internal market.

That's the reason why EIOPA puts a strong emphasis on the promotion of supervisory convergence and the establishment of a common supervisory culture.

Strong and credible supervision is needed across the EU. Preventive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

Consumer protection is also achieved by the application of sound conduct of business by market participants and, in this respect, there is a need to have a serious approach to the supervision of the conduct of business coupled with adequate enforcement. This can only work if supervisory authorities have the powers, tools and resources to effectively supervise the conduct of business of market participants. This is not the case nowadays in the EU. We have a high disparity between the Member States covering the powers, tools and resources available to national supervisors in the area of consumer protection. This needs to be confronted.

Good supervision, both off-site and on-site, is essential to protect consumers. Preventive supervision can have a major effect in avoiding consumer detriment. In my view, the ESAs can have an important role in bringing the supervisory standards in the conduct of business area. The development of 'good supervisory practices' in the

field of conduct of business would be an essential tool to improve the consistency of supervision in this area and achieve an increased level of protection for consumers.

Ladies and gentlemen,

In its three and a half year of existence EIOPA has already proved its added value and is definitely making a difference.

I'm proud of the work done and the results achieved. This was only possible due to a motivated and ambitious team of people that takes very seriously the objectives of enhanced consumer protection.

I am very happy that this is recognised in the European Parliament report on the review of the ESAs. We are building a credible and respected supervisory authority. You can count on us to continue in this road.

All in all we should really take the lesson in the financial sector that the costs of prevention are minimal compared to the ones of repair.

Thank you for your attention.