

Consumer Protection and the Actuary

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GFS

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Agenda



- What is consumer protection
- What is EIOPA doing?
- What are some local regulators doing?
- What is the AAE doing?
- What should actuaries be doing?

- Ensuring undertakings are soundly managed and have a robust solvency position
- Ensuring customers receive the information they need on conditions, costs and risks of the products
- Ensuring that customers are treated fairly and they get value for money

Gabriel Bernardino
EIOPA

Some key perceived problem areas



- Information
- Information
- Information
-
- Commission structures
- Transparent fees.
- Persistency



EIOPA's main goals are

- **Better protecting consumers, rebuilding trust in the financial system.**
- Ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions.
- Greater harmonisation and coherent application of rules for financial institutions & markets across the European Union.
- Strengthening oversight of cross-border groups.
- Promote coordinated European Union supervisory response.



EIOPA-CCPFI-13/100
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Report on Good Practices on Comparison Websites

- Information about the comparison site
- Market coverage
- Presentation of information
- Ranking criteria
- Frequency and updating information
- Dealing with potential conflicts of interest



- Complaints management policy
- Complaints Management Function
- Registration
- Reporting
- Internal Follow-up of complaints handling
- Provision of information
- Procedures for responding to complaints



**Report on Best Practices by Insurance
Intermediaries in handling complaints**

- Lodging a complaint
- Handling complaints received / deadline
- Fair treatment
- Proper treatment of information
- Dealing with potential conflicts of interest
- Adequate training of staff
- Internal reporting and monitoring



Consumer Trends Report

- “Evolutions in customer behaviour in the insurance and pension markets related to the relationship between customers and undertakings (including intermediaries) that are significant in their impact or novelty”
- Focus on all stages of product life cycle



Consumer Trends

Future work

- 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;
- Issue of the lack of or misleading disclosure of information, and poor advice given to consumers, **potentially leading to the misselling** of various insurance products in particular life products such as unit-linked products;
- **New or emerging products**, for example cell phone insurance and packaged bank accounts bundled with the sale of insurance;
- Sale of **complex products** to retail investors and governance rules for the development of these products;
- **Unilateral changes** in the terms of the contracts by insurance undertakings and intermediaries; and
- Use of **telematics** (also known as ‘black box’ technology) by insurers in the sale of motor insurance.

UK: IFA study – key points



- The need for a segmented and tiered approach to consumer information. A one-size-fits-all method does not work with known consumer behavioural traits.
- The need to make the most relevant risks central in the information provided. This requires understanding of the consumer's objectives for their investment.
- The need for an ongoing relationship with consumers (whether adviser, provider or employer), rather than the current bias towards point-of-sale.
- The importance of a consistent consumer journey throughout the duration of their investment.
- The importance of learning from Behavioural Economics when designing communications, rather than only focusing on Plain English rules.

UK: FSA concerns and objectives



Concerns. The FSA was specifically concerned with:

- Existing commission structures and the likely effect on product provider bias and churn
- Measuring a firm's success based on business volumes rather than quality of offerings
- Poor persistency for life and pensions products and consequently low profitability.

Objectives. Through the RDR (Retail Distribution Review) , the FSA aimed to:

- Develop an industry that engages with consumers to deliver more clarity on products and services
- Provide a market that allows more consumers to have their needs and wants addressed
- Enforce remuneration arrangements that allow competitive forces to work in favour of consumers
- Increase the professional standards of advisers to inspire consumer confidence and build trust
- Deliver an industry where firms can deliver on their longer-term commitments and treat their customers fairly
- Provide a regulatory framework that supports delivery of these aspirations without inhibiting future innovation.

UK: What is RDR



Guidance on

- Standards for independent advice
- (Abolishment of) commission
- Information to customer

TRANSFORMING CONSUMER INFORMATION

BY

THE CONSUMER INFORMATION WORKING PARTY

OCTOBER 2011

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- A. Products are not properly developed and/or marketed
- B. Unsufficient information before, during and after point of sale
- C. Products sold not appropriate to customer's needs
- D. Poor quality advice is given
- E. Complaints and disputes not properly dealt with
- F. Privacy and information not correctly protected
- G. Reasonable expectations not met

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Risks to Customers

Indicator	Data availability	Consumer Risk	Timing	Comments
Profit	Not generally disclosed at a sufficiently granular level. Firms will usually have internal management metrics that can be used.	A, C & F	Coincident/Lagging	High profit may indicate products which offer poor value to consumers or may indicate high incentives for inappropriate sales or marketing behaviors. Equally it is possible that a provider may be earning high profits because it is efficiently managed and may offer good value to customers.
Growth	Available historically at a high level. May lack granularity to identify problem growth areas. Supervisors may have access to business plans and future growth plans.	A, C, D & F	Coincident/Lagging	High growth (historic and planned) may be an indicator of aggressive selling practices, but also a consequence of a really good consumer policy.
Complaints	May be some public disclosure of complaints data. In a number of markets, the financial ombudsman is an important source of trends in complaints not resolved by firms.	A, B, C, D & F	Coincident/Lagging	High levels of complaints may indicate conduct issues. It will be important that new themes are investigated promptly.
Lapses/Surrenders	Some public reporting but may not be at sufficiently granular level.	A, B, C & D	Lagging	High levels of lapses, especially early lapses, may indicate poor product design or high pressure sales.
Cost Cutting	May be best identified through public announcements by insurers rather than through regulatory returns.	F	Leading	Significant cuts in costs may impact service or operational resilience levels to the detriment of consumers

Risks to Customers

Indicator	Data availability	Consumer Risk	Timing	Comments
Claims Ratios	May not be available at a sufficiently granular level.	A, C	Coincident	Very low levels of claims relative to premiums may indicate value or conduct issues. Low claims ratios may suggest high volume of refused claims, which may indicate misselling or bad wording of the product. Of course there may be other reasons why there is a low claims ratio which are not to the detriment of customers (see 4. Indicators measures)
Impact of Charges (reduction in yield)	In some markets, this forms part of the disclosure regime to customers so possible to identify high cost products. Need to consider the value on early termination as well as if held to maturity.	A, B, C	Leading/Coincident	A key indicator of the value of the product to the end consumer for investment products.
Probability distribution of potential customer outcomes for savings/investment products	Not generally available. Would require bespoke review.	A, C	Coincident	May indicate inappropriate characteristics of product for target market.
Policy size by contract type	Some data available from regulatory returns	C	Lagging	Indicator of market business is sold into (trends over time may be of interest)
Deviation of returns for different groups of similar contracts	Some public reporting of the level of remuneration	G	Lagging	Indicates that the insurer favors some clients at the detriment of others

Risks to Customers

Indicator	Data availability	Consumer Risk	Timing	Comments
Commission levels		A, C, D	Leading/Coincident	High commission level may lead to misleading and aggressive selling practices.
Illustration growth rate	Regulations will apply in many markets but there may be areas of discretion	B, D & F	Leading/Coincident	Insurers may illustrate policy returns to customers that are unlikely to be achieved in practice
Number of waivers agreed to by policyholders where a product has been advised as not suitable	Internal data available where the adequacy questionnaire exists	B	Leading	Indicator of risk of misselling

Actuarial ethical behaviour:
HONESTY, FAIRNESS, AND QUALITY.



- Financial reporting
- Transparency
- Policyholder information

Thank You