



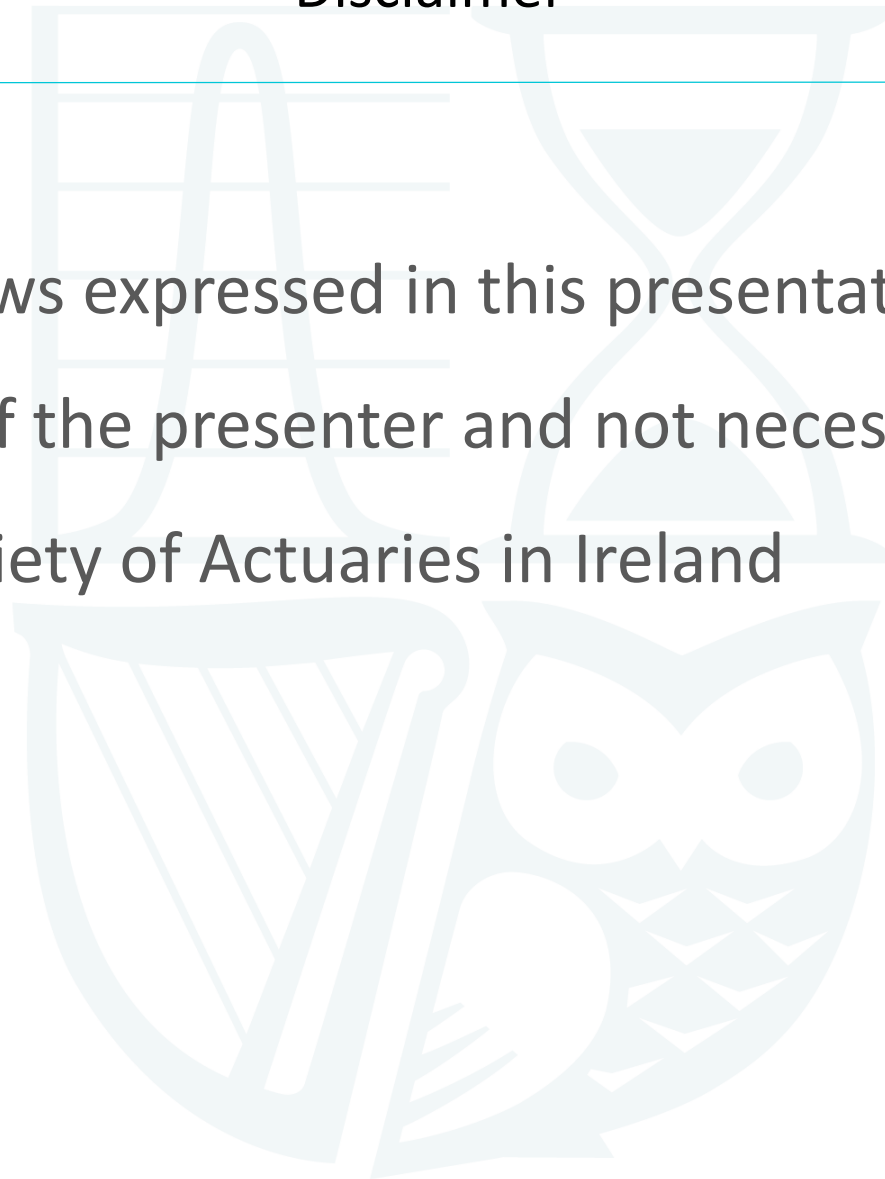
Society of Actuaries in Ireland

Consumer and Conduct requirements for
insurers - IDD, POG, PRIIPS and beyond

8th December 2016

Disclaimer

The views expressed in this presentation are those of the presenter and not necessarily of the Society of Actuaries in Ireland





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Consumer and Conduct requirements for insurers – IDD, POG, PRIIPs and beyond

8 December 2016



Insurance Distribution Directive

- Text Approved - 24 November 2015. Published in the Official Journal on 2 February 2016 and effective from 22 February 2016.
 - Transposition deadline - 23 February 2018.
 - IDD is a recast of the Insurance Mediation Directive with the following objectives:
 - To harmonise national provisions
 - To introduce more precision into some of the existing provisions in the IMD
 - To expand the scope to include insurers and distributors of ancillary insurance (unless they qualify for exemptions under the criteria laid out by the Directive)
 - To level the playing field by applying the same rules to all distributors of insurance products
 - To facilitate breaking down of barriers and the creation of a single market
 - To raise standards of consumer protection.
-



What's new for insurers and Distributors operating in Ireland?

- Minimum harmonisation directive
 - Scope
 - Passporting
 - Insurance Product Information Document (non-life only)
 - Cross-Selling
 - Remuneration
 - Knowledge & Competence
 - Product Oversight and Governance
-



Insurance Based Investment Products

Additional requirements for insurance-based investment products:

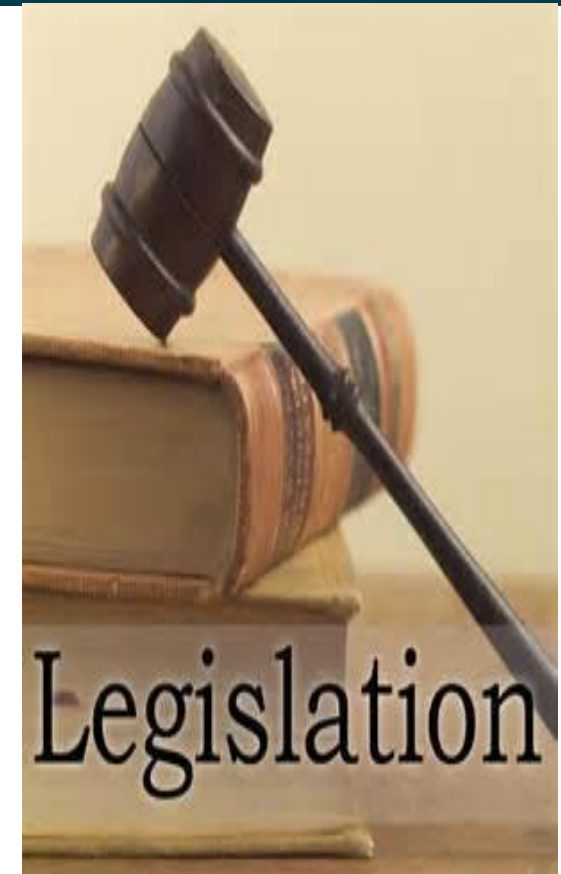
- detailed conflicts of interest provisions
 - information on risks, costs and charges
 - requirements for the assessment of suitability and appropriateness
 - Delegated Acts to be developed for suitability & appropriateness, conflict of interest & inducements and Product Oversight and Governance
-



Product Oversight & Governance ***Post-crisis regulatory response to poor product governance***

- ❖ **Joint ESA Position on Manufacturers' Product and Governance Processes**
 - ***Published by the European Supervisory Authorities in 2013***
 - ***Provides a framework for robust and responsible product design***
 - ***Extends to manufacturers and distributors***
 - ***Ensures products meet the interests of the target market for which they were originally designed***

- ❖ **EIOPA Preparatory Guidelines issued in June 2016**
 - ***Essential element of new regulatory requirements under IDD***





Product Oversight and Governance

- EIOPA Preparatory Guidelines - Obligations on manufacturers and distributors
 - Obligations for manufacturers
 - Establish and implement product oversight and governance policy
 - Identify the target market for a product and ensure the design and distribution arrangements are aligned with the interests, objectives and characteristics of the target market
 - Regularly review distribution arrangements
 - Persons involved in product design must have the necessary skills and knowledge
 - Product testing
 - Product monitoring
-



Product Oversight and Governance

- Distributors should
 - Obtain information on product and Target Market
 - Ensure distribution strategy consistent with target market
 - Regularly Review Distribution Arrangements
 - Inform manufacturers if the product not aligned with target market
- EBA Guidelines
- MiFID II Delegated Directive and consultation paper on Product Governance Guidelines
- Central Bank expectations



PRIIPs





Regulation on key information document for packaged retail and insurance-based investment products (PRIIPs Regulation)

- Effective from 3 January 2018 (one-year delay expected to be published in official Journal before the end of December 2016)
 - Standard key information document in place (KID)
 - EU Authorities to publish RTS by mid 2017.
-



What's happening with the RTS?

- Proposed amendments from EU Commission:
 - MOPS – UCITs exemption
 - Performance Scenarios
 - Comprehension Alert
 - Biometric Risk Premium
 - Credit Risk
 - ESA's to submit opinion to the EU Commission by 22 December
-



What's Coming Next?

- IDD Transposition Work – Delegated Acts (Q3 2017) and national transposition
 - Revised PRIIPs RTS and work on Level 3 Q & A
 - Review of Life Disclosure Regulations and Consumer Protection Code (in light of final RTS)
 - EU Green Paper Action Plan – expected in H1 2017
-



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Thank you



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**Conduct of Business:
Challenges ahead for insurers**

Karl Murray

December 2016

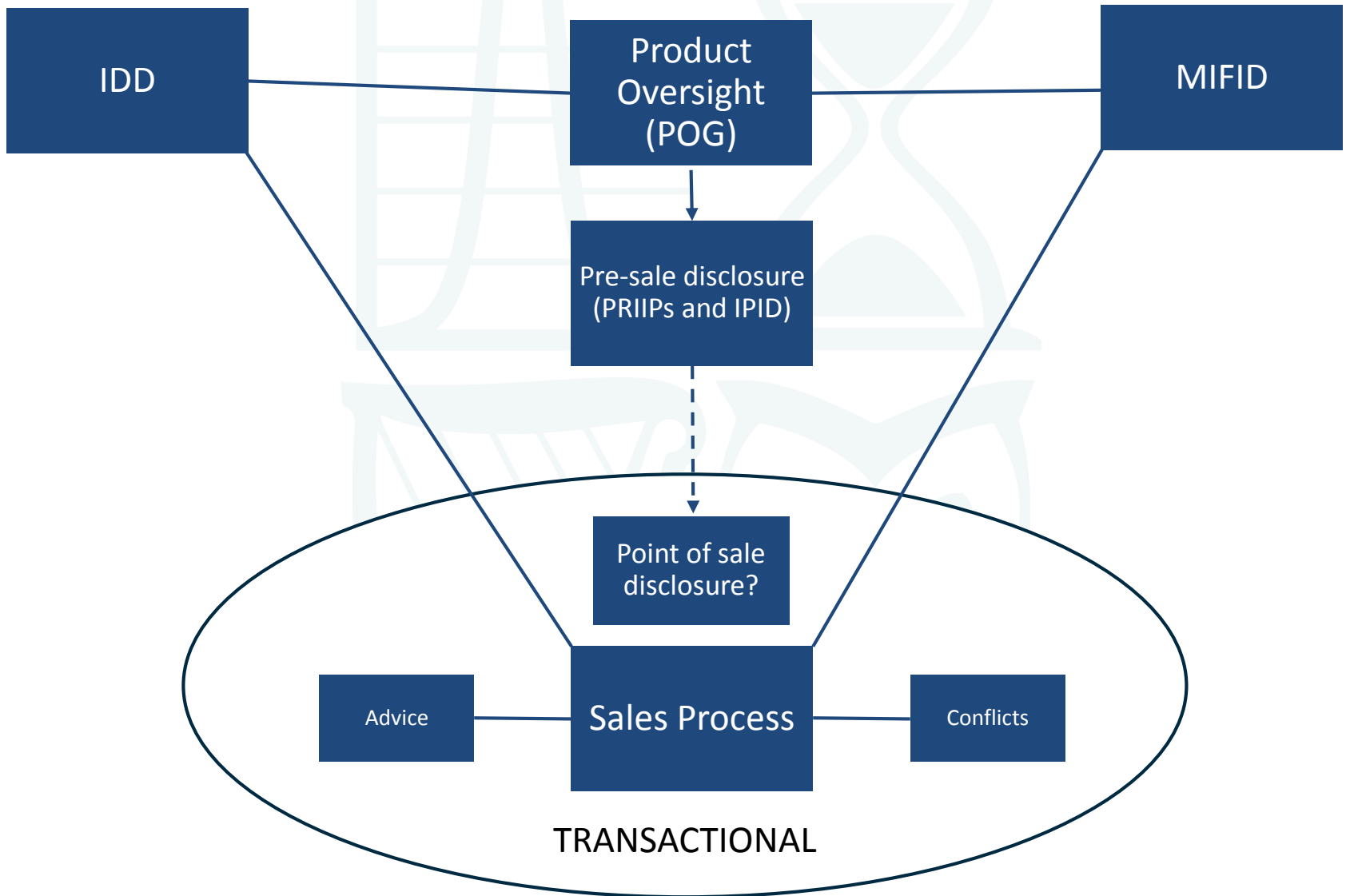
Topics

- Consumer protection initiatives at EU level
- IDD
- Information disclosure
- Product oversight and governance
- Overall challenges and actions required

COB regulatory timeline



COB regulatory hierarchy



IDD and MIFID II

- IDD – aimed at insurance undertakings and intermediaries
- MIFID II – aimed at banks, asset managers, stockbrokers and other financial firms

Share similar objectives

Product oversight
and governance
(POG)

Target market
identification

Pre-sale disclosure
(PRIIPs and IPIDs)

Information on
investment advice
and sales services

Suitability
(advised sales)
or
Appropriateness
(non-advised
sales)

Insurance Distribution Directive (IDD)

- Replaces Insurance Mediation Directive (IMD) 2002
- Level 1 IDD Directive required to be transposed into national law by **23 Feb 2018**
- **Minimum harmonisation** directive as opposed to direct regulation
- Applies to **all insurance**, both life and non-life
- Covers insurance/reinsurance **undertakings** and **intermediaries**
- Extends requirements to **direct sales**
- Applicable to **non-retail** as well as **retail** sales to some extent (non-professional)

IDD Objectives

To ensure that, throughout the product lifecycle, insurance products meet the **needs of consumers** and, thus, prevent or **mitigate mis-selling**

To ensure that different third party payments such as **commissions**, do not have a **detrimental impact** on the quality of services to the customer

To ensure that insurers and intermediaries sell to individual customers, products that are **suitable** (for advised sales) or **appropriate** (for non-advised sales)

Content of IDD Level 1



IDD Level 1 Directive requirements – Conduct of Business

- The product oversight & governance, general information disclosure, conflicts of interest & inducements and suitability assessment requirements apply to **all insurance** business
- There are further specifications for **insurance-based investment products** or IBIPs (which also have additional Level 2 requirements)

General principles on Conduct of Business

“Member States shall ensure that, when carrying out insurance distribution, insurance distributors always **act honestly, fairly and professionally** in accordance with the **best interests** of their customers.”

Information provided to customers “shall be **fair, clear and not misleading**”

“Member States shall ensure that insurance distributors are not remunerated or do not remunerate or assess the performance of their employees in a way that **conflicts** with their duty to act in accordance with the best interests of their customers.”

Information Disclosure – point of sale

- All communications (including marketing material) must be **fair, clear and not misleading**
- Covers information about the **sales process**
 - **Identity** of the manufacturer & intermediary, whether **advice** is being given and **complaint** procedures
 - Distributors of insurance-based investment products should provide additional information detailing any cost of distribution that is not already included in the costs specified in the PRIIPs key information document
- **‘Demands and needs’** test irrespective of advice being given or not
- **Personalised recommendation** where advice is given
- Covers **key information** about non-life products
 - For non-life products an Insurance Product Information Document or IPID will be required (separate consultation recently closed on Level 2 ITS with final report from EIOPA due by 23 Feb 2017)
 - PRIIPs regulations already cover product disclosure for Insurance-based Investment Products or IBIPs
- A Member State should be able to maintain or adopt more stringent provisions in the area of information provision (**but how does this interact with PRIIPs? See later**)

Disclosure Requirements - Europe

MIFID & IMD

- Information provision requirements
- Being replaced in 2018 by MIFID II and IDD

Prospectus Directive

- Adopted in 2003
- Prospectus document for newly issued securities
- Sets out risk factors
- Will continue to apply

Solvency II Directive

- Information to be supplied to insurance policyholder
- Includes general & specific information

UCITS IV Directive

- Adopted in 2009
- UCITS accompanied by a KIID

Disclosure Requirements - Ireland

2001 Provision of Information Regulations

Information provision to policyholders prior to signing a proposal form and at policy cooling off stage

2012 Consumer Protection Code (CPC)

General requirements for information provision to consumers of financial services

SAI Guidance

(ASPs LA8 & LA9)

Information Disclosure – Solvency II

- List of information disclosures required by Solvency II for life products (personalised?):

1. Pre-sale or point of sale

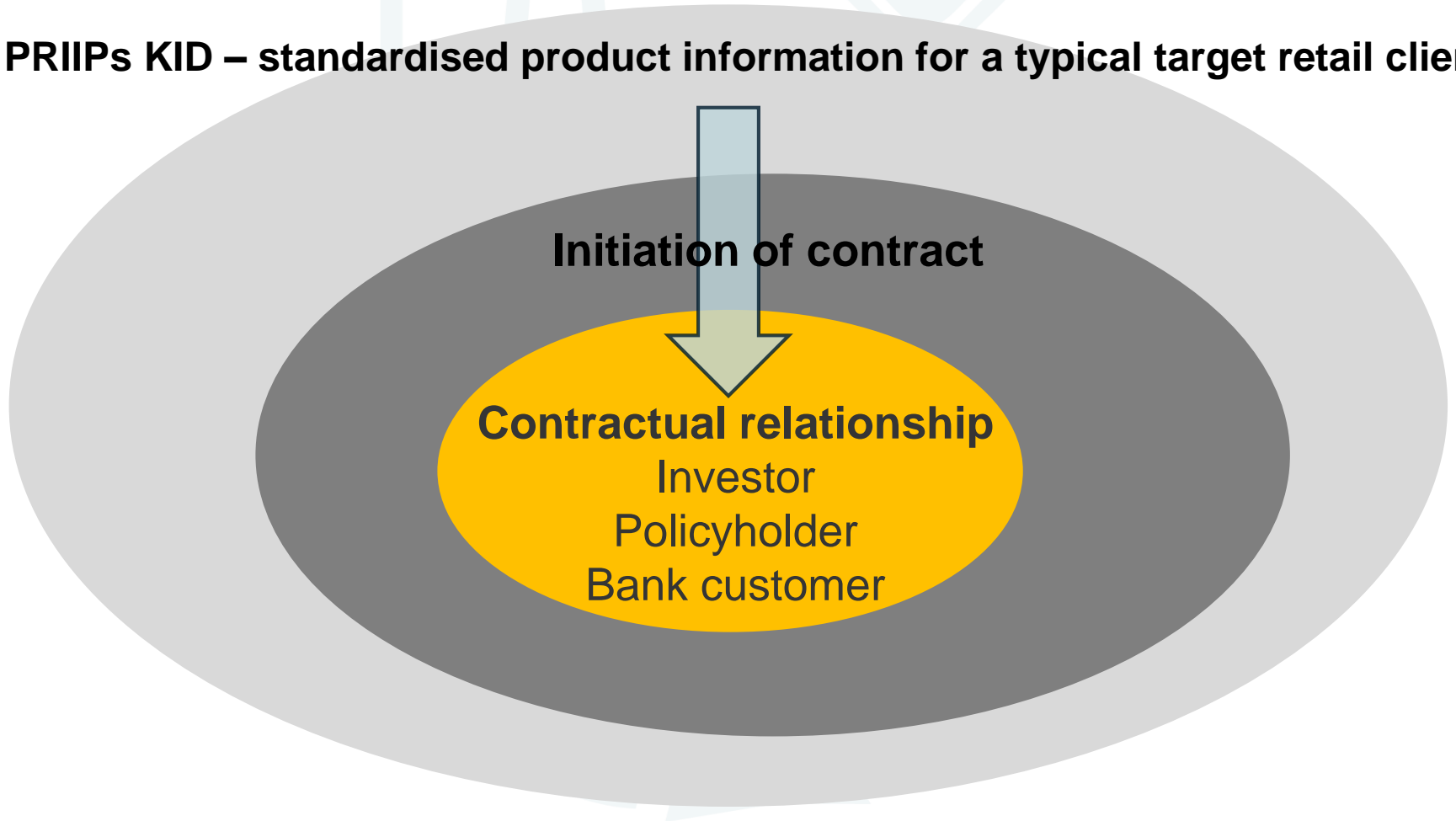
- Information about the company
- Information about the contract
 - Premiums, benefits, surrender values, underlying assets
- Information about the risks

2. Ongoing communications

- Member States may lay down the detailed rules including disclosure of additional information not covered above if it is necessary to understand a product

Where does PRIIPs sit in this environment?

PRIIPs KID – standardised product information for a typical target retail client



PRIPs impact on manufacturers

- PRIPs implementation is a very involved task requiring resources and skills from multiple areas
- Spans tasks such data collection, data analysis, actuarial projections, document production & dissemination as well as ongoing monitoring
- No time to delay – effective date pushed back to Jan 2018 but significant workload to achieve successful implementation
- Don't underestimate ongoing production and monitoring needs – KIDs will be dynamic documents

PRIIPs wider market impact

- Consolidation of individual manufacturers' products?
- Any more favoured products emerging?
- Where will the focus be?
 - risk
 - return
 - cost
- More complaints?
- Any other views?

Information Disclosure – IPID for non-life

General Requirements

- Short and stand-alone document
- Presented and laid out in a way that is clear and easy to read
- Accurate and not misleading

Content of the IPID

- Information about the type of insurance
- Summary of the insurance cover, including the main risks insured, the insured sum and, where applicable, the geographical scope and a summary of the excluded risks
- Means of payment of premiums and the duration of payments
- Main exclusions where claims cannot be made
- Obligations at the start of the contract, during the term and in the event of a claim
- Term of the contract including the start and end dates of the contract
- Means of terminating the contract

IDD Level 2 - areas covered under Delegated Acts

- Level 2 needed to ensure consistency with ESMA and EBA requirements
- EIOPA's draft Delegated Acts consultation on the IDD closed on 3 October.

IDD Delegated Acts

Product Oversight and Governance (POG) – all products

Conflicts of interest – Insurance-based Investment Products

Inducements/Commission – Insurance-based Investment Products

Customer appropriateness – Insurance-based Investment Products

- Final Delegated Acts due from EIOPA by **1 February 2017**

Product Oversight and Governance (POG)

- Applies to both **manufacturers** and **distributors**
- Product oversight and governance (POG) arrangements require **manufacturers** of all insurance products to establish processes for company-internal **approval of each insurance product** before it is distributed to customers
- Where an insurance **distributor** advises on, or proposes, insurance products which it does not manufacture, it should in any case be able to **understand the characteristics and identified target market** of those products
- POG requirements in IDD are based on EIOPA's Preparatory Guidelines on Product Oversight & Governance
- EIOPA Preparatory Guidelines effective from **3 Jan 2017**
- IDD aspects of POG go beyond the Preparatory Guidelines

POG Preparatory Guidelines – manufacturer’s requirements

- Required activities of manufacturers include:
 - identifying a **target market** for which the product is considered appropriate;
 - identifying market segments for which the product is not considered appropriate;
 - carrying out product analysis to assess the **expected product performance** in different stressed scenarios;
 - carrying out **product reviews** to check if the product performance may lead to customer detriment and, in case this occurs, take actions to change its characteristics and minimise the detriment;
 - identifying the **relevant distribution channels** taking into account the characteristics of the target market and of the product;
 - **verifying** that distribution channels act in compliance with the manufacturer’s product oversight and governance arrangements; and
 - the provision of **appropriate information** on the product and the product approval process to insurance distributors.
- The manufacturer must set out the product oversight and governance arrangements in a **written document** (“product oversight and governance policy”)

POG and role of the manufacturer's Board

- The Board of the manufacturer is ultimately responsible for the **establishment**, subsequent **reviews** and continued **compliance** of the product oversight and governance arrangements. The Board also ensures that the product oversight and governance arrangements are **appropriately designed and implemented** into the governing structures of the manufacturer.
- The product oversight and governance arrangements, as well as any material changes to those arrangements, are subject to **prior approval by the Board**.

Challenges ahead – bring all the requirements together

- Coordinating activities across the distinct but largely connected requirements set out above
- Lack of time to implement necessary systems changes not least because some of the detail of the requirements has yet to be finalised at Levels 2 & 3
- Strategic re-assessment of product offerings in light of the new environment
- Differing application of requirements across Member States

Actions needed

- **Interpretation** of the rules in the context of your business
- Identifying **what's new** compared to existing regimes
- Preparing a **Gap Analysis** and developing an **Implementation Plan**
- Establishing **responsibilities** – role of the actuary, independent review?
- Identification of suitable **target markets**
- **Product analysis** from the customer perspective
- Product testing and **scenario analysis**
- Appraisal of the **effectiveness of distribution** strategies and processes
- Review of **organisational behaviour and culture** as regards product development and sales
- Assessment of **operational risk** in the context of consumer protection including failings in customer risk assessment, automated advice, complaint procedures, third-party services, etc
- **PRIIPs and IPID** implementation
- Raising Senior Management and Board level awareness of the requirements and establishment of good **governance arrangements**
- Assessing and monitoring **compliance on an ongoing basis**



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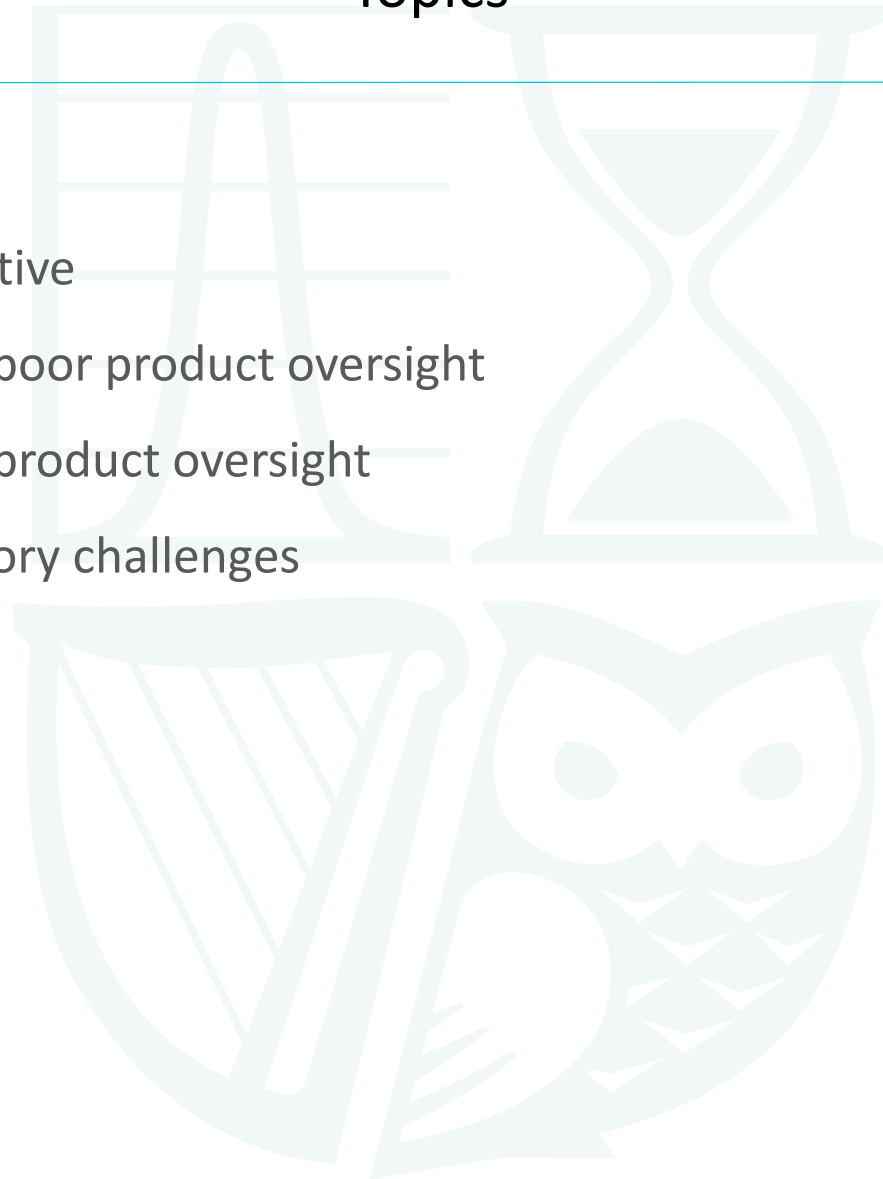
**Product Oversight and Governance:
An Insurer's Perspective**

Duncan Robertson

December 2016

Topics

- Perspective
- Cost of poor product oversight
- Cost of product oversight
- Regulatory challenges



What's in a name?



Hull City AFC vs Hull Tigers
Product Oversight vs Customer Experience Oversight

On the Pitch

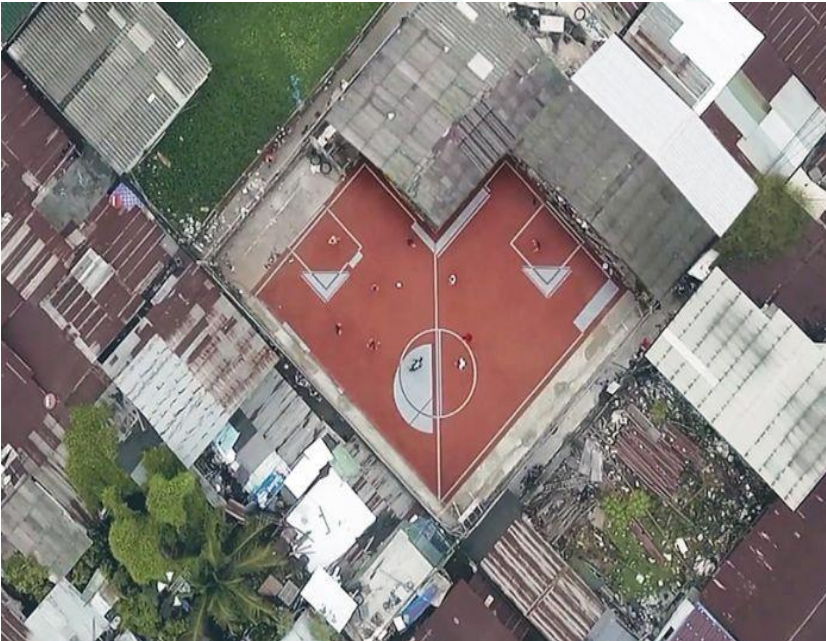


Oversight – A view from above



Club Social y Deportivo Linier, Buenos Aires

Are things working out as we imagined?



Bangkok Slums – AP Thai Developments

Do we have the correct target market?



What are our product groupings?

Who's the referee?



Vs.



What's the best penalty



Vs.



And/Or



Costs and Priorities



€17m per year, €47k per day

Regulatory Agenda



“Pep Guardiola insists he will adopt a "game by game" mentality as Manchester City continue to sweep all before them” – In September having just won 11 games in a row.....

.....just prior to going 6 games without winning a match!

A Fit for Purpose Level Playing Field?



Post Match Questions?

