



Society of Actuaries in Ireland

Product Oversight and Governance

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Product Oversight & Governance

- What is Product Oversight and Governance?
 - In this context Product Oversight and Governance relates to ensuring that products sold are suitable for customers, both initially and on an ongoing basis
- Existing framework in Ireland:
 - 2012 Consumer Protection Code
 - Covers requirements to act in best interest of customers, defining target market, staff training, provision of information, conflicts of interests, outsourcing etc
 - Internal company guidelines and procedures



European Developments

- In **November 2013**, the 3 European Supervisory Authorities published a Joint Position, setting out 8 principles applicable to oversight and governance of financial products
- The principles set out a high-level consistent basis for the development of more detailed principles to be developed for each sector
- On **27th October 2014**: EIOPA publish consultation paper on
 - “Guidelines on product oversight & governance arrangements by insurance undertakings”
 - Proposed guidelines are issued under Solvency II’s requirement that insurers maintain an “effective system of governance”



Objectives of EIOPA guidelines

- The objectives of the guidelines, as set-out by EIOPA are:
 - To establish consistent, efficient and effective supervisory practices within the Member States
 - To prevent miss-selling of insurance products due to poor product design
- The Guidelines apply to all insurers (Life and Non-Life)
- On the following slides, the text shown is a synopsis of the full text in the EIOPA document – refer to the EIOPA document for the complete text



What's in the EIOPA Guidelines

- **Guideline 1: Establishment of product governance and oversight arrangements**

A formal written document is required (does not need to be a new document)

Product governance should be designed “to minimise potential consumer detriment”... and should “ensure that the interests, objectives and characteristics of consumers are duly taken into account”

- **Guideline 2: Role of the manufacturer's administrative, management or supervisory body**

This should be ultimately responsible for the establishment, implementation, subsequent reviews and continued internal compliance with the product oversight and governance arrangements



What's in the EIOPA Guidelines

- **Guideline 3: Review of product governance and oversight arrangements**
A regular review should take place, to ensure the arrangements are still valid and up to date
- **Guideline 4: Management of conflicts of interest in product design**
Procedures should be put in place to ensure the design of the product complies with the requirements relating to the proper management of conflicts of interest



What's in the EIOPA Guidelines

- **Guideline 5: Target Market**

The manufacturer should:

- take suitable steps to identify the relevant target market of a product.
- identify groups of customers for which the product is not likely to meet their interests.
- **only** bring products to market which are to the **benefit** of the target market
- take account of the degree of financial capability of the target market



What's in the EIOPA Guidelines

- **Guideline 5: Target Market (Continued)**

To identify the target market, the manufacturer could consider:

- Tax
- level of risk
- Liquidity
- Demographic factors
- Level of knowledge vs complexity of product
- Financial capability



What's in the EIOPA Guidelines

- **Guideline 6: Knowledge and ability of staff involved in the design of products**

The manufacturer should ensure that **any** staff involved in product design follow the manufacturer's product oversight arrangements, and are fit and appropriately trained



What's in the EIOPA Guidelines

- **Guideline 7: Product Testing**

Before a product is brought to market, the manufacturer should conduct appropriate testing of the product in different scenarios. The scenario analysis should assess if the product meets the objectives of the target market over the life span of the product

The product should be changed prior to launch if the scenario analysis gives rise to poor results

Testing should be carried out in a qualitative and (if appropriate) a quantitative manner



What's in the EIOPA Guidelines

- **Guideline 7: Product Testing (continued)**

Examples of scenarios to consider for investment products:

- What would happen to the risk/reward profile of the product following changes to the value and liquidity of the underlying assets?
- How is the risk-reward profile of the product balanced, taking into account the costs of the product?
- What will happen if the manufacturer faces financial difficulties?
- What will happen if the customer terminates the contract early?

- Examples of scenarios to consider for protection life insurance:

What if instance mortality rates increase, or the technical interest rates increases?

Does the benefit sufficiently cover the future needs of the beneficiary?



What's in the EIOPA Guidelines

- **Guideline 8: Product Monitoring**

Manufacturers should monitor on an on-going basis that the product continues to meet the needs of the identified target market

(could e.g. take account of claims ratio or level of complaints)

- **Guideline 9: Remedial Action**

The manufacturer should take action to mitigate any problems found as part of product monitoring (or otherwise), and to prevent re-occurrence

Any remedial action taken should be notified to the distributor, or to the customer directly



What's in the EIOPA Guidelines

- **Guideline 10 – Distribution channels**

The manufacturer should select distribution channels that are appropriate for the target market

The manufacturer should **ensure** the distribution channels have the **appropriate knowledge** to give proper information/advice to the customer

The manufacturer should provide clear and up-to-date **information** to distributors

The manufacturer should take **all reasonable steps** to ensure that the distributions channels act in compliance with the objectives of the manufacturer's product oversight and compliance arrangements (and take remedial action if they do not)



What's in the EIOPA Guidelines

- **Guideline 11 – Outsourcing of the product design**

The manufacturer should retain full responsibility for compliance with the product governance arrangements when they outsource product design to a 3rd party

- **Guideline 12 – Documentation of product governance and oversight arrangements**

All actions taken by the manufacturer in relation to product oversight and governance should be duly documented and kept for audit purposes.



Feedback received by EIOPA

- **Insurance Europe**

- Broadly supportive of the basic principles, but strongly challenged the prescriptive and “over-formal” nature of the guidelines
- Highlighted the high costs of implementation, guidelines will discourage innovation.
- Should not apply to simple products: “Motor insurance is only suitable for owners of motor vehicles and further analysis of the target market would be pointless”
- Target Market a “very vague and unclear concept”.
- Questioned overlap with PRIIPs requirements, overlap with IMD2.



Feedback received by EIOPA

- **Association of British Insurers**
 - Similarly supportive of the basic principles, questioned the prescriptive nature of the guidelines
 - Questioned the legal basis for the guidelines (“Solvency II is intended to cover prudential regulation, not conduct regulation”)
 - Strongly questioned the applicability of the guidelines to non-life products
 - Guidelines place too much responsibility on insurers, provision needs to be made for setting out the responsibility of distributors
 - Guidelines will stifle innovation and work against the interests of customers



EIOPA Next Steps

- Review feedback received on consultation paper
- Publish final report during Q2
- Submit for adoption to the Board of Supervisors
- Implementation in 2016
 - Local regulators implement the guidelines in each country
 - There may be inconsistencies between regulators in terms of the timing, specific requirements and degree of regulator emphasis on the various guidelines



Impact of Guidelines - Ireland domestic view

- Existing CPC covers similar ground but is less formal, and less prescriptive
- Impact on product design
 - **None** expected!
 - May discourage future new product innovation
- Greater rigour in **documenting** product launches and consideration of **customer impact**
- **Guideline 10** (distribution channels) is of particular concern
- Greater need to demonstrate **ongoing review** and monitoring of products



Society of Actuaries in Ireland

Case Study: Aegon VA Proposition Review

Duncan Robertson

April 2015



Introduction

- Typically we tend to focus on “**development**” stage
- Today, we focus on the product monitoring “**review**” stage
- Proposition Lifecycle management
 - Focus on Aegon Proposition Lifecycle Review
 - Case study of Aegon Secure Lifetime Income
 - Modelled on standards expected by UK regulatory oversight
- Review requirements provide lead indicators of what is required at launch
 - Review needs to be of experience vs. “something”

Proposition Governance Process – Development Phase



Proposition Review

Key objectives

1. Ensure product continues to:
 - meet customer expectations and needs
 - provide value for money
 - perform as expected to
2. Analyse sales in relation to:
 - actual sales correspond with target group
 - age profile of customers
 - withdrawal/lapse/cancellation/deferral rates
3. Ensure product continues to be in line with our strategic objectives



CASE STUDY: Proposition Review

Aegon Secure Lifetime Income

Aegon Secure Lifetime Income (ASLI)

- Flagship UK variable annuity (VA)
- Launched in 2009
- Offers guaranteed lifetime income from age 55 or older
- Tax-efficient income
- Potential to increase income via monthly ratchet feature
- Guaranteed annual increases if income deferred
- Ability to pass on any money left to estate
- Offers investment choice
- Offers access to capital – just in case

ASLI Proposition Review – Structure of

Distribution
(Audience)

56 Pages

Investment
proposition &
performance

Risks & mitigating
actions

Actions &
recommendations

Sign-off Requirements





Does ASLI meet customer needs?

- Are the needs of the customer grouping changing?

Who's buying ASLI within each of primary or secondary customer groups and who is outside of these groups?

- What are the typical characteristics of ASLI customers?

What e-services make up our customer e-commerce capability and are they performing as required?

- Have any changes been made to our e-commerce offerings? What and why? What impact have these had on our proposition? Have they delivered the expected benefits?

What is the level of policy cancellation during the cooling-off period?



Who's buying ASLI within each of primary or secondary customer groups and who's outside groups?

Market	Experian customer segment	ASLI customer fit
Primary	<ul style="list-style-type: none">Platinum PensionsSunset SecurityAccumulated WealthEstablished Reserves	80%
Secondary	<ul style="list-style-type: none">Consolidating AssetsSeasoned EconomyBalancing BudgetsTraditional Thrift	15%
Outside Target Market > <u>Investigate</u>		5%

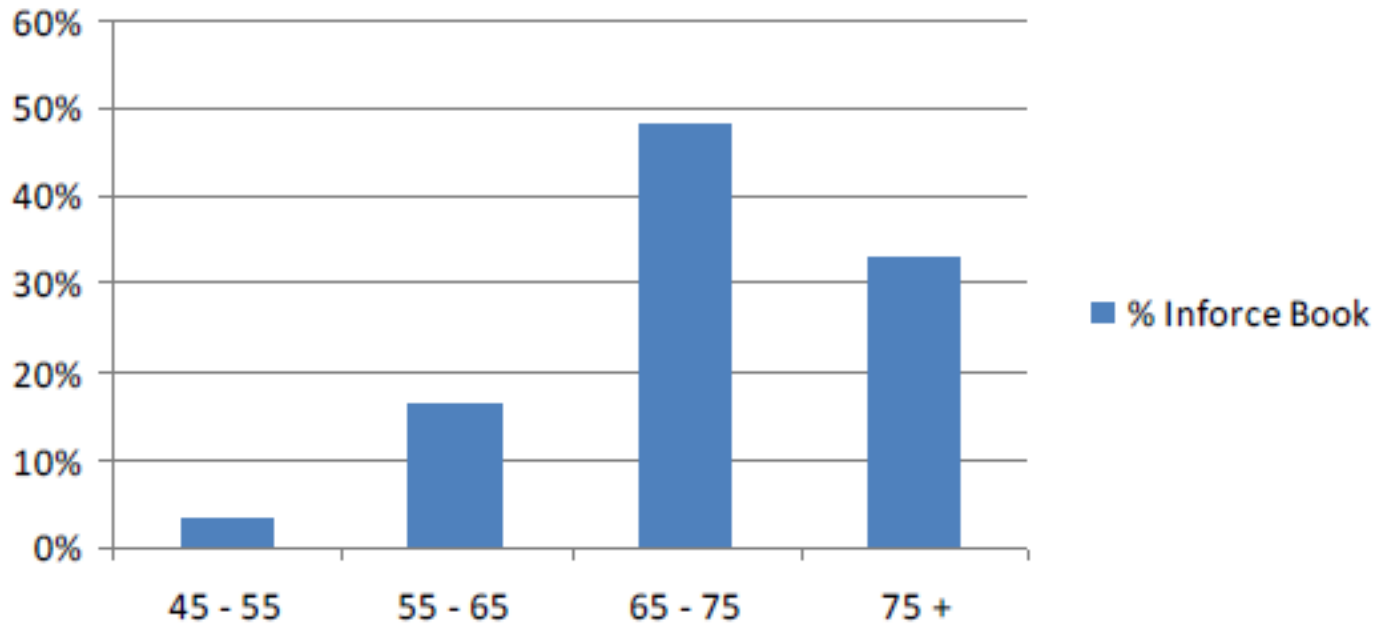


Analyse sales to customers outside primary and secondary target groupings including those where no segment match could be provided



What are some of the typical characteristics of our ASLI customers?

% Inforce Book



Overall, the age profile of our in-force book shows the concentration around ages corresponding those at/near retirement.



What's the expected mix of distribution channel/route to market, and how does this compare to actual experience?

- Has this changed since the last review? If so, how?

Who are top distributors and their relative % of NB?

- What % of business is controlled by top 50 producers?

What levels of commission or adviser charging have been taken and how does this compare to expected?

- How have distribution costs been reflected in ASLI product design and has this had any effect on customer experience?



- According to advisers, what issues arise in selling ASLI and what impact does this have on the customer experience?
- Have there been any changes in the behaviour of distributors since last review? What are these changes and what impact have they had on ASLI and its ability to meet customer need?

Action from review



Broaden supporting distributor base and utilise existing adviser base with a view to increasing average case count at a distributor/adviser level.

ASLI Alignment to strategy and regulation





Is the originally identified customer group likely to alter as a direct result of our business strategy?

- What impact will planned or emerging regulatory change have on our customers?

What regulatory breaches have been reported?

- Significant breaches are reported under the 6 outcomes of Treating Customer Fairly



What impact will planned or emerging regulatory change have on our customers?

- The UK Budget in March 2014 radically changed the outlook for the provision of income in retirement.
- The relaxation of rules around taking retirement benefits are likely to result in more people looking for secure / dependable income solutions within this context of flexibility.
- The changes in funding for long term care will also challenge the concept of buying into a level (or prescribed escalating) flow of income.
- Broadly, this will increase the number of customers within our target segments who are likely to consider VA as at least part of their retirement plans.

Effectiveness of ASLI literature & comms



What literature reviews and compliance checks have taken place since last review?

- What were the outcomes?

Is ASLI material meeting customer needs?

- Do we need new or improved literature/supporting documentation?

What impact have changes in literature had on customer perceptions or behaviours?

- How well do customers understand our literature?

Does literature present a balanced view to the customer?

Effectiveness of ASLI literature & comms



Are risks and benefits associated with ASLI clear and understood by customers?

- Do individual items work well as a suite of literature?

What do customers expect to get at what stage and how (paper/digital)?

- Does the end-to-end journey (as conveyed by literature items) present a consistent view of Aegon?

Is the level of information sufficient to make a decision/choice?

- How many breaches or complaints have been raised since the last review due to our Communications?



ASLI Brochure review

- In 2012, research was commissioned on a new-look ASLI client brochure that had been designed to provide details of the risk and benefits to potential customers.
- The brochure was liked by all respondents who felt it was attractive and well laid out. They were asked to choose adjectives they would use to describe the brochure. Those chosen were very positive:

Pragmatic	Credible	Knowledgeable	Candid
Organised	Insightful	Trustworthy	Forward thinking
Positive	Bright	Clear	Helpful

- Only one respondent chose ‘insensitive’. This was in relation to the page on death benefits as this was a subject they didn’t want to have to think about.



ASLI Brochure review

- Although positive about the brochure and the product, customers identified issues which they felt could be changed to improve brochure and understanding of ASLI:
 - Graphs do not help explain the product, and in some cases only serve to confuse.
 - Graphs, where useful, should be used to support text.
 - Risk warnings should be in one place and possibly together on 1 page.
 - Images should be relevant to the target audience, i.e. they should show older people.
 - Should be more information about Aegon.



- Has ASLI achieved desired financial targets?
- Is ASLI achieving desired risk appetite commercials?
- What non-persistency related internal financial factors are impacting financial performance?
- How does actual customer retention experience compare to expected; what impact is this having on financial performance?
- Does ASLI offer demonstrable value for money to customers?
- How does it compare to competitors fees, charges and features?
- What external market factors are impacting on financial performance of ASLI?

Action from review



More work on measuring balance between attractive customer proposition and adequate shareholder return.

ASLI Investment proposition & performance



What investment strategies are available?

- Are any customers in investment strategies that are inappropriate to their segment objectives?

What investment funds have been available for ASLI?

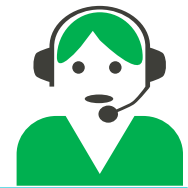
- Are investments performing in a satisfactory way?

Are changes anticipated to the investment proposition?

- What is the outlook for funds and should we alert customers to their position/remove funds?

Are there any inappropriate funds and do we have suitable warnings on fund literature regarding suitability or lack of?

ASLI Service proposition



What complaints, breaches or incidents have been experienced in relation to service performance?

- Are there any trends?

What steps have we taken, how effective have they been and what further steps should we take to mitigate these?

- Are customers satisfied with the standard of service being received and what improvements do they want?

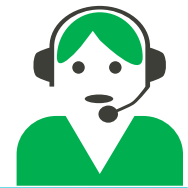
What is performance against agreed SLAs?

- What is the experience and turnover of Client Services team?

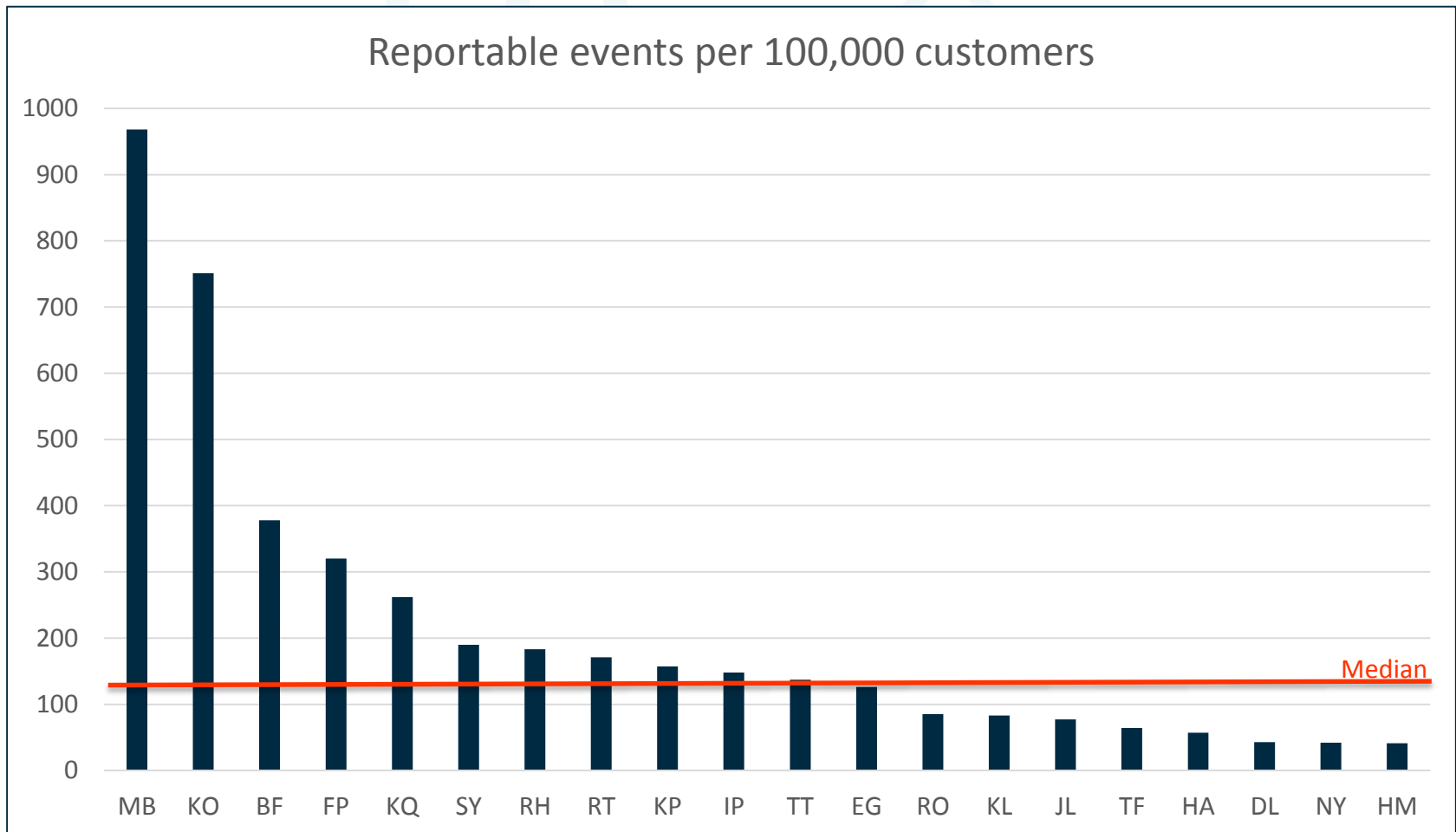
Are third parties directly involved in the delivery of services to materially support the proposition/customer?

- Are core customer services covered in the third party agreement?

ASLI Service proposition



The chart shows some industry data sourced from Aegon UK, and produced by Grant Thornton, looking at reportable complaints and breaches per 100,000 customers.



Risks & mitigating actions



- We identify risks that emerge as part of our review.
- These are captured in the final report together with actions to address.
- Actions are raised and managed through each owner's individual risk processes.



ASLI Proposition Review – Key findings



Overall	Review suggests that customers are happy with their plans.
Customer Fit	Matches made against our primary target market segments were very strong.
Route to Market	Action to broaden existing intermediary base
Strategic & Regulatory Alignment	Need to consider impact of Budget changes.
Customer Comms	Client Brochure review – very positive feedback.
Performance & Value for Money	Need to consider ways to improve assessment between attractive customer proposition and meeting shareholder return requirements
Investment Proposition and Performance	Our investment offerings are designed to suit guarantees and the needs of our customers.
Service Proposition	Responses from B2B and B2C both give very positive NPS scores.
Risks & Mitigations	Some risks identified but action plans in place to address

Conclusions

- Review concluded that, overall, our VA customers are happy that ASLI meets their needs.
- Assuming that actions identified are addressed, it is recommended that we complete another full review in 3 years.
- A light review will be completed in the intervening period to ensure that all actions have been completed

