

## **IRSG response to Joint Committee Discussion Paper on automation in financial advice (JC 2015 080)**

### Questions

1. Do you agree with the assessment of the characteristics of automated financial advice tools presented in this Discussion Paper? If not, please explain why.

Yes. Nevertheless, in regards to the definition, IRSG considers that the term “advice” should remain understood as the provision of a personal recommendation to a customer. This will differentiate it from other services or tools that simply provide information in an interactive way.

2. Are there any other relevant characteristics of automated financial advice tools?

These tools are generally used for very simple products which don't require nor permit many influencing factors (for example different liability limits for a complex liability product). For example, in Romania, comprehensive vehicle insurance is not a very common product to be sold automatically, as it requires also a risk inspection of the vehicle and many information that can influence the final quotation. Just a few insurers are using automatic calculation, on their own website.

3. Are you aware of examples of automated financial advice tools being used in the banking, insurance, and/or securities sectors? Please provide examples, giving details of their operating process.

The concept of automated financial advice varies greatly across the EU, and even between different financial sectors. Some markets are significantly more advanced than others with regard to the development and implementation of automated tools, which needs to be appropriately taken into account.

For example, in Romania, most of the automated financial advice tools in insurance are being applied for motor third party liability, but one can also automatically receive comparative offers and also finalize a purchase for: household, travel, malpractice, transport operator liability, generally very regulated products which require little information for quotation.

For MTPL and household: <https://www.pint.ro/rca-ieftin>,

For MTPL, transport operator liability, malpractice, household: <https://www.rcapedia.ro/>

For MTPL, the operating process is quite simple: customer inputs all information needed for quotation, receives a financial offer (or a comparative offer, depending on the provider of advice – insurer, intermediary, agent), chooses the insurer, pays the insurance and receives it via email + original via post.

For household, the process is similar only that the offers are presented together with each specific insurance conditions and also it is a mandatory step to be followed by the consumer, in the process, to read the contract of desired insurer.

For other types of insurance, the provider may also ask for copies via e-mail of relevant supported documents.

For comprehensive vehicle insurance: <https://www.allianzdirect.ro/asigurare/asigurare-auto.html>

After finalizing the process, the customer needs to be present in one of the offices, with the vehicle, for risk inspection.

Other insurers, like for example Generali, are offering online only an estimation of the price and the customer is invited in one of the offices to finalize the transaction, so the process is automated up to a point.

In the field of investments, a comprehensive study is in the making by Better Finance and can be downloaded at the following link:

[http://betterfinance.eu/fileadmin/user\\_upload/documents/Research\\_Reports/en/Robot\\_Advice\\_research\\_paper\\_2016 - Better Finance - Confidential.pdf](http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Robot_Advice_research_paper_2016_-_Better_Finance_-_Confidential.pdf)

4. Do you offer/are you considering offering automated financial advice tools as part of your business model? If so, please briefly describe: i) what type of entity you are, e.g., long established, start-up, a product provider, an intermediary; ii) the service you provide (e.g. to what extent do you integrate human interaction in the tool you provide?); iii) the nature of your clients; iv) your business model; v) who developed the automated tool (i.e. an external company or developed internally?); and vi) the size of your activity and/or forecast activity?

5. Do you consider there are barriers preventing you from offering/developing automated financial advice tools in the banking, insurance and securities sectors? If so, which barriers?

New distribution rules for insurance products introduced by IDD will also apply in the case of automated financial advice. In line with IDD, all advisory information will have to be provided on paper by default. Durable mediums other than paper or websites are only permitted under certain conditions. These rigid requirements are not suitable for the highly diversified business models in place and will lead to delays in the conclusion of contracts or even put their conclusion at risk.

6. Do you consider the potential benefits to consumers to be accurately described? If not, please explain why.

It depends if there is place for negotiation when making a price offer. In some countries and for some insurance products, prices are very regulated so there is low possibility to reduce the price offer.

One has also to consider the costs of implementing these automated tools, which are based on very complex algorithms and the extensive use of big data. Therefore one cannot assert that consumers will pay less for the same quality of service. But in some cases consumers may get, for the same price as before, a more comprehensive advice.

7. Are you aware of any additional benefits to consumers? If so, please describe them.

Most of online insurance advice tools are also reminding the customer of the renewal period and one can also provide a direct insurance offer (comparative or not) based on the information initially input.

The list of potential benefits for the customers provided by the ESAs has to be completed by the following warning: as AESOP's tongue, it can be the best or worst thing. A badly developed algorithm will never provide a better advice than the one provided by a human brain and could have unfortunate consequences in the detriment of the consumer. Therefore one can consider that it is of utmost importance that the regulators be able to certify the automated tools used as they do it for internal models in Banking and Insurance.

8. Do you see any differences in the potential benefits arising for consumers in each of the banking, insurance and securities sectors?

We don't think that a general rule applies to the insurance industry in regards to the benefit of receiving more consistent advice when automated tools are used. For example, apart from MTPL, in the case of Romania and some other countries, where there are no differences in conditions / contract between insurers, as it is a very regulated policy, all the other products existing in the online form are quite complex, with many details regarding risks, coverage, exclusions, other info, etc., therefore it is not possible to have a full comparison between all conditions, in order for a customer to fully understand the products.

9. Have you observed any of these potential benefits to consumers? If so, please provide examples and describe the kind of benefit that has accrued.

Yes, we have observed the benefit of obtaining advice in a faster, easier and non-time consuming manner. Insurance policies are issued directly by the client, paid in the same process or to the courier that delivers the papers. Therefore, the customers can adjust their own time, they are not under pressure of open office hours and also they receive the documents (if it is the case) at the specified address, without having to change their own plans. Also, customers are able to benefit from a wider range of products and service providers.

10. Do you consider the potential benefits to financial institutions to be accurately described? If not, please explain why.

yes

11. Are you aware of any additional benefits to financial institutions? If so, please describe them.

no

12. Do you see any differences in the potential benefits arising for financial institutions in each of the banking, insurance and securities sectors?

no

13. Have you observed any of these potential benefits to financial institutions? If so, please provide examples and describe the kind of benefit that has accrued.

One situation met frequently addresses the possibility of insurers to check very quickly and precisely the information given by the customer, based on which the insurance was issued. Most of the times the correct argument that insurers have is that the customer has input wrong data in the automated form.

14. Do you agree with the description of the potential risks to consumers identified? If not, explain why.

Yes, as they apply also to insurance market. Some of the risks though, that are highlighted in the discussion paper, are applicable to "advice" in general and are not specific to the area of automated advice. This is the case of uploading incorrect information or conflict of interest.

15. Do you consider there to be any risks to consumers missing? If so, please explain.

In the case of comparison websites which are used by intermediaries, where the client will also finalise a purchase based on their choice, the client will not know where they can get further assistance from, for example in case of a loss (most of the websites have generic names and they don't present the provider of advice; although the information is in most cases written on the contract, the customer may not know where to look for the info). In the case of face to face interaction, the customer knows who is the advisor and they can address the adviser in case they need assistance for claims.

16. Do you see any differences in the potential risks arising for consumers in each of the banking, insurance and securities sectors?

No

17. Have you observed any of these risks causing detriment to consumers? If so, in what way?

Yes. The clients may receive wrong financial offers or wrong insurance policies, with impact in case of a claim (or in case of MTPL in a possible Police check), due to the fact that they are not made aware of the importance of correct information input in the automated form, nor the consequences. Therefore, they don't pay a lot of attention to correct input of information.

18. Do you agree with the description of the potential risks to financial institutions identified? If not, explain why.

Yes

19. Do you consider there to be any risks to financial institutions missing? If so, please explain.

20. Do you see any differences in the potential risks arising for financial institutions in each of the banking, insurance and securities sectors?

21. Have you observed any of these risks causing detriment to financial institutions? If so, in what way?

22. Would you agree with the assessment of the potential evolution of automated advice? Please provide your reasoning.

Yes

23. How do you think that the market for automation in financial advice will evolve in the near future in the banking, insurance and investment sectors? Please also provide details of any relevant data or information to support your views, where available.

The paper works from an simplistic, static definition of an automated advice tool which may not capture all components the persons involved may want to use going forward: more dynamic components in such automated tools, such as real-time machine learning algorithms which adapt their recommendations over time are easy to imagine. Recommendation is to address needs for sufficient principle based and flexible framework.

24. Are there any other comments you would like to convey on the topic of automation in financial advice?

Providers of automated financial advice are duly registered as financial advisors in their respective jurisdictions like standard, non-automated financial advisors. As said above this may not be sufficient to prevent consumer detriment, because of the complexity of the algorithms used and it is very important if not essential that supervisors be given the right to approve the automations.

The use of automated advice in financial services varies greatly across EU member states. Therefore it is important that a flexible approach is taken to any follow-up that the ESAs may consider. Some markets are significantly more advanced than others in regard to the development and implementation of automated tools, which should be taken into account in order to fully realize their potential and to avoid stifling innovation.

We would recommend a level playing field in the application of existing regulations across sectors (including FinTechs) and cross-border, not for more regulation. There is a generalized support for the idea of a harmonized regulatory framework to further deepen a competitive and flexible Single European Market, which avoids national fragmentation by local gold plating.

The existing definitions of MiFID and IDD for financial advice are clearly preferable and sufficient to differentiate between dedicated advice in the narrow and qualified sense and on the other side activities like marketing, information and other pre-sales activities. The latter should remain less strictly regulated, offering flexibility in future digital offering.

Disclose comments \*

Yes \*

No \*

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