



## **SPEECH**

**Gabriel Bernardino**  
EIOPA Chair

# **EIOPA's vision for enhancing consumer protection – taking the lead**



**Consumer Strategy Day**  
Frankfurt, 6 December, 2011

Distinguished Guests,

Dear colleagues,

Ladies and Gentlemen,

It is my great pleasure to open our first Consumer Strategy Day. We consider this event to be very important for EIOPA because it is an opportunity to hear different views, see a different perspective on the most important issues as well as to shape our priorities in terms of consumer protection and financial innovation. We hope this event will become an annual one whereby we can update you on all our activities in this crucial area and gain your valuable input.

I am delighted to see such a large interest in this event from representatives of consumer associations, industry and supervisors.

I am also delighted to have an excellent list of panelists who will share with us all their experience and knowledge in the three panel sessions of this event.

### **EIOPA's vision of consumer protection**

Let me start by stressing that the protection of policyholders, pension scheme members and beneficiaries is not only our mandate, but also part of our philosophy. Consumer protection at EIOPA level is first and foremost proactive. It seeks to prevent consumer detriment in several ways.

Under consumer protection, we understand first of all the existence of sound insurance companies as a precondition, that is companies with sound strategies and robust risk management, which are well capitalised. But

consumer protection is also about the application of sound conduct of business by market participants.

This calls for good prudential and conduct of business supervision of insurance undertakings. Therefore, we consider, as major tasks, the promotion of a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries.

Furthermore, it is important to draw attention not only to consumers' rights, but also to their responsibilities. Customers must provide relevant, comprehensive and accurate information on their situation and characteristics when they are buying an insurance or pension product.

It is only on this basis that the financial institutions can provide the product or service best tailored to the consumer's needs.

### **EIOPA's tasks in terms of consumer protection**

Article 9 of the Regulation establishing EIOPA requires us to take a "leading role" in promoting transparency, simplicity and fairness in the market for consumer financial products or services. This Article goes on to list several tasks related to consumer protection. Among them are:

- I. *Collecting, analysing and reporting on consumer trends*; because only by having an overview of consumer trends at European level, can we be in a position to anticipate possible consumer issues, to identify and monitor consumer specific risks.
- II. *Reviewing and coordinating financial literacy and education initiatives by competent authorities*; EIOPA is to make available through its website information on the roles and responsibilities of national supervisors in these matters, and will highlight useful financial education material.
- III. *Developing training standards for the industry* is also one of our tasks. EIOPA will promote the principle of competent staff acting in the best interests of their clients.

As I mentioned at our Annual Conference last month, we want to be ambitious in everything we do.

### **What has already been done**

I will just mention briefly what has already been done by EIOPA in the area of consumer protection and financial innovation. And later on you will hear a more detailed presentation by my colleagues, David Cowan and Tilmann Roth on what we have done this year.

We have created a specialist Committee on Consumer Protection and Financial Innovation (CCPFI). All EEA countries are represented on that Committee and the European Commission, EBA and ESMA participate as observers. In accordance with its mandate, the Committee will aim to ensure that:

- EU retail insurance and pensions markets work better for consumers, including through effective monitoring of risks in retail markets;
- there is effective oversight of the Community acquis;
- there is effective redress procedures for consumers;
- due account is taken of differing degrees of risk involved in different kinds of products/transactions and the degree of experience and expertise of consumers; and
- consumers receive the advice and information that best suits their needs.

This year we have put out for consultation a Good Practices Report analysing the disclosure and sale of Variable Annuities and Guidelines and a Best Practices Report on Complaints-Handling by Insurance Undertakings. For these initiatives we view your input as crucial.

In October, we also submitted to our Insurance and Reinsurance Stakeholder Group a Report on financial literacy and education initiatives by competent

authorities and currently we are finalising a Report analysing and reporting on consumer trends in the European Union.

The Committee on Consumer Protection has also a second part in its title - "Financial innovation". This is because financial innovation is considered by EIOPA as part of consumer protection. Here we are required to monitor new and existing financial activities, to issue warnings or in certain cases, prohibit products or activities.

Furthermore, in the occupational pensions area, EIOPA has in October put into public consultation its draft advice to the European Commission on the review of the IORP Directive. EIOPA proposes a Key Information Document (KID) to be available in defined contribution schemes. This document would contain:

- a brief description of the scheme's objectives and investment policies;
- information on performance, costs and charges, a risk/reward profile, the time horizon adopted for the investment policy; and
- the contribution arrangements and in particular, contribution commitments of the employer and the employee.

I am convinced that the Key Information Document will be a huge step towards greater transparency and confidence in the occupational pensions field.

### **Challenges for the coming years**

EIOPA has some ambitious plans for 2012 and we will, of course, be following up on the proposals from the European Commission on the revision of the Insurance Mediation Directive (IMD) and on Packaged Retail Investment Products (PRIIPs). Further cross-sectoral work with our sister Authorities under the Joint Committee will also be essential to ensure cross-sectoral consistency.

We called this event “Consumer Strategy Day” and I, therefore, would like to say some words about **my** vision of the strategic goals for the years to come: I believe that the financial crisis can be an opportunity to **rethink the strategies and policies** that have been adopted to ensure consumer protection.

We need to question the policy tools that we traditionally used to deal with information asymmetries, conflicts of interest and market inefficiencies, possibly by exploring some unconventional approaches. **We need a paradigm shift.**

First of all, we need to take a **courageous look at conflicts of interest.** Unfair practices leading to consumer detriment in the insurance and pensions market are often due to situations of conflicts of interest. Insurance is an industry where agency incentives can be the main driver of the kind of product to be sold. Sometimes these results in the sale of products which are not suitable for the consumers concerned. In pensions, conflicts can arise when for example one provider is responsible for all services to the pension fund.

Ensuring advice to consumers best suits their profile and their needs, taking into account the complexity of the contract and the risks involved is a key element of consumer protection. This necessarily entails that selling practices, whether through intermediaries or direct writers, should meet certain high standards.

Secondly, we need to **reinforce the standardization and comparability of the information** to be provided to consumers, helping them to take informed decisions. However, information should not be used to shift responsibility from the providers to consumers.

Thirdly, we need to pay **further attention to product suitability.** I believe we should explore the merits of **labeling products based on common risk features.** Furthermore, we should develop a **framework for early detection**

**of unfair products, clauses or practices.** I believe that this can usefully include the request of an independent opinion on the product design and characteristics by the internal governance functions of the insurer.

Fourthly, we should **strengthen conduct of business supervision.** Supervisory authorities should have the authority, capabilities, tools and resources to effectively and efficiently regulate and supervise the conduct of business of undertakings and intermediaries.

The crisis has shown that, in certain cases, supervision has failed by shying away from addressing the problems early enough. Supervisors failed to be proactive on the “known unknowns”. **Early intervention is the key to prevent consumer detriment.**

This progressive change in mindset should also be achieved at EIOPA level. We need to reflect on the way regulation deals with consumer expectations and find the best way to evaluate markets from the consumer perspective.

EIOPA’s objective is to bring together consumer representatives, insurance and pension providers and intermediaries as well as regulators and supervisors, to discuss how to improve consumer protection in the provision of financial services.

It is in the interests of consumers to have choice, to have products that correspond to their needs and the assurance that promises made will be delivered. It is in the interests of undertakings to have consumers that understand their needs and risks and that trust their financial service providers.

Let us work together in order to build public confidence in the European insurance and occupational pensions sectors.

Thank you for your attention.