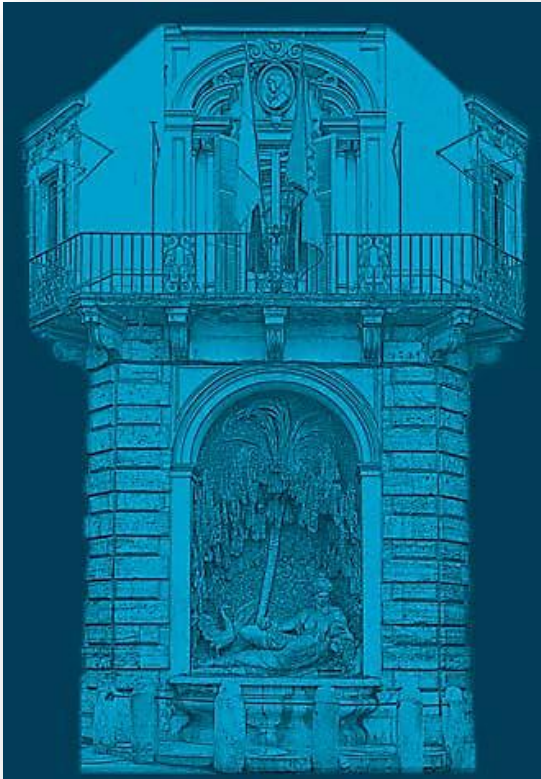




IVASS
ISTITUTO PER LA VIGILANZA
SULLE ASSICURAZIONI



***CHALLENGES AND PRACTICES OF
INSURANCE SUPERVISION IN SOUTH EAST EUROPE***

**Consumer protection in the light of
the Insurance Distribution Directive**

***Stefano De Polis
IVASS Secretary General***

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- ❖ *Consumer benefits of the IDD and the new regulatory framework*
- ❖ *Challenges for market players*
- ❖ *Challenges for supervisors*
- ❖ *How to positively react to challenges?*



IDD is about to become effective. Main purposes:

- improve consumer protection - it is not a mere compliance exercise;
- review IMD (2002/92); consistency with MIFID.



Main causes for poor conduct:

- information asymmetry;
- product design;
- risk culture effectively in place among insurers and intermediaries.

IDD main contents:

- insurance products tailored on target market needs: **product oversight governance**
- combat misselling/introduce better selling practices: **strengthen consumers rights**
- **product/distribution monitoring and supervisory intervention;**

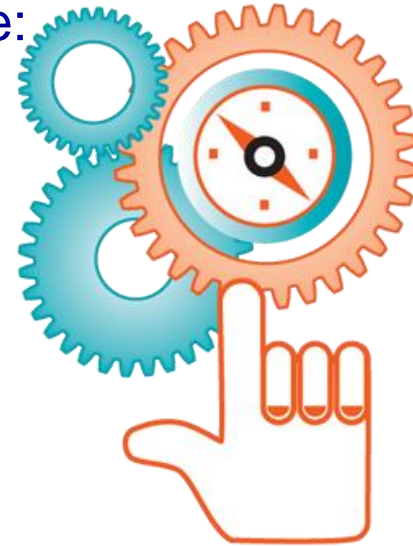
IDD complements Solvency II, by spotting risks involved in the conduct of business:

- Misconduct might generate legal/reputational/operational risks



Key success factors for IDD implementation are:

- ability to integrate processes/procedures and information flows....



- ...the ability to develop a culture of fair treatment of customer; it starts from the governance and management of processes:
 - targeted product design
 - appropriate selling, both tailored on consumer's needs.



Implementation of IDD in Italy

❖ *National transposition of IDD (on going)*

❖ *Preparatory phase - 2017*

IVASS letter to market players requiring them to:

❑ Insurers :

- perform a gap analysis concerning products design and their selling
- define and implement an action plan

❑ Intermediaries/distributors:

- focus on information flows to/from insurers and, where applicable, to/from distribution networks
- asses compliance of distribution practices





Insurers are already facing other challenges raised by recent developments:

- ❑ MIFID/IBIP
- ❑ Data Protection
- ❑ Insurtech
- ❑ IFRS17
- ❑ ...Additional specific ones, e.g. in Italy «simplification of contract terms»

This requires:

- Investments
- Organization
- Time



➤ It might not be easy for insurers to perform an in-depth review of processes/procedures/information flows in time



Supervisors face different challenges

- Need to re-define supervisory approach:
 - stimulating robustness of governance, internal controls and compliance activity within insurers (regulation and enforcement)
 - Improving the interconnection/complementarity between prudential supervision and market conduct supervision
 - challenging insurers' business models and procedures
 - challenging insurers' effort to identify root-causes of episodes of misconduct



- **EIOPA could have a strong role in helping this re-definition:**
 - Identifying (at least) a minimum set of supervisory activities to be performed
 - Identifying a common approach to be followed
 - Supporting harmonisation of supervisory practices



Obstacles to overcome:

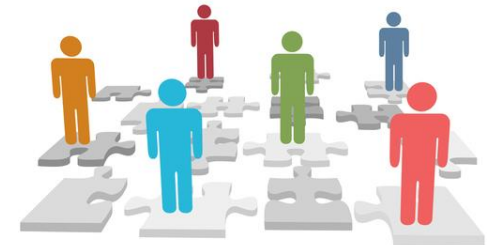
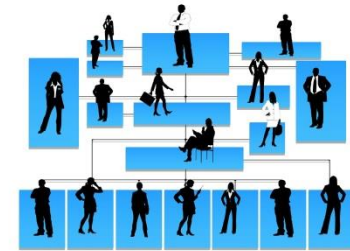
➤ limited funds for investments

➤ lack of human resources

➤ organizational challenges

- ✓ within the single authorities
- ✓ among authorities

➤ IDD shared responsibilities between different Authorities





- Greater cooperation, coordination and idea sharing within the organizations

- For supervisors, explore how best prudential supervision and market conduct supervision can complement each other, especially concerning products monitoring:
 - Products with excessively high guarantees might hamper the financial soundness of the insurers;
 - Excessively low loss ratio might indicate products unsuitable to policyholders' needs;
 - Shortcomings in the governance of the product design phase might give rise to legal/reputational/operational risks
 - POG has several aspects to be considered (governance system, products, distribution)





- In the light of IDD developments, cross border intermediation activity requires careful supervisory consideration since:
 - Distribution has several national specificities affecting features of national supervision
 - IDD is a minimum harmonisation directive
 - Supervisory approach and practices still needs and harmonisation throughout the EU

- Where the legal and supervisory frameworks are not adequately harmonized, opaque business models and links between intermediaries and insurers might arise (and actually have already occurred)

- Ensure consumer protection and soundness of EU insurance market:
 - enhance home/host EU supervisors cooperation through wide application of EIOPA Protocols:
 - 2017 revised General Protocol (insurers)
 - Ongoing revision of the Luxembourg Protocol (intermediaries)
 - encourage informal supervisory contacts at early stage (even possibly ex ante) especially in case of relevant cross border activity





- ❖ **IDD to complement Solvency II** under the profile of risk culture concerning conduct of business;
- ❖ Concrete implementation of IDD should not be limited to a compliance exercise, it should consist in a profound re-organization of decision making processes and operating procedures so as **to achieve products and selling practices tailored to consumers' needs**;
- ❖ Call for a **revision of supervisory approach**, in order to comprehend several aspects of the same activity
- ❖ Call for robust **supervisory cooperation** and info exchange, especially in case of **significant cross border activity**