



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Fair Treatment for the Insured: ICP 19 *Conduct of Business*

Ryan Workman

Member of IAIS Market Conduct Working Group

Santiago, Chile – 2 December, 2015



Content

1. Conduct of business risks	4
2. IAIS & conduct of business	7
3. Fair treatment of customers	10
4. Product marketing, disclosure and advice	18
5. Post-sale policy servicing	24
6. Supervising conduct of business	29
7. Conclusion	32

CONDUCT OF BUSINESS RISKS

Conduct of business risks

Conduct of business risks can lead to:

- Systemic risks that have their roots in poor conduct practices
- Lack of trust and confidence in the financial sector – ie that firms will act in their interest
- Reputational risk for individual financial institutions
- Poor outcomes for customers

Conduct of business risks

Conduct of business risks identified in IAIS survey by some members:

- Inadequate product disclosure
- Unfair contract terms, misleading advertising
- High levels of commission; up-front commission-based remuneration model
- Insufficient access to insurance
- Low levels of financial literacy; need for consumer education
- Mis-selling, poor advice
- Complex, high risk investment products sold through insurance wrappers

IAIS & CONDUCT OF BUSINESS

IAIS & conduct of business

The mission of the IAIS is to:

- Promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets **for the benefit and protection of policyholders**; and to
- Contribute to global financial stability.



IAIS & conduct of business

Relevant insurance core principles:

- ICP 7: Corporate governance
- ICP 9: Supervisory review and reporting
- ICP 18: Intermediaries
- ICP 19: Conduct of business

Relevant supporting material:

- Application paper on approaches to conduct supervision
- Issues Paper on Conduct of Business Risk and its Management

FAIR TREATMENT OF CUSTOMERS

Fair treatment of customers

A culture of fair treatment

- The governance framework should recognise and protect the interests of policyholders
- There should be a culture of fair treatment of customers

Fair treatment of customers

ICP 19: Conduct of business

- The supervisor sets requirements for the conduct of insurance to ensure that customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.



Fair treatment of customers

Setting the context: there are differences in:

- traditions, culture, legal regime, development of market
- customers and products

For these reasons:

- Requirements are outcome-focused
- Proportionality
- Fair treatment can be achieved through a variety of approaches

Fair treatment of customers

What do we mean by fair treatment?

- developing and marketing products in a way that pays due regard to the interests of customers
- providing customers with clear information before, during and after the point of sale
- reducing the risk of sales which are not appropriate to customers' needs
- ensuring that any advice given is of a high quality
- dealing with customer complaints and disputes in a fair manner
- protecting the privacy of information obtained from customers
- managing the reasonable expectations of customers

Fair treatment of customers

Insurers and intermediaries should act with due skill, care and diligence

Insurers and intermediaries should embed policies & procedures on fair treatment in their business culture

Fair treatment of customers

Factors that can help achieve fair treatment include:

- Board and senior management responsibility
- Strategy and decision making
- Internal controls (including reports and indicators on fair treatment)
- Performance management
- Remuneration
- Policies and procedures
- Supervisory guidelines?

Fair treatment of customers

Intermediaries

- Should have appropriate professional knowledge and experience
- Should have appropriate integrity
 - Role of codes of conduct
- Should have appropriate competence
 - Policies and procedures, ongoing monitoring
- Role of professional standards/bodies

PRODUCT MARKETING, DISCLOSURE AND ADVICE

Product marketing, disclosure and advice

Insurers should take into account the interests of different types of customer in developing and marketing products

- Product approval or principles-based approach

Insurers and intermediaries to promote products/services in a manner that is clear, fair and not misleading

- Information should be easily understood, not hide important statements

Product marketing, disclosure and advice

Supervisor sets requirements on timing, delivery and content of information

- Customers need appropriate information before and at point of sale
- Information should be easily understood – focus on quality, not quantity
- Level of information required will vary, but should include key product features
- Customers' rights and obligations
- Policyholder protections schemes (if applicable)

Product marketing, disclosure and advice

Where advice is given, this should be appropriate taking into account the customer's disclosed circumstances

- Need for advice may depend on type of product
- Basis of recommendations should be explained
- Insurers responsible for their agents
- Training programs will help staff maintain knowledge

Product marketing, disclosure and advice

Where advice is given, any potential conflicts of interest should be properly managed

- Conflicts arise where competing personal & professional interests exist
- Intermediaries more likely to encounter conflicts
- Policies and procedures to manage
- Disclosure
- Decline to act if conflict cannot be managed

Product marketing, disclosure and advice

Intermediaries - should disclose to customers (at a minimum):

- The terms and conditions of business between themselves and the customer, such as
- The relationship they have with the insurers with which they deal
- Information on the basis on which they are remunerated where a potential conflict of interest exists

POST-SALE POLICY SERVICING

Post-sale policy servicing

Insurers should

- Service policies until all obligations have been satisfied
- Disclose to customer any contractual changes
- Disclose further relevant information, depending on type of product

Post-sale policy servicing

Claims

Insurers should have policies and process to handle claims in a timely and fair manner

- Policies and procedures
- Disclosure on how to claim, timeframes
- Information on claim status
- Claims disputes – staff should be appropriately qualified, policies should promote independence and objectivity

Post-sale policy servicing

Complaints

Insurers and intermediaries should have policies and processes in place to handle complaints in a timely and fair manner

- Complaints are a key indicator of conduct
- Policies and procedures
- Independent resolution mechanisms where complaints are not resolved by the insurer/intermediary

Post-sale policy servicing

Privacy protection



Provisions regarding the collection and communication of personal information should be governed by law

Insurers and intermediaries should have policies and procedures for the protection of private information

SUPERVISING CONDUCT OF BUSINESS

Supervising conduct of business

Disclosure of information

Supervisor publicly discloses information that supports the fair treatment of customers

Information may include:

- policyholder protection arrangements
- whether and how local legislation applies to the cross-border offering of insurance, such as through e-commerce
- warning notices to consumers when necessary to avoid transactions with unsupervised entities
- consumer education and financial literacy

Supervising conduct of business

ICP 9: Supervisory review and reporting

- Includes conduct supervision
- Off-site monitoring
- On-site inspection
- Risk-based
- Understanding all the risks – need for supervisory cooperation

Supervising conduct of business

Guidance includes some examples of how of fair treatment can be assessed in the supervisory process:

- Assess the culture in relation to customer treatment
- Check adequacy, appropriateness, timeliness of information given to customers
- Review claims handling
- Review frequency/nature of complaints, disputes, litigation
- Review any customer satisfaction measures

IAIS application paper on approaches to conduct supervision

CONCLUSION

Conclusion

A few final thoughts...

- Conduct supervision is critical to consumer protection
- A culture of good conduct is important in achieving fair treatment
- Although important, need more than just good disclosure
- Proactive, forward-looking supervision is important – will help to identify systematic issues