

Access to Insurance Initiative

A global programme for sound regulatory and supervisory frameworks

5th Consultation Call: 28 August 2014, 4 pm CEST

“Product Oversight in Inclusive Insurance”



- 1.** Different Approaches of Product Oversight (Michael Hafeman)
- 2.** Product Oversight from an Inclusive Perspective (Martina Wiedmaier-Pfister)
- 3.** Country examples
 - a)** USA/NAIC (4pm) - Eric Nordman
 - b)** Brasil/SUSEP (4pm) - Regina Simoes/Maria Alves
 - c)** Europe/EIPOA (4pm) - Alexandra de Jong



1. Determining your approach to product oversight

- What are your objectives?
 - What are the biggest risks to their achievement?
 - How effective are the mitigants and remedies?
- The answers to these questions can guide you to an appropriate approach



What are your objectives?

- Promote fair treatment of policyholders
 - Reduce risk of insurer failure
 - Encourage innovations to enhance access
 - Maintain an orderly market
 - Ensure compliance with legal requirements
 - Place primary responsibility on the insurer...
- Objectives can conflict, so weigh their importance



What are the biggest risks to their achievement?

- Products do not meet consumers' needs
- Unfair or excessive premium rates
- Inappropriate policy provisions or unclear wording
- Inadequate premium rates
- Untested approaches to marketing, distribution, premium collection, administration...
- Operational failures



How effective are the mitigants and remedies?

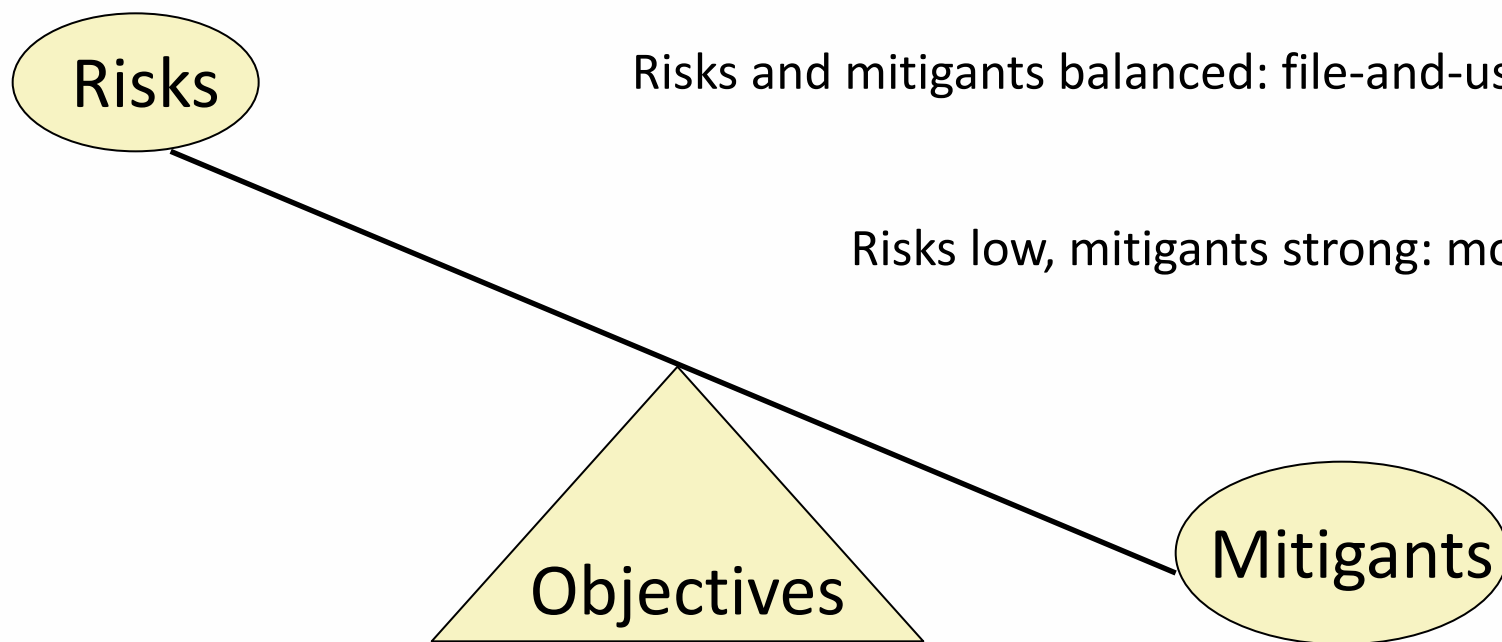
- Technical capabilities of the insurers
- Product development oversight by the insurers
- Market conduct oversight by the insurers
- Capabilities of the distribution system
- Level of disclosure required
- Familiarity of consumers with the products
- Capacity of the supervisor to provide oversight
- If a problem occurs, what is the exposure of consumers to loss?
Can losses be recouped?



Risks high, mitigants weak: pre-approval

Risks and mitigants balanced: file-and-use

Risks low, mitigants strong: monitor



2. “How effective are the mitigants and remedies?”

...in the perspective of inclusive insurance markets

- **Technical capabilities of the insurers**
 - are often low, takes time to build them
 - of the MI products registered, often, only a small share is marketed effectively and is producing massive sales

- **Market conduct oversight by the insurers and**
- **Capabilities of the distribution system**
 - innovative channels are often outside of the regulated sphere
 - masses of agents and changing agents
 - new approaches to controls by insurer required



- Level of disclosure required
 - what is understood by the client?
- Familiarity of consumers with the products
 - generally low!
- Capacity of the supervisor to provide oversight
 - staff is new to MI
 - can takes 6 months until a product is approved
- If a problem occurs, what is the exposure of consumers to loss?
Can losses be recouped?
 - one bad experience can “kill the relationship”
 - cost of complaints can be prohibitive for client



3a) Regulation of Insurance Products in the USA

- Insurance regulation in the USA occurs at the state level
- The USA is made up of 56 independent insurance supervisors
- By premium volume 50 of the U.S. jurisdictions are within the top 100 jurisdictions worldwide
- The California insurance market is roughly the same size as France or Germany
- The New York insurance market is slightly smaller than the Italian market and larger than South Korea
- Colorado, Russia and Finland have roughly equivalent premium writings



- States vary widely with respect to approaches to product regulation
- Types of approaches include:
 - Prior Approval
 - File & Use
 - Use & File
 - Flex Rating
 - Informational Filing
 - Filing of a list of current policy forms
 - No Filing



- Product oversight is driven by consumer protection laws and regulations
- Policy forms are reviewed to assure that they:
 - Meet the minimum requirements of state consumer protection laws and regulations
 - Deliver expected benefits to consumers
 - Do not contain misleading or deceptive provisions to disadvantage the consumer



- Regulatory philosophies
 - Prior Approval helps eliminate unfair methods of competition and reduce deceptive business practices before a product is sold to the public
 - File & Use or Use & File helps insurers with speed to market and protects consumers by providing for withdrawal of approval if forms do not meet regulatory requirements



- Some important considerations of “best practices” for policy form review:
 - Is the policy form an insurance contract? If so, what type?
 - Is the insurer licensed to offer this line of business?
 - Is the policy form for a legal purpose?
 - Does the policy form contain an acceptable risk transfer?
 - Does the insuring agreement contain a clear and concise statement of what the filer is offering to the policyholder?
 - Does the policy form contain a statement regarding the consideration that the policyholder is providing to the insurer?



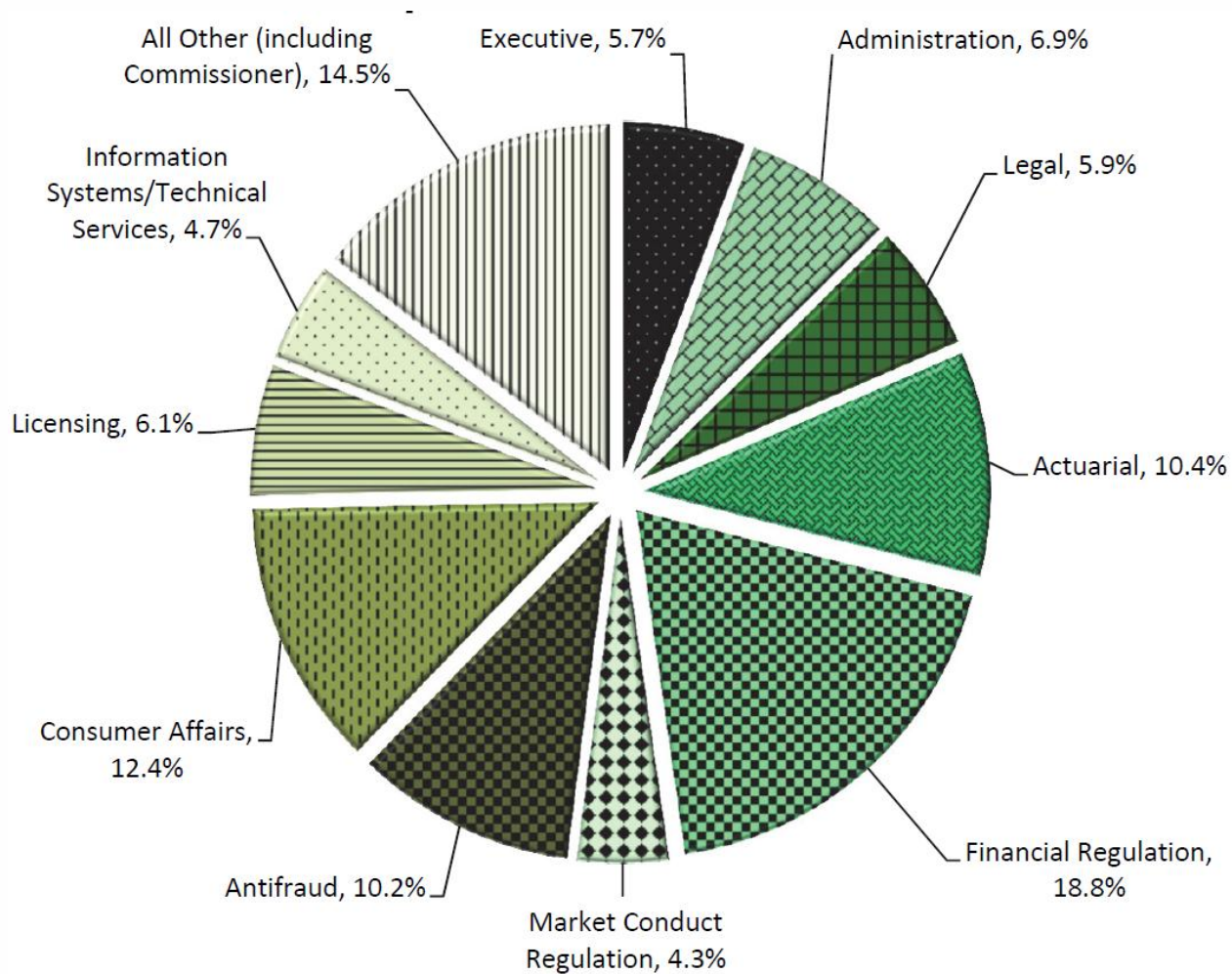
- More “best practices:”
 - Does the policy form contain clear definitions regarding who is accepting the risk transfer & who is covered under the contract
 - Does the policy form define terms that might need to be explained to the policyholder?
 - Are the insurer’s coverage agreements and limits of liability clearly spelled out in the contract?
 - Are any coverage limitations or exclusions clearly spelled out and compliant with laws, regulations and related case law?



- Some important statistics about the USA:
 - Most filings are submitted electronically through the NAIC SERFF system (648,150 filings processed in 2013)
 - There are 1,200 people in the states charged with some aspect of product review
 - There are 500 people involved in market conduct regulation, including some post-review of product filings
 - There 2,600 people involved in handling consumer complaints and enforcement



Insurance Department Staff Breakdown - 2013



3b) Product Oversight in Brazil SUSEP adheres two approaches:

- ❖ “File and Use” for general insurance lines:
 - ✓ The product is approved for launch after SUSEP performs a quick analysis and release the product registration number to the insurance company

- ❖ “Approve and Use” for life insurance lines, with saving component:
 - ✓ A prior approval is required before the product can be marketed

- **8.515 products registered at SUSEP (174 lines) and 162 supervised companies**



- ❖ “File and Use” for microinsurance lines
- ✓ 30 microinsurance products and 16 insurers offering microinsurance
- ✓ Microinsurance analysis process takes 3 days on average
- ✓ Standardized coverage and exclusions



Product Oversight in Brazil Electronic Registration:

- ❖ Insurance companies upload their products through an electronic web system
 - A commitment letter, informing that the product is in compliance with the rules in force, together with a receipt of the electronic registration, should be also submitted to SUSEP
- ❖ Products are available to all interested parts at SUSEP website
- ❖ This System is linked to the Statistical/Accounting database, allowing retrieving information such as market share, claim ratio, premiums amount by line of insurance and so on.



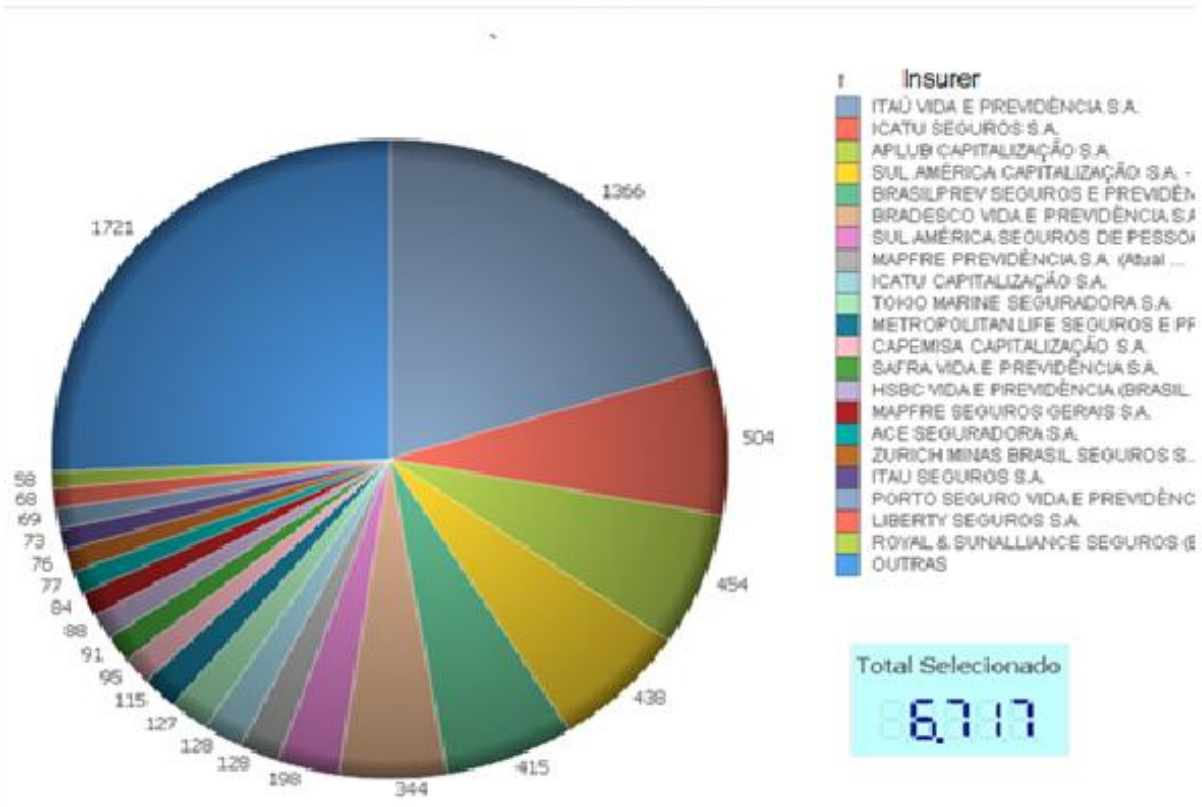
Product Oversight in Brazil

Types of information issued by the system:

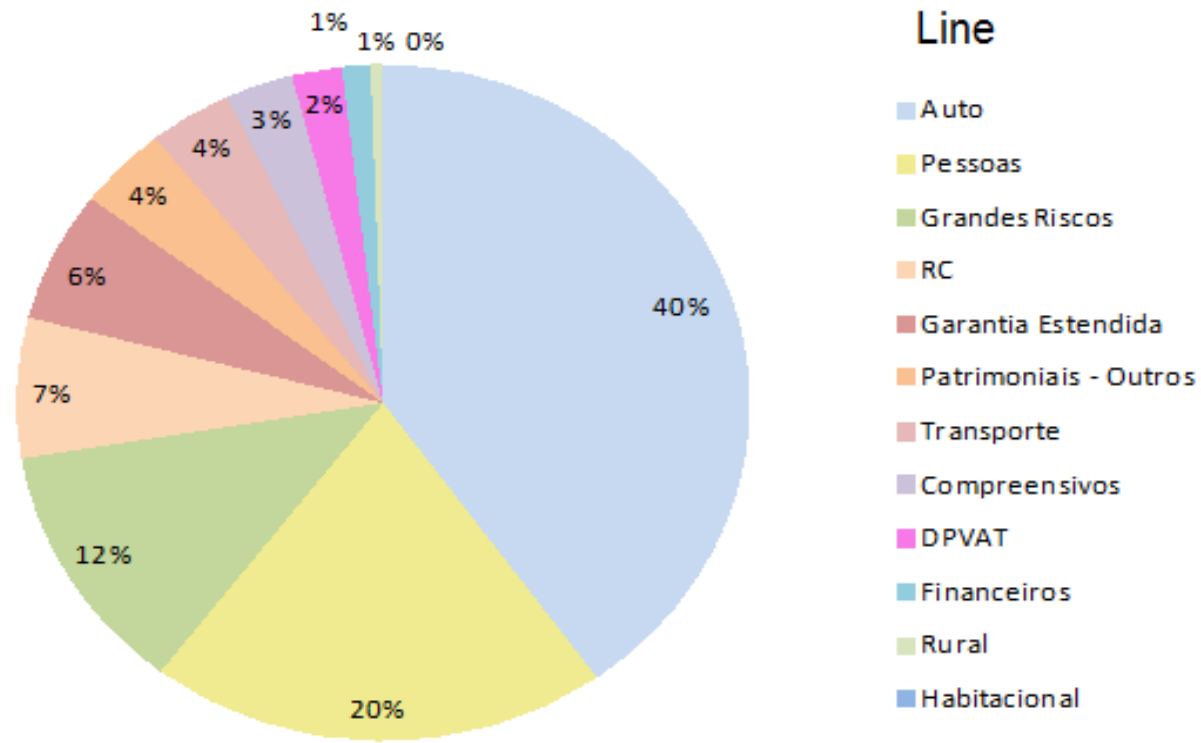
- ❖ Regarding the product: time analyses, product status analyses, percentage of filed products already marketed, etc
- ❖ Regarding the insurance market: market share, claims ratio, premiums amount by line of insurance and so on



1. Amount of products by insurer



2. Company X - Portfolio



Product Oversight in Brazil

Types of Reports:

5. % products already marketed



Insurer	Product filed	Product marketed
Company Y	444	115
		26%



- Who is EIOPA?
- Product Oversight and Governance in the EEA:
 - o Current situation:
 - Few countries have relevant requirements in place
 - Product pre-approval not allowed
 - o Consumer protection issues (examples):
 - Mis-selling of unsuitable products
 - Poor product design

- High-level principles for banking, securities and insurance sectors (published in 2013; available at <https://eiopa.europa.eu/joint-committee/index.html>)
- On-going initiative under EIOPA's lead:
 - Guidelines: addressing activities of manufacturers
 - Public consultation anticipated in Q4 2014 (more details to become available at <https://eiopa.europa.eu/>)
- Future plans:
 - Address also distributors



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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Questions?

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The Initiative is a partnership between:

