

Edel O'Connell, Irish Life Group

Treating Customers Fairly – the Irish Experience

18 November 2024

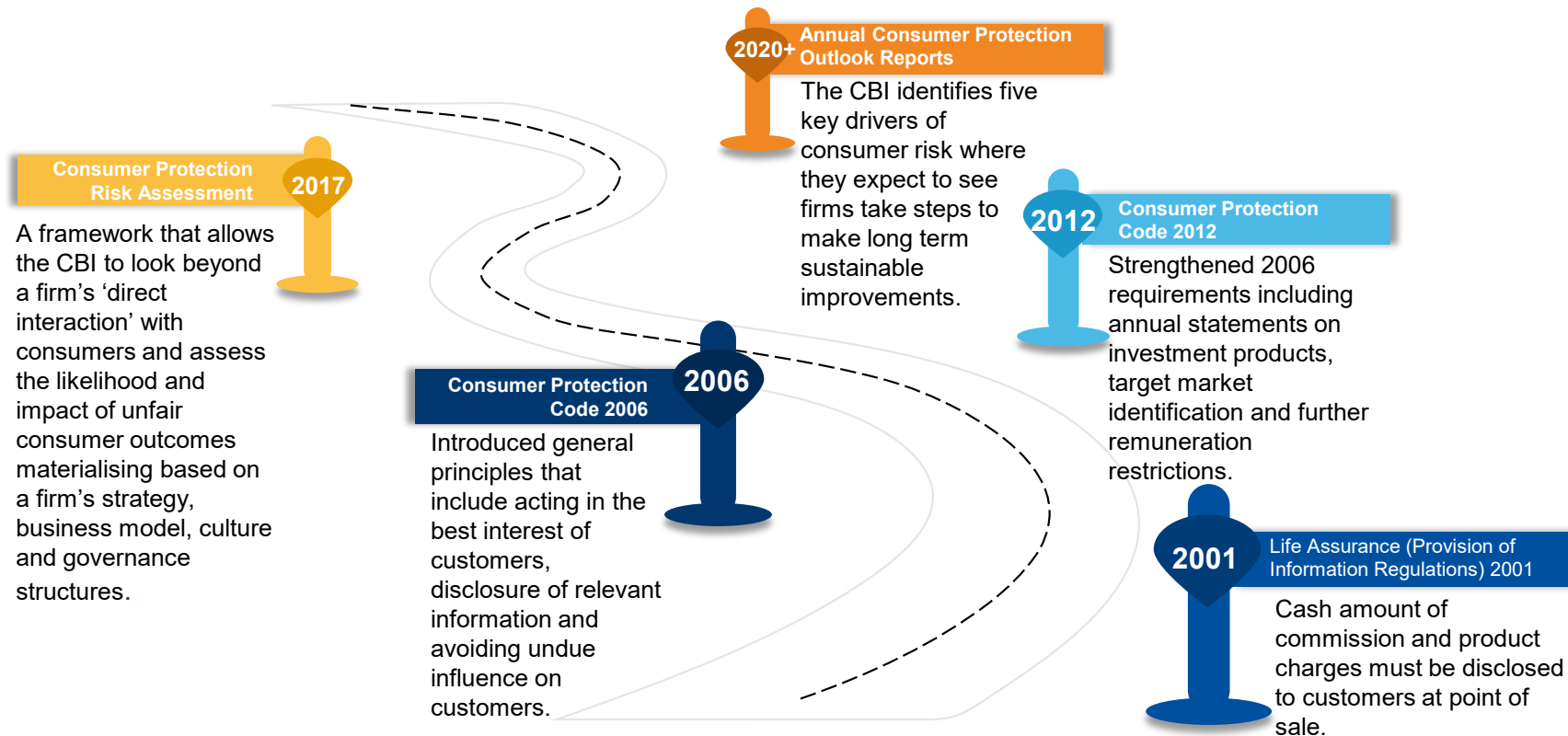
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Key differences between German and Irish markets

Ireland	Germany
Predominantly unit-linked for investment and pensions	Substantial level of conventional with-profits
Central Bank of Ireland (CBI): <i>“We serve the public interest by maintaining monetary and financial stability while ensuring that the financial system operates in the best interests of consumers and the wider economy.”</i>	<i>“BaFin acts in the public interest. Its main objective is to ensure the proper functioning, stability and integrity of Germany’s financial system. Bank customers, insurance policyholders and investors should be able to trust the financial system.”</i>
Explicit requirement to deal with complaints “fairly”. Unresolved issues are typically referred to the Financial Services and Pensions Ombudsman who is required by law to consider what is “reasonable” when determining the outcome of a complaint.	Adjudication of complaints typically takes a strict legal interpretation. Unresolved issues likely to lead to litigation.
Charges are similar in each year of the contract. Fund based commission is common with high initial commission rarely paid.	Initial charges can be high with bonuses often applying later in the policy term. Initial commission can be high with long claw-back periods.

Evolution of Irish regulatory approach





Evolution of Irish regulatory approach

THE IRISH TIMES

13° Hi Edel

Business

Bank of Ireland hit with record €100m fine over tracker mortgage scandal

Customers of seven lenders investigated by Central Bank lost a total of 327 properties as result of overcharging scandal

Expand



Financial Services

Insurer Axa fined €675,000 for consumer code breaches

Axa problems affected 58,000 motor and property claims over more than four years



THE IRISH TIMES

Sat, Apr 9, 2016

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Central Bank to force health insurers to do more for switchers

Move comes on the back of research showing that switching rates are very low in the Republic

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Conor Pope



Fair treatment of customers – who is responsible?

- There are areas of judgement in certain insurance policies e.g. the setting of bonus rates. Policyholders' reasonable expectations (PRE) would have to be considered when professional judgement was being applied.
- The area of PRE was historically considered to be the responsibility of the Chief Actuary (now Head of Actuarial Function (HoAF)). Over time, the greater focus on the fair treatment of customers and conduct regulation has led to the responsibility for both PRE and conduct regulation being placed primarily with the Board and senior management.
- It was clarified by the Central Bank in 2007 that responsibility of the Board to ensure the proper running of the company included all matters pertaining to the fair treatment of policyholders.

(iv) "Actuary" shall mean the Actuary of the Company for the time being and any decision, determination or exercise of any power given to him under the terms of this policy shall be at his absolute discretion and shall be binding on the parties to this policy.

LEGISLATION AND TAXATION

17. In the event of any taxes, levies or duties being imposed upon the premiums or the benefits of the policy or upon the policy or upon the funds or the income therefrom, or upon any other elements relating to the policy, the Company reserves the right to recover the amount of such taxes, levies or duties by deduction from the units attaching to the policy or to otherwise vary the terms of the policy to such extent and in such manner as the Actuary deems appropriate. In this context, taxes, levies or duties shall mean any payments made as a consequence of any law or regulation. For the purposes of this condition, units are valued at their bid prices.
18. If, at any time during the term of this policy, it becomes impossible or impracticable, as a consequence of legislation or otherwise, to carry out any of the policy conditions, then the Company shall make such alterations in the said conditions as the Actuary deems appropriate.

Fair treatment of customers – who is responsible?

- When completing the Actuarial Report on Technical Provisions, the CBI specifically requires that the HoAF gives their interpretation of PRE as how this has been reflected in the technical provisions. An opinion on any discretionary powers in policy terms and conditions must also be provided.
- Examples of what might be commented upon include:
 - Unit pricing matters e.g. tax, securities lending, (property) pricing basis
 - Bonus rates on with-profits business
 - Consistency of product charges deducted with product literature given to customers
 - Approach taken to numeric disclosure of commission and disclosure
 - Insights from customer complaints

Non-linked business

- There is a positive obligation on entities to bring information to the attention of consumers, in a clear and comprehensible manner.
- For non-linked business, where competing products can be very similar, once an intermediary carries out suitability analysis and considers prices from competing providers little regulatory concern tends to arise. It is only where customers might feel they have limited choice that additional requirements apply.
- Where customers come to retirement and decide to buy an annuity, strict requirements apply in relation to bringing the “open market option” and “enhanced annuities” to the attention of customers. The Irish rules however, are not as explicit as the UK requirements – see template opposite.

Our quote

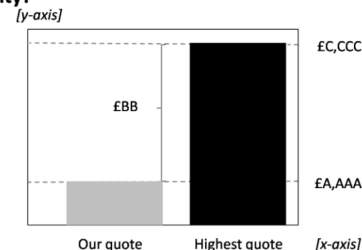
This annuity will provide you with an annual income of:

£A,AAA

Can you get a better income from your annuity?

Based on your key information, there are quotes available from other providers offering higher rates. If you select our product, you would be **losing out on £BB per year**.

And, if applicable: You are entitled to a [guaranteed annuity rate from your current pension provider][minimum level of guaranteed pension] from [date/customer's age] paying an [estimated] annual income of £X,XXX. If you select our product, you could be **losing out on £DD per year**.



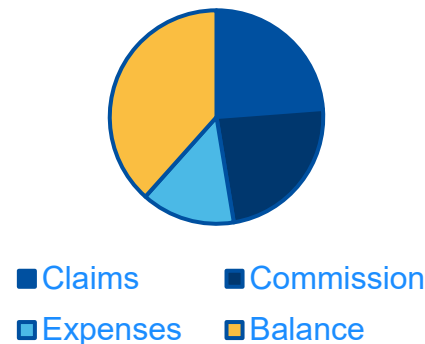
The Financial Conduct Authority is a financial services regulator. It requires us to inform you that you can shop around if you want to. If you want to see what other options are available from other providers please visit moneyadvice.service.org.uk/annuitiesquotes or call 0800 138 7777.



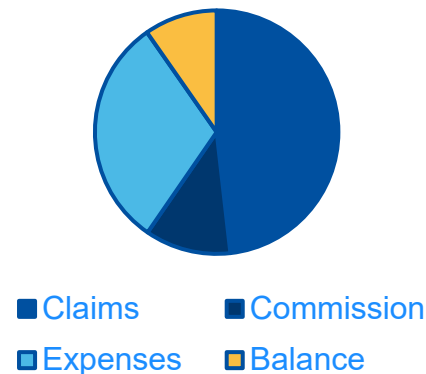
Non-linked business

- Another area of regulatory interest is where customers buy protection products in connection with loans. Following the EIOPA thematic review of credit protection insurance in 2022 the Central Bank approach was to:
 - ask firms to identify whether any issues raised in the report were identified in their business
 - If issues identified, take all required remedial action
 - Review and take actions outlined in EIOPA's warning
- Whilst the issues identified by EIOPA are not currently a significant concern within the Irish market, the approach of considering how the premium is split between different stakeholders is a useful approach when considering whether a particular product design is fair to customers.

Typical EIOPA Split – Mortgage CPI



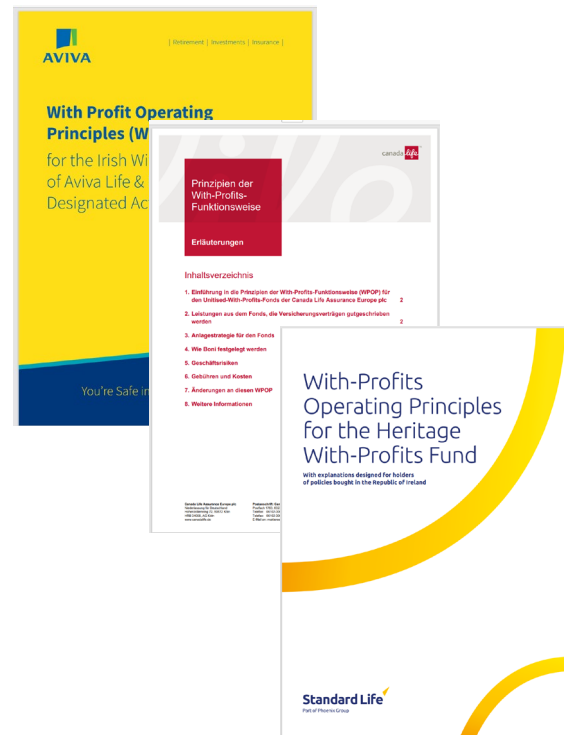
Sample Irish Split – Mortgage Protection





Requirements for with-profits business

- Following the implementation of Solvency II, the CBI implemented the Domestic Actuarial Regime placing a number of additional requirements on the Head of Actuarial Function e.g. PRE opinion noted earlier, peer review. Where a firm has a material level of with-profits business, they must put With-Profits Operating Principles (WPOP) in place and make them publicly available.
- Information in the WPOP must be presented in clear and simple language. It shall include at least the following principles in relation to the operation of the fund:
 - Benefits: How they are calculated, information on how the bonus rates are set and information on the smoothing methodology.
 - Investment strategy: How the asset mix is determined and strategy in respect of derivatives and other instruments.





Requirements for with-profits business

- Principles continued:
 - Business risk: Who bears the cost from guarantees and smoothing.
 - Charges and expenses: How the undertaking allocates expenses and charges
 - Equity between With-Profits policies and any shareholders: Arrangements for changes to profit sharing between shareholders and With-Profits fund members.
- The HoAF shall report in writing to the Board at least annually on the ongoing compliance of the With-Profits funds with the principles detailed in the WPOP and an annual compliance report must also be made publicly available.



Unit-linked business and value for money

- Current Irish regulatory requirements in relation to unit-linked business largely assume that if clear and understandable information is provided to customers that competition between insurers will ensure value for money.
 - As well as the more recently PRIIPs disclosure requirements, cash amounts of commission and charges for the specific policy a customer is buying must be provided.
 - An explicit target market must be defined at the product development stage and product literature should disclose how the product aligns with the needs, objectives and characteristics of the target market identified.
 - Annual statements must be provided that shows opening and closing balances, transactions over the year and details of all charges applied.
- Product oversight and governance requirements are in place to ensure that entities have the capacity to identify and mitigate risks in any of the products they offer. Frameworks are subject to CBI reviews on a regular basis.

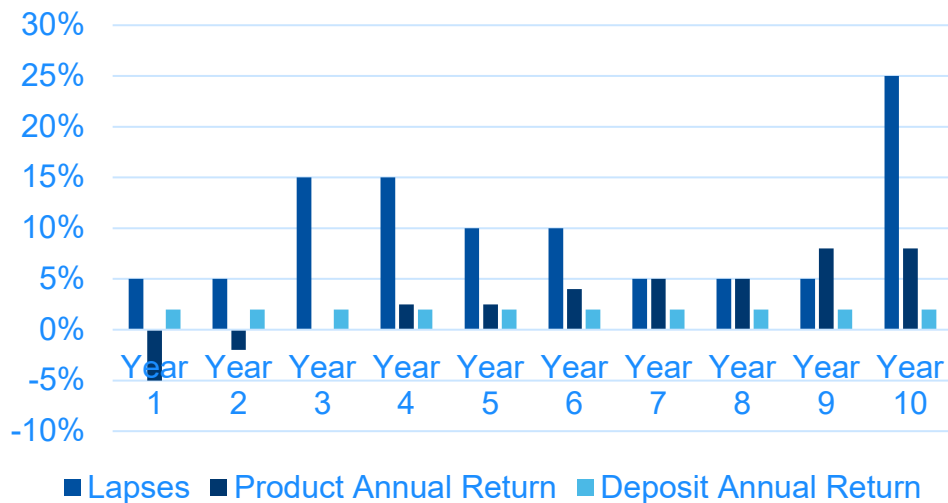
Unit-linked business and value for money

- Both products that are open for new business and closed book products must be subject to regular review. A broad range of people across the business need to contribute in order to answer the type of questions below.

Systems capabilities deliver the customer proposition as set out in the original customer literature.	Review of complaints volumes/customer feedback and nature of these.
Any new risks that impact the expected customer outcome.	Would you purchase the product yourself today?
How would we feel if the product appeared as a headline in tomorrow's paper?	Any key feature of the product not being communicated to the customer (e.g. guarantee or options).
Have we communicated clearly that an event has happened or is due to happen (maturity / end of cover)?	Highlighted where action is needed e.g. client surrendering after 4yrs and 11months but if stayed to 5 years would get bonus.
The charges on the plan unfair / extreme compared to current charges.	Is there a benefit for the client to stay in the existing product. If no, then why not.
Review persistency on the products – e.g. volume of policies lapsing, volumes of contributions ceasing, full or partial withdrawals and reason for this	Volume of claims declined / proposals where underwriting declined.

Unit-linked business and value for money

Actual Investment Returns



- Particularly where charges are higher in the early years, it is important to measure actual customer outcomes compared to what might have been expected during the product development process.
- Did your customers stay for the full product term or exit early? If the majority of customers leave in the early years of the product, then a product that only provides good value at maturity may not be suitable for your target market.
- Particularly for unit-linked products, actual returns should be compared against other realistic options e.g. bank deposits.



Unit-linked business and value for money

- EIOPA has continued to progress their Value for Money Framework by publishing a Supervisory Statement outlining expectations of FSPs and setting out an assessment methodology for supervisory authorities. This would enable supervisors to identify outliers and determine whether they provided VfM to their identified target market.
- The CBI has stated that one of their key supervisory activities for the coming year is continued involvement in EIOPA's work on VfM, which they have identified as a consumer detriment risk in their Regulatory Supervisory Outlook Report 2024.
- Ensuring that the products a firm offers has charges that are not out of line with the rest of the market is an important first step in identifying whether regulators will question whether they offer VfM. Whilst superior past performance may justify a slightly higher level of charges, it is unlikely that this will be viewed as a compelling argument given the variable nature of investment returns.

Conclusions

- Treating customers fairly is a much broader concept than value for money (VfM). Whilst EIOPA's work on VfM aims to increase transparency and improve competition, it should only be considered the start of your customer journey.
- It's important to remember that this isn't only a regulatory requirement. Research has shown that satisfied customers are more likely to re-purchase, more likely to stay in force and more likely to recommend. Therefore positive customer outcomes are likely to have positive business outcomes.
- Whilst product design and charges are important, it's about the overall experience a customer has when interacting with the firm. You can only be successful in fully meeting regulatory requirements when there is a truly customer centric culture driven by senior leaders.

‘A defining cultural test is how a firm deals with adverse situations: does it make sure that the best interests of customers are protected, even if this damages short-term profitability?’

Philip R. Lane Governor, Central Bank of Ireland

Vielen Dank für Ihre Aufmerksamkeit.

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