



## **SPEECH**

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## **Mis-selling**



Public hearing: Mis-selling of financial products

**European Parliament (ECON committee), 19 June 2018**

Dear Members of the European Parliament,

Ladies and gentlemen,

I would like to thank you first for the opportunity to speak today, and to add the perspective from the insurance and pensions sectors.

This is very welcome, as these sectors sit at the core of retail financial markets. Insurers held roughly 11 trillion EUR of assets at the end of 2016 – a very significant part of the EU savings and investment markets.

To keep brief I will highlight four points.

- Firstly – mis-selling will always be a challenge, but it is critical we do better in tackling it;
- Secondly – recent regulation will make a big difference, but the parts addressing such aspects as firm culture could end up most important;
- Thirdly – we need a stronger focus on supervision and implementation in practice. That is how to make good progress now.
- Fourthly – financial innovation.

### **First, mis-selling.**

There are many reasons for mis-selling, and no regulatory 'magic bullets'.

I will highlight just three points to illustrate this, reflecting what we have seen in our Consumer Trends reports and thematic work.

First, consumers continue to struggle with understanding financial products and services.

Our conclusion is to take research into consumer behaviour into account in all our policy making and practical supervision -- to be smarter about consumers as they really are.

Second, conflicts of interest and misaligned incentives in the production, distribution and selling of financial products are deep, as we saw in our recent Thematic Review on unit-linked business.

These conflicts are particularly tricky because products are sold rather than bought, and will continue to be so.

Third, complexity is a consistent problem, an invitation to mis-selling. For instance, consumers' search for safety and reward leads to products embedding tail risks that are difficult to assess.

To be clear, the many causes of mis-selling are no excuse for the scandals we have had, e.g. PPI, endowments and unit-linked business. We see poor value products, poor control over conflicts of interest, poor understanding of risks.

Such scandals are not a 'fact of life' – they must and can be stopped.

## **Second, regulation.**

In the face of mis-selling, EU regulation has been significantly enhanced in recent years – directly tackling mis-aligned incentives, conflicts of interest, transparency, product oversight and governance, supervision, sanctions and enforcement.

It will take some time for this to bed in, so we should resist the temptation to conclude already about what works or doesn't.

However, there are reasons for hope.

I will highlight one.

It is often said that 'tick-box' compliance does not guarantee good consumer outcomes. Instead firm cultures are needed that internalise the best interests of consumers all along the value chain.

On this, the IDD will be a major step, establishing new expectations on product oversight and governance, on conflicts of interest and acting in the best interests of customers.

Yet meeting these expectations is a big challenge for firms -- and for supervisors.

We are therefore working hard with both to put principles into practice, including first steps looking at culture -- how to get culture right, how to identify when it is going wrong, and what to do about it.

## **Third, supervision.**

A shift of emphasis from regulation to supervision is needed.

In EIOPAs perspective, the situation today on the conduct side is not consistently good enough: insufficient supervisory resources dedicated to conduct issues, with insufficient market intelligence and insufficient understanding of business models.

So we are pushing to raise the game, also because of new proactive product intervention powers.

As a start, we launched in April a new conduct supervision strategy.

Under this:

- We are working with NCAs on conduct risk identification and mitigation, and on gathering data and using it intelligently -- market transparency from a conduct standpoint still needs to improve.
- We are forging ahead with thematic reviews (Big Data and Travel Insurance this year).
- We are building capacity for conduct-focused business model and product analysis.
- We are running a programme of conduct country visits to NCAs.
- We are preparing conduct chapters in our practical supervisory handbook.
- And, finally, we are fully extending our use of our oversight cooperation platforms – a way of finding practical solutions in specific cross-border cases -- to conduct issues.

Taken together, putting more resources into these areas offers a good chance for making solid progress.

**Fourth, financial innovation.**

Many market and supervisory participants consider that major structural changes are coming due to financial innovation.

Insurance and pensions are laden with legacy systems, ripe for disruption.

This means that where and how mis-selling happens may be transformed, in unforeseen ways.

This underlines, I believe, how a mature capacity for proactive, preventative, and risk-based conduct supervision across the EU is critical, not only for tackling the mis-selling of the past, but the mis-selling of the future.