Press release

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Regulation must enable insurers to put customers first

Badly designed regulation can harm consumers with information overload, duplicative disclosure requirements and excessive capital charges

Policymakers must take action to ensure that EU and international regulation allows insurers to continue to put consumers at the very heart of their business in the future. For that to happen, rules need to be clear, simple, fit-for-purpose and well tested, according to Insurance Europe, the European insurance and reinsurance federation.

Unfortunately, there are numerous examples of where European legislation — despite being well intentioned — is none of these things, according to Insurance Europe's president, Sergio Balbinot, in his opening speech to the federation's 8th Annual International Insurance Conference, which was held today in Dublin.

While explaining how new overlapping EU rules will result in consumers being overloaded with information, Balbinot said: "In order to comply with the Insurance Distribution Directive (IDD), the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs) and Solvency II, a person buying an insurance product will now receive 148 different pieces of pre-contractual information. Will this help that person understand the product they are buying, or maintain insurers' reputation for clear and simple consumer friendly communication? Clearly not."

The president emphasised that, while the volume of required disclosures must be appropriate, the content of the disclosures must also be right, otherwise rules that are meant to keep consumers better informed, could actually confuse or even mislead them. The president gave the example of the Key Information Document (KID), which is meant to help consumers compare different products and gain a better understanding of their features. However, in its current form, it actually makes insurance products wrongly appear more expensive and more risky than they actually are.

Balbinot commented: "If the EU institutions accept these proposals, it means that insurers will be forced to provide a KID which won't work as intended and which becomes part of the next call for evidence. Therefore, it is essential that the EU institutions take the time needed to address the design faults. This is a case of where getting it right is more important than getting it done quickly."

In the same vain, the president also highlighted that prudential rules can have unintended negative impacts on consumers. While the move to risk-based regulation through Solvency II is fully supported, the president said concerns remain that the Solvency II measurements are overly volatile and do not measure the risks correctly.

This can lead to unnecessarily high capital requirements for products such as private pensions. For example, if an insurer has to charge an additional 1% annually on a long-term pension product because of excessive capital charges, it could reduce the overall pension pay out to the policyholder by more than 20% over 20 years.

Balbinot said: "If that level of capital is really needed to provide appropriate protection then the costs can be justified, but if it is just because of an overly conservative approach or because not enough care or effort has been taken and as a consequence the wrong risks have been measured, then this it is unacceptable."

To address these issues, Balbinot called on policymakers to adopt a genuinely consumer-centric approach to regulation, which would involve:

- Addressing the cumulative impact of proposals to delete duplication and clarify contradiction. That would include looking, not only at the Level 1 legislative act, but also at Levels 2 or 3.
- Focusing on the real — rather than perceived — needs of consumers.
- Carrying out consumer testing and cost benefit analysis to ensure that each new proposal delivers its expected benefits to consumers in practice.
- Recognising that unnecessarily high capital requirements can be detrimental for consumers and therefore ensuring that risks are measured correctly to ensure requirements are appropriate.

He added: "This would put consumers at the heart of regulation and help insurers to continue improving their service to customers in tomorrow's world."

- Ends-

Notes for editors

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2. You can also receive updates from Insurance Europe, sign-up here or by following us on Twitter @InsuranceEurope.
3. Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of almost €1 170bn, employ a little under one million people and invest nearly €9 600bn in the economy.