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Serving consumers

RETAIL INVESTMENT

Consumer focus

The needs of customers should be front and centre of the EC Retail Investment Strategy

Work is well underway on the European Commission's long-awaited Retail Investment Strategy (RIS), which seeks to bolster the retail participation in capital markets that remains so stubbornly low. So far in 2022, there has already been a detailed consultation from EIOPA on its advice to the Commission, three separate EIOPA public hearings, a second consultation from the Commission, the results of an external EC study and a call for evidence from the Commission. This all comes on top of the EC consultation issued in mid-2021.

All of this work is headed towards publication of new legislative proposals before the end of 2022. This could be an ideal opportunity to take stock of the current regulatory environment and to learn lessons from the successes and failures of previous legislative initiatives. But the success of the initiative depends on whether policymakers are able to design proposals that really meet the needs of insurance customers.

There have been too many proposals and requirements in the past that do not take any account of the specific features of insurance products and the needs of insurance consumers. The recent consultation on the options to enhance the existing, well-functioning suitability and appropriateness assessments is a further example of proposals intended to apply to insurance, although entirely designed with other financial products and distribution channels in mind. Such proposals are doomed to fail

to achieve their aims, and invariably do more harm than good. This will be an ongoing issue for insurers, who face an uphill battle to ensure that policymakers always consider the specific characteristics of insurance business before drafting new rules and that they do not prioritise simplicity in an effort to get things done quickly.

One focus of the RIS will be on product disclosures and on ensuring consumers receive the information they need to feel empowered to make investment decisions. Here, EIOPA's recommendations in its advice to the Commission to remove duplicative disclosures and facilitate digitalisation look promising; insurers have called for a more consumer-friendly regulatory framework for a long time and these proposals would pave the way for modern and streamlined disclosures. However, this is not enough. Proper legislative changes are needed to put the unique features of insurance-based investment products (IBIPs) front and centre in the information given to customers. IBIPs are different to other products (see p30) and this needs to be made clear in the information presented to customers. At the moment, consumers are barely informed of the existence of attached insurance cover and are certainly not given the tools they need to compare coverage between IBIPs.

> **"The success of the Retail Investment Strategy depends on whether policymakers are able to design proposals that really meet the needs of insurance customers."**

Too soon to change the IDD

When it comes to changes to the Insurance Distribution Directive (IDD), there are plenty of opportunities but there is also plenty to fear.

The direction of travel in Brussels seems to be towards "MiFIDisation" of the IDD. This would be harmonisation for harmonisation's sake, as there is no clear need for changes to the IDD. Insurers have worked hard over the last two years to implement the new IDD rules, and the result has been an overall improvement in how insurance distribution operates. It is far too soon to look at making more changes. The IDD is different to MiFID (the Markets in Financial Instruments Directive) and with good reason. Insurance is not the same as banking and fund management; insurance products offer something different.

The differences between MiFID and the IDD are not always well understood. The IDD is not MiFID-lite. In fact, the IDD is deliberately different to MiFID in order to meet the needs of the insurance market — and in some areas it goes further than MiFID.

The importance of financial education

Improving financial literacy and the understanding of insurance can play an important role in underpinning economic growth and in enabling societies to overcome the significant pension challenges they face. Increasing people's awareness of financial risks and opportunities from an early age can help them to make informed decisions about which financial services meet their needs.

Insurance Europe's 2021 Pan-European Pension Survey (see p46) showed that more than one third of respondents (38%) were not saving for retirement, with a quarter of those saying they were not interested in doing so. It is therefore vital to further raise awareness of the need to save for retirement and to improve levels of financial literacy so that individuals can make the most appropriate decisions for their own circumstances.

Insurance Europe and its members engage in a wide variety of financial education and literacy projects. Insurance Europe's own financial education activities can be found under its InsureWisely brand.

#InsureWisely

In the EU, there is no single European insurance distribution system but 27 systems that have developed over many years to meet the needs and expectations of local customers. The IDD works with this national variation, not against it.

The IDD also reflects the specific nature of insurance products. IBIPs are long-term products that form an essential part of a customer's financial planning. They are not designed to be switched and traded, and often are not sold solely for investment purposes. The IDD protects the face-to-face personalised advice that customers want and need by respecting the advice systems that are currently in place. Where this is financed by commission, the IDD provides robust safeguards to manage any potential conflicts of interest. Where national regulators favour fee-based advice, they are free to restrict the use of commission. This all serves to ensure consumers can access high-quality advice wherever they are.

IBIPs offer extra protection

The additional protection offered by IBIPs is also important. Financial guarantees and insurance cover give insurance customers security and the confidence to invest. These features increase the possibility for consumers to access capital markets and regulation should not work against this. Increasingly, IBIPs are being classified as complex on the basis of their structure alone, for the mere reason that they provide insurance protection on top of investment. Unfortunately, this is in line with a long-standing focus of policymakers and NGOs on the price of a product above all else. It is vital that the RIS acknowledges the benefits of additional protection rather that viewing any insurance cover as potentially confusing to consumers. The focus should be on consumer choice and information, making sure customers have the information they need to decide on a product themselves.

The RIS will best serve consumers if it focuses on their main needs. They require better access to a wide variety of products, with the option to buy directly and seamlessly online where that suits them best. They also need policymakers to listen to their views. The EC's external study did include some consumer testing, but this should just be the start. The creation of a new strategy for retail investors should have consumers at its heart, with proper impact assessments and ongoing testing. This is the best way to facilitate participation in financial markets, not trying to fit all sectors into the same regulatory box.

Insurance Europe looks forward to continuing the discussions with the European supervisory authorities and the European Commission to promote a competitive financial market in which consumers have access to a wide range of financial services. This is vital for financial inclusion and for retail investors' participation in capital markets.

Examples of what insurance-based investment products (IBIPs) can offer retail investors

Savings	Different architectures are possible. For example: pure unit-linked (multi-options or not, with open architecture or pre-defined investment lines, linear or structured, etc.), hybrids (multi-options or not, static or dynamic, etc.), with-profit participation, guaranteed products, annuities, index-linked, funeral products, etc.	
Financial guarantees	Different levels of financial guarantees are possible, usually at maturity. The financial guarantee can cover the premium invested and/or ensure a minimum return.	
Biometric risk cover	Different risks can be insured, including tailor-made offers. For example: death, disability, health (sickness, accident, hospitalisation, critical illness, maternity, etc.), unemployment, long-term care, etc.	
Services & innovation	For example: 24/7 telemedicine, second medical opinion, patient transport, psychologist in traumatic situations, imaging diagnostic procedures/ surgeries, ad-hoc medical examinations, regular check-ups, hospital stays abroad, home assistance, etc. Digital solutions, ESG features, alternative funds (real estate, ELTIFS, etc.), capital protection mechanisms.	
Succession planning	Tax optimisation, possibility to ascertain when, how and to whom the sum should be distributed, etc.	
Payment flexibility	In the accumulation phase: single or regular premiums, top-ups, premium holidays, etc. In the decumulation phase: lump sum or periodic sums, etc. In the pay-out of the biometric risk cover benefits: minimum guarantee on premiums paid, pre-defined lump sum, extra sum under certain circumstances, in-kind services, etc.	
Claims-paying capacity	Insurers are subject to extensive capital requirements and have a strong solvency position.