



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Public

Draft Issues Paper on Conduct of Business Risk and its Management

Olivier Fliche
Chair, Market Conduct Working Group

Stakeholder Session
5 October 2015



Introduction

Objectives of this public discussion session

- Present a summary of the comments received during the public consultation (1 July-14 August 2015)
- Receive feedback on the proposed resolutions
- Describe the steps for final publication

Introduction

Responsible subcommittee:
Market Conduct Working Group (MCWG)

Consultation period:
1 July-14 August 2015

Comments and input received from:

- 8 stakeholders
- 4 IAIS Members

1. General comments

Issue/comment	Resolution
Support of the overall aim of the paper to raise awareness of conduct of business risk.	
The paper only highlights negative aspects of conduct of business. The tone should be more neutral and balanced.	The MCWG will include more neutral and balanced language, where appropriate. One of the objectives of the paper is, however, to highlight the potential negative consequences of a failure to identify and manage conduct risks.

1. General comments

Issue/comment	Resolution
The issues raised in the paper are already addressed by national regulation. The paper pays little attention to existing regulation. There is no need to call for new regulation.	An Issues Paper is not intended to set or propose a new regulation (see the box on page 2 of the paper). The paper is intended to raise awareness of conduct of business risks across jurisdictions where conduct of business risks may not be comprehensively addressed.
The paper should emphasise the fact that competition and market forces are beneficial for consumers and should avoid preventing innovation and competition.	The revised paper will mention the benefits of competition.

2. Descriptions of conduct of business risks and consequences (section 2)

Issue/comment	Resolution
The concept “fair” needs to be clarified.	It will be clarified that the concept "fair" is used in the same sense that it is used in ICP 19 and a reference included to the legal environment in jurisdictions.
The paper should only focus on the effects of conduct of business risks to customers, but not discuss any impact on the soundness of insurers.	The MCWG believes conduct of business risks may have prudential consequences.

2. Descriptions of conduct of business risks and consequences (section 2)

Issue/comment	Resolution
The paper should not cover/overstate the impact of conduct of business risk on financial stability.	The MCWG believes that the paper is well balanced.
The paper extrapolates incidents of banks to the insurance sector.	The MCWG will clarify this point.
The mis-selling of payment protection insurance (PPI) is not an appropriate example as it is relevant only for the banking sector.	PPI is an insurance product, sold by insurers themselves and by banks and other entities in their capacity as insurance intermediaries.

3. Source of conduct of business risk (section 3)

Issue/comment	Resolution
The paper refers to some jurisdictions that prohibit or limit commissions. This reference gives an impression that such regulation is best practice.	The MCWG will clarify that the paper does not describe a specific supervisory approach to commission-based remuneration as best practice.
The paper only focuses on the negative aspects of bundling of insurance products with other products, but does not recognise benefits to customers.	The MCWG will use more balanced language.

3. Source of conduct of business risk (section 3)

Issue/comment	Resolution
The paper should differentiate between life insurance with an investment element, other life insurance and non-life insurance.	MCWG will clarify that different products have different risks.

4. Relationship between prudential supervision and conduct supervision (section 5)

Issue/comment	Resolution
The paper should be expanded to cover how potential conflicts between objectives of prudential supervisors and conduct supervisors can be managed to set consistent expectations for insurers.	The paper will stress the need for coordination and consistency between prudential and conduct supervisors. This point is also discussed in the <i>Application Paper on Approaches to Conduct of Business Supervision</i> (see para 36-37, published October 2014).

Next steps

- MCWG will agree on a revised draft in mid October
- Adoption by the Technical Committee and the Executive Committee in mid November
- Publication



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Comments/Questions?



Contact information

Olivier Fliche

Chair of Market Conduct Working Group

Leanne Jackson

Vice Chair of Market Conduct Working Group

Peter Cooke

Secretariat, International Association of Insurance Supervisors

+41 61 280 9647/+41 76 350 9647, peter.cooke@bis.org

Tsuyoshi Saito

Secretariat, International Association of Insurance Supervisors

+ 41 61 280 9651/+ 41 76 350 9651, Tsuyoshi.Saito@bis.org