INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Compiled Comments on *Consultation Document: Issues Paper on Conduct of Business Risk and its Management*

01-Jul-15 to 14-Aug-15

Comments as compiled on 15 August 2015

Organisation	Jurisdiction	Comments
- General Comment on the paper:		
WFII	Belgium	WFII is concerned about this Draft Issues Paper for different reasons. Several of the Draft Paper's most notable premises are, in our opinion, inaccurate. They may lead to misunderstanding and this is, we believe, unintended. Furthermore, they highlight unintended regulatory suggestions. Premises like a/ the market conduct activities of those within the insurance industry caused or significantly exacerbated the financial crisis of recent years (paragraph 2) , b/ market conduct issues have historically been overlooked or ignored by supervisors (paragraph 1), and c/ there is little inherent demand or need for insurance products (paragraph 36), are in our opinion, not supported by facts. In case they are, we believe that the Paper should refer to the statistic justification of the relevant facts. We are of the opinion that the Draft Issues Paper also utilises an approach that is one-sided and unbalanced and a tone that is anti-intermediary and anti-industry in nature. Furthermore, we believe that the Draft Paper gives little or no recognition to existing legal and regulatory frameworks in the majority of jurisdictions and seems to be suggesting that there is a large regulatory gap that needs to be filled by a whole new area of regulatory activity. In many jurisdictions around the world, there are existing bodies of law and regulatory powers and activities that give regulators the power to intervene and take action in relation to conduct of business. There is no discussion which identifies deficiencies in the current legal and regulatory frameworks. For example, paragraph 76 suggests that a conduct of business risk arises if intermediaries do not carry out sufficient due diligence when selecting insurance products or insurers, in order to familiarise themselves with the product features and satisfy themselves that the products are suitable for the consumers who they will advise to purchase them. In many jurisdictions an intermediary who fails to undertake sufficient due diligence on behalf of the client in this way would already be in breach of a wide range of legal, professional and fiduciary obligations. New regulation on this point is not needed. Another example of existing regulation to manage conduct of business risk is in paragraph 87. This paragraph identifies issues and concerns if advertising is unclear, inaccurate or is misleading. Most jurisdictions have already comprehensive laws available to regulators and to consumers in case advertising is false or misleading. Regulators are constantly intervening in the advertising and marketing activities of financial services companies. In other words, this area is already well covered in current legal and regulatory frameworks. Moreover, we believe that the Paper should make clear to the regulators who would like to implement it that in the first place an analysis should be made of the concerns in their jurisdiction as well as an analysis of the extent to which current laws or regulatory frameworks are insufficient to deal with those concerns. We therefore believe that the Paper, in its introduction and in the document itself, should clearly mention that in most jurisdictions there is no need for new regulation in the field of conduct of business risk management. And in case new regulation in this field is considered, existing regulation and the specific jurisdiction context should be taken carefully into consideration in order to avoid unnecessary accumulation of rules or the introduction of rules that are taken out of their original context. Another consideration that we believe should be recognised, is that the Paper should make a clear distinction between the conduct of business risk

		that may arise in the framework of the advice and the sale of life insurances with an investment element and the conduct of business risk that may arise in the framework of the advice and the sale of pure life insurance products and non-life insurance products. We believe that the "riskiness' for the consumer is very much different for both and therefore requires a different conduct of business risk-based supervisory framework. We also see some areas where we believe that there should always be a right balance between regulatory intervention and an open competitive market. For example attempts to regulate product design and content may limit innovation, new products and features.
Insurance Europe	EU	Insurance Europe welcomes the opportunity to provide feedback on the International Association of Insurance Supervisors (IAIS) Draft Issues Paper on Conduct of Business Risk and its management As a general remark, Insurance Europe wishes to stress that the European insurance industry supports the overall aim of the IAIS to raise awareness about conduct of business risks. In this context, Insurance Europe duly acknowledges that the list of the conduct of business risk presented in the paper is comprehensive. However, while the draft paper constitutes a catalogue of theoretical problems associated with the conduct of business, it gives little consideration to the measures that supervisors, insurers and intermediaries already apply to mitigate these risks or the natural tendency in free markets for consumers to gravitate towards producers offering better-quality products and services. Additional examples, initiatives, evidence and statistics would make the paper stronger. The insurance sector supports the aim of maintaining a high level of consumer confidence in the market. In order to do so, Insurance Europe is of the view that (1) a proportionate regulatory action and (2) a stable legal framework are key. Indeed, disproportionately negative and one-sided regulatory actions and external communications do not serve the aim of ensuring a high level of consumer trust.
Office of the Commissioner of Insurance China Hong Kong	Hong Kong	We have reviewed the Issues Paper, which provides a very comprehensive overview of the business conduct issues in the insurance market. However, some areas of concerns and the corresponding regulatory approaches are not covered or deeply discussed. Examples are as follows: In view of the distinct roles of insurance agents (acting as representative of insurers) and insurance brokers (acting as representative of clients) in a number of jurisdictions, elaboration of the regulatory requirements and approaches in respect of conduct of business for these two types of insurance intermediaries will be useful, in particular, insurers' internal controls over business derived from the insurance broker channel. Bancassurance is very common in many advanced countries. While regulatory arbitrage due to inconsistent regulatory requirements may be an issue, the genuine need for different regulatory requirements arising from different selling environments and the general perception that bank intermediaries are more trustworthy than non-bank intermediaries should not be ignored. An in-depth analysis of this area will be useful.

GFIA	international	The Global Federation of Insurance Associations (GFIA) commends the International Association of Insurance Supervisors (IAIS) for its comprehensive paper intended to provide a useful resource in assisting supervisors in understanding conduct of business (COB) risk and the tools that both they and industry have to mitigate such risk. The IAIS is taking a leadership role in international financial services in identifying and providing guidance on COB risk. This paper may prove a useful resource not just for insurance supervisors, but also for other financial supervisors. However, GFIA believes it is also important to avoid creating the perception that a heavy-handed approach to regulation is required in all instances. GFIA believes that care needs to be taken in four areas in particular: * Conclusions should not be drawn based on single examples of misconduct. * At times, the line appears blurred between supervision and business intervention. * At times, the paper leaves the impression that the industry does not, as a general rule, follow responsible and fair customer practices. * Supervisors should, in all instances, be encouraged to fully analyse a particular issue and whether it is, in fact, prevalent in their local market, and thereafter consider their own legal environment and existing powers in determining an appropriate solution.
International Actuarial Association	International	The paper has done a very good job of explaining the issues involved but would benefit from further focus on efficient approaches (and actual successes) that have occurred in this area, as well as more background on the complexities involved. These include: a. What is an appropriate definition of "fair" for all stakeholders? Fairness needs to be defined to take into account risk AND uncertainty, as well as effort and timing of corresponding expenses, compensation, benefits and profits. Although there may not be a single right or best answer and there are mentions of it in the paper, the examples and issues raised in the paper sometimes sound like there may be easy "black and white" way to distinguish a lack of fairness. The unique value proposition of insurance depends on customers, distribution and shareholders believing that their long term interests are being safeguarded and managed in a fair manner. For example, there are several references to complex products with many options for the consumer, which may allow variable premiums and/or benefit levels to be chosen over the life of the product. In contrast, there are other product designs that provide for no risk sharing, a modest risk sharing or extensive acceptance of risk with the policyholder (as well as the option to move from one risk exposure profile to another over the life of the product). Although allowing more choice and flexibility is often of benefit to the consumer, it also suggests that the distribution arm should be paid more to provide the needed (and appropriate) education and facts to the consumer, tailoring the options to better meet the needs of the consumer in a more "complex" (flexible) product design. This focus on fairness introduces a newer focus for valuable regulation - that is, to assess the gray area of balancing key stakeholder interests that may contrast with the common historical focus on black and white compliance with the law and regulatory rules. An example beyond the tradeoff of optionality versus simplicity is: i. Bundled products that may have a greater margin as a way to enable a (relatively) less expensive base product for those customers who do not need the additional features. In fact, inclusion of the additional benefits may still cost less than purchasing the combined coverages separately due to the underlying insurance concept that increasing the pooling of uncorrelated risks can make the total risk coverage less expensive (as well as reducing the administrative and distribution costs). This does not deny the possibility that abuses may arise, but does point out that there may be legitimate reasons for the cited behaviors/product pricing.

		b. It is not clear at times who should "own" or be responsible for the consequences of business risk. If an agent commits an illegal or unsuitable act, should the regulator or company necessarily be expected to carry out the discipline and should the company also be held liable (beyond the obvious legal need to honor statements made by its agent)? The answer will depend upon the circumstances involved. At times, market behavior may be in response to a change in laws and regulations that did not anticipate normal human reactions of a changed environment. c. We found the linkages to systemic risk a bit weak. Certainly the market in general is affected by bad behaviors, and the culture of individual companies may consequently adversely affect their long term success. Nevertheless, if business risk has a systemic impact, that is not necessarily a consequence of a "bad" culture, but may be a problem with the larger regulatory and economic framework of the industry. We feel that many of the examples given in the paper argue for a systemic consequence of business risk with this shortcoming.
Autorite des marches financiers	Quebec	We believe that the paper should emphasize the importance of protecting sensitive information held on consumers (See ICP 19.11 and 19.12). Any loss of sensitive information has great impact on the confidence of investors and insured (reputational risk) (addressed only in 1.4 of Annex 1).
Zurich Insurance Group	Switzerland	1. This paper may serve as foundational for future work of IAIS. It is therefore important that it strikes a good balance in tone and content with respect to costs (to industry and consumers) and benefits (to industry and consumers) of additional regulation. It is equally important that it focus on risks that have a meaningful likelihood of materializing and not try to be an enummeration of every possible scenario where something has the potential to go wrong. 2. As such, it is Zurich impression that the paper portrays, in general, an overly negative picture of the situation (in terms of the motivation, objectives and trust-worthiness of insurers and intermediaries) and a perceived reluctance by customers to take responsibility, in whole or part, for their purchasing decisions. This bias has the effect of trending towards the view that a more active and intrusive regulator is the solution, in most, if not all cases. 3. The paper also seems to largely discount the fact that market forces typically are best suited to discipline poor behaviours. With the transparency introduced through the internet and particularly through social media, there is a substantial shift of power towards consumers and information asymmetries (the main argument for tighter CoB regulation) are markedly diminished. 4. With respect to the systemic risks reference, we question the assumption that CoB risks at an individual firm can generate the magnitude of problems such that their distress or failure would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries. 5. Similarly, while Zurich acknowledges that there can be some nexus between prudential and conduct risks, the cause-effect relationship between poor conduct of business and financial instability, especially as it relates to the whole sector in a country, seems exaggerated. 6. There are a several instances where issues and experiences with banks are extrapolated to the insurance sector, Zurich suggests that the IAIS make every effort to restrict the paper to insurance issues. 7. In assessing whether to preempt emerging conduct risks through market studies and the expression of expectations to the industry careful consideration must be given to the real collateral risks including a chiliing effect on product innovation, market expansion as well as competitive

		restriction in terms of pricing, distribution and servicing. 8. The document makes uses of terms such as "fair outcomes", "good outcomes" and "best interests of customers". It would be preferable to use just the term "fair" (in line with the definition of CoB risks). Doing so will bring greater clarity since, in practice, the different terms do not mean the same thing.
Lloyd's	UK	We welcome the opportunity to respond to the consultation on the "Issues Paper on Conduct of Business Risk and its Management". Lloyd's is a society of members incorporated under the Lloyd's Acts 1871 - 1982, which operates as an insurance and reinsurance market in London. Its aggregate premium income in 2014 was GBP 25.3bn. We welcome the general intent of the paper in addressing appropriate regulation of the conduct of business and its efforts to seek international harmonisation in regulatory approaches. We encourage the adoption of a regulatory line which is not based on a "tick-box' compliance approach in the regulation of conduct risks. We agree that conduct standards should be inherent within businesses so as to protect the interests of their customers. It is worth noting that approaches to conduct regulation may vary depending on product lines, distribution channels and, ultimately, the industry itself. For instance, approaches designed for application to banks cannot be used for insurers, due to the different business models and financial products provided. It is of foremost importance that the paper makes a clear differentiation between general insurance products and investment products. It should also point out that the purchase of insurance by private individuals and by commercial entities requires different approaches to conduct regulation. Regulatory requirements on the conduct of business that are appropriate for complex long-term products are not necessary for simple non-life insurance policies such as motor, household or travel, purchased by individuals. Customers who intend to purchase such policies may not require professional advice. Many customers are able to make effective decisions about the choice of non-life products without receiving advice and there are few reasons to believe that this leads to "poor customer outcomes", as the paper suggests. Detailed comments are provided herein under the relevant paragraphs.
UK FCA	UK	First was a sense that ownership of the management of conduct risk was a Board level responsibility, and we have made a couple of suggestions to address that. There follow from that other considerations such as the range of experience a Board should have, and the experience/qualifications of individual Board members. This may be something for our colleagues in the Governance WG to bear in mind. Next was a recognition that consumer financial education was likely to be a long term means of addressing the information asymmetry question, but given that many initiatives in this area are very new, the benefits from them may be some years away from realisation. In the interim, therefore, the availability of advice, and the professional/academic qualifications of advisers remain important. This may be something to return to in the context of the intermediary regulation paper. A further issue raised concerned the operation of colleges. There will be circumstances where issues of conduct of business risk need to be discussed in colleges, and we might perhaps ensure that our colleagues in Insurance Groups bear this in mind.

Property Casualty Insurers Association of America (PCI)	USA	The Property Casualty Insurers Association of America (PCI) represents nearly 1000 insurers and reinsurers providing coverage throughout the world. Conduct of business is taken quite seriously by our member companies and they adapt and adjust to different jurisdictional approaches to conduct of business risk where they write insurance. The document needs to stay high level, principles based, and focused on overall outcomes not particular supervisory approaches, so as to recognize different but effective systems, such as both the EU and U.S. Otherwise, a layering may occur that will add costs but little in terms of needed new consumer protection. Fundamentally, the insurance system that best serves consumers is one where there is a high degree of competition and innovation and at the same time, supervision and company management assures that consumers are well treated consistent with legal standards. As our comments below suggest, the paper can be improved to reflect the need for this balance. And, we endorse the comments submitted by the Global Federation of Insurance Associations.
I - General Comment on Background and purpose section:		
2 - Comment on paragraph 2:		
GFIA	international	It is important to recognize that poor business conduct is not necessarily systemic. As such, GFIA suggests that the final sentence should read: "Not only does poor conduct affect individual customers, it can, *if systemic*, impact whole markets, the reputation of individual insurers and consumer confidence in the sector as a whole."
Zurich Insurance Group	Switzerland	As drafted, this paragraph attempts to draw from CoB issues that occurred in the banking sector and then apply them to the insurance sector in order to establish a relationship between CoB risk and systemic risk. We question the validity of such a relationship especially without any specific references or examples. We suggest that the distinctions between the two industries be incorporated in this paragraph and generally throughout the paper.
3 - Comment on paragraph 3:		
Zurich Insurance Group	Switzerland	Financial sector supervisors need to ensure that supervisory frameworks adequately address both prudential and conduct of business risks. In doing so it is critical for supervisors to take a holistic approach to assessing the risk exposures of the insurer or the intermediary and to recognize the differences and inter-linkages between the two. Zurich suggests revising Paragraph 3 to read as follows - Financial sector supervisors need to ensure that supervisory frameworks adequately address both prudential and conduct of business risks, *ensuring a holistic approach to assessing the totality of an insurer or intermediary's risk profile, thereby recognizing the differences and inter-linkages between the two.*
4 - Comment on paragraph 4:		
UK FCA	UK	Suggest adding a final sentence: “The main difference between the two types of supervision might be described as the lens through which the supervisory authority looks at a firm or market: the prudential approach looks through a capital and solvency lens, while the conduct supervisor looks at the firm through the lens of the consumer.”

5 - Comment on paragraph 5:		
Zurich Insurance Group	Switzerland	Zurich suggests replacing the last sentence with the following - However, there may be benefit to having more discussion specific to the management and/or mitigation of conduct of business risks.
UK FCA	UK	Suggest adding at the end: "It may be more efficient, having identified the source of a particular risk, to challenge firms on whether they should be undertaking the activity which gives rise to the risk in question than for both firm and supervisor to dedicate resources to mitigation measures."
II - General Comment on Conduct of business risk and its impact section:		
Zurich Insurance Group	Switzerland	While Zurich agrees that there may be, at times, a connection between conduct of business risk and prudential risk, we believe that the definition should focus solely on the effect on consumers. This does not exclude the notion that there should be coordination between conduct and proudential supervisors. However, poor conduct at a firm is not likely to be a source of financial instability especially for the entire sector in a country. We believe that assigning credibility to this questionable relationship has the effect of diluting the more important messages with respect to CoB risk to customers. Zurich suggests revising the description as follows - Conduct of business risk can be described as the risk to customers that arises from insurers' and/or intermediaries' behaviors or business practices that do not support the fair treatment of customers.
Lloyd's	UK	We agree that it is useful to consider what "conduct of business risk" means. It is reasonable to link it to the concept of "fair treatment of customers", as the IAIS does in its various publications on this subject. "Fairness", however is an imprecise concept, incapable of objective measurement. ICP 19 suggests that there is considerable diversity in different jurisdictions' approaches to conduct regulation, reflecting their differing traditions, cultures, legal regimes and development. It would be helpful if this Issues Paper indicated whether this remains the IAIS's views on this subject, or whether it considers that a move to a more harmonised position entails less acceptance of national variations. "Fairness" can be viewed as meaning that both parties entering into a contract derive proportional benefit from it. For non-investment insurance this raises the question: what benefit do policyholders derive from an insurance policy if they do not need to make a claim, so receive no payment? Insurers point to concepts such as "peace of mind" which, although difficult to define precisely, capture the important point that policyholders are purchasing something tangible when they take out an insurance policy, namely protection. The consequences of dismissing such views and considering "fairness" solely in terms of measurable financial outcomes are unpalatable: they suggest that for many policyholders the purchase of insurance is irrational, implying that they have been misled into doing so by the nefarious practices of insurers.
9 - Comment on paragraph 9:		
Zurich	Switzerland	While Zurich agrees that there may be, at times, a connection between conduct of business risk and prudential risk, we believe that the definition

Insurance Group		should focus solely on the effect on consumers. This does not exclude the notion that there should be coordination between conduct and proudential supervisors. However, poor conduct at a firm is not likely to be a source of financial instability especially for the entire sector in a country. We believe that assigning credibility to this questionable relationship has the effect of diluting the more important messages with respect to CoB risk to customers. Zurich suggests revising the description as follows - Conduct of business risk can be described as the risk to customers that arises from insurers' and/or intermediaries' behaviors or business practices that do not support the fair treatment of customers.
12 - Comment on paragraph 12:		
GFIA	international	GFIA agrees that key differences between conduct and prudential risks will lead to different, but complementary, approaches. Although these are laid out in subsequent paragraphs, the impression given is that there is an inherent link between COB and prudential risks, which may not always be the case.
UK FCA	UK	Suggest a further sentence: “However, there are also aspects that are common to both, and key amongst these is the risk culture of the entity or group which is normally established by the ‘tone from the top’.”
13 - Comment on paragraph 13:		
Zurich Insurance Group	Switzerland	As additional clarification consistent with our suggestion for a refined definition of COB risk is to point out that prudential risk management is performed for the benefit of all stakeholders (customers, shareholders, the company itself) while conduct of business risks deal mainly with the effects on the customers.
UK FCA	UK	Suggest slight recast of the second sentence: “Conduct of business risks includes risks to which insurers and intermediaries become exposed, or could become exposed, as a result of the way in which they conduct, or intend to conduct, their business.”
14 - Comment on paragraph 14:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
15 - Comment on paragraph 15:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them. Zurich acknowledges the importance of recognizing the interaction between conduct and prudential risks but the use of "utmost" is an overstatement, we encourage the deletion of "utmost" to achieve a more balanced statement.

16 - Comment on paragraph 16:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
UK FCA	UK	Suggest an additional final sentence: “In assessing potential conduct risks both the firms and the supervisors should adopt a forward-looking approach that assesses potential risks over the full life of the products being sold, and not only at the point of sale.”
17 - Comment on paragraph 17:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
UK FCA	UK	Suggest an additional final sentence: “Unfair consumer outcomes and poor business practice impact on the daily lives of millions of financial services customers so that effective conduct of business supervision also has wider social and economic benefits that go beyond the prudential supervisory framework.”
18 - Comment on paragraph 18:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them. Zurich would suggest replacing the existing paragraph with the following - For example, unfair or misleading business practices can be symptoms of insufficient control over distribution channels, ineffective governance or internal controls. Such issues may contribute to financial difficulties whereby insurers need to reassess existing commitments or redress the mis-selling of products. In the same way, inappropriate claims payment policies can be a means to compensate for otherwise unprofitable products or other financial pressures. These pressures reinforce the need to holistically view the risk profile of an insurer or intermediary to avoid a twin-peaks situation on supervisory/regulatory approaches or duplication in the design of risk management frameworks addressing conduct and prudential risk separately.
UK FCA	UK	Suggest recast of second sentence: “They can also be signs of inappropriate governance, ineffective internal controls, or inappropriate staff incentivisation models.”
UK FCA	UK	Suggest recast of final sentence: “By identifying potential unfair customer outcomes, conduct of business supervisors can help prudential supervisors in anticipating emerging prudential concerns, and by intervening in firms’ business models they can drive improved outcomes for consumers.”
19 - Comment on paragraph 19:		

Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
20 - Comment on paragraph 20:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
21 - Comment on paragraph 21:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
22 - Comment on paragraph 22:		
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
23 - Comment on paragraph 23:		
WFII	Belgium	According to the text Conduct of business supervision addresses the balance between customers and the industry by requiring insurers and intermediaries to consider the best interest of their customers, (...). We believe that the term "best interest " here will lead to legal interpretation problems and will create legal uncertainty. The use of the word best is inappropriate in this Paper and does not accurately describe the relationship between intermediaries and consumers in the different jurisdictions around the world. The wording also disregards the possibility of having aligned interests. The word "best" should therefore be deleted in this sentence and also further on the text.
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
24 - Comment on paragraph 24:		
Insurance Europe	EU	Insurance Europe welcomes the general message on the need for appropriate coordination between conduct and prudential supervisors. Insurance Europe wishes to point out, however, that responsibility for such coordination lies with national supervisors.

GFIA	international	GFIA agrees that coordination between conduct and prudential supervisors can be useful, from two perspectives: * Possible linkages between COB and prudential risks, as noted in the paper. * To understand the possible negative prudential impacts of market conduct interventions. For example, the consequence of overly intrusive product regulation could be a requirement to hold excessive amounts of capital. Liaison between conduct and prudential supervisors could help both to be more aware of the impact of regulatory actions.
Zurich Insurance Group	Switzerland	Paragraphs 14-18 seem to cover the same points as 19-24, consideration should be given to combining them.
26 - Comment on paragraph 26:		
GFIA	international	The final sentence states that "it is crucial to apply both prudential and conduct considerations to an assessment of financial data". The possible implications of this could be problematic for jurisdictions where prudential and COB supervision is divided. As well, as noted earlier in the paragraph, prudential supervisors use objective indicators in assessing financial data. COB supervisors, on the other hand, will rely more on subjective and more holistic approaches.
Zurich Insurance Group	Switzerland	The last sentence in this paragraph is unclear as to whether the paper intends this task for the company's management or for the supervisor. It is Zurich's view that consideration of prudential and conduct aspects in the assessment of financial data is a typical management task. Therefore, we encourage that the IAIS make this explicit through appropriate language.
UK FCA	UK	Suggest new final sentence: “Appropriate and effective competition in any market tends to drive out those who make excessive profits to the detriment of the customers, and an assessment of whether there is adequate competition in the market to benefit the customer is a market assessment that can be useful for the supervisor.”
27 - Comment on paragraph 27:		
Insurance Europe	EU	Insurance Europe welcomes the fact that the paper acknowledges differences in local markets, notably because supervisors in each jurisdiction should thoroughly assess their own regulatory, structural and cultural environment, as well as their existing powers, before considering any new regulation. Any regulation needs to be effectively assessed in the context of the broader national regulatory framework. It must be cost-effective, balanced and in tune with the needs of each jurisdiction. The paper states that "monitoring of conduct of business risks needs to recognise the social and legal context of the market and the nature, scale and complexity of insurers' and intermediaries' businesses from a consumer perspective". Insurance Europe welcomes this statement and would invite the IAIS to put greater emphasis of this point throughout the paper.
GFIA	international	GFIA agrees that monitoring COB risks needs to recognize the unique social and legal context of the jurisdiction, as well as the nature, scale and complexity of businesses. This paragraph suggests a scalability and judgement assessment that, GFIA would suggest, could be more prominent throughout the paper.
28 - Comment on paragraph 28:		

UK FCA	UK	Suggest two new final sentences: "However, looking at a single entity's risk indicators or management information in isolation can be misleading. It may be necessary to consider these in comparison with their peer group, or in their market sector, in order to understand if indicators and/or trends in indicators are reasonable or not."
29 - Comment on paragraph 29:		
WFII	Belgium	The Draft Paper, and in particular in paragraphs 29-30, expresses concern with "unfair outcomes" and suggests that such outcomes may arise when a consumer has a substandard experience with an insurer or intermediary. Regulators should not be concerned with or fixated by the possibility that a consumer may have a less-than-ideal interaction with an insurance industry actor, and they should not micromanage the operation of the industry in this respect. In a competitive market, consumers have many options and are able to respond accordingly if they encounter poor service from a particular provider.
30 - Comment on paragraph 30:		
WFII	Belgium	The Draft Paper, and in particular in paragraphs 29-30, expresses concern with "unfair outcomes" and suggests that such outcomes may arise when a consumer has a substandard experience with an insurer or intermediary. Regulators should not be concerned with or fixated by the possibility that a consumer may have a less-than-ideal interaction with an insurance industry actor, and they should not micromanage the operation of the industry in this respect. In a competitive market, consumers have many options and are able to respond accordingly if they encounter poor service from a particular provider.
32 - Comment on paragraph 32:		
Insurance Europe	EU	Paragraph 32 shows the example of miss-selling of payment protection plans (PPI) in the UK as having a market-wide impact, which is then detailed in Annex II. This emphasizes the misconduct of some "firms' who sold PPI, not specifying whether they were insurers or banks: it should be clarified that the firms in question were banks.
Lloyd's	UK	The UK example of mis-selling of payment protection plans having had a market-wide impact is provided in this paragraph and detailed in Annex II. This emphasises the misconduct of "firms' who sold PPI, not specifying whether they were insurers or banks. The paper should clarify that the firms who posed higher risks were not insurers but banks, as the misconduct in question was associated with selling rather than underwriting. Our observations reflect the conclusions of the Competition Commission 2009 Market Investigation into payment protection insurance which states that (para 1.43, page 174) "..based on the bulk of the evidence that we had seen, underwriters had not earned unreasonable returns on PPI". This suggests that most of the premium and profit went to distributors, reflected in the subsequent payment of compensation.
III - General comment on Sources of conduct risks section:		
33 - Comment on paragraph 33:		
Autorite des marches financiers	Quebec	Some factors may be applicable to more than one category. It would be good to point it out. For example commissions are addressed in inherent factors (par. 37) and in governance (par. 62 - conflicts of interest).

34 - Comment on paragraph 34:		
WFII	Belgium	Last sentence: ...The need for fair, complete and appropriate product information at point of sale ... Perhaps it is better to delete the word complete as it is contrary to the behavioural economics understanding. It is said that "too much information kills information".
Zurich Insurance Group	Switzerland	Zurich acknowledges the importance of product information in the sale of financial products but in the interest of a balanced publication we suggest the deletion of "far" as a modifier.
Lloyd's	UK	Para 34 states that insurance products are "intangible' and consumers are unable to immediately assess whether the product meets (or not) their expectations or needs. It concludes that, due to their nature, "complete and appropriate product information at point of sale is therefore greater for financial products than for tangible consumer goods". An important underlying consideration is overlooked by this section: the extent to which insurance is inherently a "public good". It seems fair to say that insurance is an important part of everyday life, playing a crucial role in providing consumers with peace of mind. Though insurance products are provided in a commercial context, both for individuals and for corporate customers, they clearly serve a wider purpose. In short, the economy and society as a whole benefits from the certainty insurance brings through: - Efficiently protecting the public through innovative risk management techniques. - Freeing up businesses and professionals from everyday risks and encouraging innovation and competition. - Relieving the burden from the state and providing comfort to individuals by providing safe, effective and affordable pension savings, protection and decumulation products that convert pension savings into retirement income. Although the purpose of taking out insurance is often intangible, the benefits it brings and risks it mitigates are a vital component of the economy. We feel the paragraph should be amended to reflect the above mentioned benefits of insurance.
UK FCA	UK	Suggest amendments as follows: "Unlike typical consumer goods, financial products such as insurance products are intangible. Customers cannot see, touch or taste the product they are purchasing and are therefore unable to immediately assess whether the product meets – or does not meet - their needs or expectations, in the way they would do if they were purchasing a physical asset. <u>An individual customer purchasing a product sold by a life insurer might not recognise until many years after the sale that the product does not actually suit their needs, for example when they move from the accumulation to the decumulation phase of the product's life cycle.</u> This adds to the complexity of insurance transactions from a customer perspective. The need for fair, complete and appropriate product information <u>that can be understood by the potential purchasers of the product</u> at point of sale is therefore far greater for financial products than for tangible consumer goods. <u>It is also important for the manufacturer to understand how to design products to meet the target market's needs throughout the life-cycle of the product, and for those who may provide advice to potential customers to have a full understanding of this."</u>
35 - Comment on paragraph 35:		

Insurance Europe	EU	This paragraph views the "benefits of insurance products" narrowly, in terms of financial pay-outs received. A key benefit of purchasing insurance is peace of mind: the purchaser knows that they have protection against the financial consequences of loss. This benefit arises immediately on purchase and remains even if the policyholder never needs to make a claim. Paragraph 35 says that "the benefits of insurance products are only realised a considerable time (sometimes many years) after the purchase". This is not true, for example for non-life policies, which are taken out for one year only and where claims will usually arise and be settled within that period.
Zurich Insurance Group	Switzerland	Zurich would suggest the deletion of the last sentence and substitute it with the following - Adequacy of information relates to the level of understanding a customer may have with respect to a certain product and the means for providing information will be an important element, and will vary between advised and non-advised sales.
Lloyd's	UK	We welcome removal of former paragraph 41 (as appeared in the previous draft Issues Paper on Conduct of Business Risk and its Management dated 22 April 2015). However, we would appreciate a revision of the information provided in paragraphs 35-36. Para 35 views the "benefits of insurance products" narrowly, in terms of financial pay-outs received. A key benefit of purchasing insurance is peace of mind: the purchasers know that they have protection against the financial consequences of loss. This benefit arises immediately on purchase and remains even if the policyholder never needs to submit a claim. Para 35 says that "the benefits of insurance products are only realised a considerable time (sometimes many years) after the purchase". This is not true of non-life policies which are usually taken out for periods of no more than one year and where claims will usually arise and be settled within that period. We suggest adjusting this paragraph to reflect the distinction between general insurance products and investment products. Regulatory requirements on the conduct of business that are appropriate for complex long-term products are not necessary in the case of non-life insurance policies such as motor, household or travel, purchased by individuals.
36 - Comment on paragraph 36:		
Insurance Europe	EU	Insurance Europe believes that the paper makes broad statements which are not fully substantiated by evidence, such as: - "insurers have adopted various distribution strategies to overcome the lack of inherent consumer demand". - "commission as a form of remuneration is seen as introducing inherent conflicts of interest" In addition, Insurance Europe wishes to propose an alignment with the description in the paper's Annex I of the risk indicator 2.7 (ie. quality of conflict of interest management) which states that if adequate procedures and governance are put in place, there will be no negative consequences resulting from conflict of interests. Insurance Europe supports the balanced approach taken in the Annex 1 which acknowledges that conflict of interests is not an inherent risk, if properly managed. Insurance Europe wishes to raises that, at EU level, the new insurance distribution directive introduces the adoption and regular review of the procedures relating to conflicts of interest, in order to ensure that any fees or commission does not have a detrimental impact. Lastly, this paragraph suggests a lack of demand of general insurance products. It makes a series of statements about consumers' alleged reluctance to purchase insurance, implying that insurers use questionable sales techniques to persuade consumers to purchase cover that they

		don't want. Contrary to what is stated, many consumers (who include businesses and professional consumers) appreciate the benefits of insurance and initiate its purchase without sales pressure from insurers. Insurance Europe would suggest the removal of paragraph 36.
Zurich Insurance Group	Switzerland	Zurich acknowledges that insurance is often more a push than a pull product, we do not agree that consumers per se are not inclined to buy insurance products and the benefit of insurance would not be immediately obvious for them. It seems rather that the nature of the situations for which insurance is useful leads to a natural apprehension to deal with such scenarios. The situation may indeed be different in countries without an insurance culture at all. Nor does Zurich agree with the statement that there is a lack of inherent consumer demand as this suggests that insurers artificially create demand where there really is none. We would suggest replacing the last two sentences as follows - Most of the population is to a greater or lesser degree aware that it needs some sort of insurance protection; however, as protection products by their very nature deal with negative situations, consumers' enthusiasm to "pull" a product may be limited. Insurers have adopted various distribution strategies to address this issue
Lloyd's	UK	The wording of para 36 (previously 40) has been slightly amended and improved. However, it continues to suggest a lack of demand for general insurance products. It makes a series of statements about consumers' alleged reluctance to purchase insurance, implying that insurers use questionable sales techniques to persuade consumers to purchase cover that they do not want or need. Contrary to this statement, many consumers (including businesses and professional customers) appreciate the benefits of insurance and initiate its purchase without sales pressure from insurers. We suggest that para 36 is either removed or substantially re-worded.
37 - Comment on paragraph 37:		
Insurance Europe	EU	Insurance Europe believes that the paper would benefit from a more neutral wording including: "persuade consumer of the need for". In addition, Insurance Europe believes that the paper would benefit from more evidenced statements in some instances such as: "In most cases, intermediaries approach prospective customers (including visiting them at their own homes)". The European insurance sector would like to stress that such an approach should not be presented as a general feature of intermediary practices.
Zurich Insurance Group	Switzerland	Similar to paragraph 36, Zurich takes issue with the language used here as it suggests that persuasion (implying: against real need) is the general approach of intermediaries to sell products. Further, as drafted it suggests a narrow approach for distribution and ignores other channels such as web-based purchasing frameworks and cases where the purchase of insurance is mandated by law. Zurich suggests replacing the 1st sentence with the following - The most common strategy is to distribute insurance products via intermediaries, and explain to the customer benefits of insurance coverage and how it addresses the customer's needs.
Lloyd's	UK	This says "In most cases, intermediaries approach prospective customers (including visiting them at their own homes or workplaces)". This is only one possible method by which insurance products are distributed. We do not think that it is the most common. Unless IAIS has evidence that this is

		the way in which most insurance policies are arranged worldwide, we suggest that this sentence is deleted.
38 - Comment on paragraph 38:		
Zurich Insurance Group	Switzerland	With respect to the essential role of the intermediary to mitigate information asymmetry risks, Zurich would add that the optimal outcome in serving a customer strikes the right balance between the amount of information and procedures directed toward an insurance customer and the cost associated with constructing and delivering that information and those procedures. The amount of information provided to a customer should not make the selling process more complex. If the appropriate balance is not struck, additional information and procedures can become so burdensome to the parties involved that the purpose behind that information and those procedures would drift farther away. That is, more is not always more but can drive less - less comprehension, less consideration and less of a basis from which to make a sound decision. The most effective approach is to identify what really matters to the consumer and deliver that information to him or her.
39 - Comment on paragraph 39:		
WFII	Belgium	According to the text (...) the traditional commission based remuneration model for insurance intermediaries can be a significant source of conduct of business risk, we do not agree with this consideration. The commission model cannot be seen as a source of conduct risk as it is none other than the payment of the intermediary for the services he provided to the consumer, services that would otherwise have been provided by the insurer. How can the mere provision of services and the remuneration for this be a risk for the consumer? We request the deletion of this paragraph or at least the highlighting of the positive features of the commission system by adding the following: The remuneration of the intermediary, being in principle commission-based with the possibility to agree fees, has been a major contributing factor to the successful and competitive development of insurance markets all over the world. Many insurance intermediaries offer the choice to the client (particulary in the business segment) to work either on a commission or a fee basis. Please allow us to refer to the following principles that the World Federation of Insurance Intermediaries adopted regarding the remuneration of insurance intermediaries. Principle 1 Every insurance intermediary has the right to be remunerated fairly for his or her services Principle 2 Any remuneration or compensation for services of an intermediary should be considered as an issue between the parties. Principle 3 Legislation or concerted market agreements limiting or imposing the rate or the means of remuneration is considered by WFII as a serious infringement of basic free market principles and would be against international market practice. Principle 4 Intermediaries should be allowed to charge fees in addition to, in lieu of, or in combination with, commissions. In such case, the customer should be informed.
Insurance	EU	Insurance Europe believes that the paper would benefit from a more neutral wording including: "significant source of conduct of business risk'.

Europe		In addition, this paragraph fails to mention that, in other jurisdictions (ie. EU), intermediaries must ensure that the sale of any insurance products is in line with demands and needs.
GFIA	international	GFIA disagrees that a commission-based remuneration model creates an inherently conflicted situation. As noted in paragraph 38, intermediaries play a pivotal role in addressing the risks faced by customers. Also, as noted in paragraphs 36 and 37, consumers are not inclined to seek out insurance.
Autorite des marches financiers	Quebec	We suggest to mention that the appearance of conflict of interest can be as harmful to the reputation risk to the insurer or the industry than the conflict of interest itself.
Zurich Insurance Group	Switzerland	While Zurich acknowledges that commission based remuneration models can be a source of COB risk, we do not agree with the (possibly unintended) implication that commission models are primarily designed to incentivize inappropriate sales and suggest to use more neutral language. Furthermore, by mentioning that some jurisdictions prohibit or limit commissions gives the impression that this is a best practice approach, a suggestion with which we strongly disagree. To address those concerns Zurich suggests replacing the existing sentence with the following - On the other hand, the traditional commission based remuneration model for insurance intermediaries can be a source of conduct of business risk. The commission model, designed to compensate sales, may create misalignment between the interests of the insurer and intermediary. (See further discussion on Conflicts of Interest in section 3.2). Any interventions to limit or restrict the commission model should be considered carefully as doing so may result in unintended consequences such as limiting consumer access to advice and product choice.
Property Casualty Insurers Association of America (PCI)	USA	We strongly disagree with the implication here that commission based systems of intermediary compensation are a significant source of conduct of business risk. This paragraph should be reworded to provide more balance.
40 - Comment on paragraph 40:		
Insurance Europe	EU	Insurance Europe believes that the paper would benefit from a more neutral wording including: "pressured into". This paragraph fails to acknowledge the benefits of bundling. Bundling of insurance products with other products or services can offer more choice for consumers, give them cost-effective access to insurance cover, and provide additional protection.
Zurich Insurance Group	Switzerland	This is a very limited and negative definition of "direct marketing"; increasingly direct marketing includes other channels like online offerings. In the spirit of achieving a well balanced paper, Zurich encourages the IAIS to also mention some of the benefits to customers that can come with tying and bundling of products, these could include

		1. Reducing potential coverage gaps - individuals tend to think that a loss will not happen to them so might select only the minimal coverage, leaving a coverage gap. 2. Reduced potential of disputes between insurers negatively affecting the customer - multiple insurers covering related exposures sets the stage for coverage disputes 3. Lower distribution costs 4.Superior risk analysis which cannot be achieved by the customer alone 5. Promotion of innovation - With a ban on tying, companies could be discouraged from innovating through low-cost product add-ons (i.e., counseling services offered in combination with the coverage)
Lloyd's	UK	Please see response to para 72 on bundling products.
41 - Comment on paragraph 41:		
Autorite des marches financiers	Quebec	The section on information asymmetries (paragraphs 41 to 51) appears to only target information before and at the time of purchase. We believe that information asymmetries also continue after the purchase of a policy. We suggest to add this precision at the end of the paragraph 41.
Zurich Insurance Group	Switzerland	Referring to perfect markets may not be particularly helpful in this paper. In addition, information asymmetry is a feature of all commercial interaction between parties and it is not clear why this should be particularly relevant for insurance products. While the paragraph seems to acknowledge that information asymmetry exists on both sides of an insurance sale, the following paragraphs only deal with situations where the insurer is perceived to have more information, with the underlying assumption that he will likely use it to the disadvantage of the customer. It even goes so far (in paragraph 42) to suggest that the insurer also has more knowledge of the customer's situation than the customer himself, which is an extreme statement. Zurich strongly encourages the IAIS to to make use of more balanced wording to cover this topic.
Lloyd's	UK	The information related to information asymmetries is incomplete. It does not mention an important factor: that the insured usually has better knowledge of the risk insured than the insurer. In other words, there are information asymmetries on both sides.
42 - Comment on paragraph 42:		
Insurance Europe	EU	As far as information asymmetry is concerned, the paper does not take account of the fact that information asymmetry occurs on both sides when an insurance cover is provided. Although the insurance pricing has become increasingly refined, it remains based on the general characteristics of

		the risks insured and insureds are better placed than insurers to understand their circumstances and the risks they want to cover themselves against.
GFIA	international	Information asymmetry can work both ways. Insurance is a good-faith contract. Not only is it important that good, clear information is available to the consumer so that they can understand the product and how it meets their needs, it is equally important that the consumer does not withhold or misrepresent information.
UK FCA	UK	Suggest an additional final sentence: “In addition, there are certain categories of consumer who might be classified as “vulnerable”, and who need more protection than others from the regulation and supervision of business conduct.”
43 - Comment on paragraph 43		
Zurich Insurance Group	Switzerland	The reference to big data is ambiguous and the paints an overly negative picture. To balance the paper, Zurich suggests that the IAIS also note some of the potential benefits for customers, e.g. more tailored insurance solutions.
Lloyd's	UK	Even if insurance pricing has become more refined, it is based on the general characteristics of risks insured and insureds are better placed than insurers to understand the specific features of a particular insured risk. Wider availability of data enables insurers to match pricing more closely to risk, in itself an advantage to customers and possibly leading to "fairer" outcomes overall. It also enables customers to compare the prices that competing insurers charge, an important customer benefit: it is far easier today for consumers to assess the products available to them than it was in the past.
44 - Comment on paragraph 44:		
Insurance Europe	EU	Insurance Europe would welcome more emphasis on the fact that the industry's conducts and market structures also bring benefits to consumers: notably regarding access to more data and technology. Wider availability of data enables insurers to match pricing more closely to risk, itself an advantage to consumers. It also enables consumers to compare the prices that competing insurers charge, an important consumer benefit. This also refers to "the growing complexity of insurance products". Evolution in distribution channels reflect consumer preferences over the purchase of insurance and should not be presented as a problem. Insurance Europe, therefore, questions the statement in paragraph 45 that "In view of these complexities, disclosure alone may not be sufficient to address conduct risks arising from asymmetry". This requires justification. Explicit product standards and the prohibition or limitation of certain types of distribution models are likely to deter innovation and freeze insurance markets at particular stages of development, benefiting firms with established market positions and harming new entrants and, ultimately, consumers.
Zurich Insurance Group	Switzerland	The paper seems to imply that there is a link between big data and complexity of products; Zurich does not believe that such a clear link exists. We agree that financial product innovation can be beneficial or not. However, market forces are best placed to deal with this issue and if the products do not create benefits then there will not be a sustainable market. Nor does Zurich understand the point that new distribution channels add complexities for consumers (other than the general point that not everyone is a digital native). Quite the opposite is true: new channels are created to make it simpler and easier for consumers. If they do not, they will not be used by consumers and will be discontinued.

Lloyd's	UK	Paragraph 44 refers to "the growing complexity of insurance products". Personal purchases of non-life insurance are predominantly of products such as motor, household, travel or health insurance: we are not aware that these products have become more complex in recent years. Changes in distribution channels reflect consumer preferences over the purchase of insurance and should not be presented as an issue. We suggest substantial revision of this paragraph.
Property Casualty Insurers Association of America (PCI)	USA	We strongly support inclusion of the first sentence. However, the rest of the paragraph needs more balance. The fact that there are choices in the marketplace–"complexities" as the paper states, may serve the interests of consumers rather than be a negative as implied.
45 - Comment on paragraph 45:		
Insurance Europe	EU	Insurance Europe would welcome more emphasis on the fact that the industry's conducts and market structures also bring benefits to consumers: notably regarding access to more data and technology. Wider availability of data enables insurers to match pricing more closely to risk, itself an advantage to consumers. It also enables consumers to compare the prices that competing insurers charge, an important consumer benefit. This also refers to "the growing complexity of insurance products". Evolution in distribution channels reflect consumer preferences over the purchase of insurance and should not be presented as a problem. Insurance Europe, therefore, questions the statement in paragraph 45 that "In view of these complexities, disclosure alone may not be sufficient to address conduct risks arising from asymmetry". This requires justification. Explicit product standards and the prohibition or limitation of certain types of distribution models are likely to deter innovation and freeze insurance markets at particular stages of development, benefiting firms with established market positions and harming new entrants and, ultimately, consumers.
GFIA	international	This paragraph notes that an interventionist approach towards products is sometimes taken to address information asymmetry risks. GFIA is concerned that this starts to move down a dangerous path and believes that supervisors should take great care to not blur the line between supervision and micro-management of businesses. The responsibility for running insurers ultimately resides with their management and Boards. Supervisory micro-management can impede a competitive marketplace and curb innovation, both of which could be to the detriment of consumers and result in market stagnation.
Zurich Insurance Group	Switzerland	This paragraph proposes that a more interventionist approach, e.g. by setting explicit product standards and limiting distribution channels for certain types of products, could be an appropriate solution to deal with information asymmetry. Zurich strongly disagrees and notes the following concerns: 1. The paragraph creates the impression that this is a best practice approach, exposing supervisors who may decide otherwise to unfair criticism, making it more likely that the approach, even if not merited, would be adopted. 2.The suggested approach carries the risk of limiting innovation and competition, to the detriment of the consumers. 3. It suggests further that a supervisor somehow is in a better position to decide which products and which distribution channels are best suited to serve consumers and manage their risks.

		4. The paragraph paints a very negative and biased view of insurers and intermediaries motives. 5. Information asymmetry is not always in favor of the insurer, "potential insureds" may be in possession of information not available to the insurer, e.g. condition of property, health conditions. Zurich strongly suggests that the entire paragraph be deleted from the paper
Lloyd's	UK	We question the statement in paragraph 45 that "In view of these complexities, disclosure alone may not be sufficient to address conduct risks arising from asymmetry". This requires justification. The paragraph appears to advocate explicit product standards and the prohibition or limitation of certain types of distribution models. Such so-called remedies are likely to deter innovation and freeze insurance markets at particular stages of development, benefiting firms with established market positions and harming new entrants and, ultimately, consumers. We do not support the call for a more interventionist regulatory approach to address the inherent risks of information asymmetries. This is not in line with the statements made in paragraph 105 about the need to avoid "inflexible or too detailed regulation". We encourage the adoption of a regulatory line, as advocated in paragraphs 104 and 105, which is not based on "tick-box' compliance.
47 - Comment on paragraph 47:		
GFIA	international	While GFIA wholeheartedly supports education and increasing the financial literacy of consumers, it finds some of the language in this paragraph unnecessarily biased. The second sentence reads that where financial literacy levels are low, "…the risks of exploitation of that asymmetry are increased". GFIA suggests the use of more neutral language.
Zurich Insurance Group	Switzerland	Zurich supports the the educational goal of increasing financial literacy. However, we take issue with some of the negative language used in paragraph 47. We are particularly concerned that possibly well intended regulation triggered by this paper could prove to be counter productive as it may deter insurer attempts to help individuals to manage their risks, especially in underserved markets.
49 - Comment on paragraph 49:		
Zurich Insurance Group	Switzerland	The paper emphasises the need for greater financial education and literacy but only offers provision of information as a solution, which is not the same as education. The paper should note that providing customers with information on its own will not address the described information asymmetry risks. A comprehensive solution is beyond the scope of this paper.
50 - Comment on paragraph 50:		
GFIA	international	GFIA agrees that financial education alone is not a panacea, and that disclosure and advice are key.
53 - Comment on paragraph 53:		
WFII	Belgium	Paragraphs 52 to 56 are all about consumer behaviour. We therefore believe that the last sentence of paragraph 53 is out of place and has a tone that is anti-industry. We request the deletion of this sentence.

Insurance Europe	EU	Insurance Europe believes that the paper would benefit from a more neutral wording including: "take advantage of".
GFIA	international	This paragraph, along with paragraphs 54 and 56, come across as suggesting fairly strong anti-industry biases and appears to use behavioural economics to support such biases. GFIA find this extremely concerning and would urge the IAIS to consider a more neutral approach. Paragraph 53 states: "This raises the prospect of insurers and intermediaries designing business models to take advantage of these behaviours, rather than designing products and processes to mitigate risks arising from these behaviours". This ignores the fact that most insurers and intermediaries have cultures, practices and business models geared towards treating customers fairly and doing the right thing, which would support using the information gained from behavioural economics to improve the consumer experience.
Zurich Insurance Group	Switzerland	As currently drafted the last sentence suggests an overly and unnecessary negative view of insurers and intermediaries. As such, Zurich would propose that the sentence be deleted, however if the IAIS chooses to retain it we suggest a slight revision as follows - This creates a potential risk of insurers and intermediaries designing business models …
54 - Comment on paragraph 54:		
WFII	Belgium	Last sentence (...) without giving weight to the effect of commission or other economic incentives for the adviser (...) . As said under paragraph 39, commission is the payment of the intermediary for the services he provided to the consumer, services that would otherwise have been provided by the insurer. Commission can therefore not be seen as an "economic incentive". We ask you to change the sentence as follows: (...) without giving weight to the effect of economic incentives (other than commission) for the adviser (...)
GFIA	international	The example given in paragraph 54 suggests that consumers shouldn´t trust likeable sales people and, more generally, that behavioural biases do not have a valid place in the formation of consumer choices. GFIA is concerned that this misleads consumers. If an intermediary works to understand a consumer´s needs, to identify possible solutions and to explain those solutions in a manner in which the consumer understands, they will surely have earned the trust of the consumer. The intermediary will, in most jurisdictions, have also explained what their qualifications are and for whom they act. In GFIA's view, the suggestion that the only weight the consumer should consider is economic incentives is unfounded and potentially does a disservice to intermediaries.
Zurich Insurance Group	Switzerland	Behavioural bias is important and appropriately noted in the paper, but the range of behavioural bias categories is broader than those outlined in paragraph 54. The three covered are taken from the FCA report cited in footnote 11, refers to them as "the most relevant biases for retail markets" so they may not be the most relevant to Insurance markets. In any case, Zurich would express a preference for using the FCA's paper description for these categories.
56 - Comment on paragraph 56:		
GFIA	international	GFIA takes grave exception to this paragraph, which states that "this can cause significant problems that financial markets, left to themselves, will not solve". The Payment Protection Insurance (PPI) example is used to justify that broad statement. While that was a serious case, GFIA does not believe that extrapolating it to the entire industry and all jurisdictions is appropriate. As noted above, most insurers and intermediaries have cultures, practices and business models geared towards treating customers fairly and doing the right thing.

Zurich Insurance Group	Switzerland	While Zurich acknowledges that beharioural biases exist, there is no logical foundation in the paper to substantiate the broad statement that "markets, left to themselves, will not solve [the problems]". Also, the PPI example in paragraph 56 is not articulated well; PPI was successful because of customers' fears over the impact of loss of income, poor presentation of the product and inappropriate trust in the adviser. Those were the key behavioural biases, not lack of understanding of the product. Nor would misunderstanding the pricing of a product or the limitations of coverage be examples of behavioural bias. Zurich suggests that the paragraph be reworded to make it clearer.
58 - Comment on paragraph 58:		
UK FCA	UK	Suggest expand slightly as follows: "…..set from the top (ie the Board and Senior Management), but embedded throughout the organisation and in those who represent it."
59 - Comment on paragraph 59:		
Autorite des marches financiers	Quebec	Complaints management, policies and procedures on claims processing and a code of ethics should be included in the key factors. In addition, an accountability process regarding the fair treatment of consumers (application of policies and procedures, monitoring, satisfaction surveys, etc.) to the appropriate authorities could also be mentioned.
Zurich Insurance Group	Switzerland	Zurich agrees that the firm's culture is the key element for good conduct. We disagree, however, with the conclusion that required policies, procedures, risk management and internal controls (and likely overdoing it) will compel individuals to do the right thing. The desired culture cannot be created in this manner or put differently, culture cannot be imposed by rules but can develop only through understanding. Zurich encourages the IAIS to delete this paragraph in its entirety.
UK FSA	UK	Suggest amendments to third and fourth bullet points: • "appropriate product design (including of promotion material and policy documentation) governance or, in the case of intermediaries, appropriate product selection processes, ensure that products are designed and promoted to be suitable to the needs of target markets • remuneration and incentive policies throughout the organisation (and not just in direct sales functions) sufficiently take into account good customer outcomes and reward the embedding of good conduct culture"
63 - Comment on paragraph 63:		
WFII	Belgium	Here again we do not agree that commission is considered as a sales incentive. Once again, commission is payment for the services rendered and should not be seen as an "incentive" or a motivation to provide these services. We ask you to delete the word commission in this paragraph.
67 - Comment on paragraph 67:		

UK FCA	UK	Suggest additional bullet points: • "volume-related commissions • intermediaries being rewarded by insurers for providing other services (such as claims or complaints handling) • no requirement to disclose all remuneration which an intermediary earns from an insurer, in addition to any directly attributable to the customer as a direct consequence of a specific sale"
68 - Comment on paragraph 68:		
UK FCA	UK	Suggest additional bullet points: • "reinsurance arrangements that incentivise the insurer to sell products with more extensive policy restrictions • inadequate competition in the market for it to operate in consumers' best interests."
71 - Comment on paragraph 71:		
Lloyd's	UK	We support the statement that poor product design may result in detriment to consumers. We agree that, when an insurer intends to design a new product, it is of foremost importance that careful consideration is given to the needs and reasonable expectations of the consumers to whom the product is targeted. Therefore, an insurer's plans to devise a new product should be supported by appropriate market research and assessment of the customers' needs.
Property Casualty Insurers Association of America (PCI)	USA	We are concerned that these paragraphs (71-76) invite a too intrusive approach to the development of insurance products. Insurers should be encouraged to innovate and rapidly provide products their customers need–such as new coverage that reflects the sharing economy, cyber security or rapidly evolving commercial technology and operations.
72 - Comment on paragraph 72:		
Insurance Europe	EU	These paragraphs fail to acknowledge the benefits of bundling. Bundling of insurance products with other products or services can offer more choice for consumers, give them cost-effective access to insurance cover, and provide additional protection.
GFIA	international	This paragraph, as well as paragraph 73, discusses "bundled" products and points out some risks that may exist if insufficient information is provided. This leaves the impression that bundled products are bad for consumers. Some balance could be provided by noting that there can be convenience and cost benefits for consumers. This would provide a more balanced view, while still retaining the concerns about disclosure.
Lloyd's	UK	The paper focuses on the negativities of bundling products, failing to mention the benefits of such products to consumers. It is necessary to distinguish between "bundling" - where more than one type of insurance cover is provided in a single package - and "tying" - where insurance is provided alongside non-insurance products or services. When insurance products are offered "in a package" they provide a range of protections, such as household or commercial combined policies. These are cost-effective methods of providing individuals and small businesses with the protection they require. In our view, it would be unfortunate to introduce new and unnecessary regulations on their provision.

		We do not favour initiatives to amend the regulatory perimeter for the provision of such products, as it would hamper insurers' ability to provide them and thus limit customers' choices. "Tying" raises different considerations. We believe that an insurer must take particular care when designing an add-on product to ensure it can provide cover on which customers can realistically claim and that there must be clarity around the pricing and conditions.
73 - Comment on paragraph 73:		
Insurance Europe	EU	These paragraphs fail to acknowledge the benefits of bundling. Bundling of insurance products with other products or services can offer more choice for consumers, give them cost-effective access to insurance cover, and provide additional protection.
Zurich Insurance Group	Switzerland	Zurich finds the paragraph as very negative with regard to add-ons. Providing a range of product options can play an important role in helping customers to receive products that meet their needs. The salient point here is that customers need clear and timely information about any options and the benefits as well as the associated costs.
74 - Comment on paragraph 74:		
Autorite des marches financiers	Quebec	When developing the product, attention should be paid to the identification of the minimum information required to select adequate risk.
75 - Comment on paragraph 75:		
Zurich Insurance Group	Switzerland	The comment on "one size fits all" products needs to be balanced with the need to keep products simple to make it easier for customers to understand them. In addition, it is in the best interest of an insurer to design products for target markets. If not, the firm will have poor sales, high lapses or both, neither of which is in the interest of the insurer or policyholder.
76 - Comment on paragraph 76:		
UK FCA	UK	Suggest a new final sentence: “Clear and open communication through appropriate promotional materials and policy documentation should be considered at the product design stage.” Alternatively, this might be a standalone new paragraph 77.
77 - Comment on paragraph 77:		
Insurance Europe	EU	Assessment of poor underwriting practices must consider the inherent prudential element. Underwriting is an intrinsic part of an insurer's operations and underwriting risk is an important element of prudential regulation.

Zurich Insurance Group	Switzerland	In many instances where no initial individual underwriting is performed, the reason is that doing so would make the offering uncommercial, i.e. the product would not be available in the market. So the question is: is it better to leave underserved markets underserved or to attempt to develop solutions with beneficial products to customers? Zurich leans towards the latter.
Lloyd's	UK	It is a truism to say that "Poor underwriting practices could result in increased risk to the insurer." Important points to consider are: what is meant by "poor"; whether "poor underwriting practices" means the same in conduct as in prudential regulation and what useful insights can be provided by looking at such practices from a conduct regulation point-of-view. Underwriting is an intrinsic part of an insurer's operations and underwriting risk is an important element of prudential regulation. Paragraph 77 suggests that proper risk assessment and setting premiums reflecting individual risk profiles are matters of customer fairness. We agree that these are sensible business practices for an insurer to adopt. However, the link to "fair treatment of customers" has to be made and depends on what "fairness" means, a point we raise earlier. Is the IAIS saying that risk-based premiums are , but this is not on the grounds of fairness and customers may prefer cruder underwriting approaches on the grounds of cost. "Underwriting at the claims stage" should be considered as part of claims management, as it entails the application of inappropriate conditions to the payment of a claim.
78 - Comment on paragraph 78:		
Insurance Europe	EU	This paragraph fails to acknowledge that not all consumers need or want advice. It is important that consumers should be able to continue to purchase any insurance products without advice. In many cases, consumers do not need or want advice and any restrictions could interfere with consumer choice, and hamper their ability to access products if they were not in a position to afford such advice. In any event, even where sales are carried out without advice, all relevant information requirements will still be followed.
Lloyd's	UK	This paragraph does not take account of the distinction between investment/life insurance products and general insurance products. We believe the paper should reflect such differentiation, as customers who intend to purchase general insurance products can gather the relevant information about features and consequences of products online and thus do not require specialist advice.
79 - Comment on paragraph 79:		
GFIA	international	This paragraph, as well as paragraph 78, discusses the sale of products without advice. GFIA is concerned that some of the approaches suggested in paragraph 79 could be seen as overly paternalistic and could encroach on the consumer´s freedom of choice. If consumers choose to purchase through a non-advice channel, GFIA agrees that measures need to be taken to provide good information and ensure that the customer is in a position to make an informed decision. However, consumers should not be forced to obtain (and pay for) advice where they neither require nor desire it.
Autorite des marches financiers	Quebec	With regards of alternative measures, we suggest to consider the following element: Providing consumers with passive access to advice or online information might be not sufficient. Consumers shall also be aware of the importance of advice. Before beginning an online process, disclosure stressing out the importance of advice and means to obtain it should be given to the consumer.

		We also suggest to remind the importance of putting a process in place in order to provide information to customers after the purchase of a product.
Lloyd's	UK	This paragraph does not take account of the distinction between investment/life insurance products and general insurance products. We believe the paper should reflect such differentiation, as customers who intend to purchase general insurance products can gather the relevant information about features and consequences of products online and thus do not require specialist advice.
82 - Comment on paragraph 82:		
Insurance Europe	EU	Insurance Europe wishes to point out that some of the risks listed can, in some instances, be intensified by the regulators and supervisors. For instance, a number of EU regulations currently debated at EU level, risk providing consumers with information that provides no benefit to them (e.g. duplications for instance) when choosing insurance products.
Office of the Commissioner of Insurance China Hong Kong	Hong Kong	We agree that there is limitation in the regulatory effectiveness of requiring a customer to make declaration that he understands information provided to him (see last sentence of para. 82 of the Paper on p.20). An in-depth analysis of alternative regulatory approaches/requirements or measures to offset such limitation will be useful. Post-sale calls to policyholder, conducted by a third party other than the responsible sales intermediary, to confirm policyholder's understanding of the policy he has procured would be a useful measure. In Hong Kong, post-sale calls measure has been adopted for sale of unit-linked policies to offset the limitation of customer declaration
Property Casualty Insurers Association of America (PCI)	USA	We are concerned that this creates an impossible burden on insurers or any product or service supplier. In all cases, insurers should comply with the applicable legal standards and be encouraged, but not mandated to go beyond to understand the particular needs and capabilities of customers.
85 - Comment on paragraph 85:		
Zurich Insurance Group	Switzerland	Unlike their in-house [employee] sales force, insurers do not have full direct control over most of their intermediaries. Ensuring that the intermediary staff's knowledge remains current is the obligation of the intermediary, not of the insurer. If this is the intention of the wording it should be stated more clearly.
86 - Comment on paragraph 86:		
Autorite des marches financiers	Quebec	We suggest to split "Advertising and product disclosure" (par. 86 to 90). As indicated in paragraph 86, the main purpose of advertising is to attract customers to a product, to encourage them to purchase. In paragraph 90, product disclosure is drafted with the aim of empowering customers to make well informed purchase decisions. Therefore, since these seem to be two distinct concepts, the subtitle "Advertising" could be placed over

		paragraph 86, and "Product disclosure", over paragraph 90.
87 - Comment on paragraph 87:		
UK FCA	UK	Suggest extending the last sentence: "Risk can also arise where different disclosure formats make insurance product features difficult to compare and where advertising or other pre-contractual materials are not regularly reviewed and kept up-to-date."
90 - Comment on paragraph 90:		
Autorite des marches financiers	Quebec	At the end of the paragraph, we suggest to add : The disclosure system established by the institution should allow consumers to determine whether the product continues to suit their needs and expectations.
94 - Comment on paragraph 94:		
Autorite des marches financiers	Quebec	1) About claims rejection data, it could be interesting to specify "claims rejection data (either total or partial)". We think that it makes a best link with paragraph 91 that addresses the prudential risk and conduct risk components (differences and interlinkages between both). 2) Furthermore, we would suggest to add, after paragraph 94, a subsection on "Complaints management", considering the importance of this topic in COB risk management. The text could be taken from paragraph 2.17 of Section 2 of Annex 1 "Complaints data and processes". For example, the customer complaints analysis can reveal a product design problem, a misidentification of the necessary information to the target market or the mistraining of the staff responsible for the sale of the product.
95 - Comment on paragraph 95:		
Office of the Commissioner of Insurance China Hong Kong	Hong Kong	For the part in relation to outsourcing, an in-depth analysis of regulatory approaches for cold calling will be useful. Besides outsourcing, conduct of business risks are also associated with referral of business to insurance intermediaries by insurance intermediaries and non-insurance intermediaries. Issues about such business referral are not covered in the Paper.
Autorite des marches financiers	Quebec	We suggest to specify in this paragraph that the insurer is ultimately responsible for the activities outsourced. This notion is implicit in the text, but we believe it would be appropriate to mention it expressly.
Zurich Insurance Group	Switzerland	Zurich takes the position that it is not realistically feasible for an insurer to "abdicate" its responsibilities by outsourcing to a third party, the insurer/intermediary retains ultimate responsibility regardless of the outsourcing arrangements.

UK FCA	UK	Change comma to full stop at the end.
98 - Comment on paragraph 98:		
Insurance Europe	EU	Insurance Europe would welcome more emphasis on the benefits of competition for consumers.
GFIA	international	This paragraph leaves the impression that any type of competition (too much or too little) is bad. In fact, competition and innovation provide positive benefits for consumers, in terms of product choice and value and price. It is GFIA's view that the paper should recognize this. Instead, it seems to imply that the only way to protect consumers is through restrictions.
Property Casualty Insurers Association of America (PCI)	USA	These paragraphs (98 & 100) seem to be advocating the position that competition is bad for consumers. We think the contrary is true and that a better balance should be struck between supervision and competition, as both are needed to best serve consumers.
99 - Comment on paragraph 99:		
GFIA	international	While GFIA agrees that supervisors need to be alert to systemic issues that call for "collective action", it would suggest that they also need to exercise caution, so that they don´t extrapolate a single case into a systemic risk and/or move too quickly to interfere with competitive market forces which are generally understood to be positive for consumers.
100 - Comment on paragraph 100:		
GFIA	international	As with paragraph 98, this paragraph leaves the impression that competition harms consumers. Competition and innovation, and hence consumer choice, are important in benefitting consumers and contribute to consumer protection. GFIA believes that a balance must be struck that protects consumers from abuses, but also allows competition and innovation to thrive.
105 - Comment on paragraph 105:		
Lloyd's	UK	We support having appropriate regulation in conduct of businesses. We share the IAIS's view that burdensome regulation can create unnecessary barriers to new entrants and hinder competition for market participants. We are supportive of a regulatory approach which is not based on tick-box compliance model; instead, a fair treatment of customers must be embedded in a business culture and its values. We believe the overall paper should be in aligned to the principles of regulation based on a regulatory approach focused on fair customer outcomes.
106 - Comment on paragraph 106:		
Insurance Europe	EU	Insurance Europe would welcome more emphasis on the fact that the industry's conducts and market structures also bring benefits to consumers notably regarding innovative digital practices.

107 - Comment on paragraph 107:		
Insurance Europe	EU	This paragraph fails to acknowledge that not all consumers need or want advice. It is important that consumers should be able to continue to purchase any insurance products without advice. In many cases, consumers do not need or want advice and any restrictions could interfere with consumer choice, and hamper their ability to access products if they were not in a position to afford such advice. In any event, even where sales are carried out without advice, all relevant information requirements will still be followed.
IV - General Comment on Conduct risk management section:		
113 - Comment on paragraph 113:		
UK FCA	UK	Suggest extend the last sentence: "The classification of risk is important, as it will help in the determination of the sources of risk and whether the activity giving rise to the risk should be curtailed or ceased in its entirety, as well as dictate the type of risk mitigation measures applied if the activity is continued."
115 - Comment on paragraph 115:		
Zurich Insurance Group	Switzerland	Zurich concurs with suggestion that viewing conduct of business only through the lens of reputation may lead to sub-optimal outcomes. We also note that the paper seeks to address these risks through increasing levels of regulation. Inevitably, the firm's focus will principally be on avoiding regulatory infractions as opposed to providing outstanding customer experiences and outcomes. Such an outcome is, therefore, counterproductive to creating a positive, customer oriented culture
116 - Comment on paragraph 116:		
Zurich Insurance Group	Switzerland	Zurich concurs with suggestion that viewing conduct of business only through the lens of law and regulation is likely to lead to sub-optimal outcomes. We also note that the paper seeks to address these risks through increasing levels of regulation. Inevitably, the firm's focus will principally be on avoiding regulatory infractions as opposed to providing outstanding customer experiences and outcomes. Such an outcome is, therefore, counterproductive to creating a positive, customer oriented culture.
V - General Comment on Supervisor's role section:		
119 - Comment on paragraph 119:		
Zurich Insurance Group	Switzerland	Zurich views the creation of CoB risk profiles as overly prescriptive for an issues paper and would suggest modifying the last sentence be replaced with the following - Supervisors need to take conduct of business risks into account when assessing the "riskiness' of insurers and intermediaries.
120 - Comment on paragraph 120:		

National Association of Insurance Commissioners	USA	The concept of a forward-looking approach is introduced in this paragraph but it could be enhanced with some additional description. A number of indicators that would be useful with a forward-looking approach and help explain this concept are already captured in the Annex - Indicators of Inherent Risk. Suggest providing a cross-reference at the end of this paragraph would be helpful to the reader: "Conduct of business supervision can benefit from a forward-looking approach that seeks to identify and address potential risks at an early stage, before they become significant. This involves making forward-looking judgements regarding the likelihood of conduct of business risks crystallising and the most effective supervisory response to pre-empt customer prejudice. Annex I provides some examples of indicators of inherent risk that a supervisor may find useful in taking a forward-looking approach."
124 - Comment on paragraph 124:		
UK FCA	UK	Suggest amendment:"….distribution channels. They can also be signs of a poor or inappropriate conduct culture within the insurer, inappropriate governance and/or ineffective assurance functions, including internal controls. Such issues can trigger financial difficulties where insurers need to reassess existing commitments or provide redress for mis-sold products. As discussed earlier, inappropriate remuneration and incentive policies can lead to the selling of products that do not deliver fair outcomes, although the discovery and consequences of mis-selling may only arise in the future. Ultimately such issues impact on the customers' trust, and potentially the viability of the sector."
126 - Comment on paragraph 126:		
Insurance Europe	EU	This paragraph seems to be promoting granular market surveillance. There needs to be an acknowledgement that, while this may be appropriate in some cases, it will not be in others. This paragraph should rather be arguing for a risk-based approach.
127 - Comment on paragraph 127:		
Insurance Europe	EU	Insurance Europe welcomes the general message on the need for appropriate coordination between conduct and prudential supervisors. Insurance Europe, however, wishes to point out that responsibility for such coordination lies with national supervisors.
Zurich Insurance Group	Switzerland	If the meaning of "appropriate" coordination is "no duplication" (of information gathering, follow-up questions, analysis, etc.), but rather utilizing the work performed by the other agency, Zurich is in full agreement and likewise views appropriate coordination as an imperative. What needs to be avoided, however, is the situation in which one regulator informs another of risk areas they have detected and as a result both investigate the same topic (probably in slightly different ways) creating extra work and costs (for the regulators and ultimately the insurer) that will be passed on to policyholders in the form of higher premiums.
131 - Comment on paragraph 131:		
Zurich Insurance Group	Switzerland	Zurich recommends a more neutral tone by replacing the last two sentences with the following - In addition, in order to understand the financial aspects of culture and behavior in organisations, conduct of business supervision requires sufficient quantitative financial expertise to understand drivers of profit and cost.
134 - Comment on paragraph 134:		

Zurich Insurance Group	Switzerland	The forward-looking information and, particularly, explicit messages concerning the supervisor's expectations of how companies should engage and react to the analysis are a source of concern. Careful consideration must be given to not setting the threshold for emerging risks very low and the bar for expectations very high. Such a scenario could lead to unnecessary cost increases for firms, increased profit pressures (a conduct risk) and diverts the focus from improving customer experiences and value. If not done carefully, such practices can be a source of counterproductive activity.
UK FCA Box after 134	UK	Add: "For 2015/16 this risk outlook is embedded within the Business Plan published by the FCA."
135 - Comment on paragraph 135:		
Zurich Insurance Group	Switzerland	The forward-looking information and, particularly, explicit messages concerning the supervisor's expectations of how companies should engage and react to the analysis are a source of concern. Careful consideration must be given to not setting the threshold for emerging risks very low and the bar for expectations very high. Such a scenario could lead to unnecessary cost increases for firms, increased profit pressures (a conduct risk) and diverts the focus from improving customer experiences and value. If not done carefully, such practices can be a source of counterproductive activity.
136 - Comment on paragraph 136:		
Zurich Insurance Group	Switzerland	The forward-looking information and, particularly, explicit messages concerning the supervisor's expectations of how companies should engage and react to the analysis are a source of concern. Careful consideration must be given to not setting the threshold for emerging risks very low and the bar for expectations very high. Such a scenario could lead to unnecessary cost increases for firms, increased profit pressures (a conduct risk) and diverts the focus from improving customer experiences and value. If not done carefully, such practices can be a source of counterproductive activity.
UK FCA	UK	Suggest additional bullets: • "presentations to firms, trade bodies and associations • consultation papers and policy statements • other publications, such as handbooks, guidance and best practice, and website presence"
VI - General Comment on Conclusion Section:		
GFIA	international	The conclusions are wrapped around the linkage between prudential and COB risks. GFIA wonders if that gives undue weight to the linkage. There may not always be a linkage, yet COB risks are still important to recognize and mitigate.
International Actuarial Association	International	We strongly agree that a very important tool is to "follow the money" by means of assessment of sources of profits and sales growth. Regulations/standards related to suitability and disclosures have been established, for example, in the U.S. for many products. There is even a requirement for the actuary to certify that sales illustrations used for universal life insurance products meet a set of defined sustainability criteria.

		Other national requirements at a high level include: i. France - There is an obligation called "devoir de conseil" and a dedicated recommendation of the supervisory authority on that topic. ii. Japan - Disclosure relating to products and checking for suitability of policyholders are required for certain products. Details are specified by the supervisory guidelines of the FSA. iii. Portugal - There are requirements for disclosure (risk, commission, etc.) and for unit-link products, a company has to validate the suitability for the policyholder. iv. Australia - Sales illustration rules prevent unrealistic policy projections have been implemented. v. South Africa - In addition to policy protection rules that include disclosure requirements, they are implementing TCF ("Treating Customers Fairly"). The 6 outcomes of TCF are: 1. Customers can be confident they are dealing with firms where TCF is central to the corporate culture; 2. Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly; 3. Customers are provided with clear information and kept appropriately informed before, during and after point of sale; 4. Where advice is given, it is suitable and takes account of customer circumstance; 5. Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect; and 6. Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint. Expanding on the above, it is and has often been the province of the actuary by training and background to assess the long term sustainability of a product with its options and guarantees, along with the company management strategy for that product. Should there be more mention of the role actuaries can play here in disclosing and assessing the long range sustainability for the various stakeholders? Lastly, the ORSA is an invaluable resource for assembling the company's views on emerging risks, including the risks discussed in this paper.
139 - Comment on paragraph 139:		
Zurich Insurance	Switzerland	Zurich offers the following comments on the key messages.

Group		1. Bullet 1, sub-bullet 1: As suggested in Paragraph 9 Zurich believes that the description of CoB should be restricted to the impact on consumers. In line with this, consumer trust and industry reputation should not have such prominence in the summary. Please give consideration to the following replacement for this bullet - conduct of business risks can generate consumer detriment, and as a result also impact the financial performance and, in extreme cases, stability of insurers and intermediaries. 2. Bullet 1, sub-bullet 2: this may be relevant to the banking sector but is not so for insurance, we strongly recommend that it be deleted from the paragraph. 3. Bullet 3, sub-bullets 2 and 3: Zurich disagrees with these conclusions as they introduce an unnecessary level of granularity and risk being counterproductive; we suggest the bullets be deleted. 4. Bullet 4, sub-bullet 2: This recommendation is too prescriptive for an issues paper and should be deleted.
140 - Comment on paragraph 140:		
Insurance Europe	EU	Insurance Europe believes that the paper would benefit from a more neutral wording including: "generate major consumer detriment".
Zurich Insurance Group	Switzerland	Zurich offers the following comments on the key messages. 1. Bullet 1, sub-bullet 1: As suggested in Paragraph 9 Zurich believes that the description of CoB should be restricted to the impact on consumers. In line with this, consumer trust and industry reputation should not have such prominence in the summary. Please give consideration to the following replacement for this bullet - conduct of business risks can generate consumer detriment, and as a result also impact the financial performance and, in extreme cases, stability of insurers and intermediaries. 2. Bullet 1, sub-bullet 2: this may be relevant to the banking sector but is not so for insurance, we strongly recommend that it be deleted from the paragraph. 3. Bullet 3, sub-bullets 2 and 3: Zurich disagrees with these conclusions as they introduce an unnecessary level of granularity and risk being counterproductive; we suggest the bullets be deleted. 4. Bullet 4, sub-bullet 2: This recommendation is too prescriptive for an issues paper and should be deleted.
UK FCA	UK	Second bullet, first sub-bullet, suggest: "….the insurer's or intermediary's <u>conduct culture,</u> governance and business…."
UK FCA	UK	Fourth bullet, suggest new first sub-bullet: o "the management of conduct of business risk should be owned at Board level, with appropriate accountability arrangements"

UK FCA	UK	Fifth bullet, suggest recast of second sub-bullet: o "conduct of business supervision goes beyond prudential supervision as it considers the risks transferred to the insurer, the risks remaining at customer level or in some cases transferred to the customer, and also the methods through which risks are retained or transferred"
Annex I - General Comment on Annex I:		
WFII	Belgium	Annex 1, paragraph 2.17, bullet 11 is unreadable.
Insurance Europe	EU	Insurance Europe supports the caveat included at the forefront in Annex I on conduct of business risk indicators. Insurance Europe would welcome the IAIS paper to highlight the difficulty of identifying and promoting any one element as a definitive risk indicator or metric even further throughout the document. Within each of the risk indicators listed, it would be also useful to have further caveats added either in Annex 1. As a particular example, in the "profitability" section, it should be highlighted that only in some circumstance, could high profit indicate products which may (or may not) offer poor value. The approach currently taken in the paper implies the existence of a "fair return" on insurance, which, if exceeded, means that profits are excessive, an approach which does not really suit the free markets functioning. For some product lines, such as catastrophe insurance, profitability cannot be judged on the basis of a single year, but has to be assessed over a much longer period. Another example is the description of the "use of "big data" indicator which does not consider the advantages that big data analytics could bring both to insurers and consumers. In the insurance sector, big data analytics allow for new service propositions, better personalisation of services and better understanding/management of risks which in turn allows insurers to better address consumers' needs. It is Insurance Europe's view that this should be acknowledged. The inappropriateness of some of the business risk indicators in Annex 1 to wholesale insurers and reinsurers should also be noted.
GFIA	international	The introduction to the Annex is, on the whole, balanced, pointing out that these are examples and that supervisors should develop their own indicators while considering their legal system and culture. However, it could be clearer, both in the introduction and throughout the Annex, that it is difficult to identify any one element as a definitive risk indicator or metric and further, that all indicators in the Annex may not apply to all jurisdictions, and each supervisor should mix and match the factors that are relevant to their jurisdiction. As a general observation, the descriptions of their various indicators and potential implications identify areas that "may" create risk and positive actions that supervisors can look for that manage or mitigate risks. An outlier to this is 1.5 where it states "the quality of disclosure…may indicate information asymmetry risk". To be consistent with the approach otherwise used, the IAIS may wish to state "the quality of disclosure…may mitigate information asymmetry risk". Likewise, 1.4 (use of "big data") states only this tool "may be used to unfairly take advantage of behavioural biases". This doesn´t recognize that it is more likely to be used to develop products that meet customer needs. (Please see our comments under paragraph 53.) And finally, we don´t find profitability (2.13) as a robust unit of measure. High profitability can indicate both good value and poor value, depending on the situation.
International Actuarial	International	The IAA appreciates the way how conduct of business risk indicators are addressed in Annex I. The approach taken to identify and explain issues or focus areas for supervisors to consider is appropriate for this type of risk. We are concerned quantitative assessments for the conduct of

Association		business risks may not be valid for a wider range of markets and insurance products.
Annex II - General Comment on Annex II:		
Insurance Europe	EU	Paragraph 32 shows the example of miss-selling of payment protection plans (PPI) in the UK as having had a market-wide impact, which is then detailed in Annex II. This emphasizes the misconduct of some "firms" who sold PPI, not specifying whether they were insurers or banks: it should be clarified that the firms in question were banks.
Lloyd's	UK	We believe that reference to UK PPI is inaccurate. As previously noted, para 32 provides the UK example of mis-selling of payment protection plans having had a market-wide impact, which is detailed in Annex II. This emphasises the misconduct of "firms' who sold PPI, not specifying whether they were insurers or banks: it should be clarified that the firms in question were banks. The Competition Commission 2009 Market Investigation into payment protection insurance concluded (para 1.43, page 174) "..based on the bulk of the evidence that we had seen, underwriters had not earned unreasonable returns on PPI". This suggests that most of the premium and profit went to distributors, reflected in the subsequent payment of compensation. The misconduct in question refers to the selling stage other than the underwriting process.