



**IAIS**

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS

**PUBLIC**

# **Peer Review of Conduct of Business Supervision relative to the standards set out in Insurance Core Principle 19**

**June 2021**

**About the IAIS**

The International Association of Insurance Supervisors (IAIS) is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard setting body responsible for developing principles, standards and other supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators, and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB), member of the Standards Advisory Council of the International Accounting Standards Board (IASB), and partner in the Access to Insurance Initiative (A2ii). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

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This document was prepared by the IAIS Expert Team of the Peer Review Process on ICP 19 in consultation with IAIS Members.

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## Executive summary

1. This report provides the aggregate assessments results and observations from the IAIS Peer Review Process (PRP) on the thematic topic of Conduct of Business, which relates to Insurance Core Principle (ICP) 19.<sup>1</sup>
2. A total of 73 authorities participated in the PRP, of which 22 responses came from IAIS Members in Financial Stability Board (FSB) jurisdictions and 30 responses came from IAIS Members in the Organisation for Economic Co-operation and Development (OECD). Both figures include the four United States (US) Member states that participated. Every IAIS Region was represented.<sup>2</sup>
3. The assessment questionnaire was developed by the PRP Expert Team and divided into two sections, Section 1 (Insurers) and Section 2 (Intermediaries). The ICP 19 (Conduct of Business) PRP questionnaire consisted of 109 questions in total, covering in Section 1 the 13 standards applicable to the supervision of insurers and in Section 2 the 10 standards applicable to the supervision of intermediaries.
4. The summary results of Members (by nature of jurisdiction and based on the final individual reports of each Member) indicate:

ICP 19 results	FSB jurisdictions		Other OECD jurisdictions <sup>3</sup>		Other jurisdictions		Total respondents	
	Insurers	Intermediaries	Insurers	Intermediaries	Insurers	Intermediaries	Insurers	Intermediaries
<b>Observed</b>	10	9	1	2	5	7	16	18
<b>Largely Observed</b>	12	12	12	10	28	21	52	43
<b>Partly Observed</b>	0	1	0	1	5	10	5	12
<b>Not Observed</b>	0	0	0	0	0	0	0	0
<b>Not Applicable</b>	0	0	0	0	0	0	0	0
<b>Total</b>	22	22	13	13	38	38	73	73

**Table 1.1**

5. Overall, the observance rate for ICP 19 has increased since the last assessment of this Principle in 2014. The majority of participants in the self-assessment scored either "Observed" or "Largely Observed". For Section 1 (Insurers), 93% scored either "Observed" or "Largely Observed"; and for Section 2 (Intermediaries), 84% scored either "Observed" or "Largely Observed". The remaining jurisdictions (5 or 7% for Section 1, 12 or 16% for Section 2) achieved "Partly Observed".<sup>4</sup>
6. The confidential Annex to this report (Annex 4) shows the results of each jurisdiction for Section 1 (Insurers) and Section 2 (Intermediaries). This annex is available on the IAIS' Members only Extranet.

<sup>1</sup> As adopted in November 2017.

<sup>2</sup> Annex 2 sets out the categorisation of participating IAIS Members by IAIS Region and according to membership of FSB and OECD.

<sup>3</sup> A large majority of FSB jurisdictions also are OECD jurisdictions. "Other OECD jurisdictions" refers to the authorities who are from jurisdictions that, while members of the OECD, are not represented at the FSB.

<sup>4</sup> In the 2014 Self-Assessment and Peer Review (SAPR) of ICP 19, 87% scored Observed or Largely Observed in the Insurers section and 80% in Intermediaries section.

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7. The Expert Team completed initial draft individual reports for each of the 73 participating jurisdictions. These reports were sent to the jurisdictions for their review and comment. 162 comments were received from the assessed jurisdictions. The majority of comments were corrections to original responses. In general, the Expert Team accepted corrections, provided there was sufficient supporting explanation.
  8. Similar to previous PRPs and IAIS Self-Assessment and Peer Reviews (SAPR), several standards include questions about how and when the authority reviews requirements, in order to see how the standards are being met in practice (please refer to ICP 9 (Supervisory Review and Reporting)). This assessment also included questions regarding supervisory review although, in the case of ICP 19, these specific requirements are not found in the text of ICP 19 itself but only in the accompanying guidance (see paragraph 24 in Assessment Methodology below).
  9. The participants in the PRP were asked to respond to 20 open questions to share their supervisory practices (11 questions in Section 1 (Insurers) and 9 questions in Section 2 (Intermediaries)) out of a total of 109 questions. Based on the answers received, the Expert Team identified useful practices as guidance for other jurisdictions. These useful practices can be found in Section 3 along with examples for selected standards for insurers and intermediaries.
  10. In the individual reports, the Expert Team did not include jurisdiction-specific suggestions for changes to improve observance of certain standards. The IAIS Member Assessment Process (MAP) offers a comprehensive review of a jurisdiction's implementation of supervisory material and, therefore, these types of suggestions are reserved for that process.

## Acronyms

<b>AML</b>	Anti-Money Laundering
<b>CFT</b>	Combating the Financing of Terrorism
<b>CEET</b>	Central, Eastern Europe and Transcaucasia
<b>ExCo</b>	Executive Committee
<b>FSB</b>	Financial Stability Board
<b>IAC</b>	Implementation and Assessment Committee
<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICP</b>	Insurance Core Principle
<b>MAP</b>	Member Assessment Process
<b>MCWG</b>	Market Conduct Working Group
<b>MENA</b>	Middle East and North Africa
<b>NAIC</b>	National Association of Insurance Commissioners
<b>PRP</b>	Peer Review Process
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SAPR</b>	Self-Assessment and Peer Review
<b>SAWG</b>	Standards Assessment Working Group
<b>SPFO</b>	Strategic Plan and Financial Outlook

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## Introduction

11. The mission of the International Association of Insurance Supervisors (IAIS) is to:
  - promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and
  - contribute to global financial stability.
12. In support of this mission, the IAIS has identified the implementation of the IAIS Insurance Core Principles (ICPs) by insurance supervisors as one of its strategic priorities. This priority was reaffirmed in the new 2020-2024 Strategic Plan and Financial Outlook (SPFO).
13. From 2012, the IAIS's primary assessment tool was the Self-Assessment and Peer Review (SAPR). In October 2014, the IAIS changed its By-laws. Amongst the changes, the amended By-laws state that IAIS Members commit to "undergo periodic Self-Assessments and Peer Reviews" (Article 6 (6) (c)). Since 2012, nearly 130 IAIS Members have participated in at least one SAPR. On average, 70 IAIS Members participated in each assessment, representing all IAIS Regions and stage of economic/insurance market development.
14. In January 2017, the IAIS' Executive Committee (ExCo) asked a small group of ExCo members and Implementation and Assessment Committee (IAC) members to prepare recommendations on how the IAIS' assessment activities could be strengthened to build off the success of the SAPR process. In June 2017, ExCo approved a proposal to enhance the IAIS' Assessment Programme, beginning in 2018, with three distinct but complementary assessment processes:
  - a strengthened Peer Review Process (PRP) building on the IAIS' successful SAPR;
  - enhanced access to self-assessment tools with the establishment of a Self-Assessment Tool (SAT), allowing IAIS Members to undertake a self-assessment on demand; and
  - a Member Assessment Process (MAP), which provides a comprehensive review of the implementation of supervisory material by an IAIS Member.
15. The objectives for the PRP are to:
  - identify and analyse the level of observance of the standards relating to the assessment theme, including a reference to regional and global implementation status;
  - assess the effectiveness of implementation of the standards in a consistent and coherent manner;
  - identify findings and useful practices that should be communicated to the participating IAIS Members to encourage effective implementation in their supervisory practices; and
  - provide input to implementation partners on areas where there are regional or global challenges for ICP implementation.

One of the key differentiating features for the PRP is the inclusion of examples of useful practices in the aggregate report. Examples of useful practices provide valuable information as to how the ICPs could be implemented in an effective manner. This report includes a synthesis of useful practices for selected standards the Expert Team thought could benefit from examples of implementation. At the same time, those practices provide insights on effective implementation of the assessed standards by the IAIS Members who participated in the PRP. Consequently, useful practices may provide guidance and potential benchmarks to help Members enhance implementation.

16. The IAIS formed the Expert Team to conduct this PRP, consisting of Rashmi Sutton (USA, NAIC), Joanna Rakowska (Austria, FMA), Christine Mehls (Germany, BaFin), Ildikó Garay (Hungary, Central Bank of Hungary MNB), Olga Abramova (Russia, Bank of Russia), Christina Beerli (Switzerland, FINMA) and Eugene Du Toit (South Africa, FSCA). Two Expert Team members are also members of the IAIS' Market Conduct Working Group (MCWG). The IAIS' Standards Assessment Working Group (SAWG) and Secretariat are grateful to the Expert Team volunteers who put in many weeks of hard work to assess the participating authorities. In addition the SAWG would like to acknowledge the support received throughout 2019 / 2020 from the MCWG.
17. The Expert Team's work was supported by Selina Keng, Akiko Nakamura, Conor Donaldson and Rogier Derksen from the IAIS Secretariat.



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## 1 Scope and Assessment Methodology

### 1.1 Scope

18. This PRP covers the thematic topic of **Conduct of Business** relative to the standards set out in ICP 19. This ICP applies to the conduct of insurance business of insurers and intermediaries.
19. The current version of ICP 19 as adopted in November 2017 was used as the basis for the assessment.<sup>5</sup>

### 1.2 Assessment Methodology

20. The ICPs set forth the objectives of insurance regulation and supervision and are the basis for assessing the regulatory framework and supervisory practices within a jurisdiction. The ICP Assessment Methodology sets out the factors that should be considered in assessing the ICPs and describes how observance should be evaluated.
21. The Principle Statement for the ICPs is general, recognising that supervisors require flexibility to determine how to achieve the objectives in their particular domestic context (eg legal and market structure). The standards set forth requirements that are fundamental to the implementation of each ICP and provide the basis for assessing observance.
22. This PRP follows the ICP Assessment Methodology:

In general, an ICP will be considered Observed whenever all the standards are considered to be observed or when all the standards are observed except for a number that is considered not applicable. An ICP will be considered Not Applicable when the standards are considered to be not applicable. For an ICP to be considered Largely Observed, it is necessary that only minor shortcomings exist which do not raise any concerns about the supervisor's ability to achieve full observance of the ICP. An ICP will be considered Partly Observed whenever, despite progress, the shortcomings are sufficient to raise doubts about the supervisor's ability to achieve observance. An ICP will be considered Not Observed whenever no substantive progress toward observance has been achieved.
23. For several standards, the questionnaire inquired about the nature and frequency of the authority's actual review of how its requirements are followed by the insurers and intermediaries it supervises, taking into account the guidance available on the principle and standards. Similar questions were included in the previous IAIS Self- Assessment and Peer Reviews (SAPR) and provide valuable insight into how standards are being met in practice, which comports with the IAIS Assessment Methodology.
24. While ICP 9 (Supervisory Review and Reporting) addresses how jurisdictions are to carry out specific modes of review, the Expert Team is of the view that to effectively assess the implementation of ICP 19, questions on supervisory review and the intensity of that review are necessary, although specific requirements regarding the nature of the review are not found in ICP 19 or its standards. In general, Members review the performance of insurers and intermediaries regarding standards set forth in ICP 19

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<sup>5</sup> See <https://www.iaisweb.org/page/supervisory-material/insurance-core-principles-and-comframe>.

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mainly through on-site inspections, off-site monitoring and targeted reviews when complaints or concerns arise.

## 2 Member Participation

25. The IAIS received responses from 73 authorities representing all regions and a range of market sizes. In general, the sample size provided a global/regional picture of implementation of ICP 19, although the IAIS recognises that Members who believe they have a good implementation story to share may be more inclined to participate in PRPs.
26. This PRP's launch coincided with the early days of the Covid-19 global pandemic, an unforeseen challenge to supervisors that nonetheless did not have a substantial impact on Member participation in this peer review.
27. Every IAIS Region was represented.<sup>6</sup> Regarding the nature of the jurisdictions, 22 responses were from IAIS Members in FSB jurisdictions, and 30 from IAIS Members in OECD jurisdictions; both figures include the four US Member states that participated. 38 participating IAIS Members were from non-OECD/non-FSB Member jurisdictions.

IAIS Region	Respondents and participation rate		FSB jurisdictions	OECD jurisdictions <sup>7</sup>	Other
	Count	Rate			
North America	6	67% <sup>8</sup>	6	6	0
Latin America	5	42%	1	1	3
Western Europe	13	62%	7	11	2
Central, Eastern Europe and Transcaucasia	18	72%	2	8	9
Asia-Oceania	9	39%	5	3	4
Middle East and North Africa	6	50%	0	0	6
Offshore and Caribbean	9	47%	0	1	8
Sub-Saharan Africa	7	35%	1	0	6
<b>Total</b>	<b>73</b>	<b>48%<sup>9</sup></b>	<b>22</b>	<b>30</b>	<b>38</b>

**Table 2.1**

<sup>6</sup> The IAIS Regions are: North America; Latin America; Western Europe; Central, Eastern Europe and Transcaucasia; Asia-Oceania; Middle East and North Africa; Offshore and Caribbean Islands and Sub-Saharan Africa. The order of the regions is according to the IAIS Member Handbook.

<sup>7</sup> 13 OECD jurisdictions are not FSB member jurisdictions.

<sup>8</sup> Four US Member states participated in the PRP. In total, there are 56 Member states counted as individual IAIS Members as well as the US NAIC, which is a member in its own right. For the table above, the North America denominator includes the US as a whole. In addition, two IAIS Members from Canada took part in this PRP, the Canada denominator includes Canada as a whole.

<sup>9</sup> Some jurisdictions have more than one Member. 153 Members was used as denominator as detailed in the World Directory.

### 3 Assessment Results, Observations and Useful Practices

#### 3.1 ICP 19, Section 1 - Insurers

##### ***ICP 19 (Conduct of Business)***

The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

##### ***3.1.1 Analysis of Observance Level - Insurers***

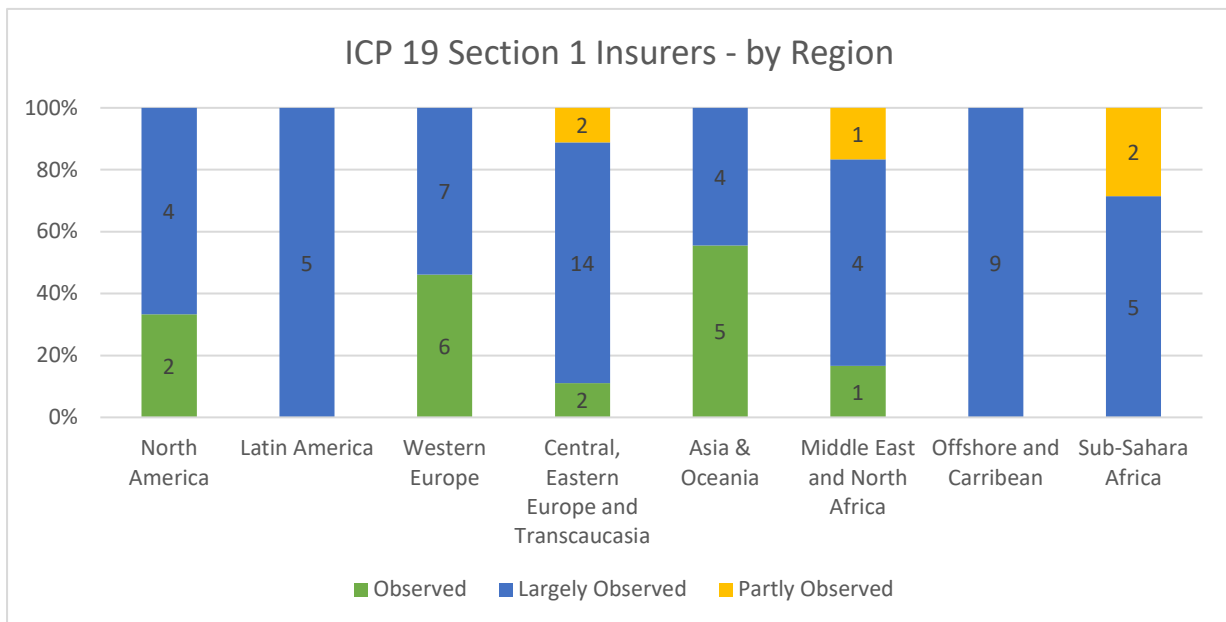
###### Overall result

28. With regard to insurers, the majority of Members were assessed as either Observed (16 Members – 22%) or Largely Observed (52 Members – 71%). 5 Members were assessed Partly Observed (7%). It was noted that observance of ICP 19 was high amongst participating authorities and has increased compared with the results of the assessment in 2014, when only 5 Members from 69 jurisdictions (7%) were assessed as Observed. FSB jurisdictions had the highest level of observance.

ICP 19 - Insurers	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
<b>Observed</b>	10	1	5	16
<b>Largely Observed</b>	12	12	28	52
<b>Partly Observed</b>	0	0	5	5
<b>Not Observed</b>	0	0	0	0
<b>Not Applicable</b>	0	0	0	0
<b>Total</b>	22	13	38	73

**Table 3.1**

29. Detailed breakdown of results by Region (see also Annex 3):



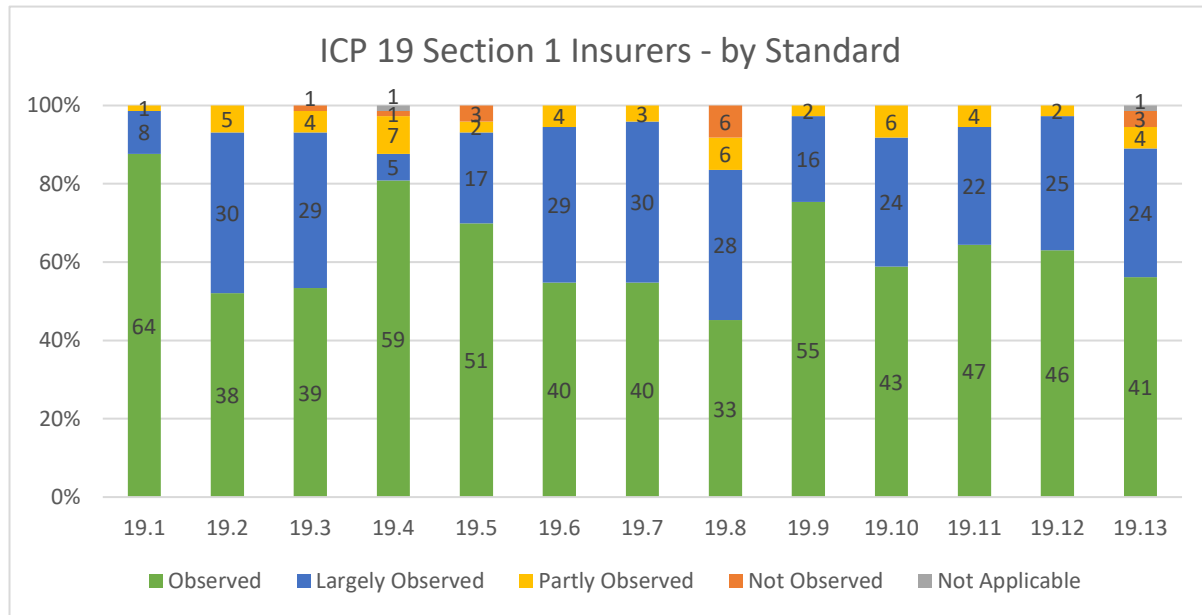
30. By region, the observance level was highest in Asia & Oceania followed by Western Europe, North America, Middle East and North Africa, and Central, Eastern Europe and Transcaucasia, while other regions reached Largely Observed in all or the majority of jurisdictions.

**Details on the level of observance per standard**

31. Almost all standards, with regard to insurers, were either Observed or Largely Observed by at least 90% of participating jurisdictions.
32. The overwhelming majority of Members observed Standards 19.1 and 19.4, which concern requirements for insurers to act with due care, skill and diligence when dealing with customers and for insurers and intermediaries to have arrangements in place in dealing with each other to ensure the fair treatment of customers.
33. Also levels of observance for Standards 19.5 (taking into account the interests of different types of consumers) and 19.9 (servicing policies and disclosing information to the policyholder) were also relatively high with 70%/75% Observed and 23%/22% Largely Observed, respectively.
34. Despite the overall high level of observance of Standard 19.5, three Members were rated as Not Observed for the standard.
35. Six Members also did not observe Standard 19.8, which involves taking into account a customer's disclosed circumstances when giving advice, and an additional six Members partly observed this standard.
36. Three Members did not observe Standard 19.13, which requires the supervisor to disclose information publicly that supports the fair treatment of customers, and four Members were rated Partly Observed for this standard.
37. While Standard 19.4 was overwhelmingly Observed or Largely Observed by 88% of participants, 10% of the participants were assessed as Partly Observed.

38. Six Members were assessed as Partly Observed for Standard 19.10, regarding the supervisor requiring insurers to handle claims in a timely, fair and transparent manner.

39. Detailed breakdown of results by Standard:



### 3.1.2 Areas for Improvement - Insurers

40. As mentioned above, several Members were assessed as Partly Observed or Not Observed for Standard 19.8, which involves taking into account a customer’s disclosed circumstances when giving advice. Many Members reported not regularly reviewing whether insurers have controls to make sure advice they are giving to customers is appropriate, which is necessary to ensure the Standard is being met. A number of Members also reported not encouraging insurers to take different steps (eg seeking specific information from customers, obtaining customer acknowledgments, reviewing client files) to help insurers provide advice to customers before an insurance contract is concluded. The view of the Expert Team is that Members should consider more regularly reviewing whether and how insurers maintain controls to make sure advice given to customers is appropriate. In addition, Members should also consider encouraging insurers to be more proactive in their communications with customers so that insurers have sufficient information in order to provide appropriate advice to customers. Providing such advice before the insurance contract is concluded is an important component of ICP 19.

41. Supervisors should require insurers to have arrangements in place with intermediaries in dealing with each other to ensure the fair treatment of customers. While many Members reported having such a requirement, a handful do not have this in place and are encouraged to consider setting-up such a requirement.

42. In general, Members are encouraged to incorporate conduct of business requirements into review and analysis processes, to ensure insurers are effectively meeting such requirements. For example, Members are recommended to consider a more frequent review of whether insurers under their supervision are promoting products and services in a manner that is clear, fair and not misleading.

### 3.1.3 Examples of Useful Practices - Insurers

43. The IAIS has undertaken this PRP to provide Members with a tool to assess their current level of implementation. In addition to providing a valuable input for supervisory authorities looking to enhance ICP observance, the Expert Team considered input from Members to a number of open-ended questions in order to provide valuable insight regarding how authorities have incorporated ICP 19 into their supervisory practices.
44. In total, 11 open questions for eight standards (Standard 19.2, 19.4, 19.5, 19.7, 19.9, 19.10, 19.11 and 19.12) in Section 1 (Insurers) and 9 open questions for six standards (Standard 19.2, 19.3, 19.7, 19.9, 19.11 and 19.12) in Section 2 (Intermediaries) were included in the questionnaire to seek input on useful practices applied in Member jurisdictions.
45. Detailed results by Standard:

#### **Standard 19.2**

**The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture.**

#### **Summary of Useful Practices – Insurers**

**Most authorities place substantial reliance on a variety of general and principle-based provisions in legislation that drives insurers to embed a culture of fair treatment of customers. These include an explicit requirement to treat customers fairly, an obligation to act with due skill, care and diligence in the interest of policyholders when conducting business activities, to establish internal policies and procedures promoting fair treatment and, in some instances, insurers are specifically required to develop a customer-oriented business culture.**

46. In addition to legislative requirements, some authorities have issued guidance, recommendations or regulatory benchmarks setting out expectations for how insurers should embed fair treatment of customers as part of their business operations. Many authorities believe that recurring engagements and open dialogue with the insurer's Board, whether through supervisory on-site visits or in other forums, is key to assessing how regulatory requirements are embedded in the insurer organisation. This then also enables the regulator to further encourage the senior leadership of an insurer to embrace a culture of fair treatment of customers.
47. One Member from Latin America developed a biannual self-assessment of four principles of market conduct that must be completed by insurers and intermediaries. The objective of the self-assessment is, amongst other things, to reinforce the need for the supervised entities to establish effective corporate governance that integrates with the organisational culture and ensures adequate protection and fair treatment to the policyholder, thus allowing the reduction of undesirable market conduct practices and a timely intervention when they occur.

48. To raise awareness, and embed a culture of fair customer treatment, one Member from Central, Eastern Europe and Transcaucasia (CEET) has actively published papers and hosted workshops on insurance-related issues relevant to business conduct and emphasised the importance of fair treatment of customers. Some authorities place significant reliance on the potential deterrent effect of sanctions for non-compliance as they are of the view that this encourages insurers to embed a culture of fair treatment.

**Standard 19.4**

**The supervisor requires insurers and intermediaries to have arrangements in place in dealing with each other to ensure the fair treatment of customers.**

**Summary of Useful Practices – Insurers**

**In general, authorities require insurers to report significant issues identified with respect to intermediaries. In some instances, such reports have led to regulatory action taken against the intermediary.**

49. Two Members from Offshore and Caribbean and Western Europe specifically require insurers to inform the authority in the event of the termination of an intermediary's mandate. This allows the authority to acquire specific information that assists in evidencing any interruption or concerns relating to the insurer's arrangement with an intermediary, and potential breaches of regulatory requirements by the intermediary. As a recent example, an insurer informed an authority of the termination of an agency's mandate due to accounting and administrative irregularities that emerged during an audit visit conducted by the insurer on the agency's premises. Another Member from Latin America stated that an insurer reported a breach where an intermediary defaulted in transferring premiums and failed to provide correct information to consumers. This report also resulted in regulatory action against the intermediary.
50. Most authorities have the power to take actions against an insurer knowingly cooperating with an intermediary that is in breach of its regulatory requirements. Several authorities have taken such actions: for example, multiple authorities have taken regulatory action against insurers dealing with unlicensed intermediaries. One jurisdiction in the region of Asia-Oceania referred to the employees of a bank that altered numerous policyholders' insurance types without their prior approval. The adjustments also resulted in higher premiums. The insurer gave effect to the changes without checking whether the bank and its salespeople had complied with the relevant insurance agency contract when soliciting insurance business. The authority imposed a significant fine on the insurer for this breach.
51. Another Member from Asia-Oceania is investigating the market conduct of a popular product comparison website. An insurer was allegedly complicit and the pay-outs made by the insurers to the related parties of the company conducting the business of product



comparison is being investigated; in another case, the Member issued an order penalising a general insurer for market conduct violations by its corporate agent.

52. One Member, also from Asia-Oceania, received a number of complaints against an insurer's agents for using forged academic qualifications and alleged collusion of the insurer's agency leaders and management. The authority had significant concerns, particularly in relation to the insurer's corporate governance, which posed risks to policyholders. As a result, the authority escalated the matter to the regional head office of the insurer that engaged an external consultant to undertake an independent review on the allegations upon the authority's request. Based on the findings in the report of the external consultant, the authority worked with the insurer to resolve the recommendations contained in the external consultant's report.

**Standard 19.5**

**The supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products.**

**Summary of Useful Practices – Insurers**

**Regardless of whether a product approval system is followed or not, most authorities have the power to prohibit or suspend the sale of a product, to require insurers to amend a product, or to issue a regulation sanction if concerns regarding the product or distribution strategies are identified. In jurisdictions where product approval is required, authorities may also refuse to approve a product if material concerns exist.**

53. In some instances, the above powers are limited to specific circumstances – for example, the product must be in breach of applicable legal requirements in a material manner or contain material errors. Certain jurisdictions also issue public warnings when concerns exist with specific products.
54. Many authorities have acted where poor product design was identified. One jurisdiction in the region of Sub-Sahara Africa referred to a case study where insurers reduced comprehensive life cover to accidental life cover if underwriting requirements were not completed within 3 months after inception of the policy. Such a reduction in benefits did, however, not make provision for a commensurate reduction in premiums. The authority raised disclosures and fair outcomes as a concern and the insurers were required to amend the products to ensure that where benefits were reduced, the premium was reduced proportionately.
55. One authority from CEET directed inspections into an insurer that performs cross-border services. The authority identified serious consumer protection infringements and risks relating to unclear, ambiguous and contradictory information on capital or performance guarantees provided by the insurer in the product information documents, including the Total Cost Indicator document and in the Key Information Documents. Due to the

seriousness of the concerns, the authority suspended marketing of five of the insurer's products.

56. One Member in the region of Asia-Oceania noted how an insurer arbitrarily deleted coverage under its automobile insurance contract model guidance, and granted policyholders an unreasonable premium discount. After requesting the insurer to explain or hold a review meeting to discuss the suitability of the product, the authority requested the insurer to adjust its product structure.
57. One Member from Offshore and Caribbean gave an example where an insurer issued a contractor's all risk policy covering employees, but it did not specify the type of coverage nor the benefit. The policy had been issued to a contractor and, after issuance, the employer of the contractor wanted to verify that the contract insurance requirements were met. After the employer questioned the insurer on the wording of the policy and why it was taking on additional exposure for which it had no security, the insurer recalled the policy. Another jurisdiction in the region of Offshore and Caribbean identified that the features of a new life insurance product had a longer contestability period than industry norms. The authority imposed the condition that the product could only be approved, subject to lowering the contestability period to industry norms. The insurer made the necessary amendments to the product, resulting in the authority approving the product.
58. One Member from North America determined that a separate wildfire deductible was not permissible under the state's standard fire policy form (ie there could only be one deductible applicable to the peril of "fire", and "wildfire" could not be broken out separately from "fire" and have a different deductible apply). One insurer, however, already provided for a separate deductible for "wildfire". The authority engaged with the relevant insurer and facilitated the amendment of the insurer's approach to align to the recent decision.
59. In another case, an automobile insurer's filing permitted premium increases based on not-at-fault accidents, contrary to the relevant law. The issue was initially raised in objections to the filing and was then resolved through a market conduct examination by the authority and an eventual settlement.
60. In the region of Asia-Oceania, one Member identified that there was considerable media coverage of policyholders who were aggrieved by the significant drop in value of an investment fund invested via an insurer's insurance product, designed for professional investors, and mainly solicited by an independent insurance broker. The insurance product was an investment-linked insurance scheme with an open architecture platform, allowing policyholders to choose the investments to be held under the policy that met their own objectives and circumstances. These types of products are, however, characterised by not having a list of investment choices set by insurers, but insurers will merely execute the policyholders' investment instructions. Unfortunately, most of the aggrieved policyholders misunderstood this convention and thought that the relevant investment fund was chosen and approved by the insurer whose reputation was the primary reason that they invested in that fund. The Member initiated a thematic review on the insurer's portfolio with a view to identify the risks associated with this portfolio and urge the insurer to take immediate necessary steps to tighten its internal controls for risk

mitigation, such as enhanced professional investor's validation, enhanced investment on-boarding process, professional investor's verification, enhanced due diligence, ongoing monitoring on brokers, etc. The authority then also issued interpretation notes to provide further clarity and guidance and worked with the securities authority to ensure a coordinated wholesale review on enhanced supervision of these types of policies.

61. One Member identified product design issues through an investigation into add-on insurance sold through car yards (such as gap insurance, tyre and rim insurance, and mechanical breakdown insurance). The Member issued various reports that found, amongst other things, that many of these types of add-on insurance products were expensive, poor value, and provided consumers little or no benefit. It was also found that consumers often could not recall which products they had purchased, how much they cost and what they were covered for. With regards to the sale of life insurance through car dealers in particular, it was also found that such products were often sold when not necessary (for example, to young people with no dependents). What also contributed to the problem was the distribution strategies that were employed, specifically the sales environment that resulted in pressure selling, very high commissions and conflicts of interest. Following these reports, the authority oversaw large-scale remediation by a number of insurers with over 245,000 consumers compensated over \$130 million. As a result of the authority's engagement, numerous changes in the add-on market were made. Following legislative reform, an industry-wide deferred sales model will apply to the sale of motor vehicle add-on insurance by late 2021.
62. Another example where the authority had concerns with the design of a product, relates to total and permanent disability insurance (TPD). TPD is a life insurance policy that typically pays a lump sum benefit if the policyholder becomes totally and permanently disabled, subject to the terms set out in the policy. The authority launched a thematic review of TPD and issued a paper setting out its findings, focusing on insurance claims handling practices, outcomes and insurers with higher than expected rates of declined claims. The findings included that the design of some TPD policies included restrictive definitions that resulted in poor consumer outcomes. A restrictive and problematic definition common to most types of group insurance TPD cover was also identified and it was found that of the 4% TPD claims containing this definition that were assessed during a particular period, approximately 60% were declined. In contrast, TPD claims assessed under other definitions had 12% of claims declined. This indicated that this cover with the Activities of Daily Living (ADL) definition may not be suitable for many consumers to whom it is being provided or sold.

**Standard 19.7**

**The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.**

**Summary of Useful Practices – Insurers**

Varying approaches are adopted by authorities in setting transparency and disclosure requirements applicable to insurers for internet sales of insurance products or distribution through other digital channels. Generally, the following approaches are adopted: A few jurisdictions do not have any specific approach in regulating internet sales or distribution through other digital channels. In most jurisdictions, internet sales of insurance products or distribution through other digital channels are subject to the same requirements applicable to non-digital channels (ie there is no differentiation in requirements between digital and non-digital channels). Some jurisdictions have specific requirements for internet sales of insurance products or distribution through other digital channels.

63. In several jurisdictions an act of general application sets specific requirements that apply when any electronic transaction is concluded, and the supervisor then supplements those requirements with additional requirements that apply in the financial services context. Many of these requirements are specifically aimed at distance / direct marketing, and in some instances apply to distribution through call centres specifically. Typical digital distribution specific requirements are not dissimilar to requirements that would normally apply in a non-digital environment: for example, specific disclosures such as the name and contact details of the relevant providers, complaints and claim handling process, summarised product information and the like; appropriate warnings and disclaimers; consumer's right to withdraw from a contract within a specified period.
64. In one jurisdiction in Asia-Oceania, if products are distributed directly through an online platform, a licensed provider must ensure that the platform is designed to make clear to consumers that they are purchasing the product directly from the licensed person, and the provider must ask the consumer to complete a "confirmation of understanding" questionnaire before the purchase transaction for the product can be finalised. Few supervisors from the region of Asia-Oceania have also issued guidelines on the use of internet for insurance activities.

**Standard 19.9**

**The supervisor requires insurers to:**

- **service policies appropriately through to the point at which all obligations under the policy have been satisfied;**
- **disclose to the policyholder information on any contractual changes during the life of the contract; and**
- **disclose to the policyholder further relevant information depending on the type of insurance product.**

**Summary of Useful Practices – Insurers**

**Most authorities have imposed some form of obligation on insurers to ensure ongoing policy servicing and communication with policyholders. Typically, authorities have implemented a combination of principle-based requirements dealing with disclosure and policy servicing, such as requiring insurers to at all times act honestly and fairly, and provide clear and adequate information before, during and after the sale of the product; and rule-based requirements determining very specific information that must be disclosed to policyholders at specific times during the life cycle of a policy.**

65. The types of information that must be disclosed to policyholders is usually distinguished by the time at which such information must be disclosed, eg before entering into a policy, at the time of entering into a policy, and after entering into a policy.
66. Ongoing servicing or disclosure requirements typically include that an insurer must communicate with a policyholder whenever there is a change in the terms and conditions of the contract, including any changes to the premium payable under the contract. In some instances a standard disclosure document is required (eg an updated “Product Disclosure Statement”). Some jurisdictions also require that an annual statement or report be issued to the policyholder by the insurer.
67. To further ensure appropriate servicing, most jurisdiction have implemented requirements relating to compliance and claims management processes. One Member from North America stated that it is specifically an unlawful practice to misrepresent relevant facts or policy provisions and to fail to promptly acknowledge communications with customers with respect to claims made under a policy or not to attempt, in good faith, to ensure prompt, fair and equitable settlements of claims. Some supervisors from Asia-Oceania have also issued specific guidelines setting out requirements for insurers with regards to ongoing policy servicing.

**Standard 19.10**

**The supervisor requires insurers to handle claims in a timely, fair and transparent manner.**

**Summary of Useful Practices – Insurers**

**The majority of participating Members have indicated that according to national legislation or supervisory expectations, insurance and reinsurance undertakings, which outsource functions or business activities to service providers remain responsible for meeting all prudential requirements. Insurers are responsible for all outsourced arrangements with third party service providers (administrators). As regards the outsourcing of claims handling processes, many Members have classified those processes as material outsourcing arrangements having significant impact on business operations, profitability and reputation of the insurer. Thus, several countries across North America, Asia-Oceania, Offshore and Caribbean,**

**Western Europe, CEET as well as Middle East and North Africa (MENA) require prior approval from the authority, before entering into an outsourcing arrangement as regards claims handling processes.**

68. Several Members have implemented supervisory practices with the aim of ensuring a timely, fair and transparent handling of claims. These practices extend to where claims handling is outsourced and also include systemic review of claims disputes.
69. As a useful example, one Member from the MENA region looked at the outsourcing arrangement agreements between the third party provider and, in this case, the outsourcer of claims to ensure that insurers are outsourcing within the scope that is permitted by the authority. On the same note, this authority requires all companies to have in-house a person in charge of the outsourcing arrangements, to be the point of contact for the authority should any issues arise. Another Member from Western Europe indicated that the authority requires prior approval of outsourcing of critical functions such as claims handling, only where the service provider is not an insurance or reinsurance undertaking. Furthermore, the authority is entitled to conduct on-site inspections of the service provider according to national supervisory law and may also address administrative orders to service providers to which functions or business activities have been outsourced, irrespective of whether the outsourcing required prior approval. Several FSB Members from Western Europe and Asia-Oceania as well as non-FSB members from Western Europe, CEET and the MENA Region have provisions in place that enable the conduct of on-site inspections of the third party provider.
70. As regards the ongoing supervision of outsourced claims handling processes, one Member from Sub-Sahara Africa indicated that the authority conducts sample testing of such outsourcing arrangements on an ongoing basis. Agreements and the performance of each of the third parties are also further questioned during on-site inspections. Furthermore, the insurer is required to analyse the claims data and management of claims for each of the outsourced parties on an ongoing basis. The root cause analysis conducted by the insurer and any possible trends are discussed with insurers at the quarterly, bi-annual and annual engagements.
71. One Member from MENA also licenses and supervises third party administrators that may handle claims on behalf of insurers through an outsourced arrangement. They are licensed as insurance managers and are subject to ongoing supervision and on-site inspections, as well as off-site risk assessments and thematic reviews.
72. Another important indicator for safeguarding timely, fair and transparent handling of claims is the existence of fair and objective claims disputes. To this end, supervisory authorities should have mechanisms in place to review claims disputes in order to promote claims decisions based on objective and fair conditions. Over 20 jurisdictions across the regions of North America, Asia-Oceania, Western Europe, Latin America, CEET, MENA and Offshore and Caribbean have provisions in place that require the insurer to have procedures implemented for the handling of insurers' claims. One Member from Latin America established the obligation to submit quarterly reports to the authority detailing complaints to the Insurance Consumer Protection Office, which is a



quantitative index that is useful in the conduct business supervisory work related to compliance with the policies and processes necessary for the handling of insurers' claims.

73. Another Member from North America mentioned that insurers are mandated to follow the national regulations for fair claims, which include requirements to report to the authority their claims handling process, supported by documentation at an individual complaint level. One Member from Asia-Oceania also requires insurers to establish clear complaints handling policies and procedures to ensure all complaints are properly handled. This Member also requires appropriate mechanisms to be in place for reporting to the Board and senior management and stipulates that where a dispute arises, the insurer should ensure the dispute is resolved in a fair manner and document the dispute resolution process properly. Moreover, for medical insurance businesses, a specific guideline requires insurers to handle and settle claims fairly and promptly and provide customers with sufficient information and timely advice about the claims-handling process and ensure that explanations are provided in clear and plain language on claim results.
74. Some Members from Asia-Oceania, CEET, Latin America and Sub-Saharan Africa referred to the existence of an insurance ombudsman in their jurisdictions. One jurisdiction from the CEET region referred to a national regulation on Minimum Conditions and Principles for Internal Rules, regulating the procedure of examination of complaints and claims of customers and defining the complaint handling processes. If there is a claims dispute, the customer can present the complaint to the insurer and can also apply to the financial ombudsman.
75. Another authority from Asia-Oceania encourages insurers to have a complaint mechanism (ie an ombudsman) within the insurance company. Once the authority receives the complaint, particularly denied claims without basis or not based on the insurance policy contract, it requests the company to review the claim. If the company insists on its denial, the customer is given the option either to file a case with the Claims Adjudication Division within the authority or with the regular court of a competent jurisdiction in the case of a money claim or an administrative complaint.

**Standard 19.11**

**The supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner.**

**Summary of Useful Practices – Insurers**

**In general, the majority of participating Members across Latin America, Western Europe, CEET and Asia-Oceania demonstrate active complaints monitoring systems within their authorities, which allow for the monitoring of complaints as well as the issuance of regular reports related to the number and nature of complaints.**

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76. As regards the production of reports, one Member from the CEET region mentioned that it receives complaints data on a quarterly basis from prudentially supervised insurance undertakings. Consumer complaints related to contracts are categorised by cause of the complaints (ie lack of information prior to signing the contract, lack of information during the existence of a contract, breach compulsory information on termination of the contract, delays in handling claims settlement, refusal of the demanded service (claim)). Furthermore, insurers are analysed according to the number of closed complaints, number of pending complaints and number of litigated cases. A few Members from Western Europe and Asia-Oceania indicated that consistent categorisation is key for complaints reports. However, several Members noted challenges, including issues associated with quality assurance and accurate categorisation of complaints by product type and suspecting that the quality of data varies from firm to firm.
77. For one Member from North America the complaint examination and dispute resolution processes are key indicators for assessing organisational performance regarding the fair treatment of customers. Insurers are required to report to the authority their complaint processing and dispute resolution cases, stating the number of complaints registered and their nature. For this Member, each year, all insurers must report their complaints in the annual statement on market conduct. To do this, the authority requires data on the nature of the complaint and the product concerned, namely the file number, date of opening and closing of the file, product class, type of products (eg individual or group), distribution channel, complaint category, cause of complaint and the result of the complaint examination. In this statement, insurers are required to follow-up on any complaint that was not closed during the previous declaration. The main challenge arises from the definition of a complaint. The definition should be broad enough to apply to all situations but should not cover dissatisfactions that arise in the ordinary course of business and where an operational fault may be remedied quickly. It is essential for the supervisor that the nature of complaints declared by each insurer be categorised as the authority uses these data to establish ratios and indicators that are used to compare among insurers and to analyse industry trends. Another aspect that is worth mentioning is that the authority collects complaints directly from consumers. These complaints are compiled in the supervisor's systems and are also taken into account in the planning of the supervisory work. The authority's expectation is to find those complaints handled in the register of complaints declared annually by the insurers.
78. One Member from Offshore and Caribbean indicated that the authority has designed a manual for the implementation of the respective regulation on complaints handling. This manual includes a checklist that insurers can use to identify which actions they should take to implement the above regulation. It also contains a number of tips that can benefit insurers when implementing the regulation. Along with a "complaints management policy", the insurer should have procedures that monitor the analyses of complaints handling data on a regular basis. To ensure adequate complaints analysis, the insurer must plan the periodic analysis of complaints handling data and regularly discuss (at least every 6 months) the outcome of the analyses within senior management. To this end, there has to be a designated person fulfilling the complaints management function. The person should have a job description at their disposal, which includes, amongst others, a description of tasks and responsibilities. This function may be combined with other activities as long as they do not conflict. The employee who handles the complaints
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must have adequate knowledge and experience with respect to the products and services offered by the insurer, the operational processes, and all relevant rules and regulations, such as the regulation on complaints handling. Also, the employee should be service minded, committed to both clients and internal stakeholders and have good communication skills.

79. One Member from MENA and one from Western Europe mentioned their practice of publishing a statistic complaints report on their website, highlighting the information regarding all complaints received by nature and also by insurance company. The latter pointed out that the publication of the statistical data on complaints at firm level offered a clear representation of each company's performance in terms of consumer satisfaction and was positively commented upon by mass media.
80. As regards the implementation of an independent dispute resolution mechanism for insurers, most Members from FSB and OECD jurisdictions have such institutions in place, which are established by law. All participating EU Members in Western Europe and CEET have transposed the European ADR-Directive (Alternative Dispute Resolution) into national law according to which private independent dispute resolution schemes are established. These schemes are registered associations that are legal persons and, therefore, have legal capacity. Respectively, the association has its own organisation and is institutionally independent. It is licensed by the respective authority. Consumers have easy access to the procedure and it is free of charge for consumers.
81. Another European FSB Member who has transposed the ADR regime indicated that in case there is no agreement found with the complaints department of the insurance distributor, the consumer can refer to the insurance ombudsman. The ombudsman is independent and free of charge for the consumer. All the companies that are members of the national insurers association must adhere to the ombudsman charter.
82. To give an additional example of the ARD regime, another Member from Western Europe mentioned that in order to support the scheme, the consumer protection department at the supervisory authority itself will be entrusted with an ADR Technical Secretariat in order to strengthen the coordination.
83. Another useful practice has been provided by a Member from Sub-Saharan Africa whose alternative dispute resolution in the financial sector is mainly provided through the ombudsman system. It has a combination of ombudsman schemes set up by industry on a voluntary basis, and those established by statute. Whereas a statutory ombudsman derives its powers and mandate from the law, a voluntary ombudsman derives its powers and functioning from contractual rules set up by the participating members. Voluntary ombudsman schemes are as follows: the ombudsman for long-term insurance (life insurance), which was set up by long-term insurers to deal with long-term insurance customer disputes and the ombudsman for short-term insurance (non-life insurance), which was set up by short-term insurers to deal with short-term insurance claims disputes.

84. As described by the Member, the voluntary ombudsman schemes each have separately appointed Boards. Funding for voluntary ombudsman is typically raised through subscription fees. The statutory ombudsman is for financial services providers that deal with disputes relating to advice and intermediary services, irrespective of the product offering. The “back-stop” statutory ombudsman is designated to deal with a complaint when there is no other ombudsman mandated to deal with it. The statutory ombudsman is funded through levies raised and transferred by the authority on its behalf.

**Standard 19.12**

**The supervisor requires insurers and intermediaries to have policies and procedures for the protection and use of information on customers.**

**Summary of Useful Practices – Insurers**

**The first precondition that has been identified by almost all participating Members is the fact that the insurance undertaking has primary responsibility to manage the risks arising from outsourcing in general. Secondly, the majority of Members stipulate that where an insurer outsources functions to a service provider in another jurisdiction, there must be an outsourcing agreement in place that includes a provision as to the obligation to protect confidential information and personal data. As regards the competent authority for the protection of customer information, it often falls within the competence of a different authority.**

85. European Member States in Western Europe as well as in the CEET region stipulate that the protection of personal data is overseen by a separate data protection agency. The protection is based on the General Data Protection Regulation (GDPR), applicable in all EU countries. Under this regulation, personal information shall be protected following these principles:
- “lawfulness, fairness and transparency” – processing must be lawful, fair, and transparent to the data subject;
  - “purpose limitation” – the data shall be processed for the legitimate purposes specified explicitly to the data subject when the data is collected;
  - “data minimisation” – one should collect and process only as much data as absolutely necessary for the purposes specified;
  - “accuracy” – personal data shall be kept accurate and up to date;
  - “storage limitation” – one may only store personally identifying data for as long as necessary for the specified purpose;
  - “integrity and confidentiality” – processing must be done in such a way as to ensure appropriate security, integrity, and confidentiality (eg by using encryption); and lastly

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- “accountability”, the data controller is responsible for being able to demonstrate GDPR compliance with all of these principles.
86. One Member from Asia-Oceania stated that in approving the outsourcing arrangement, the authority imposes the following conditions: preservation of confidentiality of the insurer’s and its client’s information, a requirement for immediate notification for any confidentiality breach and that the authority and the insurer have the right to conduct examination on the service provider. This includes the authority to have access to service provider’s records and documents relating to the outsourced functions.
87. Another Member from Offshore and Caribbean indicated that its Data Protection Act impacts the confidentiality and security of client information. The authority reviews service level agreements entered between registered entities and a third party. The authority should be advised of outsourcing arrangements in the agency agreements between intermediaries and insurance companies. It is currently drafting its outsourcing guidelines to further outline the criteria and obligations that should be adhered to in accordance with confidentiality and economic substance requirements found in legislation.
88. As stipulated by other participating Members, one Member from MENA highlighted that customer confidentiality is of utmost importance in any outsourcing arrangement and this is specifically mentioned in the Risk Management Module of the authority’s rulebook that all companies must adhere to without exception. The supervisor expects and requires all companies to protect their customers’ private information at any cost. This must be clearly stated in the outsourcing arrangement and any breach will be governed by the laws and regulation set out by the authority.

### 3.2 ICP 19, Section 2 - Intermediaries

#### ***ICP 19 (Conduct of Business)***

The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

#### ***3.2.1 Analysis of Observance Level - Intermediaries***

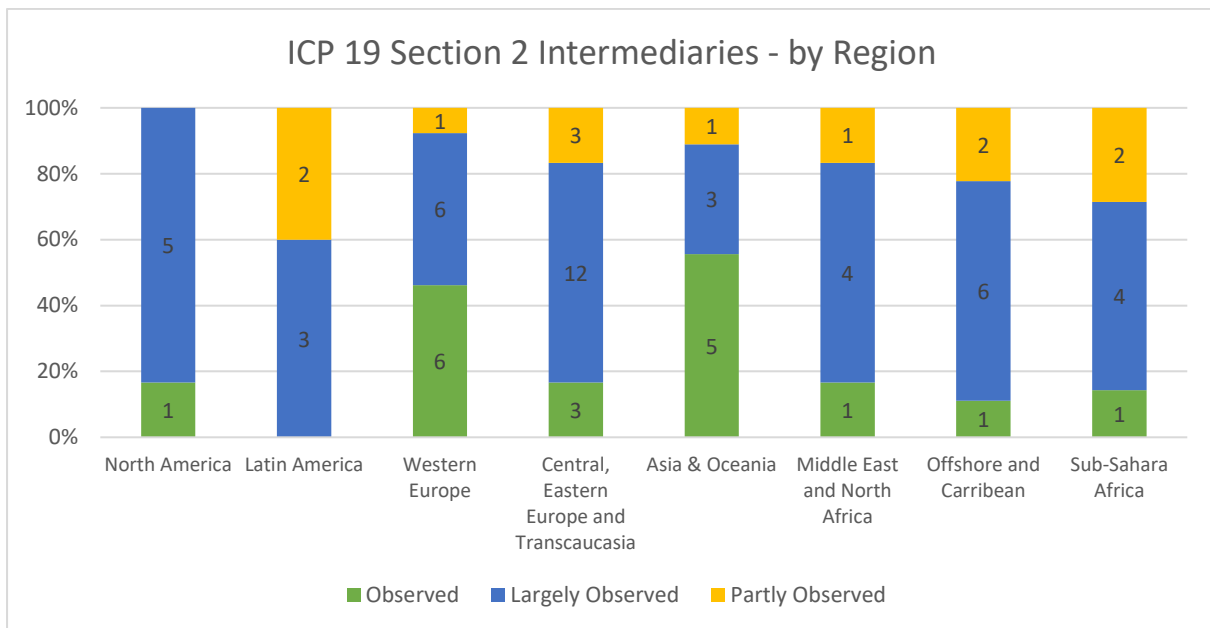
##### Overall result

89. As regards ICP 19 for intermediaries, a large majority of Members were assessed as Largely Observed (43 Members – 59%) and Observed (18 Members – 25%). 12 Members were Partly Observed (16%).
90. The assessment questionnaire concerning ICP 19 for intermediaries contained 36 questions covering 10 standards.

ICP 19 - Intermediaries	FSB jurisdictions	Other OECD jurisdictions	Other jurisdictions	Total respondents
Observed	9	2	7	18
Largely Observed	12	10	21	43
Partly Observed	1	1	10	12
Not Observed	0	0	0	0
Not Applicable	0	0	0	0
<b>Total</b>	<b>22</b>	<b>13</b>	<b>38</b>	<b>73</b>

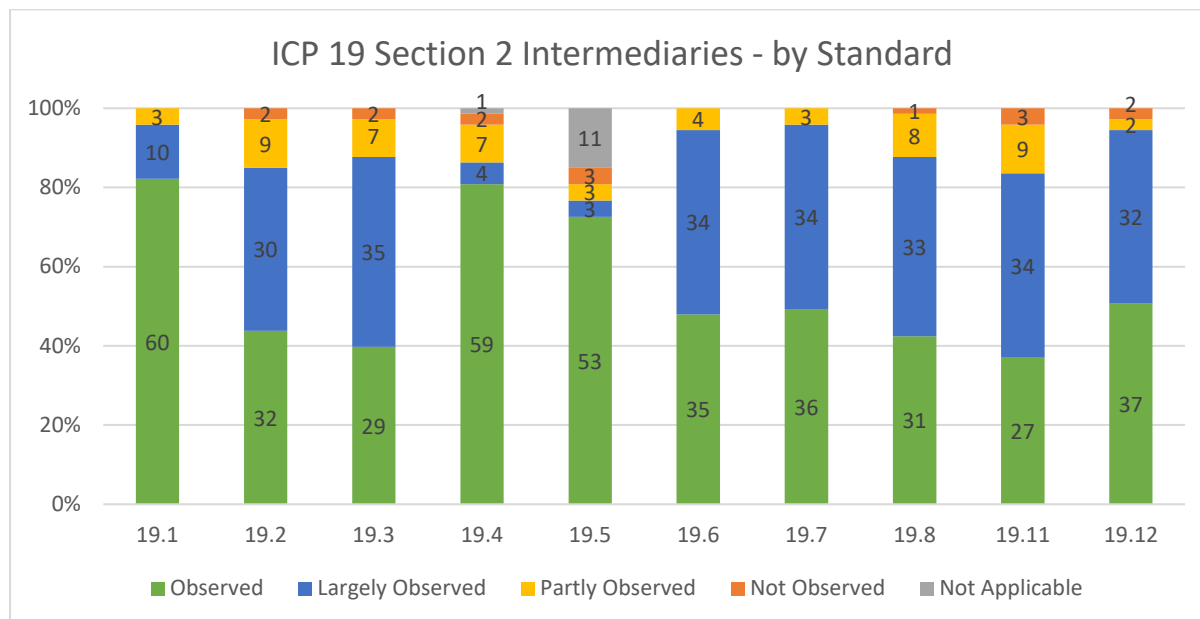
**Table 3.2**

91. Levels of observance were highest among FSB jurisdictions. 41% of FSB jurisdictions fully observed ICP 19 for intermediaries, as compared to 15% of other OECD jurisdictions and 18% of other jurisdictions. Rates of Largely Observed were 77% for other OECD jurisdictions and more consistent at 55% for both FSB jurisdictions and other jurisdictions. A sizeable portion of Members in other jurisdictions (26%) only partly observed ICP 19 for intermediaries.
92. It was noted that overall observance of ICP 19 was high amongst participating authorities and has increased compared with the results of the assessment in 2014, when only one Member from 69 jurisdictions was assessed as Observed.
93. Detailed breakdown of results by Region (see also Annex 3):



**Details on the level of observance per Standard**

94. Overall observance, ie supervisors rated as Observed and Largely Observed for each of the standards, significantly increased compared to the results of the assessment in 2014 but there are still shortcomings in some jurisdictions.
95. Standard 19.1, which concerns requirements for intermediaries to act with due care, skill and diligence when dealing with customers, had a high level of observance for supervisors of intermediaries, with 82% rated Observed and 14% of jurisdictions rated as Largely Observed for this standard.
96. Standards 19.4 and 19.5, which concern requirements for insurers and intermediaries to have arrangements in place in dealing with each other to ensure the fair treatment of customers and to take into account the interests of different types of consumers, also had high levels of Observed ratings for supervisors at 81% and 73%, respectively. However, 3 Members were Not Observed for Standard 19.5 for intermediaries. Eleven Members reported Standard 19.5 as Not Applicable.
97. Standards 19.6 and 19.7, which concern requirements for intermediaries to promote products and services in a manner that is clear, fair and not misleading and to provide timely, clear and adequate pre-contractual and contractual information to customers, also had high levels of observance, 95% and 96% of Members assessed at least as Largely Observed respectively. .
98. Nine Members were only Partly Observed for Standard 19.2 (establishing and implementing policies and procedures on the fair treatment of customers, as an integral part of their business culture) and Standard 19.11 (requiring intermediaries to handle complaints in a timely and fair manner). An additional three Members were not observed for Standard 19.11.

**99. Detailed breakdown of results by Standard:**

**3.2.2 Areas for Improvement - Intermediaries**

100. Members should consider more regularly reviewing the performance of intermediaries in avoiding or properly managing any potential conflicts of interest. This review can help improve fairness for customers and can potentially take different forms (eg through review of the insurer).
101. Additionally, Members are encouraged to undertake more frequent reviews regarding the performance of intermediaries in promoting products and services in a manner that is clear, fair and not misleading, provided in Standard 19.6.
102. As noted above, a few Members did not observe Standard 19.11. Members are encouraged to keep in mind the requirement for intermediaries to handle complaints in a timely manner.
103. Members could seek to improve observance of Standard 19.2 by requiring intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture.

**3.2.3 Examples of Useful Practices - Intermediaries**

104. Detailed results by Standard:

**Standard 19.2**

**The supervisor requires insurers and intermediaries to establish and implement policies and procedures on the fair treatment of customers, as an integral part of their business culture.**

***Summary of Useful Practices – Intermediaries***

The authorities place substantial reliance on a variety of general and principle-based provisions in legislation that drives intermediaries to embed a culture of fair treatment of customers. These include an explicit requirement to treat customers fairly, an obligation to act with due skill, care and diligence in the interest of policyholders when conducting business activities, to establish internal policies and procedures promoting fair treatment and, in some instances, intermediaries are specifically required to develop and embed a customer-orientated corporate culture.

105. One Member from Asia-Oceania imposed a requirement on the Board and senior management to set clear expectations on the fair treatment of customers and to ensure that fair treatment of customers is embedded in the intermediary's corporate culture and core values. Many Members examined the extent to which intermediaries have embedded a culture of fair treatment by looking at intermediaries' strategies, policies and processes dealing with the fair treatment of customers. Furthermore, many authorities believe that appropriate requirements, relating to managing conflicts of interest and prioritising customers' interests, contribute to driving a culture of fair treatment of customers. In addition, several Members have issued guidelines to encourage the industry to embed fair treatment of customers within their business culture.
106. One Member from Latin America believes that its conduct of business supervision process and complaints system has made significant progress in preparing technical reports and investigating possible practices that require corrective measures by insurers and intermediaries related to fair treatment of customers and business culture. In adopting a risk-based approach, another authority from the Latin America region has implemented a requirement that intermediaries with greater market participation (intermediaries who accumulate approximately 75% of total production) must submit a biannual self-assessment relating to the fair treatment of their customers.

***Standard 19.3***

**The supervisor requires insurers and intermediaries to avoid or properly manage any potential conflicts of interest.**

***Summary of Useful Practices – Intermediaries***

Most authorities have implemented legal requirements that compel intermediaries to avoid and/or manage actual or potential conflicts of interest, and to disclose any actual or potential conflicts of interest to policyholders. Potential conflicts of interest that must be disclosed could typically include compensation arrangements with third parties (including referral fees), significant ownership interests in insurers (and vice versa), and factors influencing objectivity such as remuneration based on sales targets.



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107. A number of Members require intermediaries to establish and implement conflict of interest management policies as part of their overall governance structure. One Member requires insurers and intermediaries to establish proper policies for remuneration of their employees, which may not interfere with their ability to act entirely in the interest of policyholders and to make proper recommendations and provide information in an unbiased, clear and non-misleading way. Several Members have implemented a variety of structural policy interventions dealing with intermediaries' compensation structures. These interventions include:
- prohibiting or capping the amount of commission that may be paid by insurers to intermediaries;
  - prohibiting certain types of incentives or inducements to intermediaries, including "sign-on bonuses"; and
  - prohibiting certain fees that intermediaries are allowed to charge to policyholders (eg fees when settling claims on behalf of customers).
108. Some Members have implemented additional intrusive measures such as prohibiting intermediaries from being a partner, administrator, employee etc. of an insurer, or acting on behalf of both a policyholder and an insurer.
109. In some jurisdictions, qualitative factors (eg non-sales key performance indicators or criteria) must also be included as a basis for remunerating intermediaries, with adequate weighting provided to such factors in order to foster behaviour supportive of fair outcomes. Such factors could, for example, take into account aspects such as compliance, good sales practices and zero or low complaints. Some authorities prohibit the use of sale targets or any other similar criteria that could impede the objectivity of the intermediary as a basis to determine remuneration.
110. A number of Members have also issued a number of guidelines setting out expectations regarding the avoidance and management of conflicts of interests and remuneration practices, some which are general of nature and some which delve into very specific types of practices or products. Most Members are empowered to impose regulatory sanctions if unacceptable remuneration structures are identified and some authorities have taken regulatory action where a breach of the conflicts of interest provisions were identified. One Member from Western Europe referred to a large intermediary, wholly owned by the insurer, that claimed to be "truly independent" in the advice it provided and the insurers it recommended to customers. However, the intermediary failed to implement adequate systems and controls to manage the conflict that arose from the insurer's ownership of the intermediary. The intermediary's independence was compromised by its culture that promoted business strategies, including a policy which focused on increasing the business placed with its parent company, over treating customers fairly. This was not disclosed by the intermediary and customers risked being misled into believing they were dealing with an intermediary who would conduct an unbiased search of the market. As a result, the authority issued a significant fine to the intermediary for inadequate systems and controls and failing to provide information to its customers about the intermediary's interdependence in a way that was clear, fair and not misleading.



111. In taking steps towards a significant reform of the remuneration framework, one Member from Asia-Oceania implemented a Life Insurance Framework Reforms project. This project entailed removing exemptions for life insurance from the ban on conflicted remuneration and giving the authority the power to set maximum commission levels and clawback arrangements. A commission cap, to be implemented incrementally, was set for upfront commission and a commission cap for trail commission was also introduced. Clawback arrangements were also introduced if a policy “lapsed” or “partially lapsed” within the first two years. The purpose of the remuneration reform was to realign the incentives of advisers to benefit consumers as the authority had seen poor outcomes in the past which, in their opinion, was likely to be linked to high upfront commissions. The Member is in the process of assessing whether the reforms have been successful.

***Standard 19.7***

**The supervisor requires insurers and intermediaries to provide timely, clear and adequate pre-contractual and contractual information to customers.**

***Summary of Useful Practices – Intermediaries***

**Most jurisdictions do not distinguish between disclosure requirements applicable to digital sales and non-digital sales. Generally, disclosure requirements apply regardless of the sales medium.**

112. Some Members have implemented specific requirements applicable to “distance selling” or “direct marketing”. One Member from the Sub-Saharan Africa region requires intermediaries to disclose material information in cases where digital channels are being used. In addition, the channel must be approved by the authority before the intermediary can start selling the product using such a channel. Other authorities have implemented specific requirements for dealing with robo-advice or automated-advice and sales execution (scripted sales). In these instances, the intermediary has additional governance and operational requirements that it must adhere to if it decides to make use of these distribution channels. A few Members have also issued guidelines on the use of internet for insurance activities.

**Standard 19.9**

The supervisor requires insurers to:

- service policies appropriately through to the point at which all obligations under the policy have been satisfied;
- disclose to the policyholder information on any contractual changes during the life of the contract; and
- disclose to the policyholder further relevant information depending on the type of insurance product.

**Summary of Useful Practices – Intermediaries**

Authorities adopt divergent approaches regarding the responsibility of intermediaries in relation to ongoing product servicing. In some jurisdictions, the license of the intermediary must be tied to that of the insurer, so that the agent is bound to follow-up on policies. Where the agents resign or are terminated, the policy is assigned to another agent for continued servicing.

113. Some jurisdictions place the main responsibility for ongoing servicing, including provision of information, on the insurer. In those instances, the duties may be delegated to an intermediary, but the insurer remains accountable. In other jurisdictions, Members rely on the agreement between the insurer and the intermediary to guide and “regulate” the actions of the intermediary. A few Members from CEET and Offshore and Caribbean do not place any specific legal requirements on the intermediary insofar as it relates to ongoing policy servicing, but rely on general requirements relating to good faith and fair treatment of customers that apply to intermediaries.
114. In some jurisdictions intermediaries may only perform specified policy servicing activities and, in such instances, they are subjected to specific requirements regulating such activities. In several jurisdictions, however, a variety of requirements are placed directly on the intermediary in relation to ongoing servicing of policyholders throughout the life cycle of the policy. This includes requirements relating to ongoing disclosures, annual reporting to policyholders, requirements relating to complaints handling, ongoing review of the intermediaries’ distribution agreements and the like. Some Members hold intermediaries and the insurers who perform client services to the same standard.

**Standard 19.11**

The supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner.

***Summary of Useful Practices – Intermediaries***

**The majority of Members stated that the same provisions and supervisory practices apply both to intermediaries and insurers when it comes to the implementation of complaints monitoring systems. However, one Member from Offshore and Caribbean stressed that complaints by policyholders are generally made against the insurer and not the intermediary. Therefore, no such parallel monitoring system is applied.**

115. One Member from Western Europe mentioned the establishment of an official office for complaints against insurance intermediaries within the Ministry of Economic Affairs that treats every complaint and gives a response to the customer. In reality, many complaints can be solved – meaning that, in approximately 70% of the cases, a solution can be found very much in the interest of the customer or even fully in terms of what the customer requires from the intermediary.
116. According to a Member from North America, a plaintiff may, if dissatisfied with the firm's processing of the complaint or the outcome, request that the firm have the complaint record examined by the supervisor. One participant from Latin America described that its regulations currently require the submission to the regulator of statistics on complaints to legal brokers, which helps the supervisor determine the necessary course of action and select entities to be inspected. The report to the supervisor contributes to the identification of the topics most demanded by policyholders, triggering alerts regarding some processes that could be improved by the supervised entity.
117. When it comes to useful practices, one Western European Member outlined its system that is stipulated under its Alternative Dispute Settlement Act, which stipulates that consumers in (almost all) contractual consumer disputes with a nationally based company have been able to contact eight state-recognised dispute resolution bodies. These eight bodies offer out-of-court dispute resolution procedures under the Alternative Dispute Settlement Act. This ensures that these procedures are subject to high legal quality criteria. In particular, it is guaranteed that out-of-court proceedings are treated by an impartial and independent arbitrator and are, as a rule, free of charge, fast (within 90 days) and handled confidentially. Participation in the procedure is always voluntary for consumers and usually voluntary for businesses. The aim of proceedings before an ADR body is to resolve disputes by mutual consent. The conciliation body itself does not take a binding decision. Another Member from the same region stated that, in addition to the system that provides an independent dispute resolution mechanism for insurers, consumers can bring disputes against insurance intermediaries to the Consumers' Complaints Board, which is a public complaints board regulated by the act on consumer complaints.

***Standard 19.12***

**The supervisor requires insurers and intermediaries to have policies and procedures for the protection and use of information on customers.**

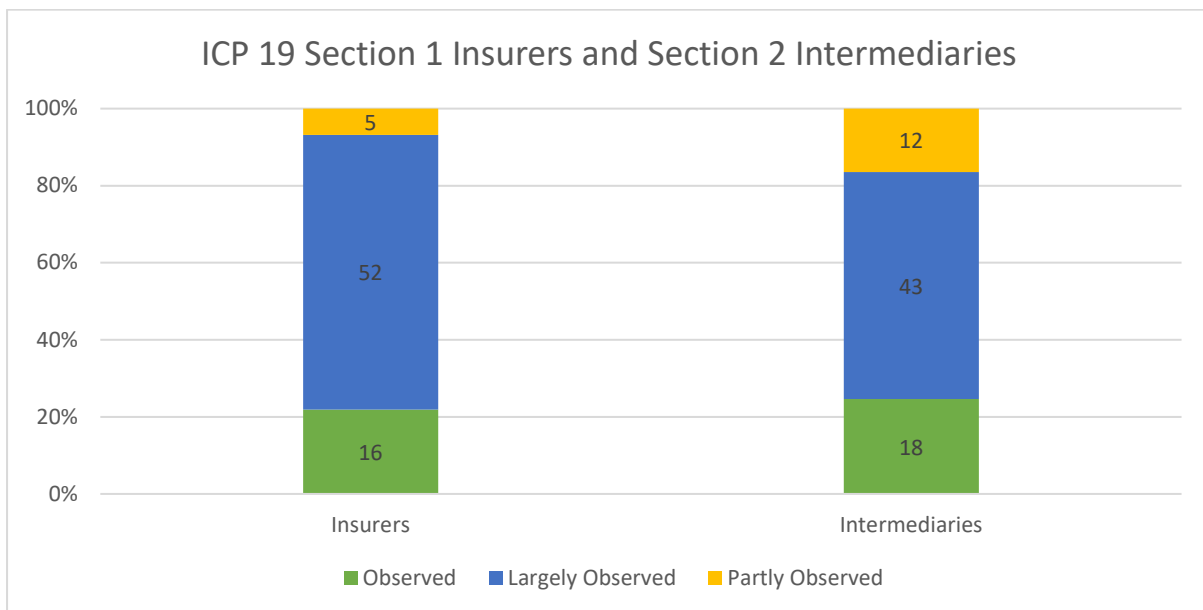
***Summary of Useful Practices – Intermediaries***

**The requirement to address the risk concerning the protection and use of private information is also of utmost importance in the area of intermediaries. While several Members indicated that in terms of privacy protection for outsourcing arrangements, the same rules apply to intermediaries as to insurers, other Members have specified their practices.**

118. A Member from Western Europe shared that insurance intermediaries comply with their statutory duty of confidentiality and ensure that there are adequate measures in place to protect customer data – though only in a limited scope – as this is not its statutory sphere of competence. In case there is a doubt about whether the customer data is protected adequately, the supervisor invites the competent authority to exert its powers with the relevant intermediary. The same applies when the outsourcing is being performed by foreign entities.
119. Some Members from MENA and Asia-Oceania highlighted that if an intermediary outsources functions to a service provider in another jurisdiction, there must be an outsourcing agreement in place that includes a provision as to the obligation to protect confidential information and personal data.
120. Another Member from North America specified that licensees can only use client information for the purpose for which it was provided. The authority has taken disciplinary action against intermediaries where client information was not properly protected and/or a privacy breach occurred and has issued reminder letters where privacy procedures need to be improved to prevent a breach.
121. The authority's position and requirements on client privacy and confidentiality do not override the requirements under existing legislation, which is the Freedom of Information and Protection of Privacy Act. Rather, the guidelines are intended to emphasise the importance of client privacy to licensees. Furthermore, the supervisor mentioned that outsourcing is addressed uniformly – expectations are the same whether or not firms in other jurisdictions are involved. The authority has developed a guide that describes best practices in the area of cybersecurity that includes the following guidance: registrants should monitor cybersecurity issues as part of their relationships with third parties, especially when outsourcing certain activities, such as the use of cloud storage space and, in the context of new technology-based business models, the use of compliance automation tools.

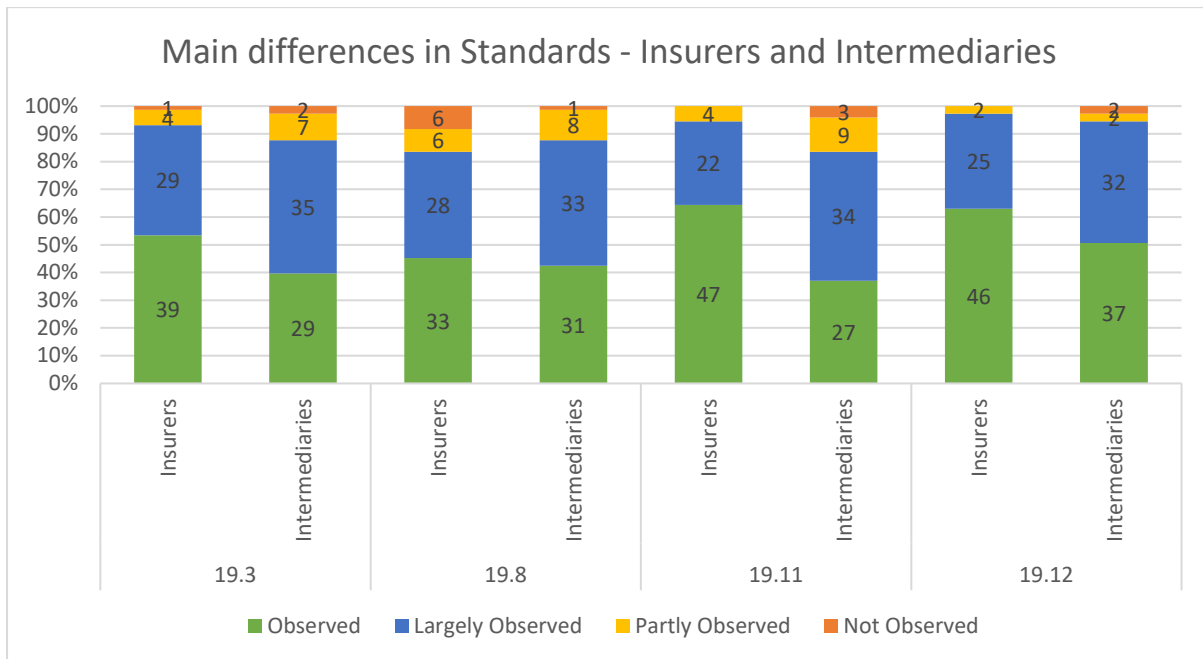
### 3.3 ICP 19 – Section 1 (Insurers) compared to Section 2 (Intermediaries)

122. For Section 1 (13 standards) compared to Section 2 (10 standards), the Observed rate is slightly lower (22% vs. 25%). Taking a combined look at the Observed and Largely Observed level, this picture changes: 93% scored Observed or Largely Observed in Section 1 (Insurers) and only 84% in Section 2 (Intermediaries).
123. The main drivers for the generally lower observance levels of supervisory requirements with respect to intermediaries appear to be Standards 19.3, 19.8, 19.11 and 19.12.
124. Detailed breakdown of results by Section:



125. Standard 19.3 (the supervisor requires insurers and intermediaries to avoid or properly manage any potential conflicts of interest) proved to be a bit more difficult for Members to achieve a higher observance level for the intermediaries section.
126. As noted above in Paragraph 49, 11 Members indicated Standard 19.5 (the supervisor requires insurers to take into account the interests of different types of consumers when developing and distributing insurance products) was Not Applicable for intermediaries. As a PRP is a self-assessment, some of the 11 jurisdictions did not provide any additional information when selecting Not Applicable. However, some provided additional information and indicated that intermediaries generally distribute products developed by insurers or that intermediaries are not allowed to develop insurance products according to the legislative framework within the jurisdictions, therefore making this standard Not Applicable for their intermediaries.
127. Standard 19.8 (where customers receive advice before concluding an insurance contract the supervisor requires that the advice provided by insurers and intermediaries takes into account the customer's disclosed circumstances) had a higher observance level for the supervision of intermediaries as compared to the supervision of insurers. Six Members were assessed as Not Observed as it relates to supervision of insurers, while only one Member received that rating for supervision of intermediaries.

128. Observance of Standard 19.11 (the supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner) for supervision of intermediaries was more of a challenge, as supervisors assess insurers more frequently than intermediaries.
129. For Standard 19.12 (the supervisor requires insurers and intermediaries to have policies and procedures for the protection and use of information on customers) Members had a lower observance of this standard in respect to intermediaries than insurers.
130. There are some regional differences in observance between Section 1 and Section 2. For example, all five Latin American jurisdictions were rated Largely Observed on ICP 19 for insurers, but only three jurisdictions rated Largely Observed for the supervision of intermediaries. While for Sections 1 and 2 observance levels for North America, the MENA region, CEET and Western Europe were largely the same, Sub-Sahara Africa observance improved slightly for the supervision of intermediaries. For Offshore and Caribbean jurisdictions, all 9 respondents were Largely Observed for Section 1, while for Section 2 one Member fully observed ICP 19 and two Members were Partly Observed.



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## Annex 1: Peer Review Process

1. The Peer Review Process (PRP) process can be broken into multiple steps. First, a detailed, web-enabled assessment questionnaire<sup>10</sup> is developed by the Expert Team. Prior to finalising the initial questionnaire, it is circulated to the Standards Assessment Working Group (SAWG) and relevant IAIS working groups, specifically the Market Conduct Working Group for this PRP, for review and comment.
2. Once the Expert Team has reviewed any comments received and finalised the questionnaire, it is sent to all IAIS Members<sup>11</sup> through an on-line survey tool. Members then submit responses to the questionnaire through the survey tool. Responses are initially assessed against quantitative rating criteria. The results are then subject to peer review by the Expert Team. Based on the initial assessment and peer review, individual jurisdiction reports for each participating Member are drafted by the Expert Team.
3. Draft individual Member reports are then sent to Members and they are asked to review their responses and the resulting assessment, and to submit comments for inclusion in the report. Corrections to factual misinterpretations are also accepted. The IAIS Expert Team reviews any comments or corrections provided by the Members before issuing a final individual report. The final individual Member reports are forwarded to the respective authority.
4. It is important to note that Members only respond to the questionnaires – they do not self-rate (ie conduct their own self-assessments). The IAIS Expert Team peer reviews the responses and assigns the ratings to ensure the consistency and independence of the process.
5. On the basis of the final assessment reports, an aggregate report is drafted by the IAIS Expert Team. The aggregate report provides key findings and summary results on a regional level. The SAWG, the Implementation and Assessment Committee (IAC) and relevant working groups are invited to provide input to the report. After a review with necessary revisions by the Expert Team, the aggregate report is then submitted to the SAWG for approval before being submitted to the IAC and Executive Committee (ExCo) for formal approval. The final aggregate report is available to the public and on the IAIS website.
6. All of the activities of the Expert Team are subject to ongoing oversight by the SAWG, which is responsible for overseeing the assessment of implementation of the IAIS's supervisory material.

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<sup>10</sup> [PRP Questionnaire on ICP 19](#).

<sup>11</sup> IAIS Members: <https://www.iaisweb.org/page/about-the-iais/iais-members>

**Annex 2: Participating IAIS Members by Category**

IAIS Member	Nature of Jurisdiction			IAIS Region							
	FSB	OECD	Other	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean	Sub-Saharan Africa
Africa – CIMA			x								x
Albania			x				x				
Armenia			x				x				
Australia	x	x						x			
Austria		x				x					
Bahamas			x							x	
Bahrain			x						x		
Belize			x							x	
Brazil	x				x						
Bulgaria			x				x				
Canada - BCFSA	x	x		x							
Canada (Québec)	x	x		x							
Cayman Islands, BWI			x							x	
Chile		x			x						
China, Hong Kong	x							x			
China, Macao			x					x			
Chinese Taipei			x					x			
Costa Rica			x		x						
Croatia			x				x				
Curaçao and Sint Maarten			x							x	
Czech Republic		x					x				
Denmark		x				x					
France	x	x				x					
Georgia			x				x				
Germany	x	x				x					
Hungary		x					x				
India	x							x			
Isle of Man		x								x	
Italy	x	x				x					
Jamaica			x							x	
Japan	x	x						x			
Kazakhstan			x				x				
Kenya			x								x
Korea (Republic of)	x	x						x			
Latvia		x					x				
Lebanon			x						x		
Liechtenstein			x			x					
Lithuania		x					x				
Luxembourg		x				x					
Macedonia (Republic of)			x				x				
Malaysia			x					x			
Malaysia (Labuan)			x							x	



IAIS Member	Nature of Jurisdiction			IAIS Region							
	FSB	OECD	Other	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia-Oceania	Middle East and North Africa	Offshore and Caribbean	Sub-Saharan Africa
Malta			X			X					
Morocco			X						X		
Namibia			X								X
Netherlands	X	X				X					
Panama			X		X						
Philippines			X					X			
Poland		X					X				
Portugal		X				X					
Qatar			X						X		
Qatar - QFCRA			X						X		
Romania			X				X				
Russia	X						X				
Rwanda			X								X
Serbia (Republic of)			X				X				
Seychelles			X								X
Slovakia		X					X				
Slovenia		X					X				
South Africa	X										X
Spain	X	X				X					
Swaziland			X								X
Switzerland	X	X				X					
Turkey	X	X					X				
Turks & Caicos			X							X	
United Arab Emirates - DFIC			X						X		
United Kingdom	X	X				X					
Uruguay			X		X						
USA, California	X	X		X							
USA, Missouri	X	X		X							
USA, Nebraska	X	X		X							
USA, Ohio	X	X		X							
Vanuatu			X							X	
<b>Participating IAIS Members by Category</b>	<b>22</b>	<b>30</b>	<b>38</b>	<b>6</b>	<b>5</b>	<b>13</b>	<b>18</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>7</b>

**Annex 3: Aggregated Results of Observance Level by IAIS Region**

ICP 19 Insurers	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia & Oceania	Middle East and North Africa	Offshore and Caribbean	Sub-Sahara Africa
<b>Observed</b>	2	0	6	2	5	1	0	0
	33%	0%	46%	11%	56%	17%	0%	0%
<b>Largely Observed</b>	4	5	7	14	4	4	9	5
	67%	100%	54%	78%	44%	66%	100%	71%
<b>Partly Observed</b>	0	0	0	2	0	1	0	2
	0%	0%	0%	11%	0%	17%	0%	29%
<b>Not Observed</b>	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%
<b>Not Applicable</b>	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	6	5	13	18	9	6	9	7

ICP 19 Intermediaries	North America	Latin America	Western Europe	Central, Eastern Europe and Transcaucasia	Asia & Oceania	Middle East and North Africa	Offshore and Caribbean	Sub-Sahara Africa
<b>Observed</b>	1	0	6	3	5	1	1	1
	17%	0%	46%	17%	56%	17%	11%	14%
<b>Largely Observed</b>	5	3	6	12	3	4	6	4
	83%	60%	46%	66%	33%	66%	67%	57%
<b>Partly Observed</b>	0	2	1	3	1	1	2	2
	0%	40%	8%	17%	11%	17%	22%	29%
<b>Not Observed</b>	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%
<b>Not Applicable</b>	0	0	0	0	0	0	0	0
	0%	0%	0%	0%	0%	0%	0%	0%
<b>Total</b>	6	5	13	18	9	6	9	7

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**Annex 4: Aggregated Results of Observance Level by Member**  
**(Confidential - IAIS Members only Extranet)**

<https://extranet.iaisweb.org/page/committees/implementation-and-assessment/reference-documents//file/97839/annex-4-aggregate-report-of-prp-on-icp-19>

*Please note that you must be logged in to the IAIS Extranet to access this file.*