



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

IAIS and the supervision of intermediaries

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Contents

1. Introduction
2. Insurance core principles
3. Intermediation and types of intermediary
4. Framework for supervision of intermediaries
5. Implementation
6. Looking ahead
7. Conclusion

1. INTRODUCTION



1. Introduction

- **Intermediaries: the face of the insurance sector**
 - Key distribution channels for insurance products – a pivotal role
 - Interface between consumers and insurers
 - First impression to insurance customers
 - Promoting financial awareness
 - Providing advice and support to customers on insurance needs and insurance policies, including assistance with claims that may arise under policies they have been involved in selling

1. Introduction

- The main objectives of intermediary supervision
 - Protecting consumer interests
 - Promoting public trust and confidence in insurance sector/market
 - Maintaining a level playing field / fair competition between market players



1. Introduction

- What can go wrong: PPI example (UK)

- Payment protection insurance

- Credit insurance product
 - Often sold by banks in connection with a mortgage loan

- but in many cases....*

- Policy not suitable
 - Customers not told they had a choice of provider
 - Unfair contract terms (nil refund terms)

- resulting in...*

- 24 banks reporting their monthly redress payments to the regulator
 - Over £16.6 bn (€21 bn) paid in compensation from 2011 to date

2. INSURANCE CORE PRINCIPLES



2. Insurance core principles

- Applying to the supervision of intermediaries:
 - ICP 18 (Intermediaries)
 - ICP 19 (Conduct of business)
 - ICP 21 (Countering fraud in insurance)
 - ICP 22 (Anti-money laundering and combating the financing of terrorism)



2. Insurance core principles

ICP 18 (Intermediaries):

“The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.”



2. Insurance core principles

ICP 19 (Conduct of business):

“The supervisor sets requirements for the conduct of the business of insurance to ensure that customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.”

- Most of the requirements apply to the supervision of intermediaries as well as to that of insurers

3. INTERMEDIATION AND TYPES OF INTERMEDIARY



3. Intermediation and types of intermediary

- Insurance intermediation – IAIS definition:
 - Activity of soliciting, negotiating or selling insurance contracts through any medium
 - “Solicit” : attempting to sell insurance
 - “Negotiate” : the act of conferring directly with, or offering advice directly to, a purchaser or prospective purchaser of a particular contract of insurance
 - “Sell” : to exchange a contract of insurance by any means, for money or its equivalent
- Insurance intermediary
 - Any natural person or legal entity that engages in insurance intermediation



3. Intermediation and types of intermediary

- Type of intermediary
 - Direct sales staff of insurers

 - Agent
 - act primarily on behalf of one or more insurers
 - may act for a single insurer; may be referred to as “tied”
 - may be restricted by agency agreements with the insurer(s) concerned
 - traditionally, life insurers have tended to market their products through tied agents



3. Intermediation and types of intermediary

- Type of intermediary (cont)
 - Brokers (or independent financial advisors)
 - act primarily on behalf of customer (either policyholder or insurer)
 - typically independent of the insurers whose products they 'offer' to their customer
 - may be involved with several insurance companies and offer customers a wide choice of insurance products
 - non-life insurers tend to distribute their offerings extensively through brokers

 - ❖ *Some supervisors do not distinguish between agents and brokers in legislation and instead focus on the activity performed*



3. Intermediation and types of intermediary

- Typical characteristics of brokers and agents

Brokers

- Broker contract (no ties to insurer)
- Provides advice, including insurance options available on the market
- Solely responsible for professional conduct

Agents

- Agent contract (implies ties to the insurer)
- Does not provide advice of other insurance options on the market
- Depend on the insurer for performance
- Insurer responsible for their professional conduct

* Sources : IAIS Core Curriculum (2006)



3. Intermediation and types of intermediary

- Practical examples of intermediaries
 - Insurers use various distribution channels, such as
 - car dealerships, post offices, retailers and travel agents who offer insurance in respect of the primary goods and services in which they trade
 - bancassurance: a bank's distribution network is used to sell insurance products
- Remuneration for intermediation
 - Through fees or commissions paid by the insurer or charged directly or indirectly to the customer, depending on the circumstances

4. FRAMEWORK FOR SUPERVISION OF INTERMEDIARIES

4. Framework for supervision of intermediaries

Setting Optimal Supervisory Framework

- Licensing
- Supervisory Review
- Supervisory Powers

Qualification Requirements

- Knowledge, Integrity, Competence

Conduct of Business Requirements

- Fair treatment of customers

Intermediary Supervision

Corporate Governance

- Suitability of persons
- Adequate internal controls
- Control over outsourcing

Disclosure to customers

- Terms of business
- Intermediary status
- Remuneration



4. Framework for supervision of intermediaries

- Licensing (or registration)
 - Ensuring that insurance intermediaries are required to be licensed
 - Meeting appropriate standards of professionalism and competence
 - Specifying in the licence the types of insurance intermediation
 - Prior to issuing a license, supervisors should require application together with additional information; business plan, details of policies, procedures and controls in key area (Compliance, AML/CFT, new business, client money, complaints, conflicts of interest, Etc.)
 - May set minimum financial resource requirements
 - Setting an appropriately risk-based financial resource requirement
 - Issuing licences that may be renewable periodically



4. Framework for supervision of intermediaries

- On-going supervisory review
 - analysis of complaints against insurers and intermediaries
 - identifying poor conduct in the area of intermediation
 - off-site monitoring and on-site inspection
 - regular formal meetings with intermediaries as a means of supplementing off/on site procedures
 - may also use other tools such as “mystery shopping”
 - indirect supervision through insurers (may be appropriate for the agent model rather than broker model)
 - Self-regulatory organisations on professional standards



4. Framework for supervision of intermediaries

- Supervisory powers
 - Supervisor needs to be able to take actions against the insurance intermediary as licensee where appropriate
 - Supervisory action should apply at either the entity level or individual level, as appropriate
 - Due process rights are in place for an intermediary to appeal supervisory action
 - ❖ *The supervisor of intermediaries can be different from the insurance supervisor*



4. Framework for supervision of intermediaries

- Qualification requirements: knowledge, integrity and competence
 - professional knowledge to carry out their responsibilities
 - attainment of relevant professional qualification
 - intermediaries have policies and procedures to achieve relevant professional qualifications
 - keep their professional knowledge up to date
 - be knowledgeable regarding the status of the insurers whose products they sell
 - Integrity and high ethical standards
 - internal policies and procedures, ethical standards of professional bodies, code of conduct
 - Competence
 - Implement policies and procedures to assess the competence of the individuals undertaking intermediation work



4. Framework for supervision of intermediaries

- Fair treatment of customers
 - Insurers and intermediaries should act with due skill, care and diligence when dealing with customers
 - Insurers and intermediaries should establish and implement policies and procedures on the fair treatment that are part of their business culture, such as:
 - providing customers with clear information before, during and after the point of sale
 - reducing the risk of sales which are not appropriate to customers' needs
 - ensuring that any advice given is of a high quality
 - dealing with customer complaints and disputes in a fair manner
 - protecting the privacy of information obtained from customers
 - managing the reasonable expectations of customers



4. Framework for supervision of intermediaries

Promotion and selling

- Insurers and intermediaries should promote products and services in a manner that is clear, fair and not misleading
 - the information provided should be easily understandable;
 - be consistent with the result reasonably expected to be achieved by the majority of customers of that product;
 - state prominently the basis for any claimed benefits and any significant limitations; and
 - not hide, diminish or obscure important statements or warnings



4. Framework for supervision of intermediaries

Disclosure

- Insurers and intermediaries should provide customers with clear information before, during and after the point of sale
 - Accurate, clear and not misleading
 - Easily understandable (in plain language)
 - In a durable medium (eg in writing)
 - Should enable an informed decision to be made



4. Framework for supervision of intermediaries

■ Disclosure (cont)

- Terms of business
 - by whom they are licensed and supervised
 - whether they act as agents or brokers
 - the services provided, including whether they offer products from a full range of insurers, from a limited range or from a single insurer
 - charging arrangements, cancellation rights, notification of complaints
 - client money arrangements, etc.
- When: at the time of intermediation (at least prior to entering into agreement) + supplementary whenever needed.
- How: provision of a copy, acknowledged in writing by the customer



4. Framework for supervision of intermediaries

- Disclosure (cont)

- Intermediary status

- Information on their relationship with the insurers with whom they deal

- Remuneration

- Objective of disclosure is to avoid conflict of interest between the customer and the intermediary
 - Information on charging structures can be important information to customers
 - May require disclosure of the basis on which intermediaries are remunerated under the circumstances that potential conflicts of interest exist
 - require to provide with further information on fees and commissions upon a customer's request

- ❖ *The supervisor should be aware of the use of non-monetary benefits, so called “soft” commissions, offered by insurers to intermediaries*



4. Framework for supervision of intermediaries

- Advice
 - Where advice is given this should be appropriate, taking into account the customer's disclosed circumstances
 - Customer's financial knowledge and experience
 - Needs, priorities and circumstances
 - Ability to afford the product
 - Risk profile
 - Reason for a recommendation should be explained
 - Where advice is given before concluding a contract, any conflicts of interest should be properly managed



4. Framework for supervision of intermediaries

■ Corporate Governance

- Minimum corporate governance requirements
 - to provide for sound and prudent management of the business and to protect the interest of stakeholders
- Good governance may be promoted by the supervisor, as well as other authorities (or organisations) publishing guidance on:
 - standards on suitability of persons
 - appropriate standards for conduct of business (code of conduct)
 - adequate human resources to conduct the business
 - appropriate level of internal controls of the business
 - maintaining adequate files and records and ensuring their availability for inspection
 - maintaining appropriate controls over outsourced functions



4. Framework for supervision of intermediaries

- Sufficient safeguards on client monies
 - Policies and procedures to safeguard “client monies”
 - Use of separate client accounts distinguishable from the intermediary’s accounts
 - Disallowing monies other than client monies within the account
 - Ensuring that monies are paid into the account promptly;
 - Ensuring that adequate financial systems and controls, adequate books and records are maintained and subject to audit
 - Ensuring that reconciliations are performed on a regular basis and reviewed



4. Framework for supervision of intermediaries

- Other ongoing requirements
 - Insurers and intermediaries should have policies and processes to handle complaints in a timely and fair manner
 - Insurers and intermediaries should have policies and procedures for the protection of private information on customers

5. IMPLEMENTATION



5. Implementation

- Proportionality principle

- Various business models, ranging from sole traders to large enterprises, including specialist wholesale or reinsurance intermediaries
- Nature of the customers with which an intermediary interacts
 - Private customers vs. larger businesses
- Complexity of the products offered
 - life products with an investment element vs. general personal lines products

- Diversity

- Intermediation systems are closely linked with jurisdictions' tradition, culture, legal regime, and the degree of the development of insurance markets



5. Implementation

- Risk-based approach
 - Requirements should take into account risk factors such as the nature of the business to be intermediated
 - Greater attention is focused on higher risk areas
 - where intermediation includes the provision of advice
 - intermediation on long-term or complex products or those with a significant investment element
 - in respect of less sophisticated customers

5. Implementation

- Market monitoring and review of supervisory framework
 - Need on-going review whether the supervisory framework continues to work in an effective/efficient manner
 - Monitor potential risks due to market development & change of trends
 - Consider the need for further supervisory action/requirements

6. LOOKING AHEAD

6. Looking ahead

- Self assessment and peer review on ICPs 18 & 19
 - A voluntary exercise involving IAIS Members, over 2015
- Application paper on approaches to the supervision of intermediaries and insurance distribution
 - To be developed over 2015-2016

7. CONCLUSION

7. Conclusion

- Intermediaries' key role
 - The face of the insurance sector
 - Opportunity to promoting financial awareness
 - Role in providing advice, support and assistance to the client on risk and insurance

7. Conclusion

- Key aims of intermediary supervision
 - Enhancing the level of consumer protection
 - Maintaining a level playing field / fair competition between market players
 - Strengthening public trust and confidence in insurance sector

- To achieve this (in a nutshell)
 - Implement a supervisory framework that is optimal to its own jurisdiction, and aims to ensure that intermediaries have a high level of professionalism, integrity and competence

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