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FUTURE APPROACH TO MARKET CONDUCT SUPERVISION

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(Market Conduct Supervision)
Insurance Regulatory Seminar
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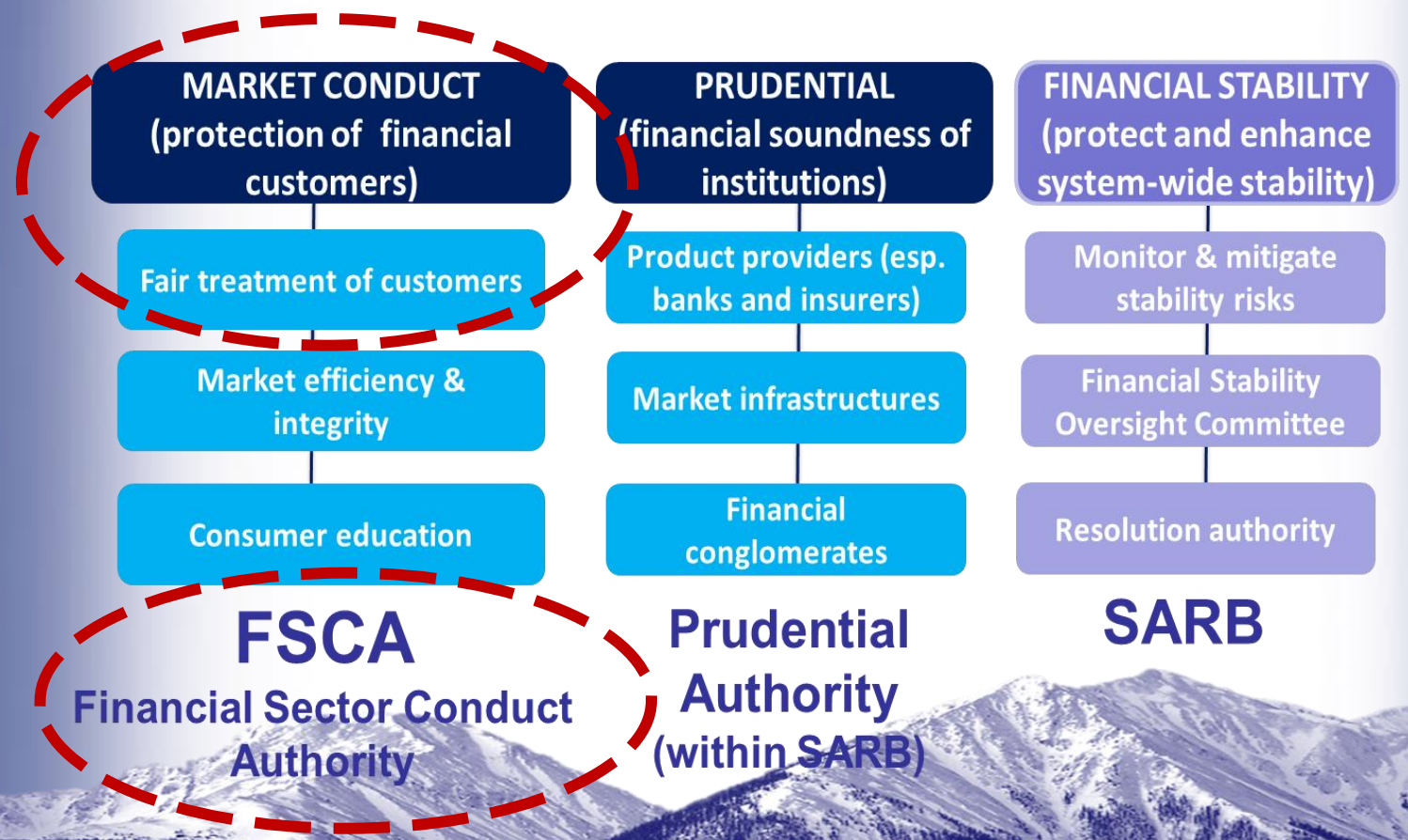


Agenda

- **INCREMENTAL APPROACH TO IMPLEMENTATION OF TCF**
- **FUTURE APPROACH TO MARKET CONDUCT SUPERVISION**
- **KEY CURRENT AND FUTURE SUPERVISORY FOCUS AREAS**
- **GENERAL OBSERVATIONS**



RECAP: Twin Peaks



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INCREMENTAL APPROACH TO IMPLEMENTATION OF TCF



The future – From FSB to FSCA

- **FSB → → → FSCA** – responsible for future market conduct supervision
- BUT: Has the “future” not arrived?
- REMEMBER: Consistent message from the FSB re: *“Incremental implementation of TCF”*
- Move from talking about TCF outcomes to proactive management of market conduct risks



Incremental implementation of TCF

- What does “*incremental implementation*” mean?

CURRENT SUPERVISION

- Challenging TCF commitment when investigating concerns
- Testing of TCF commitment and culture – focus on effectiveness of operational implementation
- Identifying market conduct risk indicators
- Specific thematic supervisory initiatives testing risks to fair customer outcomes

- Structured reporting on market conduct risk indicators
- Reviewing existing regulatory frameworks to test whether they support fair customer outcomes
- Introducing TCF principles into existing regulation
- Reflecting TCF principles into overarching Twin Peaks regulatory framework



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FUTURE APPROACH TO MARKET CONDUCT SUPERVISION



Future Guiding Principles

- Regulation and Supervision must be:
 - transparent
 - comprehensive and consistent
 - **intensive and intrusive**
 - **outcomes based** (TCF, market integrity and other policy outcomes)
 - **risk based and proportional**
 - **pre-emptive and proactive**
 - a credible deterrent
 - aligned to applicable international standards



Cross-cutting activity-based focus

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- ★ Culture and governance
- ★ Product value
- Unfair contract terms
- Misleading advertising/marketing
- Ineffective disclosure
- Conflicted advice
- ★ Poor claims handling
- ★ Poor complaints handling
- Empowered customers

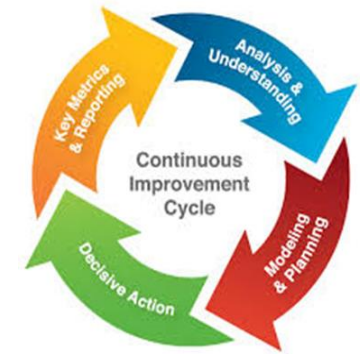
Testing outcomes, rather than compliance 'tick-box'

Rebalancing of responsibilities:
Increased scrutiny of the way firms develop products;
Product provider oversight of chosen distribution channel

Fair outcomes can be achieved in different ways, through emphasising different TCF elements

Supervisory expectations

- Ongoing, proactive, demonstrable management of conduct risk indicators manifesting in:
 - Continuous improvement in product design, service delivery, customer experience
 - Fair pricing
 - Appropriate products
 - Clear and understandable disclosures
 - Improved claims handling practices
 - Reduction in persistent complaints
 - Meaningful management information and reporting
 - Enhanced governance and oversight of distribution channel
 - Customer centric decision making





Using data to demonstrate value

- Meaningful regulatory and management reporting requires consolidation of accurate, quality and usable data from various distribution touch points
- Investing in more reliable, dependable, quality data helps to articulate conduct risks more precisely and makes compliance much easier to **demonstrate**
- Having consistent access to the right data, in the desired format and at the right moment helps to generate new insights for better customer solutions and improved business efficiencies

Reference:

*Data Points: HOW FINANCIAL SERVICES FIRMS
USE TECHNOLOGY TO TURN DATA
INTO ACTIONABLE INSIGHT*

Bloomberg for Enterprise



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KEY CURRENT AND FUTURE SUPERVISORY FOCUS AREAS



Current and future focus areas

- Binders/ Outsourcing (LT&ST)
- Claims Thematic Review (LT&ST)
- Complaints Management (LT&ST)
- Quarterly Market Conduct Meetings (LT&ST)
- Conduct of Business Reporting (LT&ST)
- Premium reviews (LT)
- “Moving” of policies (LT&ST)
- Tax Free Savings Accounts (LT)
- Other supervisory initiatives



Binders/ Outsourcing

- Observations and supervisory expectations
- Outsourcing to improve efficiencies and in the interest of policyholders
- Governance and oversight – upfront and ongoing
- Remuneration – being considered under RDR
- Data exchange
 - Frequency
 - Quality
 - Integrity
 - Security
 - Usability
- Industry Data Specification – Mandatory fields
- Insurers of concern – require independent “audits” to demonstrate operational capability



Claims Thematic Review

- 14 insurers identified
- Risk-based
- Focus areas:
 - Structure, resourcing and remuneration
 - Governance and oversight
 - Claims submission process
 - Assessment of claims
 - Management of fraud risk
 - Settlement of claims
 - Repudiation processes
 - Link to complaints
 - Overall TCF embedment
- Observations to date:
 - Inconsistent definitions of “claim”, “repudiation”, “rejection” and capturing of information
 - Client experience – inconsistent measuring of turnaround times, lack of feedback
 - Underwriting at claims stage





Complaints Management

- 2014 Thematic Review Follow Up
- Information Letter 3 of 2014 – Key Findings and Supervisory Expectations
- Monitoring of Ombudsman Statistics
- Focus areas
 - Root cause analysis and quality of management reporting
 - First call resolution and escalation processes
 - Link to business continuous improvement processes
 - Proper categorisation
 - Monitoring at distribution level





Quarterly Market Conduct Meetings

- Risk based, proactive and regular interactions with senior management
- Better understanding of business models
- Sharing of information
- Focus areas:
 - Key business highlights and significant developments
 - Governance and oversight of conduct risk issues
 - Complaints and claims trends analysis
 - New product launches and/or campaigns
 - Updates on supervisory initiatives
 - General regulatory and business concerns





Conduct of Business Reporting

- Proposed quarterly reporting on key conduct risk indicators
- Second draft being finalised for comment and testing
- Alignment to SAM authorisation classes and Insurance Bill definitions
- Data required per distribution channel
- Focus areas:
 - Quantitative sales and premium information
 - Details of benefits, including VAPs
 - Not Taken Up, Policy Paid Up, Replacement, Surrender and Lapse Rates
 - Details of remuneration – Commission, Binder, Outsourcing and Other Fees
 - Detailed claims information
 - Detailed complaints information
 - Marketing spend





Premium Reviews

- Investigation initiated in response to complaints of deliberate mispricing/ excessive premium increases on certain life risk products
- Discussions held with senior management and Board members of 5 insurance groups
- Example of interconnectedness between actuarial decisions and consideration of conduct risks, fair balance between interests of shareholders and policyholders
- Focus on the role of actuarial oversight structures in assessing risks to fair customer outcomes
- Report and guidance to be issued on application of TCF considerations when making significant pricing decisions
- Focus on Board oversight, appropriateness of pricing decisions, clear ongoing communication, options to policyholders



Moving of policies

- Investigation into industry practice of “bulk” movements of policies -18 insurers identified
- Summary of concerns:
 - Inadequate incorporation of TCF considerations when moving policies
 - Reliance on “negative” consent
 - Insurers unable to provide data on policies moved over the past two years
 - Inconsistent adherence to 30 day policyholder notification rule
 - Lack of insurer oversight over intermediary communication with policyholders relating to policy terminations
- Some actions to date:
 - Follow up with individual insurers on specific concerns
 - Closer scrutiny of Directive 151 submissions
 - Input into draft information letter on cancellation of policies
 - Input into RDR proposal relating to cover cancellations
 - Findings shared with FAIS Division



Tax Free Savings Accounts

- Example of cross-cutting supervisory focus area
- Regulations in terms of section 12(T)(8) of the Income Tax Act, No. 58 of 1962:
 - Published on 25 February 2015 and effective 1 March 2015
 - To enable providers of financial products to market and distribute tax free savings products in order to encourage household savings
- Section 12T(9) grants the FSB the mandate to supervise and enforce compliance with the Regulations
- Objectives:
 - Address low level of household savings in the country
 - Provide tax free savings products that are:
 - Simple to understand
 - Offered in a transparent manner
 - Carry fees and charges that are reasonable
 - Suitable for this target market, not necessarily expert investors



Tax Free Savings Accounts

- The following entities may issue and/or administer tax free savings products:
 - Long-term Insurers as defined in the Long-term Insurance Act, 1998
 - Banks as defined in the Banks Act, 1990/ Mutual Banks Act, 1993/ Co-operative Banks Act, 2007
 - Managers of Collective Investment Schemes as defined in the Collective Investment Schemes Control Act, 2002
 - National Government (retail savings bonds)
 - Authorised users in terms of the Financial Markets Act, 2012 (stock brokers)
 - Administrative (Cat III) FSPs in terms of the FAIS Act, 2002 (advisors/ intermediaries)



Tax Free Savings Accounts

- Establishment of FSB cross-cutting supervisory working group
- Focus areas:
 - Development of supervisory framework
 - Dealing with technical queries and complaints
 - Engagement with National Treasury and SARS
 - Entity level product supervision
- Centralised contact point: FSB.TaxFreeSavings@fsb.co.za



Tax Free Savings Accounts

- Contribution limits:
 - Annual – R30 000
 - Lifetime – R500 000

- Observations and concerns to date:
 - Clarity of disclosures
 - Monitoring and tracking of over contributions
 - Complexity and suitability of products
 - Calculation of fees
 - Ability of providers to effect transfers between accounts





Other supervisory initiatives

- Travel Insurance (ST)
 - 5 insurers identified
 - Inconsistent remuneration structures
 - Concerns regarding premium collection
 - Policy wordings not always easy to understand
 - Lack of insurer oversight

- Value Added Products (ST)
 - Require more focus on product suitability and demonstrating value to clients
 - Analysis of specific offerings such as roadside assistance and extended warranties

- Consumer Credit Insurance (LT&ST)
 - Concerns relating to product suitability, distribution and pricing
 - Detailed information request imminent

- Multiple Causal Event Charges (LT)
 - Concerns relating to timeous compliance with Directive 153
 - In depth industry investigation imminent



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GENERAL OBSERVATIONS



A few closing thoughts

- Insurer resolution of complaints received by the FSB:
 - Insurers with demonstrable commitment to customer-centricity more likely to reach fair resolution
 - Quality of responses to complaints may be an indicator of level of commitment and overall culture
 - FSB versus Ombudsman focus areas – intervention only if residual conduct concerns arise, specific regulatory non-compliance is identified or there are indicators of possible broader policyholder impact
- Board and senior management consideration of market conduct risks
 - Consideration of customer impact in strategy setting and business planning
 - Evidence in minutes of Board discussions and integration in overall enterprise risk management framework
 - Ensure reporting across operational areas and limit over reliance on “TCF” reporting from compliance function only



Remember...

- No more “just talking” about TCF
- Demonstrate proactive management of conduct risks across value chain
- Manifesting in continuous improvement to products, delivery and overall experience
- Resulting in better outcomes for customers
- And finally . . .
 - It's all about that DATA!





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Questions?

