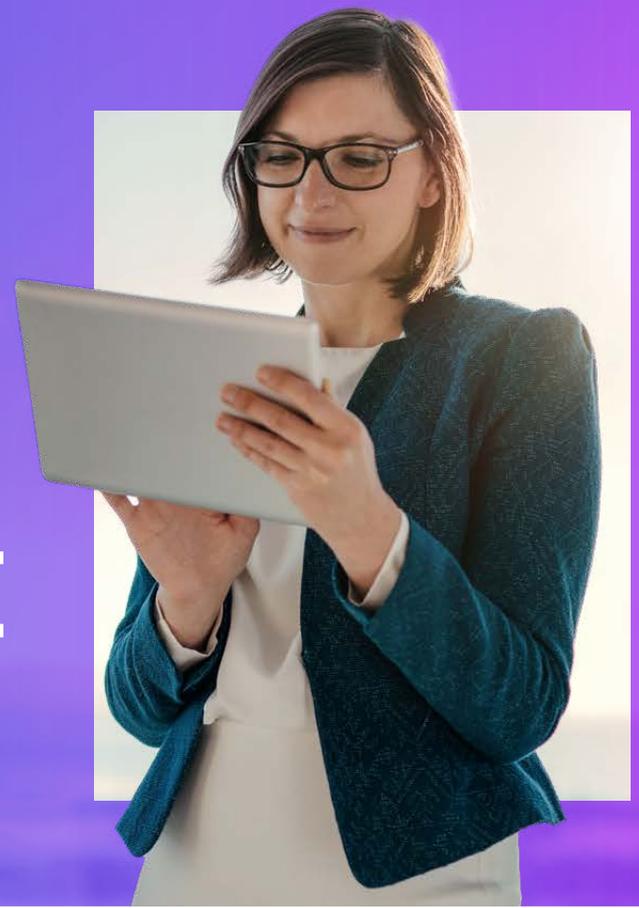


Enhancing Product Oversight and Governance



Introduction

The European Insurance and Occupational Authority (“EIOPA”) recently conducted a peer review on **product oversight and governance** (“POG”) within the European Economic Area. This review aimed to assess how National Competent Authorities (“NCAs”) were overseeing the application of POG requirements by insurance firms. The peer review was conducted among all 30 countries represented at EIOPA, of which the Central Bank of Ireland (“CBI”) was the competent authority participant for the Republic of Ireland. The results of the peer review revealed a **wide disparity in the maturity of POG supervision** among NCAs. In this article, we will explore the **key themes identified** in EIOPA’s report and discuss **how KPMG can assist firms** in developing their POG frameworks.

Background

April 2020: EIOPA issued the Chapter on POG within its supervisory handbook, offering guidance for NCAs to assess POG implementation.

October 2020: EIOPA published its consumer-centric approach to supervising POG in the insurance sector, based on the Insurance Distribution Directive (“IDD”).

EIOPA’s engagements on the peer review in 2021 and 2022 involved bilateral dialogues and surveys, with a specific focus on NCAs’ supervisory activities.

Summary of Findings from Report

The EIOPA peer review **revealed diverse levels of maturity in POG** supervision among NCAs. While some NCAs demonstrated effective and consumer-centric POG approaches, others were still in the process of developing their supervisory frameworks. Key considerations for NCAs include having a **well-defined and comprehensive POG supervision structure, clearly defined objectives and sufficient resources** with relevant expertise to address the complexity and risk levels of insurance products. Five key themes have been developed by EIOPA, which are summarised below.



1. Organisation and Resources of POG Supervision

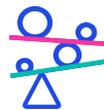
NCAs are expected to establish **robust monitoring frameworks** for product-related conduct, ensuring adherence to both the IDD and Packaged Retail and Insurance-based Investment Products (“PRIIPs”) regulations. To achieve this, NCAs should **define clear supervision objectives and strategies and allocate sufficient resources to it**. NCAs should seamlessly integrate conduct supervision into their day-to-day operations, including regulatory obligations and product oversight. However, in early 2022, some NCAs had only made minimal adjustments to their regulatory obligations and product oversight, while others had fully integrated them into their day-to-day operations.

Firm Considerations

- Have you identified the **key areas of focus** to ensure compliance with regulatory obligations and POG requirements?
- Have you allocated adequate **resources** to support these focus areas?
- Do you ensure your products, distribution channels and marketing practices adhere to the required **regulatory standards**?

How Can KPMG Help?

KPMG is well-versed in regulatory expectations across different jurisdictions. We have **a clear understanding of industry standards for Product Governance** within the financial services sector. This knowledge is rooted in our first-hand experience of working alongside industry peers and regulators on their Conduct Risk Programmes.



2. Risk-Based Approach

NCAs are expected to adopt a **risk-based supervisory approach**, focusing on firms and products that pose significant risks to consumers. This approach should be seamlessly integrated into a broader **conduct risk assessment framework**, with appropriate allocation of resources based on supervisory priorities. The primary goal is to ensure that insurance firms **prioritise consumer interests throughout the product lifecycle**, leading to favourable consumer outcomes. While some NCAs have successfully implemented effective risk-based frameworks, others require improvement. Recommendations include conducting systematic risk assessments and aligning them with the NCAs’ risk strategy.

Firm Considerations

- Do you have a consumer protection risk management **framework** in place?
- Do you prioritise **aligning your products with consumer interests** throughout your processes?
- Have you established an approach for **continuously monitoring** your products to mitigate risks and proactively identify errors?

How Can KPMG Help?

KPMG has designed a bespoke **Product Assurance Framework** to arm firms with tools and techniques to control their product set and align with the evolving Product Governance and consumer protection expectations. Using this **bespoke methodology**, we can assist you with developing a robust framework which will enhance your current product review processes, by moving to a **data-led and highly automated product review process** which will be preventative in nature and move away from a labour-intensive assurance approach.



3. Setting and Communicating Supervisory Expectations

NCA's are expected to establish and convey clear supervisory expectations to insurance firms regarding customer centric regulatory obligations and products. Stricter expectations should be applied to **complex products with higher consumer risks**. While some NCA's have effectively communicated these expectations through circulars, thematic meetings and websites, others lack specific guidance and bilateral dialogues, which hampers the effectiveness of supervision. The recommendation proposes **formulating and communicating comprehensive supervisory expectations** to assess the effectiveness of POG arrangements in day-to-day business.

Firm Considerations

- Are your products **aligned to the needs of your consumers** to produce good outcomes?
- Do you have a clearly defined **target market** for each of your products?
- Do you **evaluate the complexity** of your products to ensure that appropriate measures are in place to address any potential risks associated with complex products?

How Can KPMG Help?

Our bespoke Product Assurance Framework embodies the role of **assurance as a strategic advantage** and allows you to take a **risk-based approach** to assurance. The framework enables firms to clearly evidence adherence to regulatory expectations and display adherence to POG requirements. Our framework is tailored to **meet the specific needs of your organisation**.



4. Supervisory Methodologies and Tools

NCA's should rely on documented internal processes to assess the POG processes of insurance firms. Utilising these standards can **enhance supervision efficiency, facilitate risk detection and aid resource allocation**. During the review, it was found that most NCA's lacked **well-structured methodologies** for POG supervision, highlighting the need for tailored internal processes based on EIOPA's Supervisory Handbook and product oversight guidance. Recommendations include the development of **fit-for-purpose internal processes**, enhancement of POG supervision and providing support to supervisors for both off-site and on-site oversight.

Firm Considerations

- Do you have documented **internal processes** in place to comply with regulatory guidance on POG processes?
- Do you continuously **monitor the effectiveness** of your POG processes and promptly address any identified gaps or shortcomings?

How Can KPMG Help?

Drawing from our extensive experience of working closely with firms and regulators, we are here to support you in your POG engagement with them. Our in-depth knowledge and partnership model enables us to provide **valuable assistance and guidance** in navigating the intricacies of the regulatory landscape.



5. Supervisory Activities

POG supervision aims to evaluate how insurance firms **implement POG policies and procedures** in a proportionate and effective manner. NCA's utilise various tools such as on-site inspections, thematic reviews and off-site analyses to assess if firms' arrangements **align with consumer needs, product complexities and target markets**. Some NCA's have conducted in-depth investigations and market-wide assessments. Recommendations include implementing **systematic supervisory activities** and placing a strong emphasis on POG requirements during both on-site and off-site inspections.

Firm Considerations

- Do you have defined **POG key performance indicators** that clearly demonstrate adherence to POG requirements in the event of an inspection?
- Do you have a **Product Assurance Framework** in place to comply with regulatory needs?

How Can KPMG Help?

Our experts possess diverse skills, ranging from **product subject matter knowledge to conduct and risk expertise, as well as proficiency in data analytics and applied intelligence**. This ensures a quick and efficient mobilisation of resources to guarantee a **smooth and effective project execution**. Our data-driven framework seamlessly aligns with POG arrangements, allowing for thorough assessment and monitoring of product risk.

Next Steps

As a follow-up of this peer review, EIOPA will **actively monitor and evaluate** the extent of NCAs' adoption of the recommended actions, particularly those that have not yet been implemented. EIOPA expects **significant progress** to be already visible when going back to NCAs for initial **follow-up after six months**.

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