



Society of Actuaries in Ireland

Consumer Protection Code Review Discussion Paper

Submitted to the Central Bank of Ireland

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Introduction

The Society of Actuaries in Ireland (“Society”) is the professional body representing the actuarial profession in Ireland.

The Society welcomes the opportunity to engage with the Central Bank through this discussion paper ahead of the planned Consumer Protection Code Review. In responding, we have focussed our comments on Insurance businesses, whilst recognising that the existing Consumer Protection Code also applies to other financial institutions such as banks and intermediaries.

The response has been prepared by a cross section of members of the Society and does not purport to reflect the views of the insurance industry.

Overview

As set out in the discussion paper, financial services are undergoing significant transformation, driven by advances in technology. These changes can benefit consumers in many ways, improving product choice and availability, but also can have negative effects on some consumers. It is therefore a good time for a review of the Consumer Protection Code to ensure it reflects new ways of doing business and ensures consumers are protected.

In our review of the discussion document, the impact of technology on vulnerable customers was a common theme across a number of questions. In our view it is important that vulnerable customers continue to be supported in their engagement with financial services, even as those firms move more services on-line. Digital literacy is routinely becoming expected of consumers in order to engage with financial services, and we need to ensure vulnerable customers aren't disadvantaged as a result.

Another common theme across the discussion was the importance of clarity in the documentation provided to customers in order for them to understand the products they are being offered. Clarity and understanding would be improved if there was consistency of approach (e.g. terminology, approach to disclosure etc) across all financial products – at present occupational pension schemes and annuities / Approved Retirement Fund contracts sit outside of the CPC. In addition, the volume of information that currently must be provided to a customer at point of sale is lengthy and complex to understand. As a result, customers are less likely to read the information and understand it. From a consumer protection point of view, it should be considered if it would be better for customers to read and understand a short document covering the main features of their product, rather than providing them with a long document which in practice few customers will read. This is a complex issue and one that the Society would be happy to engage further on with the CBI.

It is also important when focussing on consumer protection not to lose sight of the broader needs of society and the existing gaps in pension provision and insurance cover. For example, broad take up of retirement savings products is required to fill the future pensions gap. It is important therefore that an appropriate balance is struck between consumer protection and making financial products accessible and attractive to those who need them.

In the following pages, we set out the responses submitted by the Society via the online survey.

Broad Theme A: Availability and Choice – Effective Market Functioning

Q.1 What are your views on availability and choice of financial services and products for consumers?

We agree with the sentiment in the discussion document that having an appropriate range of financial products and services available to consumers to choose from is important and leads to competition and innovation that is to the consumer's benefit.

We would feel that as a principle, it is important that consumers receive a broadly similar level of regulatory protection in relation to all financial services and products, taking into account the risk posed by a particular product.

Additionally, the level of regulatory protection provided should ensure that appropriate financial services and products continue to be available to a broad range of consumers, and not have an unintended consequence of reducing competition and the range of financial services and products available, for example to more vulnerable consumers.

Having a range of providers to choose from is of key importance to consumers to ensure a broad range of products and services are available, along with competitive prices.

Availability and choice may be reduced as a result of Brexit, and this is an area that should be analysed to ensure an appropriate ongoing level of competition.

Q.2 How important are new providers and new delivery channels to serving consumers' financial needs?

New and existing providers and delivery channels should be of equal importance, given the aim of providing availability and choice.

Q.3 In implementing its consumer protection mandate, how should the Central Bank reflect the importance of competition in its regulatory approach?

Alignment of regulatory approach across the EU is a key component to maintaining competition and not having significantly different levels of consumer protection by country is an important part of this.

Broad Theme B: Firms Acting in Consumers' Best Interests

Q.4 Do you agree that the Central Bank should develop guidance on what it means for a firm to act in the best interests of its customers?

As the CBI suggests, there is a risk that, in seeking to specify more precisely the meaning of 'best interests', the strong self-evident imperative to 'do the right thing' becomes watered down and replaced by a more rules-based or legalistic conception. So, while guidance might be useful, we should guard against producing another layer of compliance which increases cost and may reduce choice. There is some overlap between what is already covered in the CPC and the guidance outlined below. If the guidance is intended to be separate to the new CPC, avoiding duplication is important.

When developing extra guidance or regulation, both the end cost and benefit to the consumer should be considered. Ultimately the cost of regulation flows through to the consumer as firms seek to recoup the cost of meeting their requirements, through the charges they take on financial products. Taking disclosure documentation as an example, if the customer doesn't read or understand the required documentation, they are bearing a cost for something that doesn't actually benefit them. In order to justify the cost of implementing extra regulation it should be justifiable in terms of the benefit it brings to the consumer. Testing of proposals with consumers would be very useful in this regard.

Q.5 Does the suggested outline of 'customer best interest' guidance capture the essence of the obligation to act in customers' best interests? What other guidance would you suggest?

In our view the 13 points outlined in the discussion document capture the main themes firms would consider when assessing how they are meeting their customers' obligations. We have commented on each of the points below.

- *"Acting in customers' best interests is a holistic requirement. Firms need to satisfy themselves that their actions further the interests of their customers, not simply comply with the rules;"*

Customer service level in the transition to a more digital environment is an example of where this should be considered. Adequate service levels are very important to a firm's customers. Firms are under cost pressures and often respond by reducing their workforce with an inevitable consequence on service times. Customers find it more difficult to get through on the telephone or have to wait weeks for answers to basic queries. Digitalisation can certainly lead to savings in staff numbers but too often the staff reduction comes before the technology solution.

- “This means firms should focus on the outcomes for customers and whether those outcomes are what would be expected where firms are acting in the customers’ best interests;”

As mentioned above, outcomes are not just product benefits but also the service which underlies them. The principle outlined seems reasonable. It is also important for the customer to understand the contract they entered into, what their obligations are and the benefits they can expect in return. Key to this is ensuring customers understand the importance of reading the documents provided and ensuring the documentation is clear for them.

- “In deciding what it means to ‘act in the best interests of customers’, a key determinant is the legitimate expectations of those customers. In determining legitimate expectations, relevant factors include:

- The information provided, and how an ordinary, time-constrained consumer would reasonably have understood it;

- What an ordinary consumer in the relevant market would have expected, on the assumption that that firm had the customer’s best interests at heart;”

A key phrase in the first sub-point is “time-constrained”. Many would agree that the amount of information which must be provided to a new customer is far too extensive and means that the information will not get read. A recent survey of online purchases in general found that only 1% of customers even click on the “terms and conditions” link. Lengthy terms and conditions that aren’t read by the consumer only serve to protect the product provider.

The second point is harder to define other than ensuring all information given is clear and not misleading. Are the major downside risks given adequate prominence? A good example of misleading information would be that which is often provided with Structured Retail Products (SRPs), overlapping back-testing given precedence over future simulations on which pricing is based.

- “The culture, strategy, and approach of the firm should centralise the interests of customers;”

This is a very important principle and one that should be incorporated in a firm’s risk management framework. Having appropriate Management Information in place is key to ensuring management have early sight of potential areas of poor customer outcomes. The FCA in the UK have published useful guidance on culture (www.fca.org.uk/firms/culture-and-governance) and are introducing new Customer Duty rules later this year which set out expectations in this area.

- “The firm must maintain an appropriate balance between the interests of shareholders and the interests of customers;”

Such a principle would be expected to prevent excessive profiteering at the expense of customers but what is excessive? See the answer to the next point.

- “In terms of business models, targeting a sustainable, reasonable (risk-adjusted) return on capital for the activity in question over an appropriate time horizon has the greatest likelihood of complying with the best interests obligation;”

We would think that this is just one of several tools that would support this objective. A robust product lifecycle management process ensures that there is regular review of how each product (activity) is operating from both the firms’ and the customers’ point of view. Such a review would encompass customer interests through metrics such as claims rates, rates of claims declined, errors, complaints, customer satisfaction scores etc.

- “Inducements from third parties must not impair compliance with the regulated firm’s duty to act honestly, fairly and professionally in the best interests of the customer;”

This is in line with what is set out in the current CPC; as mentioned above, duplication should be avoided.

- “Customers’ has a collective and individual meaning: failing to protect the interests of one customer, or group of customers, cannot be justified by protecting the interests of others;”

This point might mean that new customers could not be offered substantially better terms than existing customers.

- “Diversity of cultures and business models are to be expected (and are desirable). Different customers want different types of products and services, with different levels of individualisation and complexity. It is important to ensure alignment of service and product with the legitimate and reasonable expectations of customers;”

Some customers might be looking for a more bespoke solution to their financial needs than others. A firm’s marketing department should be aware of this, and resources allocated and charged accordingly. Firms must ensure they have the resources to cope with increased volumes from particular campaigns.

- “Asymmetries (of resource, information and expertise) must be identified and recognised, and deployed to the benefit of customers;”

It is unclear what this principle actually means. An advantage of expertise and information will generally rest with the firm. One radical idea would be to require information to be minimised subject to covering what is essential. There is little doubt that too much information is now

provided to many buyers of financial products such that most of it is no longer read. A good example is that firms selling without using third party advisers are required to disclose not only charges but the remuneration of their sales arm. This was introduced because advisers felt that they would otherwise be at a disadvantage but there is no logic for requiring customers to read through this where no adviser is involved.

• “A high level of contractual clarity must be provided to customers. Where material ambiguity arises, this must be interpreted in favour of customers;”

It is vital that the customer understands what they are buying. This means good information but not excessive information, as customers are unlikely to read lengthy documentation. The official pre-sale disclosure information should be limited to say 2 pages of A4. For more complex products where this is not feasible, they should perhaps be labelled “complex” as in Italy for example and the target market is restricted accordingly. Defining “complex” would be challenging. Product features, such as the use of derivatives in anything but their simplest form, could deem a product “complex.”

• “Firms must not take undue advantage of customer behaviour or habits to the benefit of the firm and/or at the cost of the customer. This does not mean that consumer behaviour or habits cannot be integrated into the firm’s approach, but that this must only be done in a way that is designed to enhance customer outcomes;”

This point is presumably aimed at the active/passive client issue. Charging extra to loyal customers would be regarded as unfair by most people. Even if these extra margins are given back to more active customers, this would still offend the eighth principle above and thus seems a valid point for any code of guidance.

There are however situations where different treatment of different cohorts of customers needs to be provided for, for example, where firms may need to implement a deferment period on exits from a property fund to allow time for the orderly sale of some assets to provide liquidity.

• “Where failures or weaknesses are identified in the treatment of one customer or a group of customers, an impact assessment should be undertaken so that issues are addressed for all customers in a similar position. In addition, in cases where issues are to be resolved on the initiative of the firm, remediation should be accompanied by full disclosure to provide transparency and accountability on the remediation plan.”

This is similar to what is expected of firms in the management of errors under the existing CPC, so again duplication should be avoided.

Other Guidance

The paper asks what other guidance might be suggested. One would be to limit the information included in any official disclosure document. Thus, firms can include whatever information they wish in their marketing material as long as it is “fair, clear and not misleading”. Compulsory disclosure information should then be limited to say two pages, unless the product is labelled “complex” where other rules would apply, perhaps limiting the target market. This disclosure document could then be signed by the customer to confirm that it has been read.

Theme 1: Innovation & Disruption

Q.6 Do you agree with our proposed approach to enhancing our Innovation Hub?

Yes, the Hub seems like a good idea and opens up the channels of communications at an early stage between innovators and regulators which is beneficial to both parties. However, some level of independence needs to be maintained within the CBI to ensure they are not inadvertently led by the innovators. This may mean a segregation of duties between the hub team and the team which ultimately supervises the activity. The sandbox idea has been used in other jurisdictions with some success and so may prove to be a useful approach. However, a suite of dynamic and flexible approaches needs to be considered e.g., “test and learn” or “wait and see” approaches may be more appropriate solutions in certain circumstances.

Q.7 What more should be done to support innovation while ensuring consumers’ best interests are protected?

Clear communication on the regulatory status of an innovation is key especially if it is in a “test and learn” phase from a regulatory point of view. As we move into a more virtual world the rights of the consumer must be clearly defined especially the jurisdictions under which legal issues will be assessed and resolved as well as the complaints procedures if an issue arises. These complaints procedures should require the option of human interaction at some stage. Engagement with organisations representing vulnerable members of society at an early stage of drafting regulations can also ensure the most vulnerable are considered.

Q.8 How can regulators ensure that neither firms currently in the market, nor new entrants, have unfair advantages which could be a barrier to fair competition?

Public disclosure and sharing of key information usually ensure a level playing field. It is important that the channels through which products are sold/delivered are as well-regulated as the providers themselves. Ensuring products are made available to all can ensure companies don’t target specific profitable elements of the market whilst ignoring others, or where this does happen consideration should be given to a levelling mechanism e.g., grants/levies, to ensure that those consumer cohorts seen as less profitable can still access products / services.

Theme 2: Digitalisation

Q.9 Do you agree with our analysis of the benefits, challenges and risks around digitalisation in the area of financial services? What are the key issues for you?

The move towards digital is largely a positive development and, in some cases, digitised statements are already expected/required e.g. pensions. However, engaging with organisations which represent vulnerable people should be a priority for this topic as some vulnerable customers may not have access to the internet or may not be digitally savvy.

In relation to the use of Big Data, careful consideration should also be given to how individualised insurance should be. The use of community ratings for certain types of insurance can be very beneficial to certain cohorts of consumers. The use of the big data should not result in a one-sided benefit to just the provider and care needs to be taken to ensure less risky customers see a benefit if riskier customers are penalised. Consideration also needs to be given to current customers versus customers who embrace digital and ensure any difference in treatment is understood. Online decision making and the use of personal data is largely covered by GDPR already. Whilst implementing preventative measures to reduce the speed of transactions could be useful, this needs to be proportionate to the products being purchased (e.g. single journey car insurance). Care needs to be taken to ensure new innovations are not blocked.

Gamification is certainly a concern. Whilst it probably is not possible to restrict the use of gamification completely, it may be possible to restrict the negative effects of it on the consumer and thought should be given on how to design and enforce these restrictions.

Q10. How do you think the personalisation and individual-targeting of ads can be made compatible with the requirement for firms to act in the best interests of customers?

The reason why companies engage in personalisation and individual-targeting of ads is because it works. Otherwise, this practice would naturally cease. Whilst it does provide benefit to consumers, it is open to abuse.

In order to make it compatible with the requirement to act in the best interests of the customers the aim here should be to provide a way for consumers to easily assess products across the market so they can validate offers being made. The CCPC does this well for mortgages and the HIA provides this facility for health insurance. Similar services should be made available for other financial products where possible.

Customers should be notified where ads are personalised, and it should be made clear to them how this personalisation impacts the price/service offered to them.

Also, it may be appropriate to request that product providers explain to regulators how they use personalisation and individual-targeting ads and how they determine what is offered to the consumer to ensure it is appropriate and not misleading.

Theme 3: Unregulated Activities

Q.11 The Code requires regulated firms to provide a statement indicating that they are 'regulated by the Central Bank'. Do you think this is useful for consumers?

This can be useful for consumers, but its usefulness depends on the communication medium. Long disclosure statements on short radio ads, for example, can detract from the message the product provider wishes to communicate. There are many further opportunities along the path to sale to clarify this for the customer. What may be more useful for customers is an alert on financial products that are not regulated.

Q.12 How can the difference between regulated and unregulated activities be made clearer for consumers?

Not answered.

Q.13 Should there be additional obligations on regulated firms when they undertake unregulated activities?

Not answered.

Theme 4: Pricing Matters

Q.14 What can firms do to improve transparency of pricing for consumers?

In seeking competitive advantage, general insurance firms, in particular, are looking at greater segmentation. Developments in machine learning make it easy to target small profitable groups of customers to the detriment of others who may have a similar need for the product.

These practices can make it difficult to price transparently from a customer point of view. In order to improve transparency for the customer, efforts should be made to link price differentials to features or situations that are understandable to the customer.

For longer term business such as savings and pensions, pricing transparency has improved considerably over time, compared to the complex features such as capital units that were common in the past. However, it is still challenging for customers to understand the impact of different charge types on their policy and how that differs depending on their time horizon. Effective disclosure is key here, and dealt with in the next section.

Q.15 In relation to pricing, are there examples of firms using unfair practices to take advantage of customer vulnerabilities?

We have considered potential situations that could give rise to either intentional, or unintentional, exploitation of customer vulnerabilities.

As firms incorporate increasing amounts of data and machine learning techniques into their pricing processes, it does provide opportunities for more targeted consumer pricing. However, it can also make the interpretation of the impact of pricing decisions harder. This is especially true where algorithms introduce new or complex interactions. The drivers of claims experience identified by complex models built on large data sets may be less intuitive than traditional drivers. Firms who cannot (or do not) interpret their models correctly are likely to take pricing decisions that are at odds with the desire to be fair to all customers. These risks will be addressed in the proposed EU Artificial Intelligence regulations which will require that complex models used by firms will need to be explainable.

Theme 5: Informing Effectively

Q.16 How can regulation improve effectiveness of information disclosure to consumers?

The nature of the information that is subject to disclosure is relevant.

Where the level of risk associated with a financial product is being communicated - for example, where there is an investment component to the product - the information provided should be in

a format designed to impart an understanding to the consumer of the range and relative likelihood of the outcomes.

It is also appropriate that downside risks are given additional prominence.

Where failure to meet the terms of a financial product (such as the repayment of a loan, or the disclosure of information when taking out an insurance policy) have a consequence for the consumer, it would be appropriate that these consequences are highlighted.

Effectiveness of disclosure may be helped where a mitigating step was highlighted in addition to warnings, so there is a way to take an action on foot of a warning. For example, in addition to a warning such as *"If you do not keep up your repayments you may lose your home"*, it may be helpful to set out the steps that a borrower might consider to assess whether this warning should cause them to consider a different course of action, e.g. should they assess their repayment capacity if interest rates rise.

Where costs of a financial product are being communicated, costs should be expressed in terms of their impact on the consumer, and where there is remuneration payable to an intermediary, this should be clear. Information disclosed should be designed to help the consumer to understand the costs charged by a financial institution and the cost of distribution or advice.

Costs can be ad valorem (e.g. charges on assets under management), fixed costs or contribution charges (where a certain percentage of each investment amount is deducted as a charge). The impact of the charges overall in monetary terms can be difficult to identify as a result. Where investments, such as pensions, are made over long periods of time, this means that apparently small charges can have a significant impact.

For all long-term savings products, it would be helpful to consumers to communicate the impact of costs where the contract is held to maturity and separately where the contract is held for (say) 2 years only. Doing so would highlight the potential for loss of value where the policy is not maintained to maturity.

The impact of costs should be captured as a Reduction in Yield, and separately as a financial amount, relative to premiums paid.

Simplicity and consistency of disclosure of information across financial products (both inside and outside the scope of the CPC) would be of value to consumers. A potential exception to this is where the level of complexity is such that the disclosure of information documentation is designed for an intermediary - for example, where terms and conditions are necessarily complex and detailed, or where payoff profiles on an investment product are complex.

It is also important however to ensure that consumers do not experience information overload. As the volume of information presented to the consumer increases, so too does the risk of them not reading or understanding it.

Any review of disclosure regulations should take into consideration the existing requirements which already include remuneration disclosure, benefit projections etc. The current disclosure documents, particularly for life and pension products, are already lengthy and as referred to earlier, we think the focus should be on making the documents more concise, not adding to them, to increase the chances of customers reading them.

Q.17 How can firms better support consumers' understanding – can technology play a role?

Yes. Technology is already playing a greater role at present in supporting consumers' understanding in certain areas.

Pension communications have sought to “age” images of pension savers so that they can better visualise themselves at and in retirement - their “future selves”. More specifically, technology can craft pictures that reflect hoped-for versus feared-for future selves. The use of video benefit statements is becoming quite widely adopted by pension providers in the Irish market, where the video steps through the information on the hard copy statement.

Combining methods of communication is generally seen as helpful to recipients of information.

Technology can also support communication enhancements, for example the communication of the probability of particular levels of investment return being achieved, however the Society would identify that implementing such a regime would be complex.

Q.18 Does the way in which firms approach disclosure in respect of mortgage products need enhancing? If so, how? - taking account of the wide variety of features of mortgage products, and borrowers' different circumstances and needs.

Not answered.

Theme 6: Vulnerability

Q.19 Given that vulnerability should be considered more as a spectrum of risk than a binary distinction, how should firms' duty to act in their customers' best interests reflect this?

While vulnerable customers may not present themselves on a regular basis to a firm, this should not be held as an excuse by the firm for not devoting adequate time and challenge to the topic. Equally, because vulnerability occurs on a spectrum, once a firm has acted in good faith, followed the expected process and given all opportunities to extend additional support, they then should not be held responsible for unrecognised or undeclared vulnerability.

It is firms failing to recognise the vulnerability that a customer may be experiencing that can lead to sub-optimal outcomes for consumers. The disadvantage that they find themselves at can further impede their ability or confidence to speak out and request additional information and support.

Q.20 What other specific measures might be adopted to protect consumers in vulnerable circumstances while respecting their privacy and autonomy?

It is likely that Ireland will experience continued immigration in coming years. The cultural differences and potential different levels of financial literacy and custom will continue to present as a vulnerable aspect in some customers. Firms changing in line with the evolving financial landscape, and in particular digitalisation, will need to ensure that specific measures are developed to protect such consumers. This could include using multiple languages, at least to engage in high level messages (such as was seen in the multiple languages used in Covid messaging online), or making Sign Language interpreters available to companies when providing financial advice to consumers.

Company policies should ensure a clear cross-company understanding of what vulnerability could mean in the context of their business and ensure that adequate time is available to staff to support vulnerable customers without it impacting on processing targets.

The risk of companies not adequately protecting customers in vulnerable circumstances increases with digitalisation. This is not just due to the challenges for vulnerable customers where they are expected to deal with unfamiliar technology, but also, as more business is transacted digitally there will be a reducing pool of experienced customer service agents who can support appropriately. Companies should be expected to provide for this in their consumer protection policies.

The facility for a customer to nominate a trusted contact person is an option we feel could be worthwhile for vulnerable customers.

Theme 7: Financial Literacy

Q.21 What can the responsible authorities do to improve financial education?

The increased digitalisation of financial services is leading to increased self-serve options for buying financial products. While many consumers take advice from a professional, there is likely to be an increase in consumers taking out financial products online without an advisor. As a result financial literacy becomes even more important in a digital environment.

Key to this is to start financial education early by including financial services in the secondary school curriculum so that school-leavers understand the basics of financial products such as bank accounts, savings, borrowing, life assurance and pensions and terminology used to explain products such as Reduction in Yield, APR etc.

There are also a number of key steps that could be taken to enable consumers to engage more effectively with financial products:

1. Mandate that financial products do not include levels of complexity that are unwarranted or unnecessary or that are designed to obscure the underlying proposition.
2. Ensure that the financial and taxation system within which financial products operate are as simple as possible.
3. Simplicity and consistency of disclosure of information across financial products (both inside and outside the scope of the CPC) would be of value to consumers.
4. Provide benchmarking information to allow consumers to assess whether the terms of the financial product that they are considering are low / medium / high cost, and to assist consumers who wish to seek out a lower cost product. Imparting an understanding of the key aspects of a financial product is arguably more valuable than providing information on all the detailed workings of a financial product.
5. Social and mainstream media consumer campaigns encouraging better financial behaviours would also support better financial education, for example, where the pension auto-enrolment system is introduced.

Q.22 How can consumers be empowered to better protect their own interests when dealing with financial matters?

There is overlap here with the responses to the previous question.

A key additional element in respect of this question is to enable consumers to have clear steps available to them to have concerns addressed in a timely and appropriate manner, including ensuring they are aware of their right to cool-off after they enter a contract.

Theme 8: Climate Matters

Q.23 How should the financial system best fulfil its role in supporting the transition to a climate neutral economy?

Financial services firms have a fundamental role to play; they are large investors and contribute more widely to the general economy. Regulation already in place and on the horizon, by imposing detailed climate-related disclosures on firms, will force them to reduce their carbon footprint.

Financial firms should ensure that disclosures and communications to customers are simple and not misleading. While there is a risk of "greenwashing", regulators should be mindful that in order to reduce this risk, firms are not resolving to be less vocal about the steps they are taking towards a climate neutral economy.

Insurers/actuaries could have a bigger role to play. They are used to dealing with, analysing and mitigating risks. They could put this expertise to the service of the public and help the general economy in this important transition. Insurers, and particularly general insurers, can support by steering the adaptation measures that are needed to improve resilience to the physical risks generated by climate change. Lenders and large investors can support by facilitating green initiatives and players.

It is important to recognise that, whilst there is pressure to transition in a timely manner, that the move to a climate neutral economy should be made in a fair and sustainable manner, in order to limit undue disruption to the economy.

Q.24 How will climate change impact on availability, choice and pricing for financial products and services?

Climate change is an evolving area and the impact it will have on insurance products is complex and difficult to predict. Whilst there are direct impacts on the pricing and availability of current products, due to increases in the frequency and severity of claims, reinsurance markets and changes in insurers' risk appetite, there will be other, possibly indirect, impacts on consumers and on insurance companies, caused by the transition to a climate-neutral economy and the related changes in certain business models.

For example, some general insurance products are impacted by the frequency and severity of extreme weather events. Insuring risks like property in areas subject to flooding could become unaffordable for customers and/or unfeasible for insurers. The problem of under-insurance, or no insurance cover being available for certain customers, may not be solved by the private sector and may need the intervention of the public sector. Exclusions on products due to climate change could become a necessity meaning that consumers will need to be made aware of what their

product actually covers. New products will be developed as the economy transitions and new needs arise.

For life insurance products, the impact of climate change on mortality and morbidity is uncertain. There may be a negative impact, resulting in higher costs for new consumers and potential mortality losses on back-books. Conversely, if mortality rates increase, this may reduce the cost of annuity benefits.

Irish population demographics may change considerably due to increased climate related migration which may add to the cost of life assurance products. The increased uncertainty climate change will bring in relation to future mortality rates may drive a move away from longer guaranteed rates on term assurance products for example.

Investment choices could also impact returns for customers. While it is possible to offer sustainable, low-carbon funds without sacrificing returns, there may be circumstances under which, particularly over the short-term, these funds result in lower returns for customers. This may be difficult for customers to understand and embrace. For example, during 2022, many portfolios that had a green tilt experienced worse returns than those that did not, due to higher returns in more carbon-intensive areas of the economy. Over the long-term, returns should favour a sustainable and carbon-neutral approach to investments, but over the short term this may not be true.

Q.25 Does the impact of climate change require additional specific consumer protections?

As firms pivot to provide sustainable financial services and or sustainable business models, there may be a risk of less focus on the best interests of customers. Greenwashing and/or environmentally friendly policies could disadvantage or discriminate. For example, there is a perfectly valid and well- intentioned desire for firms to go 100% paperless and yet certain customers could prefer or require paper documents.

Consumer protection already in place is principle-based and should capture risks that could be generated by the transition to a more sustainable business model. For longer term products in particular customers may need reassurance that the company which they are relying on in the future is adequately protected against the risk of climate change so companies may need to communicate their risk plans in a consumer-friendly way

However, the risks noted in the response to Q.24, leading to under-insurance or no insurance cover being available for certain customers, would need public sector intervention.

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