



Joint statement on the effects of regulatory requirements and compliance on employees

by the European social partners in the insurance sector

Introduction

As a response to the financial crisis of 2008, the European Commission initiated a major over-haul of EU financial legislation, in many ways much needed and well-intended. A number of these laws aimed to ensure a higher level of customer protection in financial services by imposing new conduct of business rules relating to disclosure, advice and new reporting requirements. However, the financial sector legislation was developed and implemented in silos, without taking into account the combined effects of the new legislation and the existing legislation, which has resulted in numerous duplicative requirements and an overload of information for customers.

Ten years on, the effects of the legislative reforms have now started to show. These effects are having an impact on operators, customers and financial sector employees. The social partners note that, while they support European laws designed to protect **customers** and enable them to make informed decisions, the following should be considered:

- The disclosure of extensive and technical information to customers is counterproductive, as it hampers their ability to take appropriate decisions when comparing and purchasing products.
- Overloading customers with extensive and technical information may confuse them, creating a difficult and stressful decision-making process that could end with dissatisfied customers and even with a complaint procedure.

Importantly, the effects of the legislative reform have also had consequences on the wellbeing of **employees** in the financial sector. In particular, the social partners note the following:

- The significant increase in regulatory requirements has led to a substantial rise in insurance employees' workloads and stress levels. Employees should be given enough time to assimilate the latest changes in legislation and to apply them.
- The implementation of the new regulatory requirements involves the development and adoption of complex company compliance procedures, which need to be accompanied by the appropriate training of employees. In this regard, the social partners are concerned about short deadlines for implementation, leaving too little time for the implementation of complex and comprehensive pieces of legislation¹. Employers and employees in the insurance sector find themselves working under the pressure of extremely short timelines to comply with the new regulatory requirements and to provide the adequate training.
- These negative effects have a disproportionate impact on small and medium-sized entities, which contribute significantly to local economies but face a heavy burden keeping up with constant regulatory changes.

The effects of the post-crisis legislative reforms show that the perspective of financial sector employers and employees is missing from the EU legislative process, causing unintended and undesired consequences for employees, employers and customers.

¹ The current legislative framework creates a multilayered approach, consisting of three different levels, meaning that operators can implement legislation only once the Level 2 and 3 measures, which provide the necessary technical requirements and clarity, have been finalised. However, the traditional implementation timeline of two years has not been adapted to this new multilayered approach: European legislators are still developing Level 2 and Level 3 measures when the two-year implementation period for Level 1 measures has started to run. For example, if the implementation of the Insurance Distribution Directive had not been delayed, the industry would have had only two months, instead of the initially planned two years, to develop and implement new compliance procedures and to train its employees.

The employees of the insurance sector are central to the creation of a sector built on responsible and suitable advice and services. The social partners therefore recognise that it is their joint responsibility to work towards the implementation of regulatory requirements and compliance procedures at company level in a way that ensures a healthy working environment, meaningful jobs, and good advice and services to customers. Excessive and duplicative regulatory requirements must be avoided to make this possible.

The social partners believe it is the responsibility — and in the joint interests — of legislators and social partners to strive for fair, transparent and balanced financial sector regulation to the benefit of all stakeholders. The social partners have therefore agreed on this joint statement on the effects of regulatory requirements on employees in the European insurance sector.

The effects of regulatory requirements on employees in the European insurance sector

Cooperation and social dialogue

The issues below should be discussed and developed by the social partners at European, national and/or company level. Social dialogue is key when working with sector issues and ensuring a sustainable and meaningful work life for insurance employees.

The social partners are convinced that strong dialogue and learning from each other's experiences is key. By doing so, we can help create a stable and resilient financial regulatory framework that both protects customers and makes it possible for financial sector employees and their employers to provide quality financial services in the insurance sector.

The social partners should work together to promote collective bargaining at all levels and to encourage discussions on sector development, management strategies and regulation affecting financial sector employees.

Fair, transparent and balanced financial sector regulation

Legislation should avoid excessive complexity and create a transparent and stable framework that supports quality financial advice and services, sustainable growth, rule compliance, as well as sound and effective supervision.

Employees and their representatives, customers, financial industry associations and other stakeholders should be involved in the dialogue on financial regulation, both at national and EU level. Financial sector regulation should support a strong and healthy insurance sector, providing meaningful jobs for those employed in the sector.

To ensure that the employee and employer perspective is given the weight it deserves, social partners should be involved throughout the whole legislative process, including the transposition and implementation of all levels of legislation (hard and soft law). They should be involved both when current legislation is reviewed and when new legislation is developed, as well as in the European Commission's impact assessments. The cumulative and duplicative effects of legislation also need to be assessed, taking the employee and employer perspective into consideration.

Wellbeing at work

Knowledge about customers, and hence "know your customer" questions, play a vital role in ensuring financial stability and a just financial system. However, such KYC questions, which are mandatory under the Anti-Money Laundering Directive² with which the insurance industry complies, also have the potential to severely damage the employee-customer relationship and, in turn employees' health and wellbeing at work. Threats, insults and violence from customers against financial sector employees, who are simply doing their job and following rules, must be prevented. Attention should be paid to informing customers about why KYC questions are asked, as well as supporting and protecting insurance employees³.

Training and skills' development

As new rules and procedures are introduced and implemented in the insurance sector, business strategies and management priorities will need to be adapted. Insurance employees are the ones who will carry out and comply with many of the new procedures and rules.

² Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing

³ Evidence in "Coping with Compliance", Nordic Financial Unions, 2018

Education and training, and skills' development for all employees, not only to match current rules and procedures, but also to plan for future ones, are essential to ensure a competitive and reliable sector. The sector has a strong tradition in this.

Management strategies and leadership

Management and business strategies, such as performance measurement systems and other targets, must be clear, realistic, balanced and adjusted to the new regulatory requirements with which employees need to comply and work.

Extra attention should be paid to providing managers at all levels of the company with training and professional development on how to manage and support employees when new regulation and compliance procedures are introduced.

Dialogue and cooperation between the social partners on these issues should be encouraged.

Quality advice and customer protection

Financial sector regulation must consider the employee and employer's perspectives and strive to minimise the administrative burden it puts on them, which would also benefit customers.

Employers and employees must also be given sufficient time to adapt all internal processes, IT systems and training programmes to ensure the optimal implementation of new legislation, allowing them to carry out their duties to the customer in a sound and professional manner. Excessive regulatory requirements do not support this. Indeed, they could increase the tension between providing good customer service and following the rules.

Regulation must be fair, transparent and balanced to make it possible for employees both to do a good job and to follow the rules.

Current legislation should be scrutinised to ensure that it lives up to its intention: to improve customers' understanding of financial sector products, to increase the quality of financial advice and to support overall financial stability, without putting excessive and unhealthy pressure on employees.

Looking ahead

Creating a fair, transparent and balanced financial sector legislative environment is key to achieving sound customer protection and guaranteeing a healthy financial sector, for both employers and employees. This is why the social partners wish to draw the attention of European legislators to the following key points:

- The social partners should be invited to be actively involved in the legislative process, to provide the employees' perspective and the industry's expertise.
- Regulators should acknowledge the complexity of financial sector legislation and thus provide sufficient time for its implementation, allowing employers time to develop and implement appropriate compliance policies and to provide employees with the necessary training.
- European legislators and supervisory authorities should address the negative impact of the cumulative effects of financial sector legislation, focusing in particular on information overload and duplicative rules.

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