

# IDENTIFYING BEST PRACTICES IN INSURANCE

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## Abstract

*This work aims to identify and develop best practices in the insurance field. We must mention from the beginning that best practices are not compulsory or mandatory rules of law, they cannot and do not want to be placed above the legal provisions in force, they only complement the law. Moreover, we intend to look into the implementation of the Solvency II Directive from the point of view of best practices in insurance.*

*In this research, the main method of study was the theoretical qualitative research (especially document analysis), with the purpose to identify and theoretically develop the information on best practices in the insurance field.*

*The main results of the research consist in the identification of general best practices in performing the activity (such as communication/consultation with the interested parties, the consistency as regards contractual/non-contractual relations, the effectiveness and efficiency, transparency and honesty, fair treatment of customers etc.) which have been presented in short and which could be implemented by any company that seeks to achieve superior performances, including the insurance companies. The work also includes some important best practices, described in detail, in a sensitive area such as the insurance field (best practices in relation to the management of personal information, the management and settlement of disputes by insurance companies or intermediaries in the field of insurance etc.).*

**Keywords:** *insurance, best practices, Solvency II, Relevant JEL code: G22 Insurance, Insurance Companies.*

## I. Introduction

Implementing good practices in various fields has always represented a concern for those activities/businesses/companies who wanted to grow and deliver more to their business partners or customers. Best practices aim to improve relations between companies and customers, as well to obtain higher performances, by offering a fair, transparent, efficient and friendly behavior.

## II. Contents

### 2.1. Best practices of entities operating in insurance

#### 2.1.1. General best practices in carrying out the activity

Implementing best practices in insurance, as well as in any other field of activity, certainly contributes to the stability and development of this sector. It can only be beneficial for entities (insurers, reinsurers, insurance brokers, etc.) to comply with best practice rules that take into consideration the interests of those contracting an insurance, regardless if it's a life insurance or a general one. Best practices are necessary in order to ensure that customers are treated fairly, both before and after the conclusion of a contract, up to the point where all the obligations laid down have been fulfilled. Of these practices, we will mention the following, some of which are identified by some specialists:

a) communication, consisting in transmitting the

information of interest to concerned persons, especially to customers, on a regular basis;

b) consultation with interested parties;

c) consistency as regards contractual/non-contractual relations with interested parties;

d) flexibility regarding the instruments used and the adopted strategies in the case of changes;

e) independence (autonomy, without unjustified political influences);

f) effectiveness and efficiency;

g) liability, as business owners and interested parties must comply with clearly defined processes, providing justifications for the decisions taken;

h) transparency and honesty<sup>1</sup>;

i) promoting the products and services in a clear, fair manner, that is not misleading. In the event that, subsequently, an insurer or intermediary becomes aware of the fact that the information supplied is not accurate and clear or it is misleading, the insurer or intermediary should withdraw their information, and notify in the shortest possible time any person who relies on the respective information;

j) fair resolution of customer complaints;

k) manage customers' reasonable expectations;

l) lack of conflicts of interests if the customers receive recommendations before the conclusion of an insurance contract. In their relations, either among themselves or with customers, the insurers and intermediaries may encounter conflicts of interest. Conflicts of interest may appear if a party has professional competition and personal interests. This may include requesting and accepting incentives (money, their equivalent, commissions, goods etc.) for the purpose of adopting a certain

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<sup>1</sup> Sanford Berg, "Developments in Best-Practice Regulation: Principles, Processes, and Performance", 2000; taken from: [http://warrington.ufl.edu/centers/purc/purcdocs/papers/0005\\_Berg\\_Developments\\_in\\_Best-Practice.pdf](http://warrington.ufl.edu/centers/purc/purcdocs/papers/0005_Berg_Developments_in_Best-Practice.pdf) accessed in August 2015.

conduct. If some intermediaries representing the interests of customers receive incentives from insurers, this could lead to a conflict of interests which might affect the independent character of the consultancy offered by them;

m) provision of services/new products which take into account the clients' interests, which is a sign of compliance with best practices. If the provided services or products are the same, although the customer requirement is different, this is an indication of failure in using best practices<sup>2</sup>.

Fair treatment of customers is a very important aspect in insurance. The insurers and intermediaries in the field of insurance have the task of acting with skill and diligence when dealing with customers. The concept of competence and diligence implies that insurers and intermediaries should fulfill their duties in a reasonable way, with prudence and on the basis of adequate policies and procedures which shall pursue this result. Moreover, the insurers and intermediaries must assume and implement appropriate measures in order to ensure that employees and their agents meet high standards of ethics and integrity. The policies and procedures that ensure fair treatment of customers are particularly important, especially in the case of retail customers since there is an asymmetry in information which tends to exist between the insurer or intermediary and these clients<sup>3</sup>.

At the same time, it is very important that all processes in which clients interact directly with insurance companies or intermediaries in the field of insurance (issuing of insurance policies, the collection of insurance premiums, settlement of disputes, renewal of contracts of insurance) be coordinated in a uniform manner, while aiming at their simplification and standardization. The operational activity of companies should be monitored and assessed on the basis of specific performance indicators, and necessary resources for the conduct of these processes must be optimally managed and allocated. The aim is, therefore, to provide quality services to customers, as well as innovative solutions, adapted to their needs.

### **2.1.2. Best practices in relation to the management of sensitive/personal information**

In general, personal information refers to such information that a person or entity collects, holds, uses, or communicates to third parties in the course of its activities. In the insurance business, information security is, of course, important,

because concluding insurance policies involves a significant amount of financial, medical and personal information, (including credit card information) to be collected. Protection of personal and financial data is one of the key responsibilities of the financial services industry, regardless of the form in which they are made accessible (written/electronic)<sup>4</sup>.

Considering the amount of sensitive and confidential information that has to be managed, the insurers and intermediaries in insurance should ensure that they comply with the best practices in this field, while certain measures need to be taken, such as:

- development of policies and procedures for the privacy protection, in order to ensure compliance with the legal provisions in force and best practices;
- training the employees, at all levels of the organization, in order to promote the importance of requirements for privacy protection;
- implementing internal control mechanisms that meet the objectives of privacy protection;
- implementing appropriate technologies in order to ensure the confidentiality of the financial, medical and personal information of insured persons;
- implementing policies and procedures related to the security of data in order to be able to report, in good time, security infringements to responsible persons, affected customers and the supervisory authorities<sup>5</sup>.

### **2.1.3. Best practices in the management of insurance company websites**

The European Insurance and Occupational Pensions Authority (EIOPA) considers that best practices may be applied even in the case of websites of insurance companies. Therefore, the EIOPA recommendation is that these websites provide and/or display:

- information on the main characteristics of the products;
- uniform and suitable information regarding the complexity of the products;
- information in a clear and accessible language, avoiding jargon and technical useless terms as much as possible;
- information regarding the details of all of fees and charges;
- clear information concerning what is covered for each of the offered products.

<sup>2</sup> International Association of Insurance Supervisors (IAIS), "Insurance core principles, Standards, Guidance and Assessment Methodology", 1 October 2011; taken from: [http://iaisweb.org/modules/icp/assets/files/Insurance\\_Core\\_Principles\\_\\_Standards\\_\\_Guidance\\_and\\_Assessment\\_Methodology\\_\\_October\\_2011\\_revised\\_October\\_2013\\_.pdf](http://iaisweb.org/modules/icp/assets/files/Insurance_Core_Principles__Standards__Guidance_and_Assessment_Methodology__October_2011_revised_October_2013_.pdf) accessed in August 2015.

<sup>3</sup> *Ibidem*.

<sup>4</sup> International Association of Insurance Supervisors (IAIS), "Insurance core principles, Standards, Guidance and Assessment Methodology", 1 October 2011; taken from: [http://iaisweb.org/modules/icp/assets/files/Insurance\\_Core\\_Principles\\_\\_Standards\\_\\_Guidance\\_and\\_Assessment\\_Methodology\\_\\_October\\_2011\\_revised\\_October\\_2013\\_.pdf](http://iaisweb.org/modules/icp/assets/files/Insurance_Core_Principles__Standards__Guidance_and_Assessment_Methodology__October_2011_revised_October_2013_.pdf) accessed in August 2015.

<sup>5</sup> *Ibidem*.

- up-to-date information<sup>6</sup>.

#### 2.1.4. Best practices in knowing the customers correctly

Confirmation of the fact that the information supplied by the customers are accurate represents very important good practice. Providing wrong information and stolen identities are aspects that have led to fraud in the past. The insurance companies will have to take several measures to ensure that customers are in fact the persons they say they are. This will require the best practices, such as appropriate documentation and obtaining more information<sup>7</sup>.

#### 2.1.5. Best practices in the management and settlement of disputes by insurance companies/intermediaries in the insurance business

In the case of solving disputes filed by holders of insurance policies, EIOPA has developed guidelines applicable to competent authorities in the Member States of the EU which shall make every reasonable effort to respect them. According to these guidelines, the competent authorities should ensure that insurance companies and intermediaries in the insurance business:

- establish a policy for solving the disputes. This policy should be defined and approved by the higher managing board of the insurance companies/intermediaries in the insurance business, which should also be responsible for implementing and monitoring its compliance;
- have a function for managing disputes, which allows to settle disputes in an unbiased manner, as well as to identify and minimize potential conflicts of interest;
- register disputes internally, according to national requirements concerning time limits and in an appropriate manner;
- provide information regarding disputes and their settlement to national competent authorities;
- continuously analyze data concerning the settlement of complaints in order to ensure that they identify and deal with any recurring or systemic problems, as well as potential legal and operational risks, for example, by: (i) analyzing cases of individual disputes with the purpose of identifying fundamental common causes of types of claims; (ii) analyzing the measure in which these root causes may also affect other processes or products, including processes and products which are not

directly related to the object of the dispute; and (iii) correcting these root causes, where this is reasonably practicable;

- provide information in writing regarding the settlement procedures;
- publish the details of the dispute settlement procedures (e.g.: how to submit a complaint, the type of information to be provided by the applicant, the procedures followed for reaching a settlement) in an easily accessible manner, for example, in brochures, leaflets, or other contractual documents displayed on its own website:
  - shall keep the applicant informed regarding the stage of the examination of the complaint;
  - collect and analyze all the relevant evidence and information regarding the dispute;
  - respond without unjustified delay or, at least, within the time limits laid down at national level;
  - provide a detailed explanation of the position of the insurance company regarding the dispute when a final decision is adopted which does not fully fulfill the applicant's request and shall present to the applicant an alternative method of settlement of the conflict, the existence of competent national authorities etc.<sup>8 9</sup>.

#### 2.1.6. Best practices regarding corporate management

Corporate management identifies mechanisms by which a company is run and controlled or, in another definition, corporate management represents the sum of implemented systems and processes in order to run and control a company with the purpose of increasing its performance and value<sup>10</sup>.

At the European level, it is considered that the mechanisms of corporate management of an insurer must:

- promote the development and implementation of policies that clearly define and support the objectives of the insurer;
- define the roles and responsibilities of the persons involved in the management and supervision of the insurer by clearly establishing who has legal obligations and powers to act in the name of the insurer, and under what circumstances;
- provide the corrective measures to be taken in the event of non-compliance with their competencies and duties;
- provide effective systems of risk management and internal control, including effective compliance functions, for actuaries and internal audit. These

<sup>6</sup> EIOPA, "Report on Good Practices on Comparison Websites", 2014; taken from: [https://eiopa.europa.eu/Publications/Reports/Report\\_on\\_Good\\_Practices\\_on\\_Comparison\\_Websites.pdf](https://eiopa.europa.eu/Publications/Reports/Report_on_Good_Practices_on_Comparison_Websites.pdf) accessed in August 2015.

<sup>7</sup> <http://www.best-practice.com/best-practices-regulation/financial-regulations/5-challenges-for-insurance-companies/> accessed in August 2015.

<sup>8</sup> EIOPA, "Guidelines on complaints-handling by insurance companies", 2012; taken from: [https://eiopa.europa.eu/Publications/Guidelines/EIOPA\\_2012\\_00050000\\_RO\\_CORv2.pdf#search=RO%20corv2](https://eiopa.europa.eu/Publications/Guidelines/EIOPA_2012_00050000_RO_CORv2.pdf#search=RO%20corv2) accessed in August 2015.

<sup>9</sup> EIOPA, "Guidelines on complaints-handling by insurance intermediaries", 2014; taken from: [https://eiopa.europa.eu/Publications/Guidelines/EIOPA\\_GLS\\_Complaints\\_Handling\\_Intermediaries\\_RO.pdf#search=EIOPA%20GLs%20Complaints%20Handling%20Intermediaries%20RO](https://eiopa.europa.eu/Publications/Guidelines/EIOPA_GLS_Complaints_Handling_Intermediaries_RO.pdf#search=EIOPA%20GLs%20Complaints%20Handling%20Intermediaries%20RO) accessed in August 2015.

<sup>10</sup> <http://rocg.ro/pentru-companii/ce-este-guvernanta-corporativa/>

systems and functions must be appropriate to the nature, the extent and complexity of the activities and risks of the insurer and should be adapted as the insurer's business, as well as internal and external circumstances, change. Moreover, an insurer's system of risk management must include all strategies, policies, processes and controls for the identification, assessment, monitoring, management and risk reporting to which the insurer may be exposed as legal person and as a group<sup>11</sup>.

Corporate management is often referred to as a system of "checks and balances". This means that an insurer must be flexible and receptive to developments affecting its operations, and at the same time the insurer must be transparent and maintain control in such a way as to ensure that the powers have not been unduly concentrated in a specific location and that they are used in the interest of the insurer<sup>12</sup>.

## 2.2. Implementing best practices in the insurance business introduced by Solvency II Directive

The Solvency II system radically changes the surveillance act philosophy in the insurance business by introducing a system based on the assessment of risks to which insurance and/or re-insurance companies are exposed. Solvency II Directive, which is to be applied as of 1 January 2016, introduces a number of principles and good practices aimed at ensuring economic stability in the insurance industry and providing a degree of predictability of the evolution of each insurer. The new system will ensure a harmonized approach of supervision across the European Union, which will help provide a level of action for all insurers and re-insurers, and it will provide common protection for all consumers, regardless of their legal form, size or location. Solvency II will harmonize regulations on solvency throughout the European Union, which shall lead to the creation of a single market with potential benefits

to customers by increasing competition, transparency and flexibility.

The specificity of Solvency II is that, in addition to the set of principles which constitute the level 1 of EU law, most of the secondary legislation will be developed at the European level, by the European Commission, and best practices will be promoted by the European authority in the field, the European Insurance and Occupational Pensions Authority, by issuing guidelines. With regard to the insurance market in Romania, the Financial Supervisory Authority has the objective of initiating the transposition of the Solvency II Directive into national law and preparing the insurance market for the implementation Solvency II standards.

## III. Conclusions

By analyzing the insurance field, we came to the conclusion that the stability and the development of this sector depends on how much the entities developing such activities comply with good practices that serve the interests of those who contract an insurance. As it can be seen from all that we have shown above, best practices in the insurance field aim to build a fair relationship between an insurer/intermediary in insurance and existing or potential customers. Understanding customers' needs, proper management, offering the best service, permanent consultation and increasing transparency will obviously result in raising professional standards and, by default, a growing business.

Recently, the implementation of a system of best practices in companies has had an important evolution. Best practices have become essential key-points for business success. As soon as they become more aware of this, companies will continue to overcome any difficulties by ensuring compliance with best practices.

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<sup>11</sup> International Association of Insurance Supervisors (IAIS), "Insurance core principles, Standards, Guidance and Assessment Methodology", 1 October 2011; taken from: [http://iaisweb.org/modules/icp/assets/files/Insurance\\_Core\\_Principles\\_Standards\\_Guidance\\_and\\_Assessment\\_Methodology\\_\\_October\\_2011\\_\\_revised\\_October\\_2013\\_.pdf.pdf](http://iaisweb.org/modules/icp/assets/files/Insurance_Core_Principles_Standards_Guidance_and_Assessment_Methodology__October_2011__revised_October_2013_.pdf.pdf) accessed in August 2015.

<sup>12</sup> *Ibidem*.

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