

The LIAJ comments on Draft Application Paper on how to achieve fair treatment for diverse consumers

Question	Comment
<p>Q1. General comments on the Application Paper</p>	<p>The Life Insurance Association of Japan (the “LIAJ”) appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (the “IAIS”) on the draft Application Paper (the “AP”) on how to achieve fair treatment for diverse consumers.</p> <p>The LIAJ supports the IAIS policy to emphasize DEI. The LIAJ believes ensuring access to insurance for diverse consumers is indeed financial inclusion, and the LIAJ has been promoting efforts to achieve it. The LIAJ believes that, while taking into consideration differences from one jurisdiction to another, broadly sharing knowledge learned from practical efforts by insurers, who communicate directly with consumers, would be effective for the promotion of financial inclusion activities. The LIAJ recognises the AP as part of such activities and would like the IAIS to consider further opportunities for exchanging views and sharing good practices. Also, the feedback from the insurance sector could contribute to resolving DEI issues for other non-insurance sectors. As such, it could be effective to actively communicate good practices of the insurance sector, and to address DEI-related issues with society as a whole by sharing awareness and good practices with various international organisations, governmental bodies and legislative bodies. Furthermore, information from other non-insurance sectors could also be beneficial for the insurance sector so it could be shared by the IAIS.</p> <p>While the LIAJ supports the importance of DEI, it would be difficult to set a common definition or standard due to the difference in the mainstream consumer profile from one jurisdiction to another. As noted in subsection 1.3 on proportionality and jurisdictional specificities, the LIAJ would like to highlight that the content of the AP does not supersede the proportionality principle. Additionally, when identifying diverse consumers who require specific considerations or requirements to ensure fair treatment of diverse consumers, the circumstance, particularity, and needs of individual jurisdiction should be taken into account. Given this, the LIAJ would like to point out that the illustrations and recommendations set out in the AP could differ depending on jurisdictional contexts, specificities and needs.</p> <p>Furthermore, given the characteristics of the insurance business, the LIAJ believes the description of risk-based pricing in the AP needs to be considered carefully. To be specific, risk-based pricing is based on “the principle of equivalence” and “the law of large numbers”, which is the basis of ensuring insurers’ financial soundness. Should the risk-based pricing easily be denied, insurance reserves, which</p>

	<p>are considered as policyholders' common property, would be paid disproportionately and frequently to certain customers. This will trigger adverse selection, which will damage the insurers' solvency margin and business continuity. Consequently, the insurers could face difficulties in claims payment to policyholders and financial system stability could be impaired. For this reason, when recommending considerations of DEI in risk-based pricing in the AP, the LIAJ would like the IAIS to clarify that considerations should be given to ensure the insurers' financial soundness, and that it does not pose adverse impact on policyholder protection and on the stability of the financial system, which are core mandates for supervisory authorities in most jurisdictions.</p>
<p>Q2. Comments on section 1.1 Context and objective</p>	<p>As defined in Box 1, diverse consumers/customers are defined as "people who are not part of the normative or mainstream consumer profile that insurers and intermediaries most often anticipate and cater to". However, diverse consumers/customers are interpreted differently from jurisdiction to jurisdiction due to the difference in the image of the "mainstream consumer profile".</p> <p>Additionally as stated in our comments to Question 1, based on the concept set out in the subsection 1.3 on proportionality and jurisdictional specificities, the LIAJ understands the illustrations and recommendations set out in the AP are not universal and can be addressed differently from jurisdiction to jurisdiction.</p> <p>As such, the LIAJ would like the IAIS to consider revising the statement in paragraph 3 from "the recommendations in this paper identify key opportunities to effectively implement the principle of fair treatment of customers..." to "the recommendations in this paper identify <u>possible</u> opportunities to effectively implement the principles of fair treatment of customers..."</p>
<p>Q7. Comments on section 2.1 Risk-based pricing and DEI</p>	<p>As stated in paragraph 16, insurers use risk-based pricing. This principle aims to ensure fairness among policyholders by pricing premiums according to risk, and to fulfil claim obligations, which forms the basis of insurers' financial soundness. If risk-based pricing be easily denied, insurance reserves, which are considered as policyholders' common property, would be paid disproportionately and frequently to certain customers. This will trigger adverse selection, which will damage the insurers' solvency margin and business continuity. Consequently, insurers could face difficulties in claims payment to policyholders and financial system stability could be impaired. While the LIAJ agrees on the importance of giving considerations to diverse consumers, it should be clarified that the recommendations concerning DEI in the AP do not override risk-based pricing requirement for ensuring the financial soundness of insurers. In other words, it should be considered on the premise of risk-based pricing and ensure that it does not pose adverse impact on policyholder protection and stability of the financial system, which are the core mandates for the supervisory authorities in most</p>

	<p>jurisdictions.</p> <p>In this context, the LIAJ believes the end of the first sentence of paragraph 16 “Insurer use risk-based pricing to determine the premiums that policyholders pay for their insurance coverage on the premise that insurers evaluate and measure the risk associated with insuring different consumers and set premiums that align with the level of risk”, be followed by “ and this is important for the business soundness of insurers”. Also, the proposed statement in paragraph 18 “The application of DEI-related concepts to the fair treatment of consumers is not inconsistent with risk-based pricing” should be revised as “The application of DEI-related concepts to the fair treatment of consumers should be made consistent with risk-based pricing. To ensure that the goal of fair treatment of all consumers is achieved including those who are diverse, insurers may need to consider if consumer data obtained and used in pricing truly reflect the risks of consumers and are free from unjustifiable biases.” Furthermore, the second sentence of paragraph 18 “However, insurers may need to think about the application of DEI-related principles in risk-based pricing to ensure it is aligned with the goal of fair treatment of all customers, including those who are diverse” should be followed by “, while taking into account the importance of business soundness.”</p>
<p>Q18. Comments on section 4.2.2 Determining whether the coverage, benefits, disclosures and pricing are aligned to the needs of the diverse consumers amongst the target group</p>	<p>As to the first bullet point of recommendations in paragraph 47, clarifications on how a supervisory authority could engage in DEI as part of its product approval process could be stated. While the product approval process could work effectively as a negative screening to block unfair insurance products that are not suitable for the purpose of DEI, it would only have a limited effect to further promote DEI on products that have already been approved. Under the circumstances where policyholders’ needs concerning DEI change over time (paragraph 23), insurance products, which were already approved would not necessarily meet the consumer needs concerning DEI in the future. Therefore, insurers themselves would need to periodically review DEI in their products and enhance its function to meet the needs concerning DEI (paragraph 69). Therefore, it would be effective to utilize the supervisory product approval process as a negative screening while taking a bottom-up approach led by the private sector to address the changing needs (paragraph 23).</p> <p>In this context, the first bullet point of recommendations in paragraph 47 could be revised as “When product approval is required by law, supervisors should assess, as part of their approval process, whether the needs and characteristics of diverse consumers who can reasonably be expected to be in the target group are not unreasonably impaired.”</p>

<p>Q27. Comments on section 4.4.1 Communication and assistance that account for diverse customers</p>	<p>Based on the LIAJ’s comment on Q1, practical examples concerning DEI could be helpful. The LIAJ would suggest to set a new box before the recommendations in page 23 to illustrate efforts made in different jurisdictions. The following are good Japanese practices as of July 2024.</p> <p>(Box 6) Practical examples of communication and support initiatives that consider diverse customers (as of July 2024)</p> <ol style="list-style-type: none"> 1. “Family member registration service” — an initiative to enhance access to insurance for the elderly or customers with dementia. Generally, insurers provide contract details only to the policyholder, but some insurers disclose contract details of the policyholder (such as an elderly customer) to pre-registered family members. Similarly, in cases where a policyholder can no longer take necessary actions due to cognitive impairment, insurers established a system to allow for the pre-registered family member to request contract modification or make claims on their behalf. 2. Obtaining medical and residency certificate for the policyholder — an initiative to enhance access to insurance for the elderly. Elderly customers or customers with dementia aren’t the only individuals who may have to face challenges in processing their insurance contract; their families may do as well. Some insurance companies provide services to obtain medical certificates required for a claim from medical institutions or residency certificate from local government offices on the policyholder’s behalf to reduce their burden. 3. Telephone voice clarification device — an initiative to enhance access to insurance for people with disabilities. Generally, elderly customers and those with disabilities caused by aging tend to be left behind by digitalisation. Furthermore, customers with hearing problems are known to be at risk of dementia due to social isolation stemming from the hesitation to use the telephone. For such situations, an insurer developed a telephone voice clarification device in collaboration with a start-up company and introduced it in their call centres, which facilitated communication with customers. Such efforts are considered to serve as an improvement of convenience to all customers, not only to the elderly and those with disabilities caused by aging. This initiative and its underlying concept were shared during the panel on customer-centric management at the 2023 IAIS Annual Conference in Tokyo and were supported by a large audience. 4. “Telephone sign language relay service” — an initiative to enhance access to insurance for people with disabilities
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	<p>Some insurers provide a telephone relay service to facilitate communication between the policyholder with a hearing disability or speech impediment, and the insurer's telephone operator. A sign language interpreter will translate the customer's sign language or written notes to speech and vice-versa and connect both individuals simultaneously.</p>
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5. Preparing documents in braille — an initiative to enhance access to insurance for people with disabilities

Some insurers prepare documents in braille at the request of policyholders with a visual disability to provide them with necessary information.

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