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## DISTRIBUTION

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### Quo vadis?

As the EU regime for insurance distribution comes up for review, what needs to be considered?

It is almost exactly two years since the Insurance Distribution Directive (IDD) was applied across the EU. The IDD was intended to update and modernise existing rules on insurance mediation to bring about enhanced consumer protection and increased transparency. Two years on, there is now enough experience to take stock of whether these improvements have come to fruition and whether there is any more that could be done to ensure the best outcomes for consumers.

#### Significant improvements

The improvements in consumers' experiences when buying insurance have been significant. New processes are now in place to make sure consumers are consistently offered products that meet their needs and expectations.

The IDD's enhanced rules on cross-selling have ensured customers are made aware of when they can buy products separately; providing transparency and giving customers choices in how they purchase linked products. The new "demands and needs" test goes further than rules in any other sector in requiring insurers to match customers' requirements to the products made available to them, even for non-advised sales. This has greatly strengthened protection from the risk of mis-selling. The new insurance product information documents (IPIDs) facilitate informed decision-making, providing customers with the information they need to choose a non-life product that is right for them.

### Greater governance

Beyond these improvements at the point of sale, customers are also benefiting from strengthened product oversight and governance (POG) rules. IDD product approval processes have created an environment in which the needs of a product's target market are central to product design and review. POG rules require insurers to continually evaluate their products to ensure they are still providing value to consumers. These evaluations enable insurers to adapt products and take action when external factors change the added value their products provide to customers.

The improvements brought about by the IDD have come about because it works with, not against, existing distribution systems.

Insurance is typically distributed in a very different manner to other financial services. Insurance intermediaries are often SMEs with a limited number of employees. IDD rules are not unduly burdensome for these companies, while still ensuring consumers have an appropriate level of protection.

The IDD is also workable for all insurance products — both life and non-life — and only differentiates between them where this is necessary in light of the nature of the product. Additional rules applicable only to insurance-based investment products, including introducing high standards for financial advice, are proportionate and reflect the additional support customers need when considering these products.

### Suitably flexible

The IDD also respects national differences. It aligns national rules where appropriate but maintains the flexibility needed for national regulators to consider existing national practices and customer expectations when applying the rules. The result is an insurance market in which consumers can expect the same high standards of product design, transparency and conduct of business, but in which local providers are still able to provide them with the services on which they have always relied. In short, the IDD is working well.

### Review time

So where do we go from here? The European Commission is currently reviewing the entire distribution regime for insurers and has commissioned an extensive external study of how the insurance market operates.

**"The EC review needs to build on the successes of the IDD, not seek to amend it without good cause."**

This study will only result in meaningful improvements for consumers if it takes a holistic view of the distribution regime and focuses on the entire customer experience — from the initial sales process right through to the insurers' ongoing relationship with their customers through periodic reporting and product review.

The study needs to clearly identify the needs of customers and assess whether they are being met. And then, where there are found to be weaknesses, targeted action needs to be taken. Legislators need to avoid interfering with and altering a legislative framework that is meeting its objectives, and should instead ask whether proper application of existing rules could address any concerns. Where there are identifiable problems, these need to be solved and legislative change will be part of that. Where there are no problems to fix, that means there is no need for ineffective solutions and tinkering.

The IDD will be reviewed in 2022 in light of the findings of the study. The EC review needs to build on the successes of the IDD, not seek to amend it without good cause. It is worth bearing in mind that no supervisory issues with the IDD have come to light since its implementation and, in some instances, regulators have considered additional actions but then seen that there is no need within the market for extra intervention. Notably, this occurred with potential EIOPA guidelines on the suitability assessment.

But that does not mean settling for stasis. We need to look to the future and see where the IDD can be improved to continue to meet the evolving needs of customers in the digital world. Online distribution will soon become the norm (see also article opposite) and the IDD needs to be able to meet that challenge.

This will not be achieved through prescriptive rules but through a sensitive and flexible approach. Insurance distribution rules need to continue to support consumers navigating financial markets, not restrict insurers' provision of the services their customers need. ■