

IDD — two years on (and onwards)

The IDD review can improve a directive that has already brought benefits

The Insurance Distribution Directive (IDD), which has applied across the EU since 1 October 2018, provides the legal framework for the sale of all insurance products. It aims to increase consumer protection when buying insurance and to create a level playing field among insurance producers and distributors.

Two years on, insurers have fully embraced this new legal framework, which provides significant benefits for both consumers and the industry.

What's gone well?

Important improvements in consumer protection

The IDD introduced strong and effective conduct rules for the sale of all insurance products, with additional, enhanced requirements for the sale of insurance-based investment products (IBIPs). These new rules ensure that insurance distributors always act honestly, fairly and professionally, in accordance with the best interests of their customers, helping to prevent any potential mis-selling. For example:

- Under the IDD, the sale of all insurance products is subject to a **"demands and needs" test** that requires distributors to make sure that products are consistent with each customer's expectations. This must be carried out whatever the type of insurance product involved, regardless of the way in which the product is sold, and includes unadvised sales. This requirement is unique to the insurance sector and has benefited consumers by guaranteeing that any products proposed to them meet their individual needs.
- The IDD has also strengthened rules on advice. For example, a **suitability assessment** must now be carried

out for advised sales of IBIPs, establishing why the product recommended to the client is the best option for their situation (including their ability to bear losses) and objectives (including their risk tolerance).

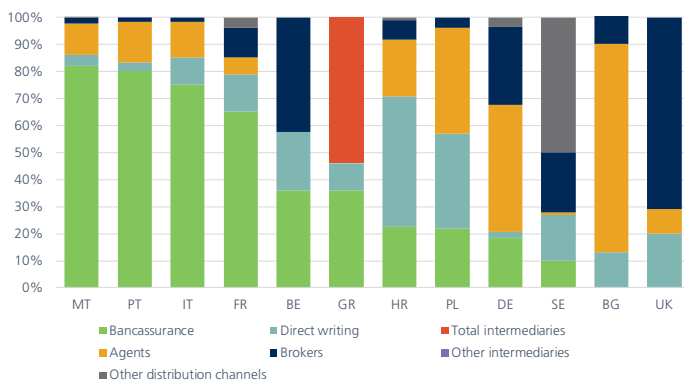
- The IDD also includes **rules on conflicts of interest** that require effective administrative arrangements to prevent, manage and, when appropriate, inform clients should a situation arise that could be detrimental to their interests.
- In addition, **rules on cross-selling** protect customers from unfair business practices and require consistent and high-quality communication between insurers, intermediaries and customers.
- **Product oversight and governance** rules under the IDD require the regular evaluation of products to ensure that they continue to offer value for customers. These ongoing reviews and redesigns mean that products meet consumers' expectations and are adapted to continue to add value.
- **Continual development of professional knowledge and skills** and the requirement to undertake a minimum of 15 hours of professional development training per year deepen and update the skills of distributors. This also increases the overall education and credibility of those providing insurance advice.

IDD framework respects existing distribution channels

The IDD works with — not against — existing ways of distributing insurance.

- Unlike some other financial products, insurance has always been distributed to retail customers and insurance distribution methods have built up around the needs

Life distribution channels (selected countries) — 2018



of these customers. In contrast, other financial services products were originally designed for sophisticated investors and have gradually become available to retail customers, resulting in conduct of business rules that had to be brought into line with market realities. The IDD has enhanced existing, well-functioning insurance distribution methods without trying to override them.

- Unlike investment products, IBIPs are often distributed via intermediaries that are SMEs or micro-enterprises. The IDD can be applied to SMEs and small distributors effectively, which guarantees consumers a high level of protection whenever they buy insurance.

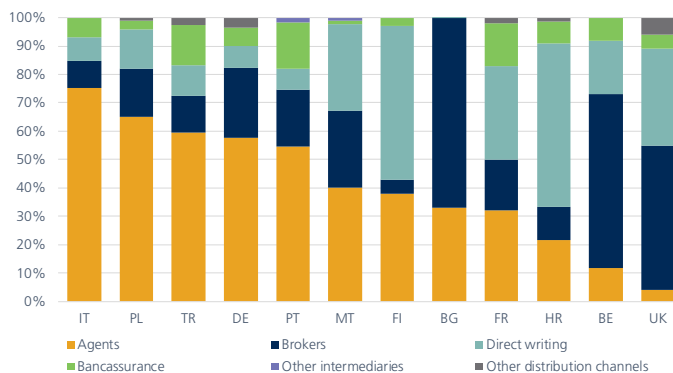
Insurance-specific rules

- The IDD establishes appropriate rules for the distribution of insurance products, with additional requirements for specific types of products when necessary. For instance, the Insurance Product Information Document (IPID) is specific to non-life products and provides appropriate information that is understandable to customers.
- The IDD also contains rules on commission and advice for the sale of IBIPs that are appropriate to the insurance sector. In some markets, the commission system is an integral and indispensable part of the distribution system, without which the number of intermediaries and therefore consumer choice would be significantly curtailed. Given the diversity in how insurance is distributed in different national markets, a broad ban on inducements as applied to other sectors by the Markets in Financial Instruments Directive (MiFID II) would not be appropriate for the insurance sector. The minimum harmonisation approach taken in the IDD allows EU member states to restrict or ban the use of commission where appropriate for their market but to permit its use where it is helpful in enabling access to financial advice, preventing the emergence of “advice gaps”.

Diversity of national markets taken into account

- The IDD is a minimum harmonisation directive, which means that it sets a minimum standard, but additional measures can be introduced at national level if deemed necessary.
- This allows the necessary flexibility to consider local market structures and consumer behaviour. For example, in some

Non-life distribution channels (selected countries) — 2018



markets, local rules establish mandatory advice for which consumers would not be prepared to pay while, in others, customers are used to accessing financial services without advice but may be willing to pay for this additional service. These differences in consumer expectations need to be reflected in the application of rules at national level.

Where next?

A review of the IDD is due to take place in 2021. In the meantime, the European Commission is launching an external study of distribution systems. Both processes should look at where improvements can be made to the consumer experience.

Update distribution rules for modern consumers

- The way that consumers buy insurance is changing: digital distribution may become the default, with face-to-face sales an exception. IDD rules will need to be updated to reflect this, including removing requirements to provide information to customers on paper by default. Instead, requirements should focus on how to communicate well with customers by digital means, while still providing a robust framework for the sale of insurance through the whole range of distribution channels available to customers.
- However, any attempt to develop separate rules or regimes for digital distribution would give rise to an unlevel playing field between digital and non-digital distributors, and would only add confusion. Instead, policymakers and supervisory authorities should adapt existing rules to digital developments through the planned IDD review.
- The objective should be to create digital-friendly, technologically neutral and sufficiently future-proof rules of conduct, and to preserve both innovation and competition so that consumers can enjoy the full benefits of digitalisation.

For more on Insurance Europe’s views on the IDD, please visit the insurance distribution section of www.insuranceeurope.eu or contact William Vidonja, head of conduct of business (vidonja@insuranceeurope.eu, tel: +32 2 894 30 55).