Insurance Distribution Directive

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Objectives

- Understand the background and why IDD is being implemented and when
- Who it applies to
- Describe what the changes are
- Explain the impact on general insurance firms and the impact on customers
- Describe what firms should be doing in preparation for the changes

To start…

- The Insurance Distribution Directive (IDD) is one of the most significant changes in Insurance regulations in 10 years
- Firms need to understand the changes and have plans in place to implement the changes
- Fortunately, implementation is likely to be delayed

It was due on 23rd Feb but….

- Many countries still not prepared and asked for delay
- New date of 1st July for each country to publish their rules
- New date of 1st October 2018 for implementation

  (subject to majority agreement of EU parliament in March)

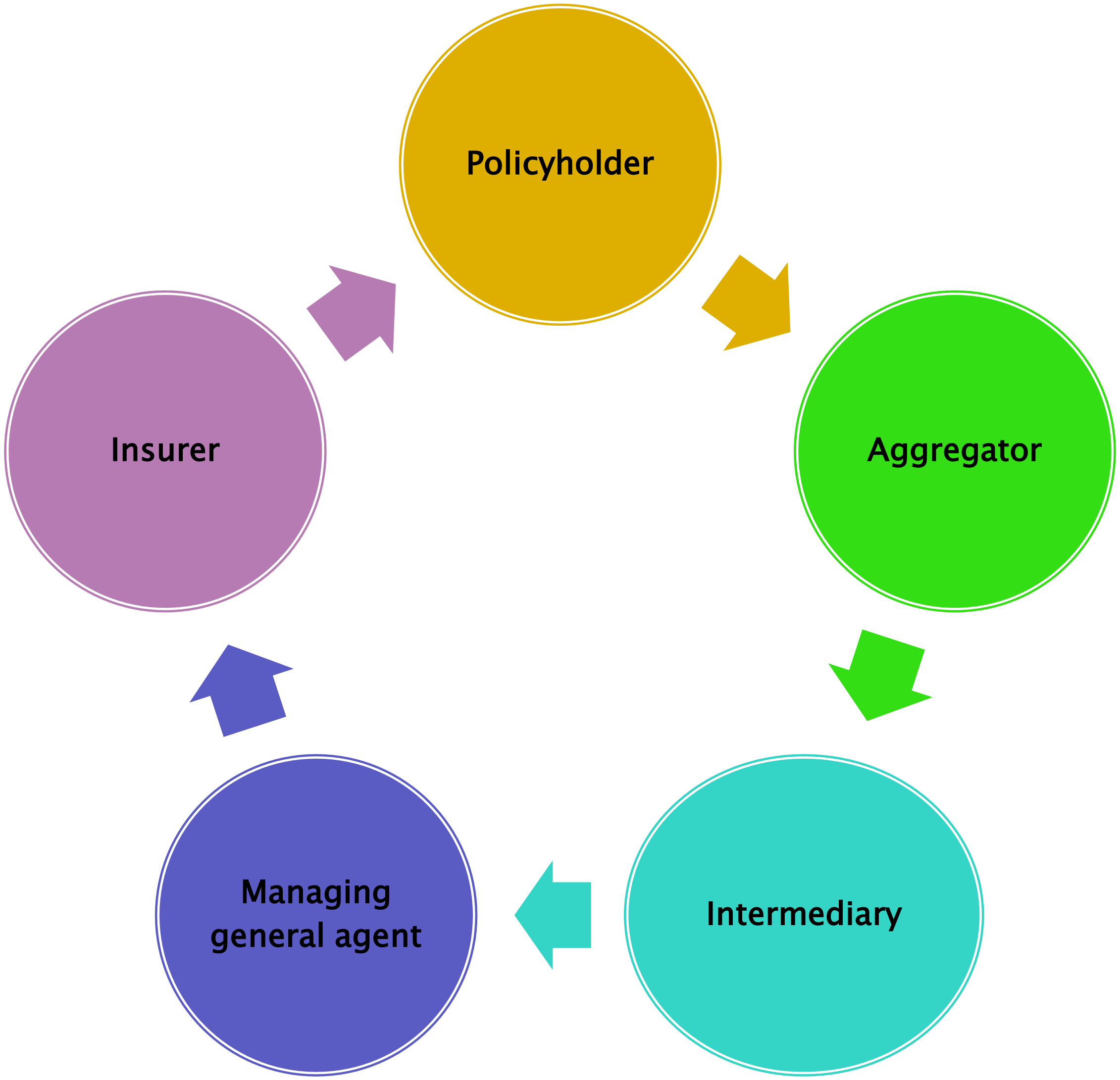
The IDD

- It replaces the Insurance Mediation Directive
- Mediation becomes Distribution
- Its aim is to:
  - Create a level playing field for insurance intermediaries and the **distribution** of insurance
  - Harmonise regulation across the EU
  - **Aim is to improve professional standards in the insurance market across Europe**
  - Raise standards of conduct
  - Improve competition
  - Improve customer protection

Background

- The IMD mainly applied at point of sale, and didn’t cover product design and distribution
- Didn’t directly cover Price Comparison Sites (though we did in the UK)
- More firms involved in the insurance process rather than just broker/client or policyholder dealing direct with the Insurer

Example – the chain



Insurance Distribution Directive

- Applies to Consumer and Commercial Customers
- Applies to Insurers
- Applies to Wholesalers
- Applies to Garages and Shops that sell Insurance as an ancillary to their main business

Insurance Distribution Directive

There is a lot for firms to do

- The FCA consultations were delayed because of the General Election
- Final Policy Statement only issued last month
- FCA rules are “Near Final” but they could change them!

Insurance Distribution Directive

Changes to disclosure – Terms of Business and scripts for Commercial AND Consumer Customers

- You must disclose the source(s) of your income
- You must disclose the type of remuneration

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Changes to disclosure – Terms of Business and scripts for Commercial AND Consumer Customers

- For example you must disclose that any commission you receive from an insurer is **taken from** the customers' Premium
- You must disclose all other sources of income (Profit Share, Premium Finance, etc.)

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Changes to disclosure – Terms of Business and scripts for Commercial AND Consumer Customers

- Fees must be disclosed in cash terms
- Fees of "up to" are not allowed (FCA rule)
- Other Fees, for example Mid-Term Adjustments and Cancellation must be disclosed in cash terms (or explain how they will be calculated)

5.25 The table below sets out some scenarios and whether they are likely to be compliant with o
proposed rules and guidance.

Table 1: Illustrative examples concerning remuneration disclosure

Scenario	Likely compliant?	Comments
We arrange the policy with the insurer on your behalf. You do not pay us a fee for doing this. We receive commission from the insurer which is a percentage of the total annual premium.	Yes	This gives a disclosure of the type of remuneration the intermediary received. It also explains the source of the remuneration.
We receive commission from the insurer for selling this policy.	No	This does not state that the source of the commission is that it is included within the premium.
When you take out a policy with us we charge you a fee of £50. In addition, the insurer pays us a percentage of the annual premium 14 days after the policy starts.	Yes	This provides the amount of the fee payable by the customer, and also gives an explanation of the other remuneration.

Insurers pay us commission to sell policies on their behalf. They also provide us with periodic incentives (such as bonus payments) if we meet certain sales targets.	No	This does not state that the source of the commission is that it is included within the premium.
When we sell you a policy the insurer pays us a percentage commission from the total premium. If the type of policy we sell reaches specific profit targets the insurer also pays us an additional bonus.	Yes	This gives an explanation of both types of remuneration the firm receives (or may receive).
The insurer pays us a flat fee per policy to deal with claims on their behalf.	Yes	This gives an explanation of the type of remuneration and who pays it. However, it would be insufficient if the firm received more remuneration than just the flat fee.
The insurer pays us a flat fee per policy to deal with claims on their behalf. Every month the insurer calculates the profit made on policies we administer. If this is above a certain amount they also pay us a share of this.	Yes	This gives an explanation of both types of remuneration the firm receives (or may receive).

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Changes to disclosure – Terms of Business and scripts for Commercial AND Consumer Customers

- You must disclose whether you are acting for the Insurer or for the Customer
- You must disclose whether you are a Broker or an Insurer
- **In both cases you must act in the customers' best interest**

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Changes to disclosure – Terms of Business and scripts for Commercial AND Consumer Customers

- You must disclose whether or not you provide advice or just information
- Insurers must disclose if staff have sales incentive schemes

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Changes to disclosure – additional requirements

- You must provide a list of all Insurers the firm deals with, in all cases except when advice is given on the basis of a full and fair analysis of the market
- The Customer must be given a clear choice to receive all documents on paper (and free of charge) or by electronic means (email, PDF etc.)

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Changes applying to Staff

- Al firms must maintain records to demonstrate that those directly involved in Insurance Distribution or its Management:
    - Have no serious Criminal Convictions relating to property or financial crimes
    - Are not undischarged Bankrupts
- One Senior Member of Staff must take responsibility for maintaining these records

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Changes applying to Staff

- All Insurance Staff must be of good repute
- All Insurance Staff will need 15 hours of CPD, covering specified areas of training and knowledge
- Records must be kept for 3 years
- Employees are entitled to a copy

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Changes applying to Staff

- This will require employees to have a minimum necessary knowledge of:
  - Terms and conditions of policies offered
  - Applicable laws governing the distribution of insurance products
  - Claims handling
  - Complaints handling

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Changes applying to Staff

- And also:
  - Assessing customer needs
  - The Insurance Market
  - Business Ethics
  - Financial Competence

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Conflicts of Interest

- Firms must have a written Conflicts of Interest Policy which contains:
  - Identification of conflicts from remuneration or other sources
  - Identification of conflicts from other parties, related companies or members of the same group

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Conflicts of Interest

- Firms must have a written Conflicts of Interest Policy which contains:
  - Details of procedures to be followed in the event of a COI
  - A gifts and benefits policy setting out the circumstances that gifts can be offered or accepted
- There must also be an **annual report** to the board

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Customers' Best Interests

- Obligation on Member States to ensure that, when carrying out distribution, Insurance Intermediaries, Insurance and Reinsurance undertakings always act honestly, fairly and professionally in accordance with the best interests of their Customers

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Customers' Best Interests

- Rules ensuring that brokers, and insurers do not either pay or assess the performance of employees in a way that conflicts with their duty to act in the best interests of customers

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Product Information

- The new requirements require the Customer to be given a standardised insurance product information document (IPID), summarising the main features of the proposed contract
- The responsibility is on the Insurer or product designer(s) to produce this document

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Product Information

- The IPID is a template document
- There are very strict rules about how it is presented, which can be followed (fonts, logos etc)

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Product Information

- The IPID is only required where the Customer is a Consumer
- The same product information still needs to be given to Commercial Customers, but there is no requirement to do so in the format of an IPID
- It may be more convenient to use an IPID for some Commercial risks

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Product Information

- Currently a Policy Summary is used for most Insurance Products to provide this information, so in effect, this will be replaced by the IPID
- Pure Protection Products will still require a Policy Summary (and no IPID)

Xxxxx Insurance

Insurance Product Information Document

Company: <Name> Insurance Company   Product: <Name> Policy

[Statement that complete pre-contractual and contractual information on the product is provided in other documents]

What is this type of insurance?

[Description of Insurance]

What is insured?

- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx

What is not insured?

- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx

Are there any restrictions on cover?

- ! Xxxxxx
- ! Xxxxxx
- ! Xxxxxx
- ! Xxxxxx
- ! Xxxxxx

Where am I covered?

✓ Xxxxxx

What are my obligations?

- Xxxxxx
- Xxxxxx
- Xxxxxx
- Xxxxxx

When and how do I pay?

Xxxxxx

When does the cover start and end?

Xxxxxx

How do I cancel the contract?

Xxxxxx

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Complaints

- Firms should have complaints procedures for all customers (not just eligible complainants)
- Non UK firms with a branch in the UK will need to comply with UK standards and have access to FOS

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Product Oversight and Governance

- New rules covering the design, approval, marketing and management of Insurance products including:
  - Setting up and maintaining a product approval process so that new products are tested before launch
  - Ensuring that a target market is identified
  - The distribution (Intermediary) channels are selected appropriately

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Product Oversight and Governance

- Staff involved in producing new products must demonstrate that they have the necessary expertise for this role
- New products (policies) come with appropriate information and details of how they were approved
- There must be ongoing Management Information on product performance

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Product Oversight and Governance

- Intermediaries must have sufficient information about the product, the approval process, and who the product is suitable for
- In some cases (for example where an Intermediary negotiates features to be included in a policy), they will share some of the governance responsibility as if they were the Insurer

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Ancillary Insurance Intermediaries (AIIs)

- New category of Intermediary (previously known as secondary intermediaries)
- Applies to firms whose principle activity is not Insurance distribution
- Also applies to firms who only distribute Insurance products which are complementary to the goods and services they provide as their primary activity

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Sales Practices

- There are new requirements when Insurance is sold alongside a non-Insurance Product
- There are two circumstances to consider:
  - Where Insurance is the main Product, or
  - Where a Non-Insurance Product is the main Product

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Sales Practices

- Where Insurance is the main Product:
  - The Customer must know if the Non-Insurance product(s) can be bought separately
  - A description of the Non-Insurance Product(s) must be given, including any interactions with the Insurance Product
  - Information on the costs and charges of the Non-Insurance Product(s) must be explained
  - Examples: Telematics, Fitness Devices

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Sales Practices

- Where a Non-Insurance Product is the main Product:
  - The Customer must be able to purchase the primary product or service without the Insurance product
  - Examples: Insurance with a Car or Mobile Phone

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Introducer Appointed Representatives

- Introducing is exempt from regulation if all the Introducer does is pass on information to a Broker that it already holds on its own Customers (for example Name & Address)
- This area is complex, and you may need advice

Recap …

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Questions

Presented Mike Cranny
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