The Insurance Institute of Manchester
Chartered Insurance Institute

The New Class 2018 Report 1:

The Insurance Distribution Directive (IDD)

What is the impact on Insurers following the introduction & implementation of the IDD?

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Meet The New Class

During 2017, the Insurance Institute of Manchester was inundated with applications from candidates eager to achieve a place on 'The New Class 2018' programme.

From a number of applications fourteen successful candidates were selected to participate in a tailored training programme, to help them develop both themselves and the industry.

The group was then split in to two teams and had to utilize the skills learned during the year to create a report based on The Insurance Distributive Directive (IDD).
The following report has been created by:

Matthew Smith
Chubb

I have been working in the industry since 2015 when I graduated with a BA in Accounting & Finance from Newcastle University. I have worked as a multinational account coordinator, an associate underwriter and am now a financial lines underwriter at Chubb European Group SE. I have gained my Cert CII and am now starting my Dip CII.

I joined the New Class to improve my soft skills and gain a greater knowledge of the industry as well as broadening my network.

Corinne Christou Cert CII. BA Hons. PGCE
WPA Healthcare Practice PLC

Western Provident Association (WPA) are a UK specialist health insurer with a heritage of 115+ years. We have approx. 450,000 clients, we offer private medical insurance, cash plans and dental insurance. About 20 years ago WPA set up local offices across the UK, these offices are run on a franchise basis. I am therefore self-employed, I run my business as a private limited company. My clients range from private individuals to large groups which include some national companies.

I wanted to join the New Class programme for 3 reasons, to find out more about the Insurance Industry in general; what I do is very niche, and I want to understand more about the Industry as a whole. The team work aspect - Since joining WPA every project I have undertaken has been in isolation and I really miss the team work - my last role involved a lot of teamwork and the trip to Lloyds - I've always wanted to go there!!

Ekaterina "Katya" Nechay-Frith
Co-operative Insurance

I am a third-party claims handler at the Co-operative Insurance in Manchester.
Co-op is the first insurance company I have worked at. Before this I was a teacher of English as a foreign language (back home in Russia). I started working at the Co-operative Insurance in 2012, initially as a customer service adviser. A couple of years later I moved into claims. Last year I also had a secondment working on a transformation programme as a UAT software tester, which I enjoyed a lot.

Currently I am studying towards my CII Diploma in Insurance. I love networking and meeting colleagues from other companies and I love learning, so New Class 2018 is the perfect opportunity for both.

The Insurance Distribution Directive (IDD)

What is the impact on Insurers following the introduction & implementation of the IDD?

Jordan Wicks CERT CII
St James's Place

I started my career working for various Insurance Brokers which gave me a real insight into all aspects of insurance. I have also worked for NFU Mutual for 4 years advising customers on personal or commercial insurance. This was really beneficial for my development as I was taught great customer service skills and product knowledge. I also took on a role of financial planning assistant which involved generating financial service leads from the existing general insurance book of business and general day to day tasks.

I have recently taken on a role as a Paraplanner assisting Financial Advisers throughout the St James's Place network I am currently working towards my Diploma in regulated financial planning. I have a real passion for financial services and have certainly found a career for the long term.

Abbeygale Downing
RSA

My name is Abbeygale-Grace Downing, I have worked in insurance for 5 years starting off in broking within a specialist personal lines unit which is where my love for insurance began. From there I wanted to get into underwriting, so a job at RSA was perfect and I currently work here as a Property Trading Underwriter. Mainly I work within the Manchester market both on independent and national broker accounts focusing on underwriting new business.

The New Class will give me a great opportunity to network with other insurance professionals who are also keen to develop their knowledge and skills and further our careers within insurance, working alongside the Manchester insurance institute is a privilege and for me personally will provide me with experience as well as soft skills that I can build on to make the most out of my career.

Rebecca Bramall Bsc (Hons) Dip PFS
Kellands (Hale) Ltd

My degree is in Hospitality Management and my background is working in hotels. After working in that industry for a number of years after graduating I decided on a career change. I have worked in Financial services for six years, starting off at Aegon as a PA then moving in to a sales role selling pensions and investments to Financial advisers.
I then worked at Royal London for 2 years setting up Individual personal pensions.

Currently, I work at Kellands (Hale) Limited as a Paraplanner, doing research and writing reports of recommendation for Financial Planners. I also process new business and set up investments for clients. I've recently started the Advanced Diploma exams to become Chartered.

I wanted to join the New Class to gain soft skills that will be useful throughout my career and to meet people who work in different areas of the industry to gain a better understanding and knowledge of the industry as I have only worked in Financial services.

Hannah Norman
Sedgwick

I have worked in the Insurance industry for 6 years beginning my career at a restoration company then progressing into Loss Adjusting. I have worked in both domestic and commercial property claims and currently I am working in the Major Loss team at Sedgwick/Cunningham Lindsey.

I joined the New Class Programme as I wish to develop both my knowledge within the industry and my soft skills. The New Class is a great platform for me to expand my horizons within different areas of the industry. It will also give me a chance to meet new people, improving my social/networking skills and growing my contacts within the industry. I am also looking forward to visiting Lloyd's in London.

With assistance from Mentor Eleanor Moore
C&C Insurance Brokers

I am the Personal Lines Manager at C&C Insurance Brokers in Stockport. I began my career in 1992 at Highway Motor Policies at Lloyds, initially as a claims handler. I moved on to underwriting and became a Team Leader at the age of 21. I got made redundant when I was 26 and has just had my daughter – not great timing but it pushed me into broking. I worked at Chambers and Newman in Stockport for 3 years on and off, taking a year out to go back to college to do an Access course, studying English and history.

I started at C&C as an Account Handler working in the Personal Lines team in 2004 and have been here since. I think I have been the Manager for 10 years, but I could be wrong! I specialise in high net worth, which I find fascinating and genuinely love my job.

I became involved with the IIM in 2012 when the then President, Karen Shenton, was arranging a conference to celebrate the centenary of the IIM. I immediately made friends and learned so much from my peers that I knew that I wanted to do more. I joined the Finance committee (now Governance) and was the Treasurer for 4 years (which should have only been one!)

I wanted to be a mentor so that I could pass on my skills and knowledge, where appropriate, but also to learn from you. You can still "teach and old dog new tricks!" I am really looking forward to getting to know you all and seeing you develop throughout the course of the year.

Catalyst Claims sponsor of the IMM New Class

Managing Director Brad Jackson who has a passion for giving back to the insurance industry said "The Insurance Industry and the Chartered Insurance Institute have given me many development opportunities throughout my career. I want to ensure that these opportunities are available for future generations and to assist in creating an industry that attracts talent from a diverse background, therefore supporting local initiatives is really important to me"

"The New Class is a credit to the Insurance Institute of Manchester whose passionate volunteers work through the year on the planning, preparation and delivery of the New Class and make it such a success. Congratulations to the New Class of 2018 who have been a pleasure to work with and should be very proud of their reports and all they have achieved through the year"

Introduction

The purpose of this report is to provide an overview of the key changes that are coming into force as a result of the Insurance Distribution Directive (IDD) and how they affect Insurers specifically.

The IDD came into effect on October 1st, 2018 and is set to have an extensive impact on the insurance industry. It will affect all firms involved in designing and distributing non-life insurance products.

In each section of this report we offer a thorough and clear summary of the key requirements of the IDD along with a discussion centred around the positive impact and in some cases the possible negative impact of each requirement.

The Positive Aspects of the Insurance Product Information Document (IPID)

The IPID has been introduced in Article 20 of the new Insurance Distribution Directive (IDD) and after several delays became a requirement on 1st October 2018.

The IPID is expected to be provided to all consumers; however, for commercial customers, the IPID information does not need to be in the prescribed format but should be issued. There is further guidance on this from the Financial Conduct Authority (FCA).

What is an IPID?
An IPID is generally a two-page summary which details the significant information regarding the benefits, terms and key exclusions of an insurance policy to allow a customer to make an informed decision prior to purchasing the insurance.

It is the duty of the manufacturer (whoever is responsible for, or has meaningful input into, the design of the product) to create the IPID, which will be in a standardised format designed by the European Insurance and Occupational Pension Authority (EIOPA). It must be provided prior to the conclusion of the contract, whether the policy is new business or a renewal.

The IPID need not be personalised to each consumer as the manufacturer can cross reference to another document to support the key information on the IPID (for example, the Policy Schedule).

Positive Impacts
Arguably, there are many positive impacts of the new IPID, not only for insurers but also for the consumers at whom it is aimed.

In our opinion, one of the most beneficial aspects is that technical insurance jargon should not be included. The guide for the IPID production states that 'Ambiguous and unclear words or phrases should be avoided or where possible explained'. This allows individuals who do not understand technical insurance jargon to truly understand their own insurance policy. This is a huge benefit to them as one of the key goals for the changes introduced by the IDD is for customers to make a fully equipped informed choice.

A further benefit to insurers is that, by making it simpler for customers to understand, they are further enhancing their defences against professional indemnity claims or even paying out on certain claims where they have not made it clear as to whether or not a cover is in place.

All manufacturers of the IPID are required to use the same standardised format to produce their two-page summary of cover prior to the conclusion of a sale. This includes downloading their logos, fonts and colours from EIOPA. It will be much easier to compare covers across a variety of different insurers which, in turn, should create confidence for consumers purchasing from the insurance industry.

In conclusion, although every change in our industry is bound to have teething issues, the new IPID's positives should far outweigh the negatives.

The Negative Aspects of the Insurance Product Information Document (IPID)

A standardised Insurance Product Information Document (IPID) template has been drafted to offer a brief two-page summary of appropriate product information in a generic format.

The IPID must be produced by the manufacturer of the product for each new business policy and renewal business policy. It must be generated prior to the conclusion of the contract using a durable format.

With this in mind, where the insured risk is simple and straightforward, the production of the IPID will also be simple and straightforward. However, where the insured risk is more complex, it could be more difficult to insert the detailed aspects of the product in the restricted IPID format.

If the insurance agent as opposed to the insurer tailors a complex risk policy, the insurer could claim not to be the manufacturer of the product meaning that ambiguity might exist as to who is responsible for creating the IPID.

There are some aspects of the IPID which could be perceived to be more negative for the insurance agent as opposed to the consumer. For example, where there are separate elements of risk involved, it might be necessary to generate an IPID for each individual aspect hence an intermediary would need to manage multiple IPID's which the client may be less likely to read.

Also, from the insurance agent's perspective, IPID's may on occasion hinder the opportunity to make last minute changes to insurance policies.
Consider this scenario, an insurance agent visits a client with correctly prepared new business paperwork (including IPID). The client decides to make last minute changes to their policy therefore a new IPID is required. The revised IPID must be provided and issued in the time frame dictated, thus progress may be delayed, and an additional workload has been created.

It will be critical for the content, i.e. the wording within the IPID, to be clear, brief and accurate. Concerns have been raised of IPID documents where the restricted wording has hindered clarity of the content resulting in possible ambiguity for the consumer. Where word count is limited to space, two pages in this instance, it can be a challenge to clearly state complex insurance cover.

In conclusion, should negative issues with IPID's become apparent through usage,
it is hoped that the format and requirements of them can be evolved so as to overcome industry concerns.

Continuing Professional Development & Competence Requirements

A major change coming in as part of the Insurance Distribution Directive (IDD) is around the competency and good repute of employees in the Insurance industry. Article 10 of the Directive states:

"Natural persons working in an insurance or reinsurance undertaking, or insurance or reinsurance intermediary, who pursue insurance or reinsurance distribution shall be of good repute. As a minimum, they shall have a clean criminal record or any other national equivalent in relation to serious criminal offences linked to crimes against property or other crimes related to financial activities and they shall not have previously been declared bankrupt, unless they have been rehabilitated in accordance with national law.''

Employers will need to implement a process to ensure that good repute checks are made as part of their recruitment process and on their existing employees who work in distribution roles, if they do not already do so.

Another ruling that has come in to force as part of the IDD is that all staff who sell, advise on and transact insurance contracts for all types of insurance must complete at least 15 hours of continuing professional development (CPD) per year.

"***A firm must establish, maintain and keep appropriate records to demonstrate compliance with this chapter'' – FCA handbook SYSC 28.4.1 Record keeping requirements.***

Article 10 of the IDD states that insurance distributors and their employees should have appropriate knowledge and ability to be able to do their job sufficiently. It sets out criteria for minimum knowledge including areas such as product and market knowledge, claims handling, complaints handling and financial competency.

This will have widespread impact on insurance companies across the industry and will mean implementing new processes and systems for most in order to comply with this new requirement.

An advantage of these requirements coming in to practice is that consumers can be confident that the professionals that they are dealing with are trustworthy, have the required knowledge to provide advice and are continuing to keep up to date with industry and product changes.

There is a great opportunity for companies to really take on the challenge and improve the consistency and quality of advice. This will surely lead to positive "word of mouth" advertising from consumers who are very satisfied with the level of knowledge that the staff have and the service they've received. It also aims to promote professionalism within the industry and align itself with other industries, such as the provision of regulated financial advice, which already has CPD requirements and competency assessments in place for its employees.

Another advantage is a reduction in the risk of mis-selling and not treating customers fairly. With the new CPD requirements, employees will have up to date knowledge of changes in legislation within the industry in addition to areas such as complaints handling. The fact that employees will need to have criminal and financial checks also reduces the risk to the business of any fraudulent or criminal activity.

A disadvantage of this ruling is the increased cost to companies as they will need to provide employees the time to complete the required CPD hours which means losing productive working hours. The HR departments will also need to have a process in place for checking any new starter's criminal records and bankruptcy information which could mean paying for an online system to run the checks or the costs of outsourcing the checks. This may impact smaller companies in particular who rely on a small work force to run the business and don't have a large corporation to fund additional training and costs.

Another disadvantage is that if companies have employees who don't adhere to the new regulation there may be repercussions from the regulators. They will need to have a process in place to monitor this and make sure employees are completing the required CPD hours. There are tools on the Chartered Insurance Institute website and other online tools which companies can use for their employees to complete CPD hours and also to monitor the CPD hours its employees are completing. In addition, product providers hold seminars and training courses where they can provide evidence of the number of CPD hours completed. This is prevalent in the Financial Services industry where it is already necessary for financial advisers to complete CPD and to evidence the number of hours completed.

Companies will also need a method to record and evidence that they are complying with the ruling which could be time consuming and costly. In the FCA's Policy Statement PS17/21 published in September 2017, which summarised the feedback they had received to their proposals, it states that:

"A small number of respondents argued that our proposal to extend record keeping to intermediaries would create additional costs"

This shows that the cost is a real concern to some companies.

In summary, there are both benefits and drawbacks to the IDD introducing the CPD requirement. In PS17/21, the feedback that the FCA received showed that the majority of respondents were in favour of the CPD requirements. Some stated that fifteen hours wasn't enough and minimum qualifications needed to be introduced. Others queried whether CPD is a good tool and believed that companies should be given control over their employee's training needs.

In our opinion, it is a positive and will mean insurance company employees are keeping their knowledge up to date and can demonstrate their competence to perform the role. It is hoped that the IDD will bring the insurance industry in line with other industries and bring consistency and professionalism to the industry.

Product Oversight & Governance

Product Oversight & Governance - Requirements for Insurance Manufacturers

The IDD states that organisation's who manufacture insurance products:

1. ***Must have a process to review and approve products before they are marketed or distributed to customers***
2. ***Should have an approval process to identify a target market for each product, have risks assessed, and ensure products are appropriately tested and only sold to the target market***
3. ***That regular reviews must take place to ensure the risks assessed and the product continue to meet the target market needs; and***
4. ***The product information and target market are provided to distributors***

In relation to Product Oversight and Governance (POG) the IDD recognises that there are a range of influences of product design across the distribution chain, using the terms 'manufacturer' and 'distributor' in relation to responsibilities for product oversight and governance.

To be a "manufacturer", the entity must take on a decision-making role in the design and development of an insurance product; this applies to insurers and intermediaries who manufacture insurance products. The IDD provides criteria to identify if this decision-making role is met.

The IDD requires the manufacturer to establish and implement product oversight and governance arrangements that set out the process for designing, monitoring, reviewing, and distributing insurance products. This also includes remedial actions for insurance products that are potentially detrimental to consumers. The product oversight and governance arrangements should be set out in a written document and be made available to the relevant staff selling the product. The document should also be kept for auditing purposes and made available to the pertinent authorities upon request.

The manufacturer's board of directors or equivalent management for the manufacturing of insurance products should endorse and be ultimately responsible for the establishment, implementation, reviews and continued compliance with the product oversight and governance arrangements.

The product approval process includes the identification of a target market. The definition of target market can differ depending on the complexity and nature of the product and the risk of customer detriment. This must be done to a sufficiently detailed level taking the characteristics, complexity, nature and the risk profile into account to ensure that only the right products are developed and sold to the right customers. The manufacturer should also consider the level of information made available and the financial capability and literacy of the target market.

Where changes to an existing product are introduced, a new product is introduced to the market or if the target market changes the manufacturer should conduct appropriate testing with the purpose of assessing if the product matches the identified target market's needs, objectives and characteristics. The manufacturer should carry our product testing in a qualitative and where appropriate quantitative manner depending on the product and the risk of detriment to the customer. If the results of the product testing show that the product is not aligned with the interests, objectives and characteristics of the target market the manufacturer should not bring the product to market.

The manufacturer must select distribution channels with appropriate care, making sure they are appropriate for the target market. They must provide distributors with all of the relevant information on the product including its target market, the product characteristics, risks, costs and potential conflicts of interest. The information provided to the distributors should be sufficient to enable them to understand and place the product properly and identify the target market for which the product is designed and also identify those customers for which the product is not likely to meet their characteristics, interests and objectives. The manufacturer must also suggest a distribution strategy which addresses the question on how insurance products are distributed to the customers, in particular whether the product should only be sold where advice is given.

Once the product is distributed, the manufacturer should monitor the continued alignment of the product to the target market. Should the manufacturer identify circumstances which could give rise to customer detriment, the manufacturer should take appropriate action to mitigate the detriment and prevent the reoccurrence of such detriment. The manufacturer should notify any relevant remedial action taken promptly to the distributors and the customers.

Product Oversight & Governance - Requirements for insurance distributors

Product distribution arrangements must be in place with appropriate measures and procedures for obtaining information from the manufacturer on the products to be distributed. Distribution must be in line with the manufacturer's distribution strategy and target market. The distributor must exchange relevant product information with the manufacturer and, upon request, be able to provide relevant information on sales and product reviews.

Large risks

Activities related to the distribution of 'large risks' are exempt from the most onerous conduct requirements of the IDD. The IDD does not define 'large risks' and instead refers to the definition of large risks in the Solvency II Directive, which includes: marine, aviation, transport classes and contracts with commercial policyholders of a certain size. A first step for manufacturers is to identify the contracts falling within the 'large risks' exemption.

Summary

The implementation of the requirements/arrangements relating to Product Oversight & Governance is crucial for manufacturers and distributors. They should aim to prevent and mitigate customer detriment and should ensure that the objectives, interests and characteristics of customers are taken into account.

Demands & Needs

There is a real danger that the sale of retail insurance products has become an order-taking exercise rather than identifying the consumer's demands and needs to give a personalised recommendation.

There are views that distributors of insurance products have become too complacent in issuing generic statements of demands and needs whilst labelling the transaction as an advised sale.

The Insurance Distribution Directive requires the distributor to specify based on information gathered from the consumer, what the consumer's demands and needs are. Where a personalised recommendation is made, they must provide the consumer with an explanation as to why a particular contract of insurance would best meet their demands and needs. The information that they base the recommendation on has to be taken from the consumer and cannot be generic based on information gathered from all consumers of retail insurance.

This requirement has not been modified from the previous ruling set out in ICOBS 5.2 which stated:

1. *Prior to the conclusion of a **contract of insurance** **a** **firm** must specify, on the basis of information obtained from the **consumer**, the demands and the needs of that **consumer***
2. *The details must be modulated according to the complexity of the **contract of insurance** proposed and the type of **consumer***
3. *A statement of the demands and needs must be communicated to the **consumer** prior to the conclusion of a **contract of insurance***

Although the requirements imposed upon distributors are not too different, there is a real emphasis on moving away from the generic statements that are provided for most non-advised sales of retail insurance products.

The ruling not only applies to the formation of a new contract of insurance but also to renewals of existing ones. An appropriate statement of demands and needs is required that is consistent with what is required for a new sale. Distributors are going to have to ensure that their recommendation remains relevant to the needs of its consumers by reaffirming their demands and needs.

In summary, this places a real emphasis on distributors to ensure that any contracts proposed are consistent with the needs of the consumers that have been identified. Implementing this rule should ultimately reduce the number of repudiated claims and complaints within the industry. The quality of advice should automatically improve as there is clear reasoning as to why the advice was provided.

Conflicts of Interest

The Insurance Distribution Directive rulings regarding conflicts of interest are more robust and detailed than those contained in the Insurance Mediation Directive (IMD); therefore, it becomes a key area of new rulings that insurers have to consider.

Conflicts of interest arise when anyone linked to the firm by control, or another client, has an interest in the outcome of the insurance distribution activities which is distinct from the client's interest in the outcome of the insurance distribution activities.

Most requirements for identifying and handling conflicts of interest that were set out as Guidance in the Senior Management Arrangements, Systems and Controls (SYSC) (FCA Handbook 10) have now become rules.

Additionally, there is a rule within the Insurance Conduct of Business Sourcebook (ICOBS):

"A firm must act honestly, fairly and professionally in accordance with the best interest of its customer"

The customer's best interest rule in the context of the SYSC conflict requirements creates a concept that, by effectively handling conflicts of interest, firms are not only preventing the adverse impact on a consumer, but also preventing conduct which is not in the best interests of a consumer. This does not mean that it has to have an immediate negative impact.

Insurers should assess the following instances that may give rise to conflicts of interest:

- Situations where Insurers are likely to make a financial gain, or avoid a financial loss, at the expense of the client
- Situations where Insurers have a financial or other incentive to favour the interest of one client or group of clients over another
- Staff remuneration and incentives that are not in the best interests of consumers

The main issues around new rules are:

- There must be a written policy covering conflicts of interest. It must contain procedures to identify, prevent or manage conflicts between a firm, including its employees and self-employed staff, appointed representatives or any person directly or indirectly linked by control and a client; or one client of the firm and another client that arise or may arise from services provided by the firm, including those caused by third parties' incentives or the firm's own incentive schemes
- The policy must be adequate for the size and nature of organisations and scale and complexity of their business
- The policy must be reviewed annually, and the board must receive an annual report of conflicts that have arisen and how they were handled
- Insurers must take steps to eliminate conflict of interest. If it can't be done completely then disclosing a conflict must be a measure of last resort, and detailed information about a conflict must be provided in a durable format, including:
    - Description of the conflict and explanation which risks to the clients it carries

- Explanation of the general nature and sources of the conflict of interest
- Steps undertaken to mitigate any risks to the clients and explanation that these steps are insufficient to protect clients' interests

New rules are designed to discourage Insurers from relying solely on disclosure of conflicts of interest and to focus instead on preventing conflicts altogether. If a firm must rely on disclosure, it would be useful to record the instances of when a conflict is disclosed to prevent further conflicts of the same nature. It would be beneficial to perform a root cause analysis of conflicts if they happen too often and include conflict reviews as a regular feature during board meetings. Another way to make sure a firm complies with new rules is to design a disclosure script in accordance with requirements and present it to clients whenever a new business is proposed.

Insurers can do the following in order to identify and handle conflicts of interest:

- Check around delegated authorities and profit share, making sure the pricing is fair and competitive and the commission is reasonable and doesn't disadvantage the client
- Check sales bonuses and conflicts of those supervising sales
- Check relationships with loss adjusters or loss assessors or introducers
- List details of procedures to be followed in the event of a conflict of interest
- Check FNOL arrangements don't prejudice at fault clients
- Make sure the firm has a gifts and benefits policy setting out the circumstances when gifts can be offered or accepted
- Make sure the firm has a conflict log and annual report to the board

In summary, in order to comply with new rules, Insurers must establish a comprehensive framework of identifying and managing conflicts of interest that is properly recorded and regularly reviewed. Conflict controls must be given priority at a higher level when designing insurance distribution activities. Insurers must put measures in place that would prevent conflicts of interest altogether as disclosure should be a last resort option. Conflict of interest policy fits well with the main principle of the Insurance Distribution Directive – all insurance distribution activities should be carried out in the best interests of the client, and any detrimental impact on the quality of services due to potential or existing conflicts of interest is avoided or adequately disclosed to the client.

Remuneration

As a result of the Insurance Distribution Directive being introduced, the rules surrounding remuneration disclosures have been reinforced. There is now a requirement for all sellers of insurance products to disclose the nature and basis of remuneration received in relation to each specific insurance contract incepted.

Remuneration has been defined by the Directive as:

"Any commission, fee, charge or other payment including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in respect of insurance distribution activities."

In accordance with ICOBS 4.3, Insurers must provide its customer with information on the nature of the remuneration received by its employees in relation to the contract of insurance, in good time before its conclusion.

Types of remuneration that require disclosure include those provided indirectly to insurance intermediaries or another firm within the distribution chain such as aggregators or those provided by way of a bonus.

Bonuses can be financial or non-financial and are those that are given as incentive when a target has been met. This can include cash bonuses for achieving a sales target or additional annual leave for achieving a high customer service score on sales calls.

Insurers must ensure that the information provided to the customer is clear, fair and not misleading.

Insurers must also ensure that the management of their remuneration procedures does not conflict with their duty to act in the customer's best interests. For example, if an employee receives a bonus for selling add-on legal policies then they are more likely to sell a product that the prospective client doesn't necessarily want or need in order to hit their target and receive a bonus. This may have a positive outcome for the employee but not necessarily the consumer if they are purchasing a policy that they are never likely to need.

In addition, Insurers will be under pressure to guarantee that the amount of remuneration they are giving/receiving for each policy is fair and in line with the product that they are selling. New procedures will need to be put into place to make sure that this is reviewed regularly, both in house and with Intermediaries who sell their policies. This will ensure that all remuneration is competitive within the market and may even reduce the risk of the Insurer losing prospective/existing clients as a result of unfair or high charges.

In summary, the Insurance Distribution Directive states that Insurers must ensure that all remuneration in respect of each insurance contract sold is disclosed to the customer. This includes payments made to intermediaries who have sold the policy on their behalf and those made to employees by way of bonuses. The information must be presented clearly before the conclusion of the contract.

This is a positive outcome for the consumer as it ensures that they are treated fairly and are completely aware of what they are paying for regardless of which Insurer they seek to purchase a policy from.

Ancillary Insurance Intermediary

The IDD introduces a new category of firm called an Ancillary Insurance Intermediary (AII). Ancillary Insurance Intermediary means any natural or legal person who, for remuneration, takes up or pursues the activity of insurance distribution on an ancillary basis, provided that all of the following conditions are met:

- The firm's principal professional activity is not insurance distribution
- The firm only distributes certain insurance products that are complementary to a good or service they provide as a professional activity; and
- The insurance products concerned do not cover life insurance or liability risks, unless that cover complements the good or service which the intermediary provides as its principal professional activity.

The IDD does not require direct regulation of Ancillary Insurance Intermediaries if their insurance distribution activities are limited to products meeting certain criteria: – level of premium up to an annual limit of €600 or €200 for a contract of three months or less and coverage being limited to breakdown, loss of or damage to goods; non-use of a service; or damage or loss of baggage and other issues linked to travel.

When insurers and intermediaries distribute products through Ancillary Insurance Intermediaries who are not regulated, the IDD requires them to ensure that the customer is aware of the authorised insurer/intermediary and its complaints procedure, and that there are 'appropriate and proportionate' measures in place to comply with the requirement to act in the customer's best interests and to consider the customer's demands and needs.

Conclusion

In this report we have demonstrated that, although there will be some challenges implementing the Insurance Distribution Directive, many of the rules that are included in the IDD already reflect the standards that most Insurers should adhere to from ICOBS (Insurance Conduct of Business Sourcebook) within the FCA handbook. The IDD builds on the existing rules and guidance and is consistent with the approach the FCA took when implementing the Insurance Mediation Directive (IMD), which precedes the IDD. The difference is that many of the IMD requirements have become rules that Insurers must now comply with.

In this report we have also discussed the main changes that will impact Insurers. Firstly, there is the introduction of the Insurance Product Information Document, which is a simple two-page summary to provide relevant information of the product benefits, terms and key exclusions of an insurance policy to allow the consumer to make an informed decision. We have identified positive and negative aspects of the IPID and concluded that although there is still space for improvement of the IPID’s format and requirements, the IPID’s positives should far outweigh the negatives.

Another major change introduced as part of the IDD is the requirement for employees who are involved in the sale of a retail insurance product to do at least 15 hours of training and CPD each year. This requirement will continue to enhance the professional profile of the industry.

Furthermore, the IDD introduces new product governance requirements, which aim to prevent and mitigate customer detriment and should ensure that the objectives, interests and characteristics of consumers are considered when manufacturing and distributing insurance products.

Another important requirement is that all proposed insurance contracts must be consistent with the demands and needs based on the information obtained from the consumer. Implementing this rule should, ultimately, reduce the number of repudiated claims and complaints within the industry. The quality of advice should automatically improve as there is clear reasoning as to why the advice was provided.

Finally, the IDD introduces the new rule that:

“*A firm must act honestly, fairly and professionally in accordance with the best interests of its customer.”*

This rule has the greatest impact on policies written around conflicts of interest and remuneration, as it must not hinder with the firms’ duty to act in accordance with the best interests of the consumer.

Overall, the aim of the IDD is to create ‘a level playing field’ for sellers of insurance and to provide better protection for consumers of general and commercial insurance products. Ultimately, the implementation of the IDD will result in consistent consumer protection across different distribution channels. Insurance products that are being sold to consumers will meet their needs better, supported by improved product information that enables them to make well-informed decisions about the purchase of insurance. This should lead to increased consumer satisfaction and a reduction in complaints.

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