



# The New Class 2018 Report 2:

The Insurance Distribution Directive (IDD)

## What impact will the introduction & implementation of the IDD have on Brokers/Intermediaries?

### Training

Knowledge, competencies, and **professional development** by teaching of vocational or practical skills provides the basis for:

- On-the-job training taking
- Off-the-job training award



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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:



**Eram Akram**  
**Co-Operative Insurance**

I'm 32 with a degree in law and I have also completed the LPC, I've been in the insurance industry for 12 years and wanted to further develop my all-round skills to support my career progression, and also help build a network of contacts across other businesses.

**Jennifer Burrows**  
**Barbican Insurance**



I started my insurance career at The Co-operative Insurance where I had a range of roles in sales, customer service, claims and then pricing. From there I moved to Barbican Insurance as an Insurance technician, where I was responsible for providing administrative support to a number of departments. I am now a Team Leader within Barbican Group Operations and am responsible for delivering a range of services to internal customers. I joined The New Class to enhance my skills and to make contacts within the insurance industry.



**Heather Collins**  
**RSA Insurance**

My career started whilst travelling in Australia. During the time I spent in Sydney I was employed by one of their leading insurers in the Motor Claims Team. I went from admin to claims in 6 short months and following my return to the UK in 2013 I was hired by RSA, starting in the Commercial Motor Claims Team and have been with the company ever since.

During this time, I have worked in Commercial Property and Third-Party Liability claims which my most recent promotion being to Major Damage dealing with claims over £100k.

I found out about The New Class by chance when I was skimming the Institute website and I was excited about the prospects of coming together with other likeminded insurance personnel to enhance my industry contacts and knowledge whilst learning and developing in areas such as presentation skills and team work.

I have thoroughly enjoyed this programme and have already recommended it to numerous colleagues!

The Insurance Distribution Directive (IDD)

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**Matthew Tattler**  
**Bollington Insurance Brokers**



I work in the Commercial SME Department at Bollington Insurance Brokers advising new and existing customers. I applied to be part of the New Class in order to develop skills outside of my usual day-to-day role, meet new people within the industry and the chance to visit Lloyds for the first time. I've really enjoyed my time with the class; I've met some great people and learned a lot along the way.



**Zoe Walker**  
**Zurich**

I have worked for Zurich Insurance for over 7 years in both the Leeds and Manchester office. During this time, I have worked in the Third Party claims team, specializing in Credit Hire and Fraud, peer audits feeding back to the management team, Underwriting for High Net Worth clients and have recently moved into SME underwriting in a new centre of excellence.

Whilst in the Manchester office I applied for the class of 2018 in order to meet fellow insurance professional and develop soft skills.

*With Assistance from Mentor Suchit Desai*

**Catalyst Claims sponsor of the IIM 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"

**What impact will the introduction & implementation of the IDD have on Brokers/Intermediaries?**

## Introduction

This report aims to consider the impact that the implementation of the Insurance Distribution Directive (IDD) will have on Brokers and Intermediaries alike.

We will attempt to understand the background and history of this monumental change and why now, more than ever, is time for change.

We will consider the positive impact that the IDD will have on Brokers and Intermediaries and briefly examine the difficulties that they may face now that the IDD has been introduced.

We will also hopefully provide some practical recommendations for Brokers in preparation for the changes that the IDD will have on their businesses and, whilst this is not a comprehensive analysis of the Directive, we believe this report will provide a proficient summary.

**What impact will the introduction & implementation of the IDD have on Brokers/Intermediaries?**

## Background & History

The Insurance Distribution Directive is the new European Union (EU) directive covering the sale and distribution of insurance products to customers.

It replaces the Insurance Mediation Directive (IMD) which was implemented in January 2005 and focused solely on regulating the selling practices of Brokers and other Intermediaries selling insurance products. It covered the point of sale of general insurance products such as motor policies, as well as specific insurance like life insurance where it was felt, at the time, customers required the most protection.

Fast forward 13 years and the EU have now determined that its members should be focused on their insurance industries moving with the times, to reflect the current needs and requirements of their customers, in line with ever changing lifestyles, technology and variety of methods to purchase insurance.

The IDD itself was published in early 2016, with a planned implementation date of 23<sup>rd</sup> February 2018. However due to the size of the undertaking the IDD requires, following a vote in EU parliament, an extension was granted to push back the implementation of the Directive until 1 October 2018.

From 1st October the general insurance sector within all EU countries is subject to the IDD. It applies to consumer and commercial customers, insurers, wholesalers and any company that sells insurance as an ancillary activity to their main business (e.g. warranties on products such as cars or electrical equipment).

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## Why change is required?

With the scope of those selling and distributing insurance products evolving and broadening, the IDD is being implemented to create a level playing field across all of those participants, and coordinate regulation across the EU.

As previously mentioned, the IMD applied primarily to the point of sale rather than the distribution channels and product design. However, with the increasing use of price comparison sites, aggregators and other firms becoming involved in the insurance policy process, change is required to ensure all customers are treated fairly and are paying for a product that actually suits their requirements. The EU believe that, through the introduction of the IDD and provision of enough adequate information, in a standardised format, customers will be better informed about the insurance products they are buying and will be able to source insurance products that best suit their insurance needs.

**What impact will the introduction & implementation of the IDD have on Brokers/Intermediaries?**

## Overview of the main changes

The IDD looks to harmonise regulation of insurance distribution activities to improve customer protection. In addition, it aims to improve professional standards in the insurance market across Europe. The IDD will now cover the sale of insurance products directly by an insurer, estimating that it will now cover 98% of the market, unlike its predecessor the Insurance Mediation Directive (IMD) which covered an estimated 48%.

### **Overarching principle to act in the ‘Customers best interest’**

This new principle together with rules on remuneration disclosures should be a key area of focus for brokers. This is not just about acting in the customer’s best interest but being able to demonstrate it. The impact of such a broad principle will only be known after implementation when brokers will have to watch to see what the regulatory appetite of the FCA is to scrutinise and challenge firms where they feel this is not happening. The FCA has already confirmed that the principle applies to all firms in a distribution chain – so even firms in the middle are affected. There is also a new ‘Customers Best Interests’ Rule in the FCA’s Insurance Conduct of Business Sourcebook (ICOBS) which has the potential for wide-ranging impact on insurance distributors.

### **Demands and Needs**

This is not a completely new requirement but there are now more detailed requirements in relation to assessing and meeting a customer’s demands and needs. For example, in non-advised sales, the FCA has confirmed that firms will need to obtain specific information from the customer about their demands and needs for non-advised products. Vague and generic statements will no longer be sufficient to comply with the new requirements unless generic statements can reasonably be based on information gathered from the customer. For advised sales, a personal recommendation is required with an explanation of how the product offered meets the demands and needs of the customer.

The FCA have provided guidance on what it expects firms to do in practice. It sets out a 2-step process, which should happen quite early on in the sales process and consists of the distributor identifying the customers’ demands and needs and matching these to available products. In the second step, the customers’ demands, and needs are re-stated to assist them in making the informed decision.

This area is closely linked with the requirements about acting in the customers best interests and could be a focus of regulatory scrutiny following implementation



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## **Insurance Product Information Document**

The Insurance Distribution Directive introduces the Insurance Product Information Document or IPID. This is a standalone document in a standardised format which summarises the main features of all consumer non-life insurance products; replacing the requirement for (for payment protection contracts) and the use of (for other general insurance contracts) a policy summary (except for 'pure protection' contracts where a Policy Summary is still required). It does not form part of the insurance contract and the product 'manufacturer' is responsible for producing the document. However, who the manufacturer of the product is has been causing problems for insurers and brokers.

From an intermediary perspective there is a consideration needed if the intermediary is responsible for the manufacture of a product and the sale on behalf of an Insurer. In these instances, the manufacturer is the intermediary, but the Insurer still has overarching responsibility for the product.

The IPID should:

- Be clear and easy to read
- Be accurate and not misleading
- Include the title 'Insurance Product Information Document' at the top of the page
- Reference other documents where more complete information is provided

The IPID must include:

- Information about the type of insurance
- A summary of the cover
- Means or premium payment and premium duration
- Obligations under the contract
- Contract start and end dates
- How to terminate the contract

The IPID is not intended to be more than 2 pages long and there are specific logos to be downloaded and used for each section. It is the responsibility of the business in contact with the customer to provide the IPID. This means that the manufacturer writes the IPID but it would be the broker that provides it. There is the additional challenge that it has to be provided prior to conclusion of the contract so there will be practical challenges here, especially for firms who do not yet send documents by email.

The IPID can be considered to provide a competitive advantage because the customer will be reviewing and comparing the quality of the cover rather than just the price.

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### **Training and Competence requirements**

The IDD introduces strict minimum requirements regarding the levels of knowledge and competence of staff working for insurers and intermediaries. This includes an obligation on a broad range of employees directly involved in selling insurance to undertake a minimum of 15 hours of continuing professional development (CPD) per year. These should include knowledge of policy terms and conditions, applicable laws, claims and complaints handling, and ethics standards. This is likely to add costs to insurers direct sales processes, however, will not make a difference to CII members who already have to complete 35 hours of continuing professional development per annum.

Individuals must also be of good repute and not have a criminal record or be undischarged bankrupts. One senior member of staff must take responsibility for maintaining records of training and competence, which must be kept for 3 years.

### **Product Oversight and Governance arrangements for manufacturers**

Whilst at first glance these requirements around identifying a target market, carrying out product analysis and reviews to check product performance mainly apply to manufacturer's, brokers may find that manufacturers are carrying out increased monitoring of the distribution channel and providing more information to the broker. This will need to work both ways, as the product manufacturer will need to make sure the right products are offered to the right clients and the broker, acting as distributor, will have to obtain appropriate knowledge about the approval process for products, the target market, and other information in order to be able to distribute the product.

There will be additional resources required here by the broker, as they will be expected to communicate relevant information to the product manufacturer about sales made outside the target market, perhaps about complaints per product, and also keep records of actions taken in relation to the arrangements. Also, intermediaries should keep under review the products they sell, to ensure that they are appropriate for their customer base.

### **Remuneration**

Insurance intermediaries – brokers – will have to state the nature and basis of their remuneration. They will have to disclose whether they receive a financial incentive for the sale of a product; however, there is no requirement to disclose the amount of the payment. For example, you must disclose that you receive commission (the 'nature') and that any commission you receive from an insurer is taken from the customers' premium (the 'basis'), but you don't have to say how much. You must also disclose all other sources of income for example profit share, premium finance, etc. Fees of 'up to' are not allowed.

The requirement also applies to insurers who have to state what remuneration is paid to employees for distribution. Remuneration (and performance management) must not conflict with the duty to act in the customers best interest.

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**Conflicts of interests**

There are new rules (many of which were previously Guidance in the FCA Handbook) in relation to managing, mitigating and disclosing conflicts of interest, and recording and reporting conflicts. These rules will now apply to insurers as well as intermediaries.

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,
- Details of procedures to be followed in the event of a conflict of interest

There must also be an annual report to the board.

**Conduct of Business**

As we have found, intermediaries now have an obligation to act in the best interest of their customers with remuneration being recorded correctly. However, they also need to ensure that before an insurance contract is concluded they are:

- Confirming their identity, address and declare if they are an intermediary acting solely for one insurer or a variety and if this is the case do they have significant financial interest in that insurer
- Whether it has given a personal recommendation or advice about the product(s) sold to their customers, and the depth of the advice has been disclosed.

**Complaints**

Whilst it's a given that brokers and intermediaries should have clear complaints procedure already in place, following the implementation of the IDD they should also have complaints procedures set out for non-eligible complainants too. In addition to this, non-UK firms with a branch in the UK will also need to ensure that they comply with UK standards and have access to the Financial Ombudsman Service that they may not have had previously.

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## Recommendations for implementation

One of the key recommendations following the implementation of the IDD is the need for transparency; this is applicable to both intermediaries and to insurers that deal directly with clients and the transparency requirements are specific.

As previously outlined, brokers will have to state the nature and basis of their remuneration and will have to disclose whether they receive a financial incentive for the sale of a product; as well as disclosing other sources of income including profit share and premium finance. In addition, brokers will need to have a written conflict of interest's policy. These should all be easily accessible upon request.

From an internal perspective, brokers should ensure they have the minimum level of professional indemnity cover which was set in the IDD at €1,250,000 per claim per year, and €1,850,000 per year in aggregate for all claims. This is now under review, with proposed new minimum PI levels (to take account of inflation) likely to be set at €1,300,380 per single claim and €1,924,560 in the aggregate.

Brokers should also ensure that their staff have the minimum required hours of CPD by encouraging staff to undertake training as this will also contribute towards them having the necessary knowledge of their own products and how they fit in the wider market.

### **Ancillary Insurance Intermediaries**

There should also be some consideration of Ancillary Insurance Intermediaries; this is a new category introduced by the IDD. Our recommendation for All activities would be to become familiar with the changes required of Intermediaries. Also, there is a consultation with HM Treasury on whether changes are needed in light of the IDD. The current proposal is to follow the IDD in exempting 'non-use of services' products sold as an add-on e.g. cancellation cover for theatre or train tickets as well as consulting on whether to remove the 5-year policy limit for Connected Contracts.

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**Scope of service, breadth of search and choice of insurers**

It is no longer enough to simply state that you use a 'single provider', 'a limited range', or 'whole of market'. You will now need to explain to the client whether you have offered a product from a single provider (naming the provider), from a limited number of insurance providers, or from a wide panel following 'a fair and personal analysis of the market', this is outlined in ICOBS rule 4.1.6 R. further, if you have used a limited panel, you will also need to specify the names of each of the providers you approached to quote. This is expanded in the FCA handbook under ICOBS rule 4.1.7 R where if a firm has given information as it has a contractual obligation to conduct business with one or more insurers the intermediary must also state how and why it has done so, whether this be recommendation or advice but not based on a fair or personal analysis of the market or for just information purposes. Guidance is given under ICOBS rule 4.1.8 G on using panels to advise on the basis of fair analysis.

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## Conclusion

It's clear from our review of the recent changes that they will create transparency and clarity for customers, thus improving client relationships.

The IPID document will clearly explain to customers about the product and enable consumers to compare with different insurance companies and familiarise themselves with the product's main benefits and pitfalls before they make any decisions. In addition to these benefits to the policyholders, this will save the broker time explaining to the customer and in turn money.

That said the training and competence requirements for staff required by the IDD will be challenging and may be costly for brokers. This will be time consuming for the staff training and for the senior member of staff maintaining all records of training and competence, but it will ensure that all staff are consistently providing the correct and appropriate level of service to customers.

The IDD will extend to include distribution channels and product design, not just the point of sale. The implementation of the IDD will improve customer protection, allowing customers to make better informed decisions based on better information.

These new regulations ensure we all have a better informed customer who asks the right questions, gets the right information and gets appropriate insurance products that meet their needs. This should have a positive impact in the future for brokers.

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