



Issues arising from the implementation of the IDD

Arthur Hilliard
Insurance Europe

7th AIDA Europe Conference, Warsaw
13 April 2018

Insurance Europe

Who?

- European insurance and reinsurance federation, founded in 1953

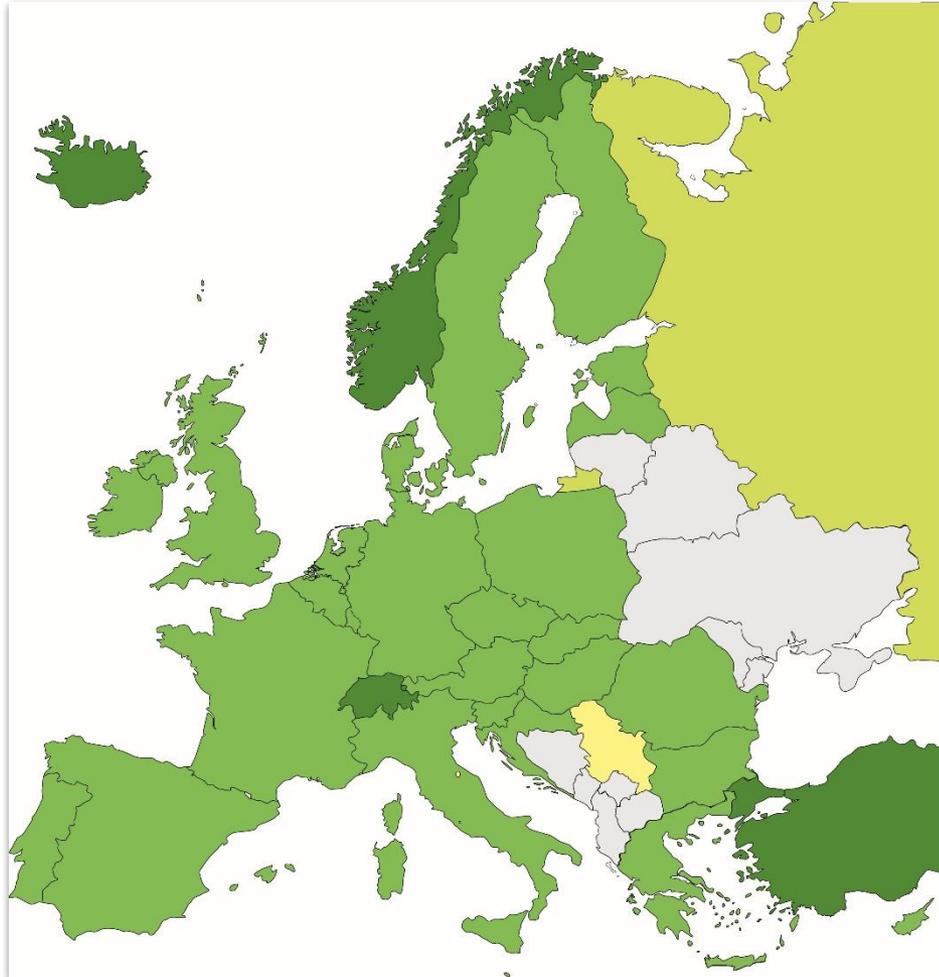
What?

- Represents around 95% of European insurance market by premium income

Why?

- Committed to creation of favourable regulatory and supervisory framework for insurers at European and international level.

Members



35 national associations

27 EU member states

5 non-EU markets

*Switzerland, Iceland, Norway,
Turkey, Liechtenstein*

2 associate members

Serbia, San Marino

1 partner

Russia

Contribution to the economy



Insurance Europe represents around 3 500 European (re)insurers, which:

- generate premium income of €1 200bn

- directly employ over 940 000 people

- invest over €10 100bn in the economy

Insurance Distribution Directive (IDD):

Main features & challenges



Main features of IDD (1/2)

- IDD will enhance consumer protection and strengthen conduct of business rules:
 - Extension of scope
 - Professional requirements
 - Information disclosure
 - Conflicts of interest

Main features of IDD (2/2)

- IDD also introduces a number of provisions addressing new topics:
 - Cross-selling
 - Product oversight and governance (POG)
 - Insurance product information document (IPID)
 - Enhanced conduct of business rules for insurance-based investment products (IBIPs)

Implementation challenges

- IDD has, however, also given rise to a number of difficult challenges for its implementation:
 - Information overload for consumers
 - Compatibility with the digitalisation of distribution
 - Implementation timeline
 - Terminology
 - Minimum harmonisation vs risk of proliferation of Level 3 measures



Information overload for consumers



Information overload & duplication

- Risk of information overload for consumers?



Consumer's purchase of an insurance-based investment product (IBIP)

EU disclosure requirements including duplications (online sale by a broker)

Sales disclosures

Product disclosures

IMD (9)
Life directive (20)
Data protection directive (4)
Distance marketing directive (29)
E-commerce directive (17)

Yesterday: 79

IDD (36)
PRIIPs regulation (27)
Solvency II directive (39)
General data protection regulation (13)
Distance marketing directive (29)
E-commerce directive (17)

Tomorrow: 161

Sales disclosures

Product disclosures



Consumer's purchase of an insurance-based investment product (IBIP)

EU disclosure requirements including duplications (online sale by a broker)

Sales disclosures

Product disclosures

IMD (9)
Life directive (20)
Data protection directive (4)
Distance marketing directive (29)
E-commerce directive (17)

Yesterday: 79

IDD general rules

Duplicative rules

IDD chapter on IBIPs

Duplicative rules

PRIIPs regulation (27)

Duplicative rules

Solvency II directive (39)

General data protection regulation (13)

Distance marketing directive (29)

E-commerce directive (17)

Sales disclosures

Product disclosures

Tomorrow: 161

Consumer's purchase of an insurance-based investment product (IBIP)

Duplicative disclosures

The PRIIPs Regulation contains general pre-contractual information requirements for the sale of IBIPs. The Solvency II Directive also contains pre-contractual information requirements for all insurance products, which means that the PRIIPs Regulation duplicates the requirements already contained in Solvency II.

Duplication requirements	Solvency II		PRIIPs
Insurer's identity	Article 185.2 (a) "the name of the undertaking"		Article 8.3 (a)c "the identity and contact details of the PRIIP manufacturer"
Description of the underlying instruments	Article 185.3(i) "an indication of the nature of the underlying assets for unit-linked policies"		Article 8(3)(c)(ii) "a description of the underlying instruments or reference values, including a specification of the markets the PRIIP invests in"
Duration of the contract	Article 185.3(b) "the term of the contract"		Article 8(3)(c)(v) "the term of the PRIIP, if known"
Out-of-court claims settlement procedures and/ or complaints mechanisms	Article 185.3 (l) "the arrangements for handling complaints concerning contracts by policy holders, lives assured or beneficiaries under contracts including, where appropriate, the existence of a complaint body, without prejudice to the right to take legal proceedings"		Article 8(3)(h) "information about how and to whom a retail investor can make a complaint about the product or the conduct of the PRIIP manufacturer or a person advising on, or selling, the product"
Product benefits	Article 185.3(a) "the definition of each benefits and each options"		Article 8(3)(c)(iv) "Where the PRIIPs offers insurance benefits, details of those insurance benefits, including the circumstances that would trigger them"
Payment/ Costs	Article 185.3(d) "the means of payment of premiums and duration of payments"		Article 8(3)(f) "the costs associated with an investment in the PRIIP"
Surrender / cooling-off period	Article 185.3(f) "an indication of the surrender and paid-up values and the extent to which they are guaranteed" Article 185.3(j) "arrangements for application of the cooling-off period"		Article 8(3)(g)(i) "where applicable, whether there is a cooling off period or cancellation period for the PRIIP"
Tax arrangements	Article 185.3(k) "general information on the tax arrangements applicable to the type of policy"		Article 8(3)(d)(v) "a statement that the tax legislation of the retail investor's home Member State may have an impact on the actual payout"
Risks	Article 185.4 "information shall be supplied in order to provide a proper understanding of the risks underlying the contract"		Article 8(3)(d) "a brief description of the risk-reward profile"

Compatibility with digitalisation of distribution:

IDD paper requirements



IDD: insufficient focus on digitalisation

- Mandatory default paper requirement for information provision
 - Article 23 IDD obliges insurers to provide pre-contractual information on paper, as a default requirement
 - May only be provided in another medium, such as on a website or other digital format, “by way of derogation” or exception from this paper requirement
 - Requirement will inhibit digitalisation and prevent further development of the internet as a distribution channel
 - Fails to recognise increasing demand for, and use of, online services by consumers
 - Not conducive to ensuring future-proof regulation

Example: IPID

- A further example of the lack of sufficient consideration for the growing digital trend in financial services concerns the Insurance Product Information Document (IPID)
- Article 20(5): standardised product information document for the distribution of non-life insurance products
- Article 20(9): EIOPA to develop draft implementing technical standards (ITS) regarding a standardised presentation format of the IPID
- But what about the Article 23 default paper requirement?

EIOPA original proposed format

- Prescribed colours, font type (Myriad Pro), font size, spacing
- Headings
- Geographical scope
- Two-column
- Rigid format
- Designed for paper!

Xxxxx Insurance

Insurance Product Information Document

Company: XYZ Insurance Product: Policy X

This document provides a summary of the key information relating to this household insurance policy. Complete pre-contractual and contractual information on the product is provided in the full policy documentation.

 **Main risks covered:**

Sub head:

- ✓ Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15
- ✓ Xxxxxx

 **Main risks not covered:**

- ✗ Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx

 **Insured sum:**

- ✓ Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15
- ✓ Xxxxxx

 **Main restrictions and exclusions:**

- ! Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15
- ! Xxxxxx
- ! Xxxxxx
- ! Xxxxxx
- ! Xxxxxx

 **Geographical scope:**

- ✓ Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15

 **Main obligations:**

- Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15
- Xxxxxx
- Xxxxxx
- Xxxxxx

 **Payment:**

Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15

 **Duration of the contract:**

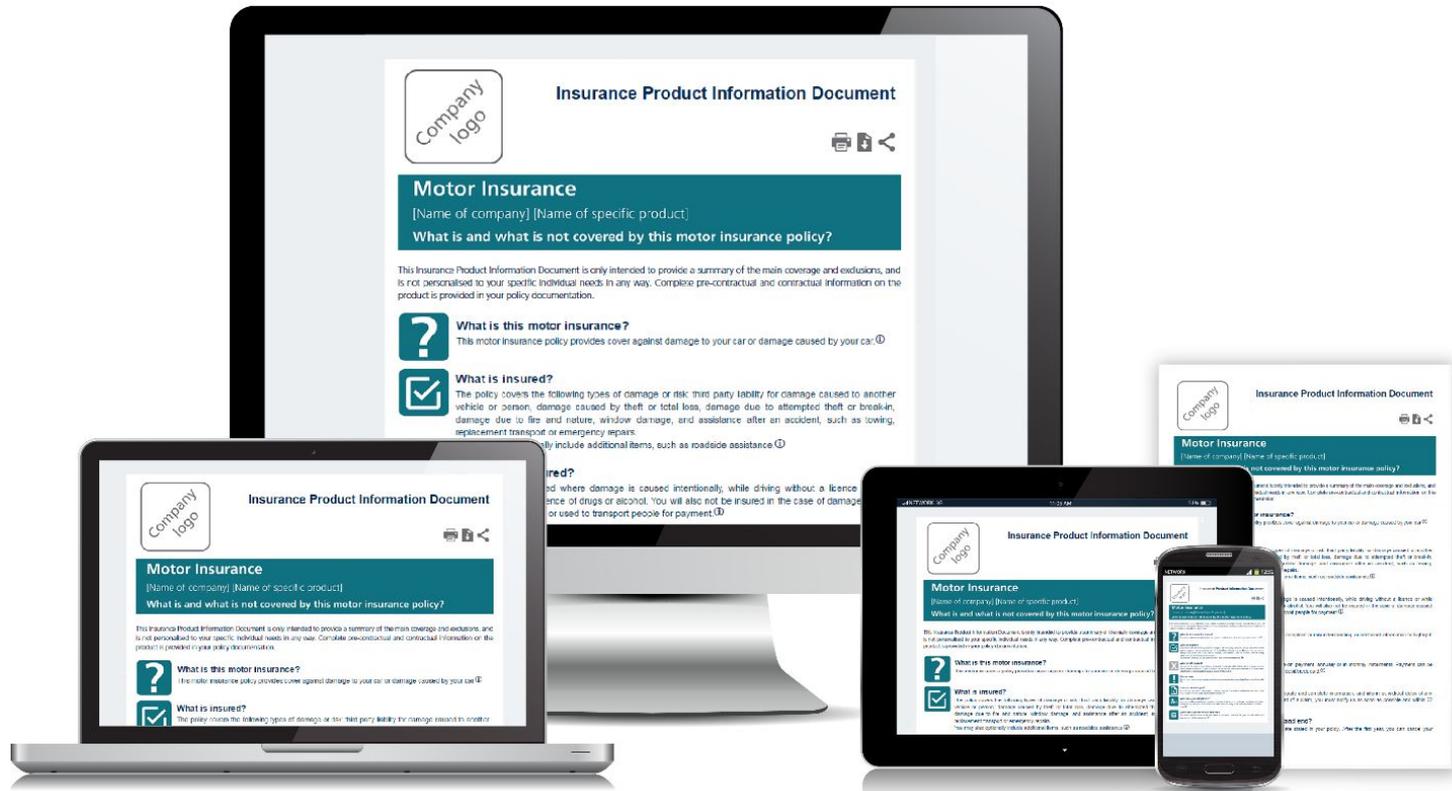
Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15

 **Termination of the contract:**

Myriad Pro : Regular : 9.8pt / 12.5pt. Letter spacing -15

Digital-friendly

- Key to ensure format is workable in both paper and digital form to remain future-proof in light of increasing digital trend in financial services



Final outcome for the IPID?

- Positive, more consumer- and digital-friendly outcome:
 - Layered approach – use of pop-ups allowed to enable consumers to access further information on the product
 - Disclaimer
 - Company logo
 - Format of questions
 - Font type and size
 - Length of the document
 - Icons



Implementation timeline

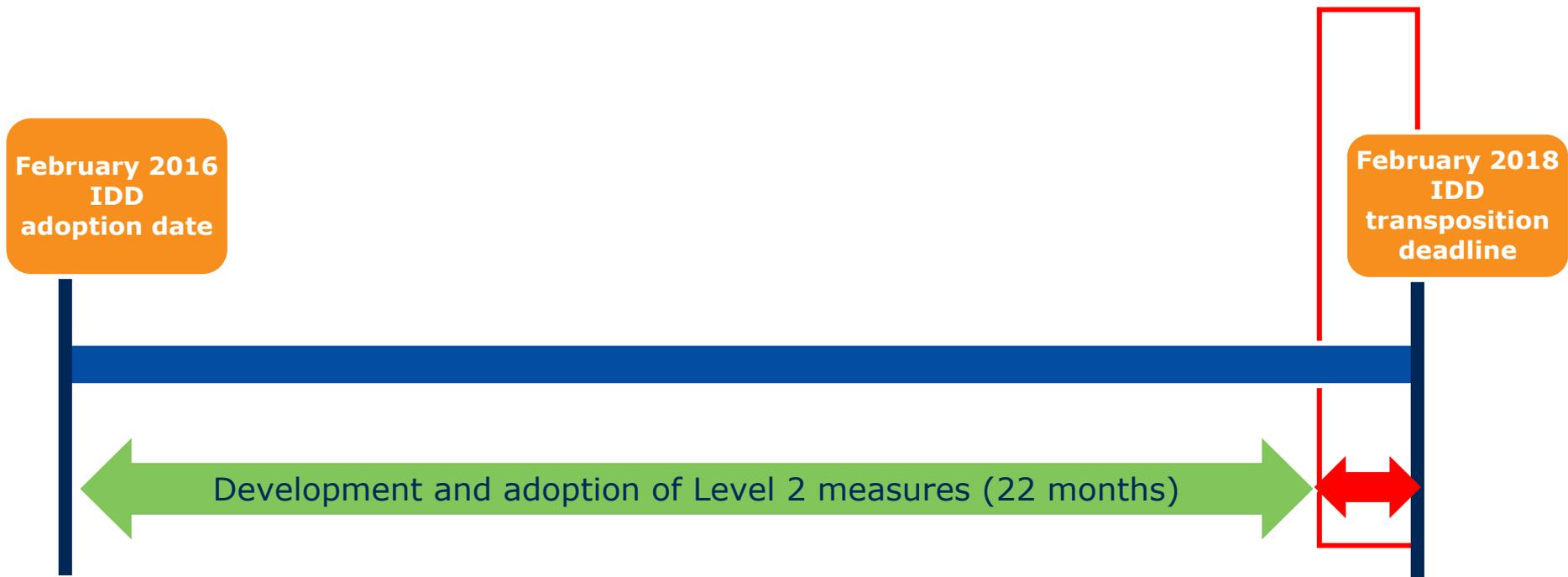


Timeline

- IDD entered into force on 23 February 2016 and was originally to be transposed by Member States and applied by 23 February 2018
- However, timeline became unworkable due to slow progress of legislative process
- New transposition deadline of 1 July and application date of 1 October 2018 – some MS may still not make these deadlines!
- IDD experience has shown that sufficient time for implementation is crucial:
 - To avoid too tight implementation deadlines in practice, policymakers should consider separate timeframes for developing Level 2 and 3 measures on the one hand, and for industry implementation on the other hand.

Lesson to be learnt

Too-short implementation time



**Only 2 months left
for implementation!**

Terminology:

`Customer`

VS

`Consumer`



'Customer' vs 'consumer'

- Both the terms 'customer' and 'consumer' are used throughout the text of the IDD, often seemingly interchangeably
- Practical implementation issue: Insurance Product Information Document (IPID)
 - What is the understanding of the word 'customer' in Article 20?
 - Is the IPID supposed to be provided to consumers only...?
 - ...or should it also be provided to professional customers?
 - Exemption for large risks?
 - Bespoke contracts?
- Different interpretations across Member States

Minimum harmonisation

VS

**Risk of proliferation of Level 3
measures**

A large, faded version of the Insurance Europe logo, consisting of a grid of squares forming an arch, is positioned in the bottom right corner of the slide.

More to come?

- In addition to these practical implementation issues, there is also the additional danger that Level 3 measures, on top of the IDD and its delegated acts, will further complicate national implementation – this may also negatively impact minimum harmonisation for Member States
- EIOPA and European Commission both already working on their own IDD Level 3 measures in the form of Q&As
- Some national supervisors have also indicated their intention to provide Q&As or guidance for their national market, raising questions of (in)consistency
- Where does this leave industry with its implementation efforts?



Thank you!

For more information

www.insuranceeurope.eu

