

Insurance Distribution Directive Final compromise text



On July 16, 2015 the Council of the European Union published the final compromise text ([English](#)) on the Insurance Distribution Directive (IDD), formerly known as Insurance Mediation Directive 2 (IMD II). The IDD will amend and replace the Insurance Mediation Directive (IMD I) 2002/92/EC, and is, if approved by the European Parliament and Council and published still in 2015, expected to enter into force before the end of 2017 (24 months later).

IDD intends to ensure a level playing field between all participants involved in selling insurance products to achieve improved consumer protection, integration and competition. However, the Directive is aimed at minimum harmonization and therefore does not preclude Member States from maintaining or introducing more stringent provisions, provided that these are consistent with the Directive.

In what follows, we summarize the main aspects of the final compromise text.

1. Scope of IDD in comparison to IMD I

The compromise text proposes to extend the scope to include direct sales by (re)insurance undertakings and certain activities of aggregator / price comparison websites. The latter provide information on one or more contracts of insurance in response to criteria selected by the customer permitting him to conclude an insurance contract at the end of the process.

2. Strengthened professionalism requirements

The professional knowledge of those involved in activities preparatory to, during and after the sales of insurance policies needs to match the level of complexity of these activities. The Directive currently foresees a minimum of 15 hours of professional training or development per year, taking into account the nature of the products sold, the type of distributor, the role they perform and the activity carried out within the insurance or reinsurance distributor.

3. Conduct of business rules

The overall purpose of the Directive is to raise the minimum standards with regard to distribution rules for all type of insurance products.

MiFID II already introduced in IMD I a number of “MiFID I – like” investor protection requirements for insurance based investment products. These provisions mainly relate to the general principle to act in the best interest of the client, conflicts of interest, inducements and information to customers. As foreseen in MiFID II, these requirements are further detailed and tailored in the compromise IDD text. Differences in conduct of business requirements between MiFID II and IDD will however exist.

IDD also introduces new additional “MiFID II-like” conduct of business rules mostly relating to remuneration and suitability and appropriateness requirements when advice is provided.

4. Fees, commissions and sales bonuses

After debate, the compromise text foresees only a pre-contractual disclosure of the nature and the basis of the remuneration (whether paid on the basis of a fee, commission, or other type of arrangement). The text also includes the criteria under which Member States may allow insurance distributors to continue to earn revenue through commissions or third party payments.

Distributors should not remunerate or apply sales targets that could provide an incentive to recommend a certain product when a different product would better suit the customer.

5. Increased disclosure on product bundling and introduction of extensive product governance requirements.

When bundling products, firms will be required to disclose information on each component in the package (e.g. costs and charges) and customers must be able to purchase them separately. Rules will strengthen disclosure requirements and have business implications as firms will need to price components separately. IDD also introduces product oversight and governance requirements similar to MiFID II for all insurance products (with an exemption for insurance of large risks).

6. Cross border activity

The Directive introduces provisions regarding the freedom to provide services and the freedom of establishment.

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