



Insurance Distribution Directive

What is the Insurance Distribution Directive (IDD)?

The Insurance Distribution Directive enters into force in early 2018 (23 February). It is a recast of the existing Insurance Mediation Directive and is designed to ensure a level playing field across all participants selling insurance products. As such, the scope is broader than just the traditional insurance industry and it applies to all distributors of insurance products. In addition to insurance brokers / financial advisors and the direct salesforces of insurance companies this also includes distributors for whom insurance is only an ancillary service such as car rental firms and airlines (with certain limited exemptions).

The full text of the insurance Directive can be found here: [Insurance Distribution Directive pdf](#).

What does the IDD involve?

The IDD introduces enhanced information and conduct of business requirements including:

- Additional knowledge and competency requirements for distributors;
- Product oversight and governance requirements;
- An Insurance Product Information Document (IPD) for non-life products
- Disclosures around product bundling;
- Additional disclosure requirements in relation to insurance based investment products;
- Mandated remuneration disclosures - the required disclosures are restricted to the nature of the remuneration and not the absolute amount.

We have included a more detailed summary of the requirements later in this document. At a high level the requirements are similar to those under the existing Irish Consumer Protection Code.

What preparatory measures have been introduced?

In preparation for the introduction of the IDD EIOPA published 'Preparatory Guidelines on Product Governance and Oversight' and firms are currently required to comply with these guidelines on a best endeavours basis. The Preparatory Guidelines mainly apply to insurance providers and cover the identification of a target market and requirements to monitor the suitability of products over their life cycle.



What happens next?

The Insurance Distribution Directive itself was published early in 2016 and EIOPA is currently developing Technical Advice which will be sent to the EU Commission. The Commission will then develop Delegated Acts which are expected to be published in Q3 2017.

What are the challenges for insurers?

- The IDD enters into force just a month after another major piece of consumer legislation (PRIIPs) and there are a number of areas of overlap between the two. Both projects should be collectively managed to ensure any synergies are realised. MIFID 2 also applies from 1st January 2018 which may impact some investment providers.
- With Delegated Acts not expected to be published until Q3 this doesn't leave insurers / distributors much time to comply with the new requirements.
- One particular challenge for cross border firms is that the IDD is a minimum harmonisation directive which means that each member state is free to introduce more stringent provisions, provided that these are consistent with the Directive. This means that insurers have to comply with multiple regulatory requirements in different jurisdictions where individual regulators choose to 'gold plate' some of the requirements.

Registration Requirements

- Insurance intermediaries must register with the CBI, insurance undertakings do not have to;
- Individuals do not have to register, only the management of the intermediary are required to be specified;
- The CBI must establish an online registration system for intermediaries;
- The CBI must deal with applications to register within 3 months;
- Additional communication requirements apply when an intermediary intends to carry out cross border business on a freedom of services or establishment basis.

Professional and Organisational Requirements

- Insurance intermediaries and employees of insurers who distribute products must possess appropriate knowledge to perform their duties. CPD of at least 15 hours must be completed to ensure this;
- Individuals must also be of good repute and not have a criminal record while holding a minimum level of professional indemnity insurance;
- Controls must be established in relation to the custody of customer premiums;
- Intermediaries / insurers must approve and regularly review their policies in relation to the above;
- Member states must ensure appropriate complaint mechanisms and means of seeking out-of-court redress are in place.

Conduct of Business Rules

- Intermediaries must act in the interest of customers and remuneration should be aligned accordingly;
- Before the conclusion of an insurance contract the intermediary must provide:
 - ✓ It's identity, address and confirmation that it is an intermediary;
 - ✓ Whether it provides advice about the products sold;
 - ✓ The complaints procedure;
 - ✓ The register it is included in and how to verify this;
 - ✓ Whether it is acting on behalf of the customer or the insurer;
 - ✓ Whether it has a significant (10%) financial interest in a given insurer or an insurer has a significant financial interest in it;

- ✓ Whether it is a tied agent and if it gives advice based on a fair and personal analysis (of a sufficiently large number of insurers);
 - ✓ The nature of the remuneration received in respect of the insurance contract;
 - ✓ Whether it works on a fee, commission or other basis;
 - ✓ The amount of the fee if paid by the customer.
- The distributor shall specify based on the information provided by the customer what their needs are and then provide objective information about the insurance products and a personalised recommendation;
 - ✓ Any contracts proposed must be consistent with the customers need.
 - An insurance undertaking must disclose (in good time) before the conclusion of a contract:
 - ✓ It's identity, address and that it is an insurance undertaking;
 - ✓ Whether it provides advice about the products sold;
 - ✓ The complaints procedure.

IPPD Requirements

- For non-life products the required information shall be in the form of an Insurance Product Information Document (IPPD), which should:
 - ✓ Be short and stand-alone;
 - ✓ 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 IPPD must include:
 - ✓ Information about the type of insurance;
 - ✓ A summary of the cover (main risks, sum assured, geographical scope);
 - ✓ The means of premium payment and premium duration;
 - ✓ Obligations under the contract;
 - ✓ Contract term and start / end dates;
 - ✓ How to terminate the contract.
- EIOPA will develop draft ITS specifying the format of the document;
- The information requirements do not apply in relation to large risks;
- Information is provided on paper by default.

Scope

- Focus of the directive is on insurance and reinsurance distribution;
- Does not apply in limited conditions:
 - ✓ Where the insurance is complementary to the good provided e.g. lost baggage for an airline;
 - ✓ Premiums are less than €600 on an annual basis.

Contacts

Cross Selling

- Requirement to disclose if it is possible to purchase the components separately.

POG Requirements

- Insurers must operate and review a process for the approval of new products which will:
 - ✓ Identify a target market and ensure that the distribution strategy is consistent with this;
 - ✓ Products shall be regularly reviewed to ensure they remain suitable for the target market;
 - ✓ Info on the approval process and target market shall be made available to intermediaries.
- Requirements do not apply to large risks.

Additional Requirements for Insurance-based Investment Products

- Distributors shall maintain appropriate controls around conflicts of interest and disclose the sources of any conflicts to the customer in good time;
- Information shall be provided to customers in good time in relation to:

- ✓ Whether a periodic assessment of the suitability of the product will be carried out;
 - ✓ Appropriate warnings in relation to the risks of the product;
 - ✓ The costs of any advice in aggregate form to allow the cumulative effect on the investment be seen.
- When providing advice, information shall be sought on the customer's experience in the investment field relevant to the product, their financial situation (ability to bear loss) and investment objectives / risk tolerance;
 - Information on experience should be requested even where no advice is given and the customer should be warned if it is believed the product is not appropriate. If no information is provided they must warn the customer that they can't make such an assessment;
 - Documentation of what was agreed with the customer must be maintained including a suitability statement where advice is given;
 - Periodic communications must be provided to the customer.

For more details on the above please contact:

Ciara Regan

Partner
Actuarial and Insurance
T: +353 407 2856
E: cregan@deloitte.com

Stuart Redmond

Senior Manager
Actuarial and Insurance
T: +353 417 2277
E: stredmond@deloitte.com

Dublin

Deloitte
Deloitte & Touche House
Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork

Deloitte
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick

Deloitte
Deloitte & Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

Galway

Deloitte
Galway Financial Services Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Belfast

Deloitte N.I. Limited
19 Bedford Street
BT2 7EJ
Belfast, Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

www.deloitte.com/ie

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights they need to address their most complex business challenges. As one of the largest global professional services and consulting networks, with over 220,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 2,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience, and insight to collaborate with clients so they can move forward with confidence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.