Insurance distribution: The new EU regulatory framework

William Vidonja, Head of Conduct of Business Ljubljana, 29 January 2016
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

34 national associations

- 27 EU member states
- 5 non-EU markets
  - Switzerland, Iceland, Norway, Turkey, Liechtenstein
- 2 associate members
  - Serbia, San Marino
- 1 partner
  - Russia
Insurance Europe represents more than 5,000 European (re)insurers, which:

- generate premium income of almost €1 170bn
- employ over one million people
- invest nearly €9 900bn in the economy
The EU decision-making in a nutshell

Key stages in EU co-decision

- COMMISSION PROPOSAL
  - COUNCIL
    - Amended text
  - EC
  - TRIALOGUES
    - Council
    - EP
      - Trialogue compromise agreement
      - Publication
      - Transposition/application
  - PARLIAMENT
    - Amended text

European supervisory authorities:
- EIOPA
- ESMA
- EBA
The EU framework *in a nutshell*

**Regulatory and supervisory framework**

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Basic EU legislative act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 2</td>
<td>Additional measures for implementing level 1 legislation</td>
</tr>
<tr>
<td>Level 3</td>
<td>Consistency in implementation of rules</td>
</tr>
</tbody>
</table>
Distribution: setting the scene
Distribution: L1 overview

EU regulatory approach

Conduct of business, remuneration and cross-selling of non-life and life insurance (including insurance based investment products)

Includes direct sellers

Disclosures for life and non-life insurance

Cancellation right for life insurance

Investor protection

Conduct of business, remuneration and cross-selling for PRIIPs

+ conflicts of interest rules for insurance PRIIPs (IMD 1.5)

Product disclosures for PRIIPs, including insurance based investment products
PRIIPs: what does it provide for?

- **Scope**: PRIIPs / IBIPs
- **Pensions outside of scope**
- **Key Information Document (KID) including**:  
  - Risk indicator
  - Cost indicator
  - Performance scenarios
IDD: what does it provide for?

- Wider scope
- Enhanced professional requirements
- Stricter COB rules
  - Disclosures (including remuneration and PID)
  - Advice
  - Cross-selling
  - Product oversight and governance
  - Enhanced rules for IBIPs
Distribution: where are we?

Key stages in EU co-decision in a nutshell

COMMISSION PROPOSAL

COUNCIL

Amended text

TRIALOGUES

EC

Council

EP

PARLIAMENT

Amended text

Trialogue compromise agreement

Publication

Transposition/application

IDD

PRIIPs
Distribution: a better consumer outcome?

1) Better consumer information?

2) More coherent legislation?
EU legislation applicable to the sale of IBIPs

Disclosure requirements
including duplications (on-line sale by a broker)

<table>
<thead>
<tr>
<th>Sales disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMD1 (9)</td>
</tr>
<tr>
<td>Life directive (20)</td>
</tr>
<tr>
<td>Distance marketing directive (29)</td>
</tr>
<tr>
<td>E-commerce directive (17)</td>
</tr>
</tbody>
</table>

Today: 75
EU legislation applicable to the sale of IBIPs

Disclosure requirements including duplications (on-line sale by a broker)

Today: 75

Tomorrow: 148
EU legislation applicable to the sale of IBIPs

Duplicative rules

Advice

Costs and charges disclosures

Disclosure of similar information

IDD Standard

Duplicative rules

IDD PRIIPs chapter

Duplicative rules

PRIIPs regulation (27)

Duplicative rules

Solvency II directive (39)

Duplicative rules

Distance marketing directive (29)

E-commerce directive (17)

Tomorrow: 148

Sales disclosures

400% increase

Product disclosures

330% increase
Distribution: a better consumer outcome?
Distribution: a better consumer outcome?
Key take-aways
Key take-aways

1. EU matters for you
2. Stay one step ahead
3. Speak up and unite!
Thank you

For more information
www.insuranceeurope.eu
EU legislation applicable to the sale of IBIPs

**Article 18 IDD**

"Prior to the conclusion of an insurance contract, the insurance distributor shall specify, on the basis of information obtained from the customer, the demands and the needs of that customer (...)"

**Article 25 IDD**

"Without prejudice to Article 18(1), when providing advice on an insurance-based investment product, the insurance intermediary and the insurance undertaking shall also obtain the necessary information (...) so as to enable [them] to recommend to the customer or potential customer the insurance-based investment products that are suitable for him (...)"

**Advice (demands and needs + appropriateness/suitability)**

IDD contains the requirement to assess the consumer’s demands and needs for the sale of all insurance products, including insurance-based investment products. It also contains a chapter containing additional enhanced rules applicable to the sale of insurance-based investment products, which require an assessment of the product’s appropriateness and suitability. These additional conduct of business requirements come on top of the general conduct of business rules in IDD.
The PRIIPs Regulation contains information requirements in relation to the disclosure of costs and charges for insurance-based investment products. IDD also contains similar provisions regarding the disclosure of costs and charges for insurance-based investment products, with no acknowledgement in either piece of legislation for the requirements to be met by the other.

**PRIIPs**

**Article 8.3(f)**
- Costs associated with an investment in the PRIIP
- Presented by means of summary indicator
- Monetary and percentage

**IDD**

**Article 24 – PRIIPs chapter**
- All costs and associated charges
- Presented in an aggregated way
  - But also itemised on request

No reference to IDD

No reference to PRIIPs Regulation
The PRIIPs Regulation contains general pre-contractual information requirements for the sale of insurance-based investment products. The Solvency II Directive also contains pre-contractual information requirements for all insurance products, which means that the PRIIPs Regulation duplicates the requirements contained in Solvency II.

## EU legislation applicable to the sale of IBIPs

<table>
<thead>
<tr>
<th>Duplication requirements</th>
<th>Solvency II</th>
<th>PRIIPs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Insurer’s identity</strong></td>
<td>Article 185.2 (a) “the name of the undertaking”</td>
<td>Article 8.3 (a)(c) “the identity and contact details of the PRIIP manufacturer”</td>
</tr>
<tr>
<td><strong>Description of the underlying instruments</strong></td>
<td>Article 185.3(l) “an indication of the nature of the underlying assets for unit-linked policies”</td>
<td>Article 8(3)(c)(ii) “a description of the underlying instruments or reference values, including a specification of the markets the PRIIP invests in”</td>
</tr>
<tr>
<td><strong>Duration of the contract</strong></td>
<td>Article 185.3(b) “the term of the contract”</td>
<td>Article 8(3)(c)(v) “the term of the PRIIP, if known”</td>
</tr>
<tr>
<td><strong>Out-of-court claims settlement procedures and/or complaints mechanisms</strong></td>
<td>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”</td>
<td>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”</td>
</tr>
<tr>
<td><strong>Product benefits</strong></td>
<td>Article 185.3(a) “the definition of each benefit and each option”</td>
<td>Article 8(3)(c)(iv) “Where the PRIIPs offers insurance benefits, details of those insurance benefits, including the circumstances that would trigger them”</td>
</tr>
<tr>
<td><strong>Payment/Costs</strong></td>
<td>Article 185.3(d) “the means of payment of premiums and duration of payments”</td>
<td>Article 8(3)(f) “the costs associated with an investment in the PRIIP”</td>
</tr>
<tr>
<td><strong>Surrender/cooling-off period</strong></td>
<td>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”</td>
<td>Article 8(3)(g)(i) “where applicable, whether there is a cooling off period or cancellation period for the PRIIP”</td>
</tr>
<tr>
<td><strong>Tax arrangements</strong></td>
<td>Article 185.3(k) “general information on the tax arrangements applicable to the type of policy”</td>
<td>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”</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td>Article 185.4 “information shall be supplied in order to provide a proper understanding of the risks underlying the contract”</td>
<td>Article 8(3)(d) “a brief description of the risk-reward profile”</td>
</tr>
</tbody>
</table>