



EUROPEAN COMMISSION

## MEMO

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# **The Insurance Distribution Directive Frequently Asked Questions**

## **1. What is insurance distribution?**

Insurance distribution means to sell, propose to sell, advise on or carry out other work preparatory to the conclusion of an insurance contract including dealing with claims after an insurance event.

The Insurance Distribution Directive (IDD) regulates the activities of insurance intermediaries, insurance companies, their employees, ancillary insurance intermediaries as well as online distribution.

## **2. What is the Insurance Distribution Directive about?**

The Directive regulates the way insurance products are sold. It lays down the information that should be given to consumers before they sign an insurance contract, it imposes certain conduct of business and transparency rules on distributors, it clarifies procedures and rules for cross-border business and it contains rules for the supervision and sanctioning of insurance distributors in case they breach the provisions of the Directive.

The rules apply to the sale of all insurance products. However, more prescriptive rules apply to those distributors that sell insurance products that have an investment element such as unit-linked life insurance contracts.

## **3. Why is there a new Directive?**

The first legislation to regulate the sale of insurance products, the Insurance Mediation Directive, dates from 2002. It was updated to cover insurance companies and other businesses that sell insurance, as opposed to only insurance agents and brokers. Secondly, in line with recently adopted consumer protection rules adopted in other financial sectors, it introduces new enhanced rules for the protection of consumers.

## **4. Will SMEs such as travel agents and opticians need to comply with the Directive?**

All SMEs that sell insurance products will have to comply with the Directive. However, the full set of requirements laid down in the Directive will only apply to SMEs that are insurance professionals. SMEs that are not insurance professionals will nevertheless also need to ensure that they act in the best interest of their customer before the customer buys the insurance product as well as to make sure that the insurance product meets the demands and needs of that customer. Every SME will have to supply a standardised Insurance Product Information Document, in case of a sale of a non-life insurance product before a contract is signed. SMEs which are not insurance professionals will also be obliged to offer the insurance separately from the main product they sell.

## **5. What is the Insurance Product Information Document (IPID) and how will it help consumers?**

The Insurance Product Information Document will be a simple document summarising the main features of a non-life insurance contract. It is not the insurance contract. It will not be required for life insurance contracts. It is designed to give customers basic information about the type of non-life insurance, the obligations of the parties, claims handling and a summary of the non-life insurance cover. The [European Insurance Occupational Pensions Authority](#) (EIOPA) will help to develop a standardised format for this document. Before buying an insurance product, consumers will be able to familiarise themselves with the insurance product they are buying and will be able to compare with others. EIOPA will have to deliver to the European Commission a draft for this standardised document by 23 February 2017.

## **6. Will travel packages systematically include a compulsory insurance element?**

No. The Directive obliges distributors to disclose information about whether insurance is available for a trip but customers will always have the choice as to whether they buy that insurance product or not.

## **7. What are the requirements of the Directive for insurance distributors?**

This Directive requires only insurance distributors who are intermediaries (such as brokers or agents) to be qualified and registered (Solvency II regulates insurance undertakings). As a minimum, insurance intermediaries have to demonstrate knowledge of the terms and conditions of the insurance policy they sell, the applicable law, knowledge of the insurance market, minimum financial knowledge and complaints and claims handling.

Before the conclusion of an insurance contract, all insurance distributors, whether intermediaries or not, have to disclose their identity, whether they provide advice as well as information on potential conflicts of interests. They have to inform customers about the source and the nature of their remuneration. If they ask for a fee, they must disclose its amount.

The Directive also prescribes the way in which these disclosures are to be made.

Some requirements relate to insurance undertakings. For example, manufacturers of insurance products will have to ensure that there are product approval processes in place before putting a product on the market and that the product is designed for a specific market.

A further, universal requirement of the Directive is that insurance distributors need to check whether the product on offer meets the demands and needs of the customer.

## **8. How are the rules different for insurance products with investment elements?**

Due to the potentially increased risk that insurance-based investment products represent to consumers, the Directive imposes additional requirements on distributors.

The protection of insurance policyholders must be brought to a similar level as that of clients of investment products (regulated under the MiFID II Directive) because insurance products are often interchangeable with retail investment products. Accordingly, insurance distributors – in addition to the obligations described above – have to follow specific rules on preventing and managing conflicts of interests, disclosing all their costs and charges for

the customer, and they have to follow specific rules on accepting third party payments. They have to assess not only whether the insurance product meets the demands and needs of the customer, but also whether the customer's knowledge in the investment field is appropriate, and whether the recommended insurance-based investment product is suitable for that customer.

## **9. Will insurance distributors continue to be remunerated by commissions, or will customers pay a fee for the services?**

The Directive allows Member States to keep their existing systems of remuneration. If customers are required to pay a fee for insurance intermediation services in a given Member State, they will continue to be required to do so.

The Directive does not prescribe a particular method of remuneration for insurance distributors, but it lays down rules to ensure that the remuneration or payment is transparent.

Third party payments for the sale of insurance-based investment products can only be accepted if they do not have a detrimental impact on the quality of the relevant service to the customer. These third party payments therefore remain possible, but the sale must remain free of conflicts of interests and serve the best interests of the customer. Detailed implementing rules will clarify this requirement.

## **10. Who will benefit from the Directive?**

**Consumers** will benefit from the Directive through improved sales standards and the extension of those standards to new areas of protection, for example to insurance-based investment products. Consumers will receive basic standardised information about the insurance policy through the Insurance Product Information Document, which is expected to invite them to compare offers and shop around for products best suited to their needs.

**National supervisors** will benefit from increased certainty in the rules that they apply to insurance businesses, especially as regards cross-border sales, sanctions and consumer protection.

**Insurance distributors** will benefit from fair competition with a level playing field. The Directive is expected to restore consumer confidence and lead to expanded business opportunities, including greater options for cross-border sales. Lower costs of operating cross-border and higher consumer demand is expected to increase sales and spur innovation in the industry.

## **11. What are the next steps?**

The Directive enters into force on 23 February 2016. Member States have 24 months to transpose its provisions into national law. By 23 February 2018, insurance distributors will be required to comply with the new rules.

The Directive empowers the Commission to adopt technical rules (delegated acts) in the area of product oversight and governance, conflicts of interests, inducements, and the assessment of suitability and appropriateness and reporting to customers.

The European Insurance and Occupational Pensions Authority (EIOPA) will work on technical advice to the Commission on these issues as well as drafting technical standards on a number of issues. These include developing a draft standardised format for the Insurance Product Information Document.

The Directive itself is subject to a review five years after its entry into force.