Update on the work on the Insurance Distribution Directive (IDD)

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Delegated Acts

Product Oversight & Governance (POG) (Art 25)

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- COM asked EIOPA to provide "detailed" POG advice - draft Technical Advice aims to further specify POG requirements in IDD

- Plan is to split policy proposals into <u>two</u> parts for consultation:

  o Section with POG Preparatory Guidelines

  o Section with "New Policy Proposals"

<u>Policy proposals based upon POG Preparatory Guidelines</u>

- Article 25 explicitly states that a non-manufacturing distributor must make:

  "*<u>adequate arrangements</u>*" to:

  o *obtain information from manufacturer on product/product approval process; and*

  o *understand characteristics & target market of each product"*

- Important to elaborate these arrangements in more detail to fulfil legislative purpose of POG requirements – <u>distribution of the product to the right target market</u>

Product Oversight & Governance (cont).

- Non-manufacturing distributors must have **appropriate distribution arrangements** i.e. document, review and keep records

New policy proposals

- Entail additional important elements in view of COM mandate:

  o Circumstances under which **insurance intermediaries should be considered as manufacturers**

  o **Granularity of the target market**

  o **Obligation to review POG arrangements**

  o **Product-related information**, which the manufacturer should **provide to distributors**

Conflicts of Interest (Articles 27 & 28)

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- EIOPA BoS already submitted technical advice to COM on conflicts of interest under **"IMD 1.5"**

- **Previous Technical Advice has been used as a basis** to specify:

  o organisational measures and procedures on management of conflicts of interests

- Draft Technical Advice also introduces **more explicit language that disclosure of a conflict of interest is a last resort measure**

Inducements (Article 29)

- Policy proposals on inducements entail the following elements:

  o A **definition of "inducement" and "inducement scheme"** to assist development of technical advice

  o A **high-level principle** to clarify when monetary/non-monetary benefits have a **detrimental impact**

  o A "**blacklist" -** which types of inducements are considered to "*have a high risk of leading to detrimental impact on quality of relevant service to the customer*"

  o **Organisational measures** for insurance undertakings/insurance intermediaries paying or receiving inducements

Inducements - Blacklist

- The inducement encourages **offering/recommending of a product/service when a different product/service would better meet the customer's needs**

- The inducement is s**olely/predominantly based on quantitative commercial criteria** and does not take into account appropriate qualitative criteria

- The **value** of the inducement is **disproportionate/excessive** when compared to value of product/service provided

- The inducement is **entirely/mainly paid upfront** when product is sold

- The inducement **scheme does not provide for refunding to customer of any inducements deducted** from the customer's initial investment if the product lapses/is surrendered at an early stage

- The inducement scheme entail **variable/contingent threshold** or any other kind of **value accelerator** which is unlocked by attaining a **sales target**

Suitability, Appropriateness & Reporting to customers (Art 30)

- Policy proposals contain <u>four</u> parts:

  - Section on **assessment of suitability and appropriateness** setting down types of information to be obtained from customer when he/she is purchasing an IBIP:

    - Distribution of IBIPs is "without prejudice to "demands and needs" test" (Article 20(1))

    - Suitability & appropriateness linked to investment element of IBIPs - how to reflect insurance specificities

  - Section on **"other" non-complex IBIPs** which are fit for **execution-only business** (i.e. non-advised sales where no appropriateness assessment):

    - Covers IBIPs <u>other</u> than those which provide investment exposure to a non-complex MiFID II financial instrument

    - Complexity comes in mainly via the embedded investment element – how to reflect insurance specificities

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- Section on **record-keeping** introduces:

  o Explicit rules for record keeping of the **results of the suitability assessment** to complement the record-keeping provisions on the assessment of appropriateness

- Section on **reporting to customers** specifies:

  o Reporting concepts further e.g. the **suitability statement** and **periodic communications to customers**

  o National implementation of IDD might introduce further complementary concepts, such as an **"appropriateness statement"**

IPID

Consumer testing

- London Economics is performing <u>two</u> rounds of consumer testing

- <u>Aim</u>: find the combination of design elements that best meet the policy objectives for the IPID:

    o   Template must be attractive enough to invite consumer to read it

    o   Layout should support reader in understanding key features: what does the policy cover/exclude, what are the obligations etc.?

- 1st round: <u>qualitative</u> testing of 5 designs in focus groups.

- 2nd round : <u>quantitative</u> testing of 3 designs using online questionnaires

Timetable for consumer testing and BoS (end dates)

- Consumer testing phase 1   6 May

- Consumer testing phase 2   24 June
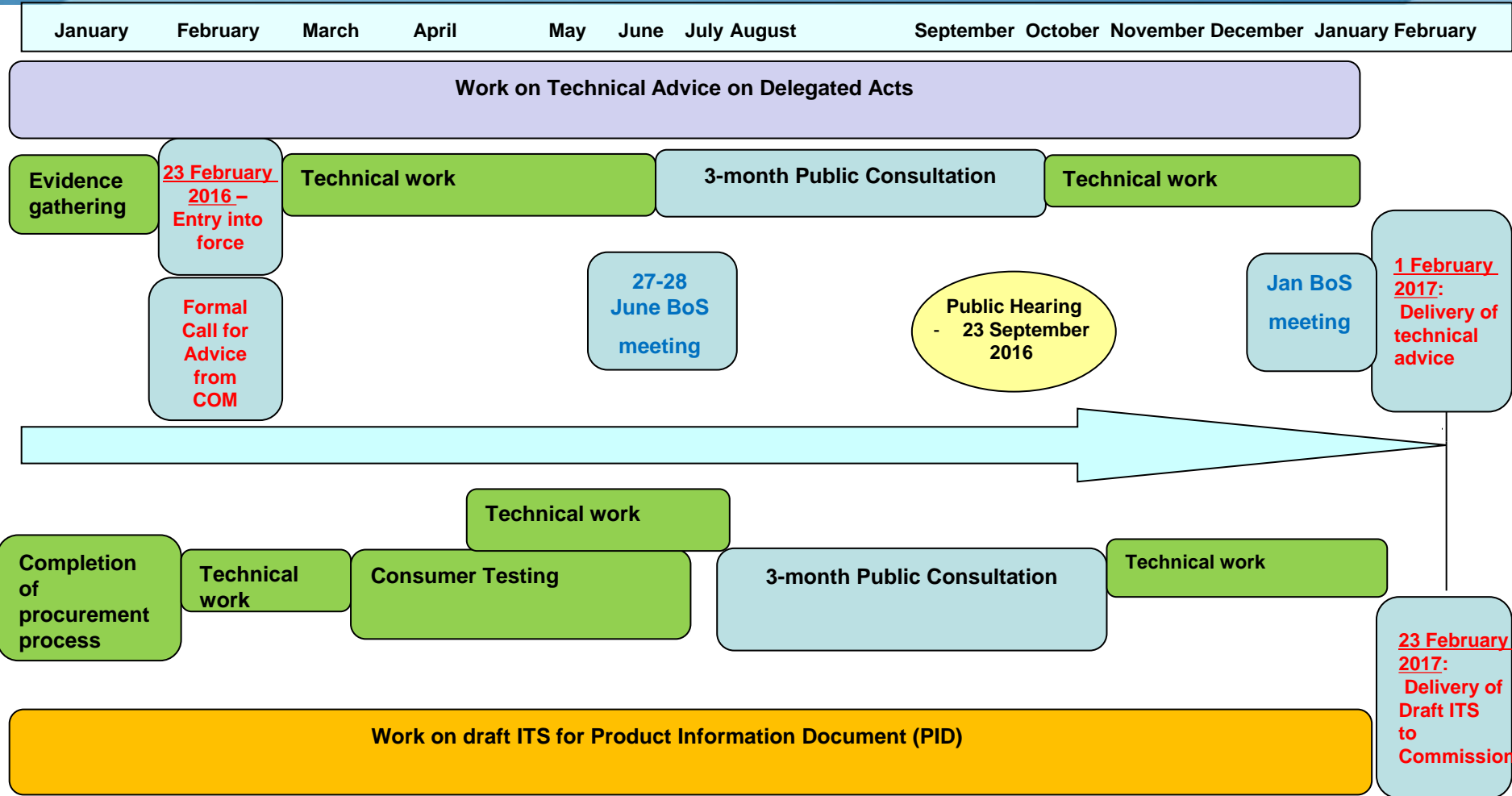
- Report finalised   19 August

- Consultation paper BoS (written procedure)   end July

- Consultation (12 weeks)   31 Oct

- ITS BoS   January 2017

- Deliver to Commission   23 Feb 2017

Opportunities for Stakeholder Input

IDD timeline (2016-2017)

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| January | February | March | April | May | June | July August | September | October | November | December | January | February |

Work on Technical Advice on Delegated Acts

Evidence gathering

23 February 2016 – Entry into force

Technical work

3-month Public Consultation

Technical work

Formal Call for Advice from COM

27-28 June BoS meeting

Public Hearing - 23 September 2016

Jan BoS meeting

1 February 2017: Delivery of technical advice

Completion of procurement process

Technical work

Technical work

Consumer Testing

3-month Public Consultation

Technical work

23 February 2017: Delivery of Draft ITS to Commission

Work on draft ITS for Product Information Document (PID)

Stakeholder Input

- **Regular IRSG updates**

- **3 month public consultation from:**

  o Early July 2016 - draft Technical Advice on delegated acts

  o End of July/early August 2016 - draft ITS for IPID

- **23 September 2016 – IDD Public Hearing**

Thank You

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