

Comments Template on Consultation Paper on Technical Advice on possible delegated acts concerning the Insurance Distribution Directive		Deadline 3 October 2016 18:00 CET
Name of Company:	Czech Insurance Association CAP	
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Reference	Comment	
General Comment	On the offset, we would like to emphasize the need for sufficient implementation time for insurance companies. Delegated acts will bring completely new requirements and processes. Especially, the SMEs that are mostly established in our market, may experience difficulties to implement: develop, launch, test and monitor all requirements within provided timeline (if the deadline is not sufficiently long enough).	

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	The shorter implementation period the higher costs it will bring.	
Question 1	<p>Costs: Without knowledge of the final delegated acts we are not able to estimate the costs so far. It is evident that upcoming provisions will result in need to launch new processes that will only partly overlap with the current ones. Thus, we assume significant costs on adjustment and testing of the IT systems as well as on the required documentation (especially when default is paper version). The level of cost will correspond to the level of detail of the delegated acts.</p> <p>Benefits: In a long-term view, it may bring better selection of products according to the needs of clients as well as higher literacy of clients. The increasing requirements on the expert knowledge of intermediaries may lead to the cultivation of insurance market. On the other hand, it may mean extensive administrative burdens. Further, the more information and documents customers will be obliged to receive, may result in overload of information and less ability and willingness of clients to actually understand the products.</p>	
Question 2	<p>According to our views, the proposals are detailed enough. Even now the proposals will have huge impact on the industry forcing insurance companies to adjust processes of products manufacturing. POG will lead to massive increase on documenting the process in regards with the audit and supervision.</p> <p>The identification of target market is highly difficult in countries such as the Czech Republic. The insurance companies often operate on the whole Czech market with one product for concrete insurance (e.g. life insurance). Such product is variable and it may be adjusted ad hoc according to needs of concrete customer.</p> <p>Even now, insurance companies test their products to secure that they are stable, suitable for clients and they aim for constant development of their services towards clients. Thus, any more detail in the delegated acts may be actually</p>	

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	<p>counterproductive.</p> <p>We would like to note that some of issues are already successfully dealt with in Member States. Therefore, the new POG requirements should not by any cost provide for too detailed rules regardless any national regulations and supervisory practices.</p> <p>Finally, regarding the constantly developing environment of online services we propose that the POG requirements should work not only offline but as well online.</p>	
Question 3	No.	
Question 4	<p>The current process must be adjusted. Most likely, new mechanism to supervise the POG compliance will have to be developed. Currently, it is not possible to estimate final costs. However, it may amount to hundred thousands of Czech crowns a year (approx. thousands of EUR/year) plus additional costs to hire new employees. We assume that the necessary expenses might have to be projected in the final costs of products, i.e. the price for client.</p> <p>At this point, we would like to clarify that POG requirements apply only to new products or in case of significant changes of the existent. In case of any retroactive application to existent products it will result in huge administrative burden on insurance companies, extensive costs and need for much longer time for the implementation.</p>	
Question 5	We agree with the possibility of considering an intermediary as a manufacturer of insurance products. Nevertheless, in such case the same POG requirements shall apply to those intermediaries.	
Question 6		
Question 7	We do not agree with the proposed principles. In the Czech Republic the granularity of target market is highly difficult. Insurance companies operate on the whole Czech	

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	<p>market quite often with just one product for concrete insurance (e.g. life insurance, motor insurance, liability insurance). This product is universal for all groups of clients (e.g. individuals and companies) but also so variable that it may be adjusted ad hoc according to particular needs of the client.</p> <p>Different situation is only within the professional liability insurance (e.g. doctors, architects). This product has to be framed in such a way to duly cover the insurance need of target group.</p> <p>Therefore, there should be possibility to offer products outside of the target market. In accordance with the proposal, the target market has to be set while structuring the product. Nevertheless, it is likely that distributor later in the process finds the product suitable for a client even though he is not subsumed under the target market. Thus, we consider it discriminatory towards clients who fall outside of the target market.</p> <p>The preferred variant is to provide just general provisions on the method and basic policy. Any detailed policy may interfere with the know-how of manufacturing products by individual manufacturers.</p>	
Question 8	<p>Nowadays, the insurance companies monitor whether their products correspond to the needs of client and have to react to any circumstances having an impact on the type of product, cover, etc. Otherwise, they will lose competitive advantage on the market. Thus, the insurance company itself should be able to decide on frequency of reviews. If the obligatory frequency to review the product is introduced, it should not be less than every three years. If necessary, the insurance company will on its own decide on more often reviews depending on the particular insurance product.</p>	
Question 9	<p>We do not consider necessary to add any other elements. We would like to amend those in the proposal:</p>	

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Ad 2 a. "the insurance intermediary, insurance undertaking or linked person is likely to make a financial gain, or avoid a financial loss, at the expense of the customer";

This is too broad, even premium may fall under the provision. We propose that the payment of premiums should be explicitly left out. Further, such provision may lead to de facto ban on commissions. We assume that not every payment of the commission by the insurance company automatically creates conflict of interests. It always depends on other factors. As the intention is not to provide for a ban on commissions (as clarified at the EIOPA public hearing on 23 September) we propose for amendment of conflict of interest and inducement rules in the technical advice. As it is up to national arrangements to decide who shall reward intermediaries (client v. insurance company), distributors shall be entitled to be paid for their services.

Ad 2 b. "the insurance intermediary, insurance undertaking or linked person has a financial or other incentive to favour the interest of another customer or group of customers over the interests of the customer";

It is too broad. We do not know how to deal with following situations:

- Sales on premiums (in case client has more insurance contracts at one insurance company, in case of some promotions - e.g. open day events, yearly frequency of payments, etc.)
- Provision of advantaged conditions of insurance to particular group of customer (higher business sale, less exclusions)
- Zero or lower commission transaction where the saved amount is credited on the insurance contract of the particular client (e.g. insurance contracts of employees of the insurance company).

Insurance company is a profit oriented business – the above mentioned situations are

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	<p>part of its standard business model. If all of these are deemed as conflict of interest the insurance company will be obliged to act according to Art. 28 IDD. As a consequence the insurance company will have to inform the client according to Art. 28 IDD (as other elimination of conflict of interest might not be feasible). This will be abnormally difficult to inform client on all promotions under which other customers got better conditions (i.e. "were favored compared to the other customer"), as there are lot of such promotions and quite often limited for a short period of time. As a result, the client will be overwhelmed and lost with extensive information on all (even lapsed) promotions which brings no added value for him. In addition, the client may hence overlook documents which are of actual value for him.</p> <p>Ad 2 c. "the insurance intermediary, insurance undertaking or linked person receives or will receive from a person other than the customer a monetary or non-monetary benefit in relation to the insurance distribution activities provided to the customer";</p> <p>The definition is too broad. In general, the commission to the intermediary is in majority paid by the insurance company and not the customer. Thus, any and all activity of intermediaries may be deemed as conflict of interest. In case those commissions are in accordance with conditions under Art. 29(2) IDD, they should not be deemed as conflict of interest.</p>	
Question 10	We do not consider necessary to further specify the proportionality principle. Some proposals may bring higher burden for the SMEs. Thus, we welcome any higher use of the proportionality principle throughout the delegated acts.	
Question 11	<p>We would like to clarify that the retroactivity does not apply in case of inducements. The assessment whether the inducement has a detrimental impact shall not be done for already concluded contracts.</p> <p>It is highly unlikely to set a general list of inducements with detrimental impact for the</p>	

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	<p>whole EU. The markets differ. It should be mainly left up to NSAs as they know better the respective insurance market.</p> <p>In general, the increase of inducements does not correspond to the quality of contractual relations. Inducements affect the sale of products only marginally. The prevailing factor is the quality of product. The proposed provisions are too strict and rigid in a way what the insurance distributor must create, provide and report not to bear a risk of having detrimental impact on clients. Same as under conflict of interest we are of the opinion that the proposal creates a de facto ban on commissions.</p>	
Question 12	No.	
Question 13	<p>Below please find our answer in regards with several inducements:</p> <p>Ad a) "the inducement encourages the insurance intermediary or insurance undertaking carrying out distribution activities to offer or recommend a product or service to a customer when from the outset a different product or service exists which would better meet the customer's needs";</p> <p>The intermediary in the Czech Republic is obliged to act with due diligence. The insurance companies take every possible effort to avoid any breaches within their distribution channels (training, controls). Such provision is already applied and complied with. Nevertheless, how this should work with tied agents who have exclusive contract with particular insurance company to sell their products?</p> <p>Ad d) "the inducement is entirely or mainly paid upfront when the product is sold";</p> <p>The Czech legislation allows for such system of payments. It is highly used by distributors in the Czech market. As it is legal in at least one Member State, we question whether such inducement shall really have a detrimental impact. Any change</p>	

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	<p>will bring increased financial expenses to change the distribution system in the market which may have to be projected in the costs of the products.</p> <p>Ad f) "if the inducement scheme entails any form of variable or contingent threshold or any other kind of value accelerator which is unlocked by attaining a sales target based on volume or value of sales".</p> <p>The Czech market allows for commissions to differ depending on the business results (quantitative criteria), i.e. the higher amount of sales, the higher commission. Any change will affect the Czech insurance market considerably. It is questionable why such inducement shall present a detrimental impact while legal in at least one Member States of the EU.</p>	
Question 14	No.	
Question 15	<p>The similar amount of information is gathered when the insurance company provides for the assessment of needs of its clients. We consider problematic to prove anyhow whether the obtained information are reliable (para 9. of the proposal). In relation to the above, the para 12 of the proposal is highly problematic, i.e. to collect information to demonstrate that the benefits of switching are greater than the costs.</p> <p>In practice, clients quite often do not want to provide all of the required information. It may ended up in a situation that IBIPs could not be sold to clients in accordance with para 10 of the proposal. It may result in an example that client is not covered for a case of future difficult life situation.</p>	
Question 16	We see difficulties with the overload of information any client should be provided with when interested in IBIPs (under IDD, delegated acts and PRIIPs (RTS)). It may result in complete misunderstanding of the IBIPs by clients and their unwillingness to invest in them.	
Question 17	For example, insurance companies ask clients about the age, job, sports, his	

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	expectations from the product, his financial possibilities, income, period of time he would like to be covered and what should be covered.	
Question 18	Each client is individual and may not fall under such converter. The delegated act shall stick to the suitability/appropriateness. IDD does not require to adopt level2 acts on the demands and needs. Delegated act shall not go beyond level1 act (i.e. IDD).	
Question 19		
Question 20		
Question 21		
Question 22	We are of the opinion that in the phase of highly developing electronic forms of communication, it should be fully allowed for use of all available, secured, electronic means (e.g. apps, web stores).	
Question 23	We welcome any recognition of insurance specificities which will help to adopt corresponding and suitable delegated acts. Nevertheless, there are few provisions that do not wholly reflect the insurance business. For example, insurers are not required to draw up investment risk profiles. Any reference linking risk profiles of customers and insurance products does not fully get by in the insurance market.	
Question 24	Bearing in mind the highly respected consumer protection, the used criteria and conditions may be deemed too excessive (too detailed, extensiveness, too rigid). We are afraid that it will be counterproductive for consumers in the end. Customers might be overwhelmed with the amount and details which may result in the misunderstanding of the product. Further, we do not consider appropriate and necessary to be obliged to review the suitability statement and recommendations annually. Our long-term products do not change day-to-day. The suitability must be assessed within longer period of time. At least three years frequency will be more appropriate.	
Question 25		

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Question 26

No.