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Insurance Distribution Directive Guide

The Insurance Distribution Directive (IDD) replaces the Insurance Mediation Directive (IMD).

This change in regulation is in line with the FCA's statutory objectives (that of providing an honest, fair and effective financial marketplace). As with the IMD, the **IDD aims to enhance consumer protection when buying insurance** – including general insurance, life insurance and insurance-based investment products. Additionally, it also aims to support competition between insurance distributors.

Like the IMD, the IDD covers the authorisation, passporting arrangements and regulatory requirements for insurance and reinsurance intermediaries. However, the application of the IDD is wider, covering organisational and conduct of business requirements for insurance and reinsurance undertakings. The IDD also introduces requirements in new areas, including product oversight and governance.

It should be noted that this is a European Directive, but has been adopted in UK law, meaning that regardless of the outcome of Brexit, IDD is here to stay and is aimed at improving consumer protection, experience and outcomes.

The IDD requires that insurance professionals (including advisers) complete a **minimum of 15 hours CPD** (can be structured or unstructured, but must fit the business need) per 12 month period.

Additionally, firms are required to keep up to date records of their advisers.

I am pleased to say that **our requirement for 3 hours CPD per adviser per month is already in advance of this** and our current policy is therefore suitable and there is no further impact to be felt in this area by our advisers.

PI Insurance Expectations

The IDD requires that all intermediaries have in place **professional indemnity insurance (PII)** or a comparable guarantee. The minimum levels of cover are:

- €1,250,000 applying per claim per year, and;
- €1,850,000 per year in aggregate for all claims.

Needless to say, our PI cover is in excess of these requirements.



Minimum Competence Levels

The FCA have chosen to impose 'knowledge and ability' requirements on those involved in insurance mediation, namely:

- "A firm must ensure that it and each relevant employee possesses appropriate knowledge and ability in order to complete their tasks and perform their duties adequately." [SYSC 28.2.1 R]
- "A firm must ensure that it and each relevant employee complies with continued professional training and development requirements in order to maintain an adequate level of performance corresponding to the role they perform and the relevant market."
- "A firm must ensure that each relevant employee completes a minimum of 15 hours of professional training or development in each 12 month period."
- All CPD must be relevant to the role being performed.

So, in short, there must be a **clearly detailed process that documents an adviser's competence**, both how it was established and how it is maintained. Ongoing training is central to this purpose. Our current T&C scheme allows for this, but you should ensure that these competency standards are in place within your own business and that competency is taken seriously within your firm.

SYSC 28.3 goes on to explain the competence requirements for advisers depending on the products they sell; here is a brief summary:



Long-Term Insurance Contracts

- Minimum knowledge of the terms and conditions of the product and the associated risks;
- Knowledge of applicable insurance contract law, consumer protection law, data protection law, anti-money laundering law and, where applicable, relevant tax law and relevant social and labour law (i.e. state benefits);
- Knowledge of the insurance marketplace (and other relevant marketplaces – i.e. mortgage marketplace when selling mortgage protection products);
- Knowledge of the claims handling process;
- Knowledge of the complaints handling process;
- Knowledge of how to assess customer needs;
- Conflict management;
- Knowledge of expected business ethics and standards;
- Financial competence standards.

General Insurance

- Minimum knowledge of the terms and conditions of the product and the associated risks;
- Minimum level of knowledge of the laws and regulation governing the distribution of insurance products;
- Knowledge of the claims handling process;
- Knowledge of the complaints handling process;
- Knowledge of how to assess customer needs;
- Knowledge of the insurance market;
- Knowledge of expected business ethics and standards;
- Financial competence standards.



Now is a good time to review these competence requirements with your firm and ensure that your current T&C scheme within the business is fit for purpose. **Your compliance manager will be looking into this on their next round of visits.**

All records of staff competence and the associated training and competence files should be held for **no less than three years.**

Registration of Intermediaries

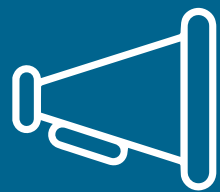
You can expect providers to start to 'clamp down' on insurance intermediaries, in particular, paying attention to how they are authorised. Again, being part of a network means **provided you follow our processes you will meet the authorisation and competence requirements** as directed in the IDD legislation.



Complaints Process

The IDD requires firms to put in place a process for handling complaints from all customers. Again, this is already in place within the Network and **details of our complaints procedure are available in our compliance manual and on our website [here](#)**. It is our recommendation that all firms also add this complaints process to their websites.

We are satisfied that our current complaints process meets with the requirements of the regulator as outlined in the dispute resolution guidance, however, it is worth mentioning that where a complaint comes in and relates to a customer who has been serviced under passporting rights (if you don't know what this is, don't worry as you probably don't have them!), they will be treated in the same way, but there may also be further obligations depending upon the rules of the Member State where passporting rights are held.



Financial Promotions

All marketing communications must be clearly identifiable as such. Additionally, the terms applied to financial promotions (FP) have been adjusted. In short, the following apply:

- The FP must continue to be clear, fair and not misleading;
- Any promotion that does not fit the above statement, must be removed from circulation as soon as is practicable;
- Be consistent with the expected result;
- State the basis of any claims;
- The FP must comply with all other legislation.



Pre contract disclosures

The IDD has made changes in the following areas regarding **contractual disclosures**:

- Changes to general pre-contract disclosures;
- Changes to the disclosures covering conflicts of interest and transparency;
- Introduction of disclosures concerning the firm's remuneration;
- Changes to the rules on how information is provided.

This section is, quite possibly the most interesting of the IDD changes and arguably the most likely to impact upon our advisers. Below is a 'taster' of the disclosure requirements and I have expanded on the key areas in other sections, however, **we will be expanding on these changes through our compliance visits in due course.**

In terms of pre contract disclosures, they are quite close to the current Insurance Mediation Directive guidance:

- Firms must disclose whether they are an insurer or an intermediary;
- Intermediaries must make disclosures about shareholding links between the intermediary and any insurers;
- Firms must disclose whether or not they provide advice;
- Where intermediaries do not provide advice on the basis of a fair and personal analysis of the market, they must disclose the names of insurers with whom they may place business;
- Intermediaries must disclose whether they act for the customer or the insurer;
- Intermediaries must disclose the nature of their remuneration in relation to the insurance contract and whether they work on the basis of a fee, commission or some other form of remuneration (or a combination thereof);
- All firms must disclose fees payable by the customer in cash terms.

Insurance Product Information Document (IPID)

The IDD introduces us to a new document (and acronym), the Insurance Product Information Document (IPID). It requires firms to provide customers with objective and relevant information about the product, prior to conclusion of the insurance contract. This information should be presented in a comprehensible form to allow the customer buying insurance to make an informed decision.

The IPID is a specifically templated document that all non-life “product manufacturers” are entitled to provide to a consumer. **This document replaces the outgoing policy document and is a short summary of the policy.**

The IPID document applies to new product sales and renewals, but does not incorporate commercial sales.

An IPID must be provided per policy, with the exception of a pure protection contract.

Additionally, the insurance product information document shall be set out on two sides of A4-sized paper when printed, or where a product manufacturer can demonstrate as necessary, the insurance product information document shall be set out on a maximum of three sides of A4-sized paper when printed.

Where an IPID is required, a policy summary is no longer required. As a result firms will no longer be permitted to use the Key Facts Logo when the IPID is introduced.

The FCA expect it to look something like this:

Xxxxx Insurance

Insurance Product Information Document

Company: <Name> Insurance Company Product: <Name> Policy

(statement that complete pre-contractual and contractual information on the product is provided in other documents)

What is this type of insurance?
(description of insurance)

What is insured?

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

✓ Xxxxxxx

What is not insured?

✗ Xxxxxxx

✗ Xxxxxxx

✗ Xxxxxxx

✗ Xxxxxxx

✗ Xxxxxxx

Are there any restrictions on cover?

! Xxxxxxx

! Xxxxxxx

! Xxxxxxx

! Xxxxxxx

! Xxxxxxx

Where am I covered?

✓ Xxxxxxx

What are my obligations?

• Xxxxxxx

• Xxxxxxx

• Xxxxxxx

• Xxxxxxx

When and how do I pay?

Xxxxxxx

When does the cover start and end?

Xxxxxxx

How do I cancel the contract?

Xxxxxxx

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Remuneration Disclosure

The IDD explains that remuneration of a distributor or its employees, and performance management of employees, must not conflict with the duty to act in the customer’s best interests.

So what is classed as remuneration? The FCA says: “The IDD definition of ‘remuneration’ includes commission, fee, charge or other payment, including an economic benefit of any kind or any other financial advantage or incentive offered or given in respect of the insurance distribution activity.” Or to put it another way, any payment (or remuneration) to a firm or its advisers must not conflict with a consumers best interests.

The IDD requires insurance intermediaries to disclose the nature and basis of the remuneration they receive in relation to the insurance contract.

Nature – This is the type of remuneration that will be received or paid. This includes commission, bonus, profit share or any other financial incentive.
Basis – This requires firms to disclose the source of their remuneration.

Additionally, firms should disclose information about remuneration which has a direct connection to the insurance contract being sold. This is likely to include bonuses for hitting a sales target (where the specific contract sold will count directly towards that target) but may not include measures such as rewards for adherence to quality standards.

The purpose of these requirements is to highlight potential conflicts of interest and to promote transparency. Firms should ensure they disclose the information in a way that is useful to their customers in showing the relationship between firms in the distribution chain, and in highlighting potential conflicts of interest.

Scenario	Likely compliant?	Comments
We arrange the policy with the insurer on your behalf. You do not pay us a fee for doing this. We receive commission from the insurer which is a percentage of the total annual premium.	Yes	This gives a disclosure of the type of remuneration the intermediary received. It also explains the source of the remuneration.
When we sell you a policy the insurer pays us a percentage commission from the total premium. If the type of policy we sell reaches specific profit targets the insurer also pays us an additional bonus.	Yes	This gives an explanation of both types of remuneration the firm receives (or may receive).



Where an IPID is required, a policy summary is no longer required. As a result, firms will no longer be permitted to use the Key Facts Logo when the IPID is introduced.

The IDD sets out new provisions on how information must be provided to customers.

In summary, the requirements are:

- The information must be provided in a clear, accurate and comprehensible manner, in an official language of the Member State and free of charge;
- Information may be provided on paper, a durable medium other than paper or a website (where it is not a durable medium and satisfies certain conditions);
- Where information is provided through a medium other than paper, the option to have the information on paper must be available and free of charge;
- There is no provision for the information to be provided orally at the request of the customer;
- Telephone sales should comply with existing EU law in relation to distance marketing.

Therefore, for those of you who transact insurance business over the phone, there is a requirement for you to supply remuneration (and other disclosure data) in a ‘durable medium’.

Insurers and advisers are also warned about how they remunerate their employees. Importantly, their remuneration policy must not conflict with their duty to comply with the customer’s best interests rule.

SYSC will outline a new rule that prohibits remuneration and performance management practices that would conflict with the “customer’s best interest” rule.

Summary

It is reassuring to see that as a Network we are already doing a lot of what the IDD requires of us.

Your responsibility is to ensure that you are familiar with this new legislation and are ready to comply. You may wish to start by conducting an impact assessment on your business and then plan to implement the directive.

The key areas that you will need to focus on are:

- Training and Competence of your staff;
- Understand and have written down your remuneration policy, including bonus structure;
- Adopt a conflict of interest policy;
- Liaise with providers to see what approach they are taking to IDD and how it will impact upon how you submit business to them.

Contact us

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