



EIOPA Regular Use
EIOPA-BoS/18-286
15 June 2018

Final Report on Public Consultation Paper 18/001

on

the proposal for

**Regulatory Technical Standards adapting
the base euro amounts for professional
indemnity insurance and for financial
capacity of intermediaries under the
Insurance Distribution Directive**

Table of Contents

1. Executive summary	4
Introduction.....	4
Content.....	4
Next steps	4
2. Feedback Statement to the Public Consultation.....	5
3. Background on Professional Indemnity Insurance and the review undertaken by EIOPA	6
3.1 General importance of professional indemnity insurance and financial capacity	6
3.2 Review in the CCPFI and other sources, e.g. EIOPA's stakeholder group	6
4. Base amounts for PII and minimum financial capacity.....	9
2.1 Article 10(4), IDD, and Article 10(6), IDD, in view of EIOPA's review.....	9
2.2 Calculation of amounts	9
5. Draft Technical Standard	12
6. Annex:.....	16

1. Executive summary

Introduction

On 1 February 2018, EIOPA launched a public consultation on the draft regulatory technical standards adapting the base euro amount for professional indemnity insurance and for financial capacity of intermediaries under the Insurance Distribution Directive. This Final report was adopted by the Board of Supervisors on XX.XX.2018. The Final Report sets out the final text of the draft regulatory technical standards.

Content

The Final Report includes a Feedback Statement with a summary of the main conclusions of the Public Consultation, some background information on professional indemnity insurance and the review undertaken by EIOPA, information on the legal requirement of insurance intermediaries to hold an professional indemnity insurance laid down in Article 10(4), of the IDD, a description of the calculation method applied by EIOPA to adapt the base amount referred to in Article 10(4), of the IDD, and the draft regulatory technical standards.

Next steps

The draft regulatory technical standards will be submitted to the European Commission ("Commission").

2. Feedback Statement to the Public Consultation

EIOPA has received 4 written responses from stakeholders, largely expressing their support for the proposed draft regulatory standards for adapting the minimum and aggregate insured amounts in Article 10(4), IDD. Specific concerns regarding the proposed adaptation of the base amount were not raised. From a more general perspective, respondents made the following comments.

One respondent highlighted that the increased amounts may pose problems in a few Member States, considering that recent changes in national legislation would already be burdensome for insurance intermediaries. Hence, an increase of the professional indemnity insurance would not be welcomed by market participants. This respondent also wondered whether the European index of consumer prices would be appropriate questioning whether the index would well reflect market realities, and, in particular, the increase of costs and charges on intermediaries.

One respondent pointed out that the possibility for Member States to introduce higher standards with regard to the minimum amount of personal indemnity insurance, would lead to unequal treatment in case of cross-border activities.

One respondent pointed out that a large number of contracts for professional indemnity insurance will have to be adjusted and underlined the importance to have at least 8 weeks between publication of the regulatory technical standards and 1st October 2018 to have sufficient time to amend the contracts. The respondent also asked to confirm that the regulatory technical standards will enter into force on 1st October 2018.

With regard to the feedback received, whilst appreciating the input, EIOPA would like to respond that the majority of comments addresses issues, which are not in the scope of the draft regulatory technical standards, but linked to the legal provisions laid down in the Level 1 text of the IDD. Furthermore, it is neither in the remit of EIOPA to confirm the date of entry into force nor to decide on a possible transition period given to market participants to implement the new amount and amend existing contracts. This falls within the competency of the European legislators. Furthermore, EIOPA does not have an influence on national legislation of Member States, which may introduce higher standards as permitted by the IDD.

3. Background on Professional Indemnity Insurance and the review undertaken by EIOPA

3.1 General importance of professional indemnity insurance and financial capacity

Holding the required level of professional indemnity insurance ('PII') is a key prudential and consumer protection safeguard. PII is a form of liability insurance that typically covers the cost of compensating policyholders for claims, legal fees or subsequent legal remedies. Compensation for such losses can generally arise from acts, errors or omissions committed by insurance and reinsurance intermediaries (collectively referred to as 'insurance intermediaries') during the conducting of their business activities.

PII under the IDD clearly protects consumers by increasing the funds available to insurance intermediaries to meet consumer claims arising from the professional negligence. PII is a useful tool in ensuring that the risks associated with providing this service are properly managed. Claims against such insurance intermediaries for professional negligence often come from their customers, so PII strengthens consumer protection by providing a source other than the firm's capital from which claims may be met.

PII also benefits ancillary insurance intermediaries as many ancillary insurance intermediaries hold PII whilst not being under any regulatory obligation to do so, or hold cover in excess of their regulatory obligations. It can be used to finance large and unexpected liability claims and thereby protect the assets of its owners. It normally covers both legal liability and the defence costs, the sum of which may be so substantial in some cases that it risks jeopardising the solvency of the ancillary insurance intermediary.

PII may be particularly valuable for smaller insurance intermediaries and ancillary insurance intermediaries, which might find it difficult or inappropriate to their business structure to hold large amounts of capital. It can operate in conjunction with market forces by using the commercial insurance market to help maintain the solvency of firms that provide important retail services such as investment advice.

Furthermore, IDD provides for specific national options to protect customers against the inability of the insurance, reinsurance or ancillary insurance intermediary to transfer the premium to the insurance undertaking or to transfer the amount of claim or return premium to the insured. All these options, which are considered to be equally efficient, play an important role for ensuring trust in insurance distribution. Among these options lies the provision for a minimum financial capacity of the insurance, reinsurance or ancillary insurance intermediary.

3.2 Review in the CCPFI and other sources, e.g. EIOPA's stakeholder group

Paragraph 7 of Article 10, IDD states:

"EIOPA shall regularly review the amounts referred to in paragraphs 4 and 6 in order to take account of changes in the European index of consumer prices as published by Eurostat. The first review shall take place by 31 December 2017 and successive reviews shall take place every five years thereafter."

EIOPA shall develop draft regulatory technical standards which adapt the base amount in euro referred to in paragraphs 4 and 6 by the percentage change in the index referred to in the first subparagraph of this paragraph over the period between 1 January 2013 and 31 December 2017 or between the last review date and the new review date and rounded up to the nearest multiple of EUR 10.

EIOPA shall submit those draft regulatory technical standards to the Commission by 30 June 2018 and the successive draft regulatory technical standards every five years thereafter.”

The IMD¹ and IDD², the latter repealing IMD with effect from 23 February 2018, foresee base amounts of PII cover to be held by insurance and reinsurance intermediaries (in the IMD, this is €1m per claim and €1.5m in aggregate per year for all claims; in the IDD, the amounts are €1.25m applying to each claim and in aggregate €1.85m per year for all claims).

EIOPA is required under the IDD to develop draft Regulatory Technical Standards, which adapts the base euro amounts for PII and financial capacity. These draft RTS have to be delivered to the Commission by 30 June 2018 (subparagraph 2 of Article 10(7), IDD).

EIOPA conducted a review of different aspects of the market for PII for insurance intermediaries and ancillary insurance intermediaries, which concluded that the European index for consumer prices (EICP)³ had increased by 4.03% (from 99.01 to 103.00, 2015=100) during the review period (from 1 January 2013 and 31 December 2017) and consequently changes are required. The EICP as published by Eurostat is the consumer price index as it is calculated in the European Union (EU), according to a harmonised approach and a single set of definitions. It comprises geographically the whole European Union and also covers Iceland, Liechtenstein and Norway.

EIOPA looked into different aspects of PII. It conducted a survey among its Member authorities, showing that no evidence or observations, which could have indicated a specific market failure arising from PII, were found.

Conducting the review, EIOPA did not find that PII was a barrier to enter the insurance intermediaries market in the EEA.

Furthermore, EIOPA did not find any evidence that evaluate relative changes in inflation as a measure for changes in the amounts of PII or minimum financial capacity. EIOPA looked at these aspects because it understands subparagraph 1 of Article 10(7), IDD, as a review clause in its own right.

In addition, EIOPA's Insurance and Reinsurance Stakeholder Group provided feedback. The feedback received from IRSG members was that:

¹ Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation (OJ L 009 15.1.2003, p. 3), <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02002L0092-20160223>

² Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (OJ L 26, 2.2.2016, p. 19), <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016L0097>

³ The European Index of Consumer Prices (EICP) was established pursuant to Regulation (EC) No 2494/95. This Regulation was repealed by Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index, and repealing Council Regulation (EC) No 2494/95, with effect from 1 January 2017. According to this Regulation, the HICP has been considered instead the EICP to calculate the updated minimum amounts.

- Claims for PII vary from Member State to Member State. It is therefore difficult to obtain an overview of possible issues with the PII market. It seems especially difficult to find evidence regarding the adequacy of the minimum limits.
- Obtaining PII cover is generally not a significant barrier to entry for the intermediaries market.
- When comparing PII cover to a deposit guarantee scheme, the minimum amounts of PII for individual cases were too high and the aggregate amount too low.

The review concludes that based on the review date (31 December 2017), the base amounts of PII and minimum financial capacity should be changed as follows (rounded up to the nearest 10 EUR):

- the amount of EUR 1 250 000 is increased to EUR 1 300 380;
- the amount of EUR 1 850 000 is increased to EUR 1 924 560; and
- the amount of EUR 18 750 is increased to EUR 19 510.

4. Base amounts for PII and minimum financial capacity

2.1 Article 10(4), IDD, and Article 10(6), IDD, in view of EIOPA's review

Insurance intermediaries are required to hold PII covering the whole territory of the Union, or some other comparable guarantee against liability arising from professional negligence. The level of indemnity shall, according to IDD, be at least EUR 1 250 000 for a single claim and, in aggregate, EUR 1 850 000 per year for all claims (unless such insurance or comparable guarantee is already provided by an insurance undertaking, reinsurance undertaking or other undertaking on whose behalf the insurance or reinsurance intermediary is acting or for which the insurance or reinsurance intermediary is empowered to act or such undertaking has taken on full responsibility for the intermediary's actions). An intermediary, regardless of its size and irrespective of whether it actually operates in more than one Member State, must satisfy this requirement in order to be registered and to carry on insurance intermediation in the EU.

However, the requirements are minimum limits of cover implying that Member States may add additional requirements under national law, and the Directive does not stipulate a maximum limit on the level of permissible policy excess on any policy. There are no provisions in the IDD permitting Member States to exempt firms from the requirement to hold PII (other than where a firm holds a 'comparable guarantee'): in particular, capital resources are not permitted as an alternative to PII.

All insurance intermediaries and ancillary insurance intermediaries are required to have – depending on the implementation of the IDD by Member States - any one or more of the requirements listed in Article 10(6) (a)-(d) IDD, one of which is the minimum financial capacity amounting, on a permanent basis, to 4 % of the sum of annual premiums received, subject to a minimum of EUR 18 750.

2.2 Calculation of amounts

EIOPA has used the relative changes in the EICP to calculate the changes for the amounts in Article 10(4), IDD, and Article 10(6), IDD.

The European index of consumer prices as published by Eurostat has changed over the period between 1 January 2013 and 31 December 2017 by 4.03%.

The monthly rate of change (indexed) published by Eurostat for the European Economic Area is as follows:

GEO/TIME	2012M12	2017M12
European Economic Area (EEA18-2004, EEA28-2006, EEA30-2013, EEA31)	99.01	103.00

The index rate of end of December 2012 (99.01) is used in this calculation as starting point for calculating the European index of consumer prices as of 1 January 2013. The indexed value for the European index of consumer prices end of December 2017 was 103.00. To calculate the relative change, the value of the index as of end of December 2017 is divided by the value of the index beginning of January 2013:

$$(\text{Index}_{2017M12} / \text{Index}_{2012M12} - 1) * 100 = \text{relative change in \%}$$

The European index of consumer prices as published by Eurostat changed therefore in the period between 1 January 2013 and 31 December 2017 by 4.03%.

Therefore, the amounts in Article 10(4), IDD, and Article 10(6), IDD, will need to reflect the changes to the EICP. Rounded up to the nearest multiple of EUR 10, the base amounts are as follows:

- the amount of EUR 1 250 000 is increased to EUR 1 300 380;
- the amount of EUR 1 850 000 is increased to EUR 1 924 560; and
- the amount of EUR 18 750 is increased to EUR 19 510.

2.3 EIOPA process and deliverables (June 2018)

EIOPA's founding Regulation specifies that regulatory technical standards have to be technical, should not imply strategic decisions or policy choices and that their content should be delimited by the legislative acts on which they are based.

In this case, the IDD provisions are understood as a mere mechanical adjustment of certain amounts based on a calculation method specified by the IDD. Once the European index of consumer prices (as published by Eurostat) is available, the values for the draft Regulatory Technical Standards (RTS) can be calculated precisely. The IDD specifies not only the initial values, but also the arithmetical operation to be undertaken. Furthermore, the outcome should be rounded up to the nearest multiple of 10 EUR.

Analysis of costs and benefits

In accordance with its founding Regulation⁴, EIOPA is requested to analyse the potential related costs and benefits of the draft RTS. Since the concrete basis on which the referred amounts should be updated, was already prescribed in the IDD it could be argued that no incremental costs are derived from the draft RTS itself. In any case, EIOPA considers it appropriate to acknowledge that the increase of PII amounts and minimum financial capacity will most likely increase costs for distributors, not only as a one-off cost, but on an on-going basis. At the same time, overarching consumer protection goals outweigh these costs.

Regarding amounts for PII, the increase of the minimum and aggregate insured amounts in Article 10(4) may result in a slight rise in premiums to be paid by insurance intermediaries for their professional indemnity insurance. However, where the intermediary is already obliged to pay an excess or deductible, this may lead to the insurer reducing the overall premiums to be paid and bring some balance to the overall cost. Furthermore, costs might be incurred by adapting, re-negotiating or concluding contracts for professional indemnity insurance. At the same time, the benefit is ensuring adequate level of consumer protection by increasing the amounts for PII in line with the inflation.

⁴ Article 10 (1) of EIOPA Regulation

Regarding minimum financial capacity, costs are incurred by not being able to invest this money and therefore losing out on potential returns on investments. It should be noted that the increase of the minimum amount in Article 10(6)(b) will not have an impact for all intermediaries; in particular, there will be no additional costs for intermediaries in the following cases:

- where the 4 % of the sum of annual premiums received by the intermediary exceeds the updated minimum amount; or
- where other forms of protection foreseen in Article 10(6)(a), (c)-(d) apply.

The minimum financial capacity will ensure that the distributor can transfer the premium to the insurance undertaking or can transfer the amount of claim or return premium to the insured. This is an important consumer protection aspect, which ultimately increases the trust of consumers in insurance distribution. At the same time, having a sound, financially able intermediary is also in the interest of insurance undertakings having an (often) on-going business relationship. Alternative solutions to a minimum financial capacity are possible, for example having an internal procedure that requires a deposit of the potential compensation directly to the customer's bank account.

5. Draft Technical Standard

Article 10, IDD stipulates that EIOPA should review the amounts of professional indemnity insurance (PII) for insurance and reinsurance intermediaries and develop draft Regulatory Technical Standards (RTS) that will adapt the amounts foreseen as minimum coverage. The amounts will be adjusted by RTS according to changes to the European index of consumer prices set by Eurostat.

This section contains the draft RTS.



EUROPEAN COMMISSION

Brussels, dd.mm.yyyy1
C(20..) yyy final

COMMISSION DELEGATED REGULATION (EU) No .../..

of []

COMMISSION DELEGATED REGULATION (EU) No .../...

of []

adapting the base euro amounts for professional indemnity insurance and for financial capacity of intermediaries under Directive (EU) 2016/97 of the European Parliament and of the Council

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution⁵, and in particular Article 10(7) thereof,

Whereas:

- (1) The base amounts for professional indemnity insurance and financial capacity need to be reviewed regularly to take into account the changes to the European index of consumer prices as published by Eurostat. The European index of consumer prices produced for the Union by Eurostat has increased over the period 1 January 2013 through 31 December 2017 by 4.03%. As a result, the abovementioned base amounts need to be changed by this percentage increase. The European Insurance and Occupational Pensions Authority (EIOPA) will review the base amounts again by 31 December 2022.
- (2) This Regulation is based on the draft regulatory technical standards submitted by EIOPA to the Commission.
- (3) EIOPA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Insurance and Reinsurance Stakeholder Group established by Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council⁶,

HAS ADOPTED THIS REGULATION:

Article 1

Base professional indemnity insurance amounts

The base amounts of EUR 1 250 000 and EUR 1 850 000, as referred to Article 10(4) of Directive (EU) 2016/97, shall respectively be adapted to EUR 1 300 380 and EUR 1 924 560.

⁵ OJ L 26, 2.2.2016, p. 19.

⁶ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48).

Article 2

Base financial capacity amount

The base amount of EUR 18 750, as referred to in Article 10(6) of Directive (EU) 2016/97, shall be adapted to EUR 19 510.

Article 3

Final provision

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, []

*[For the Commission
The President]*

*[For the Commission
On behalf of the President]*

[Position]

6. Annex:

Comments on: Consultation paper on the proposal for Regulatory Technical Standards (RTS) adapting the base euro amounts for professional indemnity insurance and for financial capacity of intermediaries under the Insurance Distribution Directive (IDD).				EIOPA-CP-18-001
<p>Key</p> <p>The “No” column refers to the ordering of comments received by EIOPA from Members, not the paragraph number (see below re “Reference” column)</p> <p>In the “Authority” column, Members should insert their country abbreviation e.g. AT, BE etc.</p> <p>In the “Reference” column, the file name and the paragraph number should be inserted.</p> <p>In the “Comment” column, Members should insert their comments, including any suggested revised drafting (where appropriate)</p> <p>The “Processing” column i.e. the response to the Comment will be filled out by EIOPA.</p>				
No	Authority	Reference (e.g. number of question)	Comment	Processing
1.	Gesamtverband der Deutschen Versicherungswirtschaft (GDV)	General Comment	With respect to Article 3 of the delegated regulation: As a result of the planned adjustment of the base amounts under Article 10 (7) IDD, many thousands of contracts for Professional Indemnity Insurance will have to be adjusted. For this Professional Indemnity	EIOPA is aware of the implications of changing the base amounts under Article 10 (7) IDD for existing contracts and the need to adjust these contracts. However, it should be noted that it is

			<p>Insurers need sufficient time. In addition insurers must know well in advance the date when the new insurance amounts will become effective so as to be able to document in all insurance contracts the effective date from which on the new amounts will apply. We therefore ask</p> <ul style="list-style-type: none"> • to expressly confirm that the RTS will enter into force on the 1st of October (or at a later date), and • to ensure that there are at least 8 weeks between publication of the RTS and the 1st of October. 	<p>outside EIOPA's remit to decide upon the publication and enter into force date of the RTS.</p>
2.	BIPAR	PI insurance	<p>A very large majority of BIPAR member associations consider that the proposed draft regulatory Technical Standards (RTS) adapting the base euro amounts for professional indemnity insurance are adequate and appropriate.</p> <p>In many markets most insurance intermediaries hold or will hold PI cover with significantly larger limits of indemnity than the minimum proposed by EIOPA RTS. Those new proposed amounts are therefore not expected to have any serious impact on most insurance intermediaries.</p> <p>Some BIPAR member associations believe that it is important that the minimum amounts reflect the exposure to the insurance intermediary, particularly those with larger risk</p>	<p>Noted.</p> <p>EIOPA is aware that the proposed increases of the base amounts may have an impact on insurance intermediaries in Member States where intermediaries are currently required to hold a minimum cover.</p>

			profiles. However, in a few countries, the increased amounts proposed by EIOPA may pose problems for insurance intermediaries. In Romania for example, because of the financial impact triggered by important legislation changes in 2017 and 2018, insurance intermediaries would not welcome any increase of their PI cover in the coming years.	
3.	BIPAR	Financial capacity	BIPAR member associations consider that the proposed draft regulatory Technical Standards (RTS) adapting the base euro amounts for financial capacity of intermediaries do not raise particular concerns.	Noted.
4.	BIPAR	Question 2: Have you identified any specific issues with regard to the PII market?	<p>-BIPAR believes that it is important that national laws implementing Article 10.4 of the IDD continue to allow the application of either "claims made" or "occurrence" basis policies for PII of intermediaries, without imposing either one.</p> <p>- Competition and supply-side measures should be encouraged, to improve the diversity of insurers and products available to intermediaries. In some markets there seems to be very few insurers offering PII to insurance intermediaries.</p> <p>- EIOPA is requesting feedback on the calculation of amounts. While we are aware that under the IDD EIOPA must review the PII</p>	<p>Noted.</p> <p>Noted.</p> <p>Noted. EIOPA would like to refer to Article 7 of the IDD which links the adaptation to the European index of consumer prices. It</p>

			cover and financial capacity minimum amounts by the percentage change in the European index of consumer prices as published by Eurostat, BIPAR wonders about the pertinence of such index in this context. We believe that the European index of consumer prices may not well reflect (national) market realities, and in particular the increase of charges and costs of intermediaries.	would be up to the European legislator to modify this approach.
5.	FECIF European Federation of Financial Advisers and Financial Intermediaries	General Comment	<p>The second paragraph of 2.1 of the Consultation Paper indicates that Member States may add additional requirements under national law concerning the level of PII to be maintained. However, for those insurance intermediaries that carry out cross-border activities under freedom of services and hold PII issued by the Home State, this could level to unequal treatment where the requirements laid down in the Home State are different to the requirements laid down in the Host State.</p> <p>In paragraph 3 of 2.1, it is indicated that all insurance intermediaries and ancillary insurance intermediaries are required to have - depending on the implementation of the IDD by Member States - any one or more of the requirements listed in Article 10(6) (a)-(d) IDD. However, this does not take into account the situation whereby the insurance intermediary or ancillary insurance intermediary does not</p>	<p>Noted. EIOPA would like to note that the IDD introduces only a minimum harmonisation leaving the discretion to MS to introduce stricter standards and requirements.</p> <p>Please refer to Article 10 (6) of the IDD which introduces the corresponding Level 1 requirement.</p>

			actually handle client monies, i.e. where premiums and claims settlements are transmitted directly between the consumer and the insurance undertaking. Hence, the reference to all insurance intermediaries and ancillary insurance intermediaries is misleading	
6.	FECIF European Federation of Financial Advisers and Financial Intermediaries	Q1	<p>Increasing the amounts of professional indemnity insurance as well as the amount for base financial capacity by approximately 4% each represents an opportune adjustment of the respective base values, and appropriately reflects the overall changes of the European index of consumer prices in a 4-year time period.</p> <p>Taking the increase of consumer prices by 4.03% in the period between 2013 and 2017 into account, the adjustment amounts to a negligible net-increase by 0.02% in regards to base financial capacity amounts, and 0% in regards to professional indemnity insurance amounts.</p> <p>Against this backdrop, we fully support the planned adjustments of above mentioned base values.</p>	<p>Noted.</p> <p>Noted</p> <p>Noted.</p>
7.	Lloyds Banking Group	General Comment	Overall, Lloyds Banking Group is comfortable with the proposals in the consultation paper.	Noted.