

Survey on the application of the Insurance Distribution Directive (IDD)

SURVEY

CLOSING DATE:

01 Feb 2021

STATUS:

Closed

In November 2020, the European Insurance and Occupational Pensions Authority (EIOPA) launched a survey on the application of the Insurance Distribution Directive (IDD) that entered into force on 23 February 2016. The aim of the survey was to gather feedback from stakeholders on the experience with the application of the IDD, in particular on the improvement of quality of advice and selling methods, the impact of the IDD on small and medium-sized enterprises and possible further improvements identified after the application of the IDD. Stakeholders were invited to provide their feedback by 1 February 2021.

EIOPA received feedback on the survey from 129 stakeholders from 16 Member States. The stakeholders who submitted responses were mainly insurance intermediaries, insurance undertakings, trade and consumer associations.

Stakeholders have indicated that the IDD generally had a positive impact on how insurance is distributed to consumers, but that it was challenging to evaluate the impact of the IDD on consumers, insurance distributors and supervisors given the delay in the IDD application in some Member States, the impact of COVID-19 and the fact that in some Member States there were strong consumer protection rules already in place when the IDD was implemented into national legislation.

Industry representatives have identified some areas of the IDD which have been very burdensome for insurance distributors, in particular for smaller insurance intermediaries.

Consumer associations highlighted, in particular, problematic practices in relation to the sale of unit-linked life insurance products and mortgage and consumer credit protection policies.

EIOPA and national competent authorities have been assessing the responses to the survey in order to prepare its work on a report on the application of the IDD which EIOPA plans to publish by the end of 2021.

Contact for further questions: IDDApplicationReport@eiopa.europa.eu.

Please find :

[Excel file](#) which includes all the responses received, except for one response which was marked confidential by the submitter of the response
[ZIP file](#) with some additional documents submitted by stakeholders
More detailed summary of the responses (below)

Improvement of quality of advice and selling methods

Some trade associations mentioned that the impact of the IDD on improvement of quality of advice and selling methods has generally been positive and provided data indicating a low/decreasing number of complaints and contract withdrawals in order to show that the quality of advice has improved.

Consumer associations mentioned that they have identified problematic practices in relation to the sale of unit-linked life insurance products and mortgage and consumer credit protection policies. They referred to several studies carried out by NCAs and consumer associations and proposed to introduce stricter cross-selling rules.

Functioning of the demands and needs concept

Some trade associations expressed the view that the demands-and-needs test generally works well. Nevertheless, they highlighted some room for improvement. For example, the demands-and-needs test should be adapted to the type of insurance product sold, its complexity and the customer. It can be redundant/simplified in the context of compulsory insurance, non-life insurance and standardised products.

Consumer associations have mentioned that the demands-and-needs test should remain mandatory for all distribution models in relation to non-advised sales due

to mis-selling in the past. In addition, it was mentioned one case where the national implementation of the IDD has considerably restricted the demands-and-needs-test to the detriment of the consumer.

Functioning of "execution-only" sales

In many EU markets there are no, or very limited, execution-only sales due to national restrictions. In markets where execution-only sales are carried out, according to some trade associations, the process is generally working well. Some trade associations indicated that this tool serves as fall-back option if the consumer is unwilling/unable to provide information, but also pointed out that consumers could make wrong insurance decisions without advice.

Consumer associations mentioned that all insurance-based investment products are "complex" products because of their inherent combination of insurance risk coverage and investment part, which from a consumer's perspective should be avoided in any case due to non-transparent cost charging and profit sharing.

Impact of the IDD on insurance intermediaries which are SMEs

Industry representatives indicated that IDD and other regulation has been very burdensome for small intermediaries. Some of them mentioned that the decrease in number of insurance intermediaries in some Member States is a result of "over regulation". However, consumer associations read the decrease as an enhancement of professionalism and positive structural market consolidation. Some trade associations highlighted that the revision of the IDD should seek to address how to better apply the proportionality principle.

Enhancing IDD framework related to digitalisation and new business models

Some trade associations pointed out that digital communication should be prioritised while maintaining the paper option. Any future legislation should ensure a level playing field between all distribution models and be drafted from a technology-neutral perspective.

Consumer associations outlined that comparison websites often highlight advertised offers or insurers offering higher commissions. In addition, there is

some evidence that loyal consumers pay higher prices than new consumers. An evaluation of German insurance broker apps concluded that they cannot be recommended.

Difficulties in the application of the IDD due to the lack of clarity in the IDD provisions

Some trade associations mentioned that the industry and NCAs have reached a common understanding of how the IDD should be applied and that the focus should instead be on facilitating distribution activity by reducing regulatory obstacles. Reference was also made to the fact that there is a lack of clarity at national, not EU level and that "over harmonisation" should be avoided. Many stakeholders highlighted IDD provisions which are difficult to apply given legal uncertainty.

Challenges in applying the POG requirements

Some trade associations expressed the view that there is a need for simplification of the POG process for simple/non-life products as the POG process is burdensome for manufacturers and to ensure that the proportionality principle is respected.

Consumer associations proposed that the results of product testing and monitoring, especially if new insurance products are launched, should obligatorily be published either by the NCA or the insurers themselves.

Challenges in carrying out cross-border business within the EU

Some trade associations underlined that it is important to have minimum harmonisation to respect national differences in market structure and consumer expectations. The cross-border aspect should not be used as excuse to "over-harmonise".

Some stakeholders proposed initiatives to promote cross-border business, such as harmonising insurance contract law, social security law and tax law or clarifying when intermediaries are considered operating under FoS/FoE. It was also indicated that FoS/FoE will remain a utopia in the retail market for the

foreseeable future and will be limited to large volume corporate business.

Challenges consumers face when purchasing insurance products

Industry representatives indicated that there are too many information requirements leading to an overload of communication. Moreover, there is a lack of financial literacy of the average consumer and, therefore, consumers struggle to understand complex disclosures.

Consumer associations raised concerns about inducements and conflicts of interest adversely impacting the quality of advice. They indicated that the payment of inducements should be banned under MiFID II and the IDD. In addition, they identified challenges with the type of personal information that insurers require to be collected from consumers when selling insurance contracts (in particular, in relation to medical information).

Supervisory activities carried out to assess the application of the IDD rules

Some trade associations mentioned that, in most Member States, supervisory activity has been proportionate and effective. Some BIPAR members outlined that they would appreciate more dialogue with NCAs. Some trade associations were critical of two recent EIOPA statements on the application of POG.

Consumer associations indicated that, in one jurisdiction, coordination problems were identified where there is a split of competences at national level between different authorities responsible for supervising insurers as distributors and insurance intermediaries.

LAST UPDATED ON:
4 May 2021