



IDD: Brokers, are you ready? We are.

Now that the FCA has published its first set of 'near final' rules, it's increasingly important that businesses involved in insurance sales (even if selling insurance is not your primary business), start getting ready for the changes which are coming in.

On 20 December 2017, the European Commission proposed to delay the application date, which came as welcome news for the insurance industry. Firms will now be required to implement the Insurance Distribution Directive (IDD) by the 1st October 2018.

Although the delay buys us a bit more time, the countdown for application is still tight and recently conducted research by an insurer found that a good percentage of brokers have limited or no knowledge of IDD. For this reason, we thought we'd recap on some of the main changes that could impact your business, as well as update you on the progress we're making to assure you of our regulatory compliance.

IDD: What does it mean?

If you're not already familiar with it and not to be confused with the Initial Disclosure Document, the Insurance Distribution Directive (IDD) is the new EU directive, which will replace the Insurance Mediation Directive (IMD). Despite the ongoing Brexit negotiations, the UK Government has decided to implement the IDD. Currently, the IMD applies to insurance intermediaries only.

The aim is to significantly raise and harmonise conduct standards, improving communication between firms and consumers. These changes should mean that your clients will feel more informed about and confident in the insurance product they have purchased.



What are the main changes?

The changes are wide-ranging, affecting customer journeys, product literature and product governance through to training and remuneration disclosure. Here are some of the main ones which will impact the industry:

- The new directive **applies to all businesses involved in the insurance supply chain** (whereas the IMD applies to insurance intermediaries only), including direct sales, price comparison websites and where insurance is sold alongside other products, for example, travel agencies, car hire businesses.
- The **'customers' best interest'** is different from the current TCF regime. This isn't just about acting on the best interest of the customer but also being able to demonstrate it. However, the impact will only become clear when the FCA starts to challenge firms in this regard.
- **Product Oversight and Governance (POG)** - The IDD requires insurance manufacturers to maintain, operate and review a product approval process for newly developed insurance products, or if major changes are made to an existing insurance product. Good news for brokers, as this means new insurance products are reviewed against the target market, to get an accurate view of its ongoing suitability for that market.
- **Training and competence** - A minimum of 15 hours for **Continuing Professional Development (CPD)** for staff with a responsibility for insurance distribution. This usually covers areas such as product knowledge, market knowledge, the claims process and insurance regulation. Evidence of CPD will need to be documented and records must be kept for a minimum of three years.
- **Insurance Documentation** - A new summary "Insurance Product Information Document" (IPID) has been introduced, with the aim of helping consumers to make informed decisions when buying insurance products. There may also be a potential impact on how documentation is fulfilled. For example, where policy wording and schedules are sent as electronic documents, the option to have the information provided on paper must be available and free of charge.
- **Fee's and Remuneration** – there is a mandatory requirement for intermediaries to disclose the nature (type) and basis (source) of remuneration. For example, an intermediary should say something like: "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
- **Demands & Needs** – The IDD requires a much firmer approach to identifying the specific demands and needs of the customer and then only offering products that are consistent with those. This change will affect the way that price comparison websites operate, as they will no longer be able to load the top results with policies with higher excess than specified by the customer during the data capture process. This should work to the insurance intermediaries' advantage.
- **Professional Indemnity Insurance (PII)** premiums are also rising under the IDD application, which will impact IFA's and brokers who currently hold the minimum level of PII.
- **Cross-selling** - There will be new requirements in relation to the information which must be provided to customers where an insurance product is offered alongside another product or service. This already ties in nicely with the FCA's recent market study on 'add-ons', so will have less of an impact in the UK.

What are we doing?

Regardless of the delay, our IDD implementation programme is well underway, based on the known [near-final rules](#), which are unlikely to change. We remain aware that we may need to tweak what we have implemented once the final rules are announced.

- We're already providing the new summary "Insurance Product Information Document" (IPID). This shorter summary, which replaces the traditional Policy Summary document, is designed to help consumers can make a more informed decision about insurance products. The IPID will be provided with new policies and renewals and can be [viewed here](#).
- Amendments have been made to online quotation platform, providing clearer information around remuneration and administration fees.
- We already encourage all our staff to attend courses, gain qualifications and engage in continuing professional development that increases their knowledge. Last year our workforce undertook over 6,000 hours of CPD.
- Our [home](#) and [landlord](#) insurance products already meet the 'Demands and Needs' requirement, with its flexible cover levels and excess options to meet the customers' requirements.

What do you need to be doing?



We'd advise you to start preparing for these changes. Once the final rules are received the timescales may prove challenging. We'll continue to provide further updates on regulatory changes, but in the meantime, if you require further information then visit [FCA](#), [BIBA](#) or [EIOPA](#) websites.