

Insurance Distribution Directive

January 2018



Introduction

- Insurance supervisory approach includes the implementation of IDD
- Importance of Senior Management being involved
- Changes brought about by IDD are very important for this industry given its reliance on cross border activity
- IDD is a large Directive in terms of impact
- Delay in implementation means that firms have no excuse not to be fully compliant by 1st October 2018



Agenda

Key Features of the IDD

Conduct of Business

Product oversight and governance

Knowledge and Competence

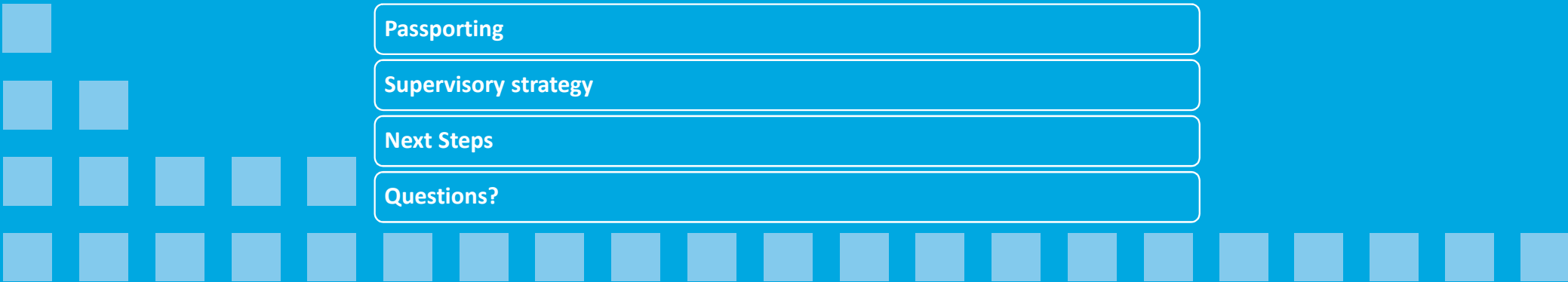
Enforcement powers

Passporting

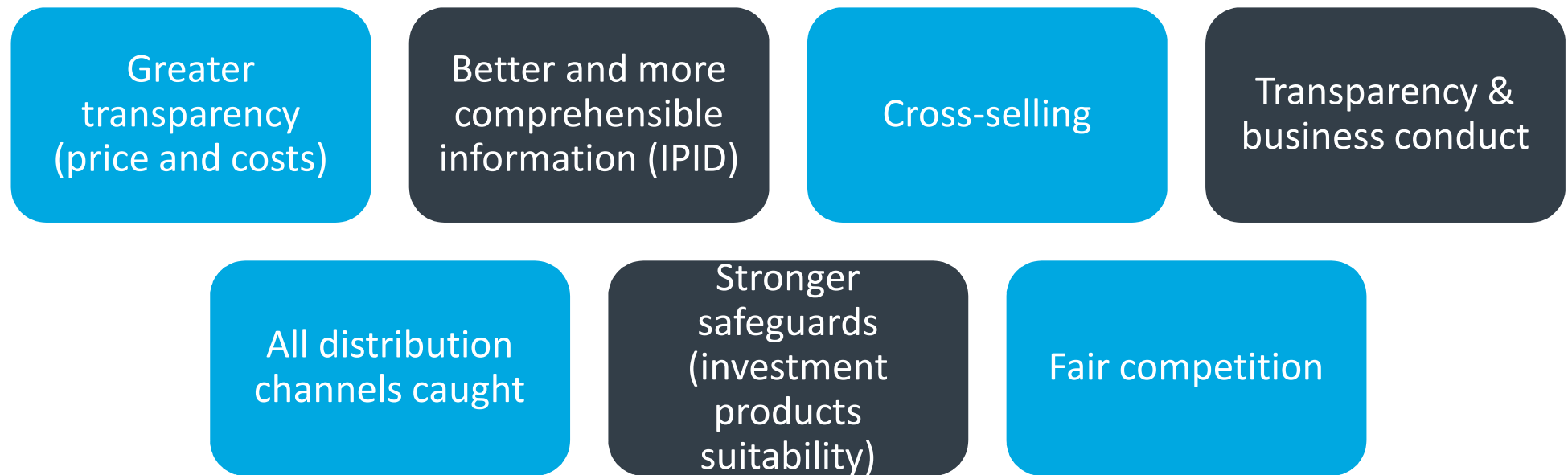
Supervisory strategy

Next Steps

Questions?



IDD key Features from a consumer perspective



Who does it apply to?

Insurance Intermediaries

Insurance Companies

Insurance Distributors

Ancillary Insurance Intermediaries

What is distribution?

Advising

Proposing

Carrying out
preparatory work
to contracts

Concluding such
contracts

Assisting in
administration and
performance of
such contracts

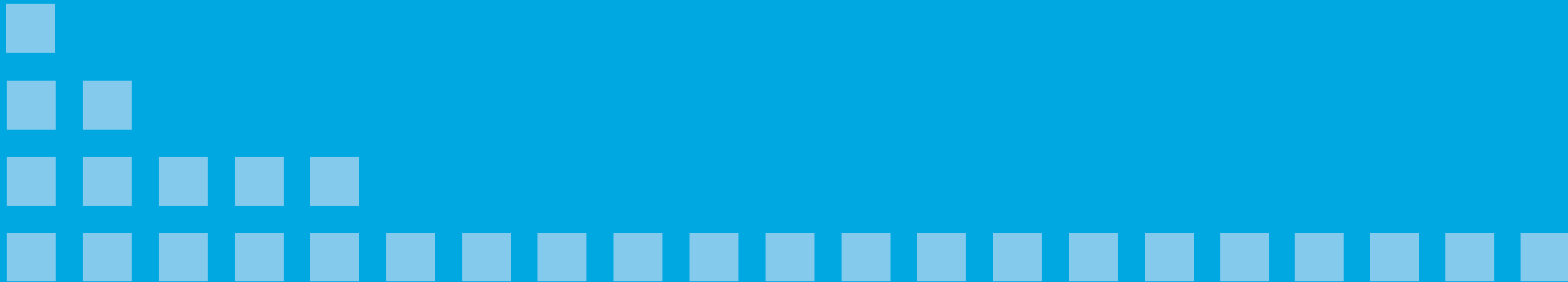
IDD – Areas for you to consider

Corporate
Governance

Host state
regulator rules

Compliance by
1st October

Conduct of Business



Objectives

In terms of Conduct of Business requirements, IDD seeks to:

Improve regulation in the retail insurance market

Strengthen consumer protection, in particular with regard to the distribution of *insurance-based* investment products.

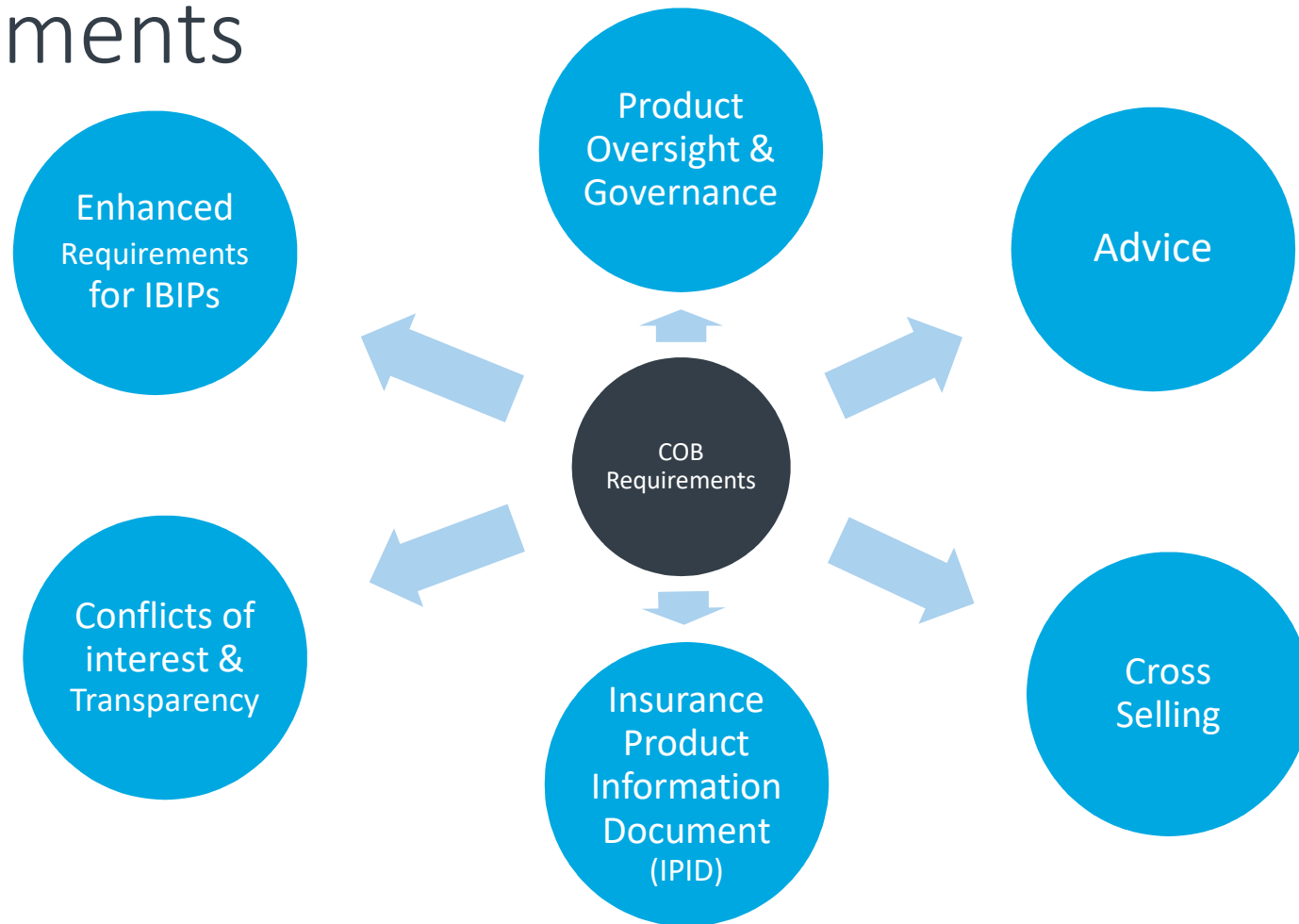
General Principles

The new regime will introduce two general principles:

Insurance distributors must "always act honestly, fairly and professionally in accordance with the best interests of customers"

All information must be "fair, clear and not misleading."

Requirements



What does this mean for you

Introduce conflicts of interest processes

Disclose nature of remuneration

Update information you provide clients on yourselves

Update approach to suitability and assessment and reporting to clients

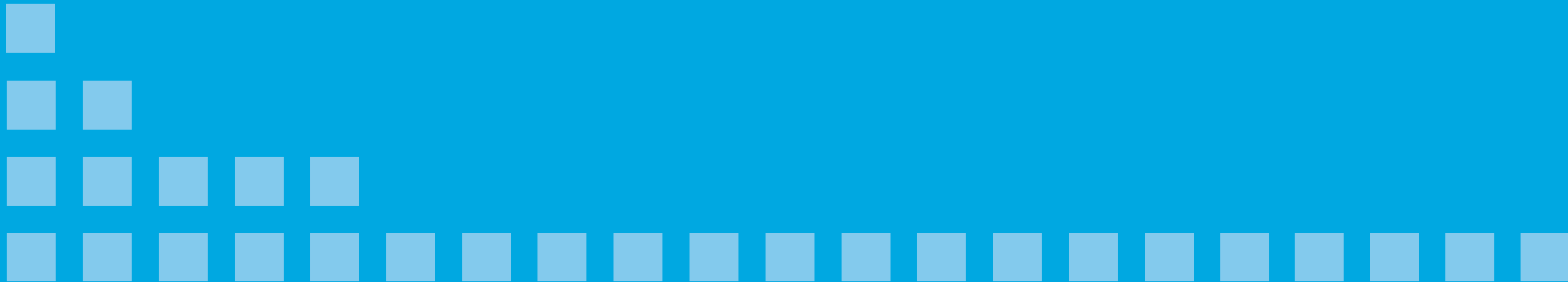
Update approach to execution only sales

Update personalised recommendation

Review complaints procedure

Review tied agent network

Product Oversight and Governance Requirements



Product Manufacturer

Recital 55

- “In order to ensure that insurance products meet the needs of the target market, **insurance undertakings, and** in the Member States where insurance intermediaries manufacture insurance products for sale to customers, insurance intermediaries should maintain, operate and review a process for the approval of each insurance product”

Article 25

- “Insurance undertakings, as well as intermediaries which manufacture any insurance product for sale to customers, shall maintain, operate and review a process for the approval of each insurance product, or significant adaptations of an existing insurance product, before it is marketed or distributed to customers.”

Regulations

- “Insurance intermediaries shall be considered manufacturers where an overall analysis of their activity shows that they have a decision-making role in designing and developing an insurance product for the market.”

Co manufacturers

- Where insurance intermediaries are also product manufacturers, the insurer and the intermediary can act as co-manufacturers:
 - Separate out responsibility between each party
 - Contractual arrangements
 - Knowledge sharing
- Where you are not a manufacturer, but are involved in the distribution, you need to have controls in place to ensure you understand the product and its target market.

Requirements – Article 25



What do these requirements mean for you?

New processes

Updating internal policies and processes

Training within the organisation

Embedding of the processes

Training of distributors

New contractual arrangements

Knowledge and Competence



New knowledge and competence requirements

Sets high standard – based on a benchmark

Appropriate in relation to the products offered

Continuing Professional and development requirements

Onus on Firms to ensure staff meet standards and support staff

Establishing a benchmark

Establish a high standard

Qualifications; examples from industry

Firms need to assess all individuals currently selling or in relevant management position

Firms need to establish if other qualifications meet this benchmark

Firm's assessment of Individuals

Meet benchmark?

Qualifications and training previously held?

Any gaps?

Training going forward?

Examples of support for new employees

Listening in on discussions with clients

Peer review of advice

Providing support and time for studies

Providing a robust induction and training programme

Usually 6 months to be competent dependent on products

Ongoing training

15 hours minimum CPD

Structured training covering areas in Annex I

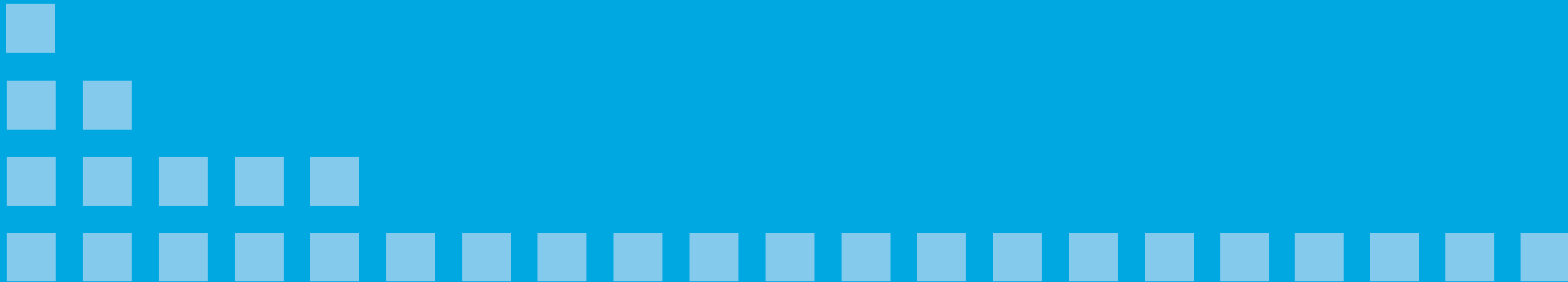
Covers products offered by firm

Understand firm's internal policies

Keep up to date with market and industry developments

Firms need to document staff CPD and ensure compliance

Enforcement Powers



Enforcement powers

Administrative sanctions may be imposed for all infringements of the provisions within the directive and local regulations



The directive requires us to take all measures necessary to ensure that the provisions are implemented



Administrative sanctions and other measures shall be effective, proportionate and dissuasive

Order the entity or individual to cease any conduct which constitutes a breach and desist from any repetition of the conduct

Power to revoke the licence

For investment based insurance products there are further powers:

- Publish statement on nature of breach
- Financial penalties – Up to €5m / 5% of annual turnover / 2x profits gained from non-compliant activity

Passporting



Passporting

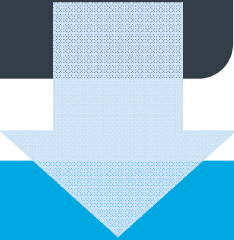
Firms can passport across the EU to carry out the activity of insurance distribution

Insurance companies need to ensure that firms distributing their products are registered to carry out the activities of insurance distribution in the member state in which they operate

There is an obligation for firms and individuals to comply not only with the local requirements, but also with the host state requirements which can differ from jurisdiction to jurisdiction

Host state – New powers

If breach occurs –GFSC Obligation to consider any action or measures we may want to take to remediate situation



If host member state considers that despite any action taken by GFSC consumers are detrimentally impacted or our actions are in their view insufficient – it can take separate action to prevent further irregularities

Next Steps



Supervisory Strategy

- Collaborative
 - With industry
 - Within the GFSC
 - With host state regulators
- Focused on higher risk areas
 - Implementation plans by firms
 - Product oversight and governance
 - Transparency
- Tailored to the firm being reviewed

Next steps

Currently

- Working with highest impact firms around IDD implementation preparedness

IDD Workshops

- Provide focus for firms to ensure compliance with requirements by implementation date

31 March 2018

- Follow up with high impact firms to ensure on track to be IDD compliant by 1 October 2018

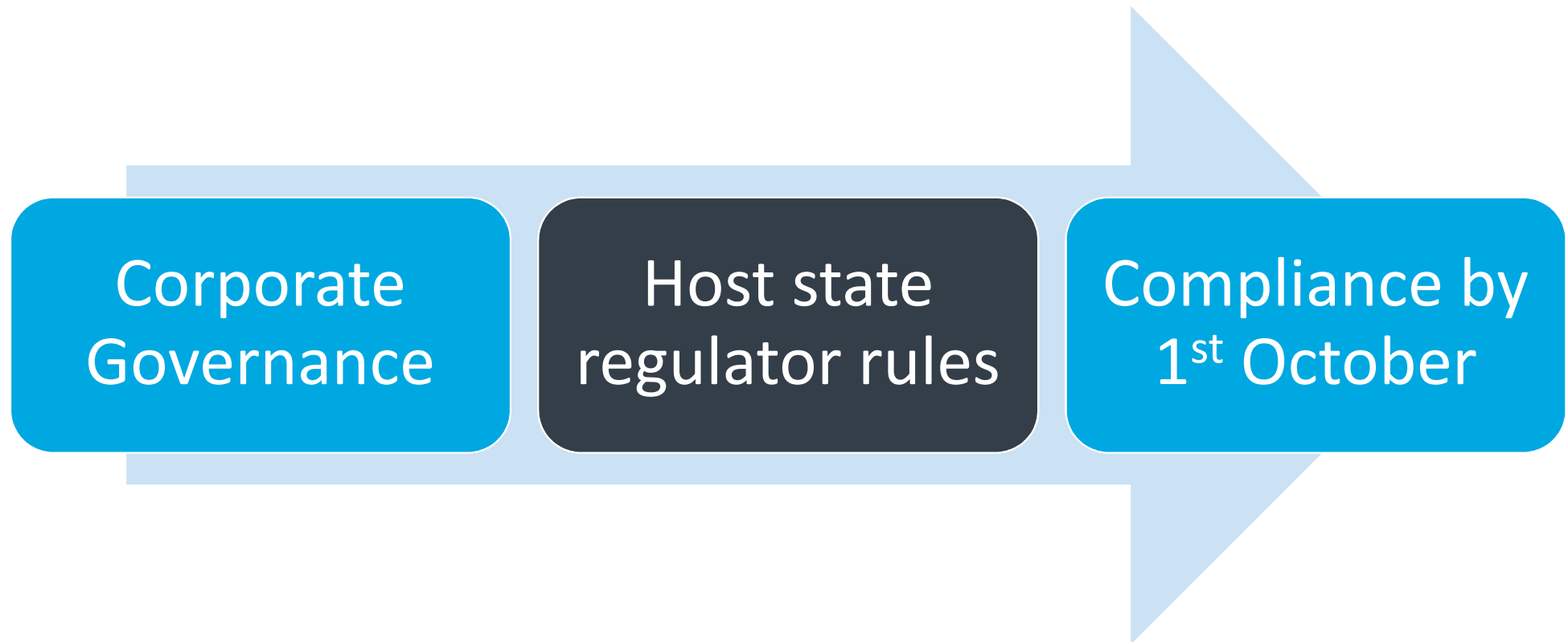
30 June 2018

- FSC to consider all the implementation plans to be satisfied that all firms are on route to meeting the implementation deadline of 1 October 2018

September 2018

- Ensure that we are confident that compliant on key areas: Corporate Governance and Product governance, training and Competency, Conduct and passporting (general good) requirements or have action plans in place.

Key messages



Useful information

Dedicated email address:

IDD@gfsc.gi

Dedicated website page:

<http://www.fsc.gi/firms/idd>



Questions



Comments