



Insurance Distribution Directive (IDD)

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Georgian International Insurance Conference
Batumi, 12 June 2025



Agenda

1. The IDD in a nutshell
2. Implementation of the IDD
3. New developments

Question 1

- Who do you trust more?
 - A. The insurance undertaking
 - B. The insurance intermediary

1. The IDD in a nutshell

Characteristics of the IDD

- The IDD was adopted in 2016 and succeeds the Insurance Mediation Directive (IMD) adopted in 2002. It has been applied since 1 October 2018
- As its predecessor, the IDD is a minimum harmonization directive, allowing MS to take account of local particularities in insurance distribution
- Contrary to its predecessor, which only dealt with insurance intermediaries, the IDD deals with all forms of insurance distribution including direct sales by insurance undertakings
- Insurance, reinsurance and ancillary insurance intermediaries must be registered with a competent authority in their home MS
- All (re)insurance distributors and employees of (re)insurance undertakings carrying out (re)insurance distribution must possess appropriate knowledge and ability in order to complete their tasks and perform their duties adequately (see the list of minimum professional knowledge and competence requirements in Annex 1, continuous education and proportionality)

What is insurance distribution?

- The following activities constitute insurance distribution:
 - Advising on insurance contracts
 - Proposing insurance contracts
 - Carrying out work preparatory to the conclusion of insurance contracts
 - Concluding insurance contracts
 - Assisting in the administration and performance of insurance contracts in particular in the event of a claim
 - When the customer is able to (indirectly) conclude an insurance contract using a website or other media:
 - Providing information concerning insurance contracts in accordance with criteria selected by customers through a website or other media
 - Compiling an insurance product ranking list, including price and product comparison, or a discount on the price of an insurance contract

Activities which do not constitute insurance distribution

- Providing information on an incidental basis in the context of another professional activity (such as business of tax experts, accountants, lawyers, etc.)
- Only providing information (without taking any additional steps to assist in concluding an insurance contract):
 - on potential policyholders to intermediaries or insurers; or
 - to potential policyholders about insurance products, intermediaries or insurers (introducing)
- Managing claims of an insurer on a professional basis
- Loss adjusting and expert appraisal of claims
- Tipping and finfluencing (if only expressing an opinion)

Insurance intermediary

- Person who carries out insurance distribution for remuneration
- Examples:
 - Insurance broker
 - Insurance agent
 - Bancassurance operator
 - Other person who assists policyholders in performing their contracts
 - Person running aggregator/price comparison website (subject to conditions)
 - Credit institutions and investment firms (where they distribute insurance)

Ancillary insurance intermediary

- Carries out insurance distribution for remuneration on ancillary basis
- Principal professional activity is not insurance distribution
- Only distributes insurance products which complement a good or a service
- The product does not provide life or liability cover (with exceptions)
- Examples:
 - Travel agency
 - Car rental company
 - Car dealership
 - Optician
 - Dentist

Freedom to provide services and freedom of establishment (FOS and FOE)

- An insurance intermediary wishing to carry on business in another MS must inform its home competent authority
- The home competent authority informs the host competent authority, which in turns informs the home competent authority about the general good rules applicable in the host MS
- Where an intermediary does not respect the requirements applicable in the host MS, the host competent authority informs the home competent authority
- Where the breach continues, the host competent authority might after informing the home competent authority take appropriate measures
- Both the home and host competent authorities might appeal to EIOPA to act as a mediator
- An insurance intermediary wishing to establish a branch or a permanent presence in another MS must inform its competent authority
- Similar provisions apply as in the case of free provision of services

Single licence and passporting rights

- The IDD creates a single licence for insurance intermediaries and ancillary intermediaries
- The single licence means that, once an insurance intermediary/ancillary insurance intermediary is duly registered in its home MS, it has the right to operate under FOS and FOE in other MS (subject to the IDD notification procedure)
- In contrast, although the IDD requirements apply to insurers pursuing insurance distribution, their single licence and passport rights derive from the Solvency II Directive, not the IDD

Question 2

- Should consumers be allowed to buy insurance products without advice?
 - A. Yes
 - B. No

Question 3

- Are you interested to know how much you pay your distributor (insurer or intermediary) for its service when buying insurance?
 - A. Yes
 - B. No

Information requirements and conduct of business rules

- When carrying out insurance distribution, insurance distributors must always act honestly, fairly and professionally in accordance with the best interest of their customers
- Marketing communications must be fair, clear and not misleading and must be identifiable as such
- Insurance distributors may not be remunerated in a way that conflicts with their duty to act in accordance with the best interests of their customers
- No arrangement by way of remuneration, sales targets or otherwise may be made that could provide an incentive to itself or its employees to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product that would better meet the customer's needs

Conflicts of interest and transparency

- Insurance intermediaries must disclose prior to the conclusion of the contract their relationship with any given insurance undertaking
- Insurance intermediaries must disclose the nature of the remuneration received and particularly whether they work on the basis of a fee paid directly by the customer, a commission of any kind, included in the insurance premium, any other type of remuneration including an economic benefit of any kind offered or given in connection with the insurance contract, or on the basis of a combination of any type of remuneration
- Where the fee is payable directly by the customer, the intermediary must inform the customer of the amount of the fee or of the method for calculating the fee
- In most MS, intermediaries are remunerated on the basis of a commission
- In some MS, commissions are banned and have been replaced by a fee directly paid by the customer

Advice

- Prior to the conclusion of an insurance contract, the insurance distributor must specify on the basis of information obtained from the customer the demands and needs of that customer and any contract proposed must be consistent with these demands and needs (**demands and needs test**)
- Where advice is provided, the insurance distributor must provide the customer with a personalised recommendation explaining why a particular product would best meet the customer's demands and needs
- Where an insurance intermediary informs the customer that it gives its advice on the basis of a fair and personal analysis, it must give that advice on the basis of an analysis of a sufficiently large number of insurance contracts available on the market to enable it to make a personal recommendation in accordance with professional criteria, regarding which contract would be adequate to meet the customer's needs
- For non-life products, the customer must receive the IPID (insurance product information document)

Product oversight and governance

- Insurance distributors which manufacture an insurance product for sale to customers, must maintain, operate and review a process for the approval of that product or significant adaptations of that product, before it is marketed or distributed to customers (**oversight**)
- Insurance undertakings must understand and regularly review the products they offer or market, taking into account any event that could materially affect the potential risk to the identified target market, to assess at least whether the product remains consistent with the needs of the identified target market and whether the intended distribution strategy remains appropriate (**governance**)
- Manufacturers of insurance products must make available to distributors all appropriate information on the product and the product approval process
- Where an insurance distributor advises on, or proposes insurance products which it does not manufacture, it must have in place adequate arrangements to obtain all relevant information about the product and the identified target market

Insurance-based investment products

- Additional requirements apply to the distribution of insurance-based investment products, which have been aligned with the requirements for the sale of investment products under MiFiD
- Information about all costs and charges not caused by the occurrence of underlying market risk
- Remuneration may not have a detrimental impact on the quality of the service to the customer and may not impair compliance with the distributor's duty to act honestly, fairly and professionally in accordance with the best interests of the customers
- Need to obtain the necessary information regarding the customer's or potential customer's knowledge and experience in the investment field, its financial situation, its ability to bear losses, its investment objectives and its risk tolerance so as to ensure that the product passes the suitability test

2. Implementation of the IDD

2nd EIOPA Report on application of IDD – Changes in the market

- Significant drop in the number of intermediaries registered as natural persons (increase of age, stricter professional requirements): from 1 MIO to 800.000
- Significant diversity in terms of national categories of insurance intermediaries (brokers, agents, etc.)
- The average European insurance intermediary continues to be a natural person, acting on behalf of one or more insurers, exclusively selling insurance and paid in relation to the insurance contract on the basis of a commission
- Bancassurance continues to play an important role in the distribution of life insurance with other intermediaries such as agents remaining prevalent in the non-life sector
- The amount of online sales remains low in most MS but is increasing on a yearly basis
- The number of passporting intermediaries is decreasing slightly

2nd EIOPA Report on application of IDD – Impact of the regulatory framework

- Mixed picture in terms of the level of professionalism and competence of insurance distributors
- Digitalisation and the growth of new distribution models continue to present risks, but also opportunities
- Quality of advice and selling methods have improved in some MS
- Application of the new sustainability rules (introduced in 2022) constitutes a challenge for consumers to understand the disclosures and for insurers to find appropriate training courses
- Some NCAs have adopted measures at national level to further restrict the payment/receipt of commissions such as commission caps or enhanced disclosure rules
- Cross-selling of financial products may cause detriment to consumers (sale of mobile phone insurance)

EIOPA's 5th Annual Report on sanctions and other measures under the IDD (2023)

- In 2023, in 20 MS NCAs imposed 1.510 IDD-related sanctions
- Sanctions relating to POG requirements have significantly increased over the years:
 - Sanctions imposed for non-compliance with internal procedures
 - Sanctions for specific deficiencies in how products are designed and/or distributed
- Sanctions relating to breaches of registration and organisational requirements
- Sanctions relating to breaches of information and conduct rules
- Types of sanctions imposed: withdrawal of registration, administrative pecuniary sanctions, temporary bans on the exercise of management functions, orders to cease and desist (stop ongoing conduct of business issues and avoid spread amongst the different national insurance distribution markets)
- Techniques used: inspections, mystery shopping

3. New developments

International Association of Insurance Supervisors ...

Principles and Standards related to distribution/ conduct

IAIS Insurance Core Principle (ICP) 18:

The supervisor sets and enforces requirements for the conduct of insurance intermediaries , in order that they conduct business in a professional and transparent manner.

- Licensed / registered
- professional knowledge,
- transparency re relationship and type of remuneration,
- Protection of clients money
- ...

IAIS Insurance core Principle (ICP) 19:

The supervisor requires that insurers and intermediaries, in their conduct of insurance business, treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

- to manage any potential conflicts of interest,
- clear and fair information,
- fair claims handling
- ...

Customer

« Demands and needs »/Advice

Today's Hybrid insurance market

Risk mitigation avoidance

Client relation management

Data analytics Actuarial

outsourcing

Affinity

Comparison, negotiating price/coverage

Payment

Standards

Product manufacturing

Capital

Switching

Intermediation

Risk/ insurance Know-how

Wholesale Re- Co- insurance Intermediation

Cross-selling

Advice

Claims processing

Entering new markets

Pay as you drive, blackboxes,

Service, Administration, marketing, information

Placemen t

Underwriting/ Capital/

Mutual insurer/profit sharing

Re-/co-insuring

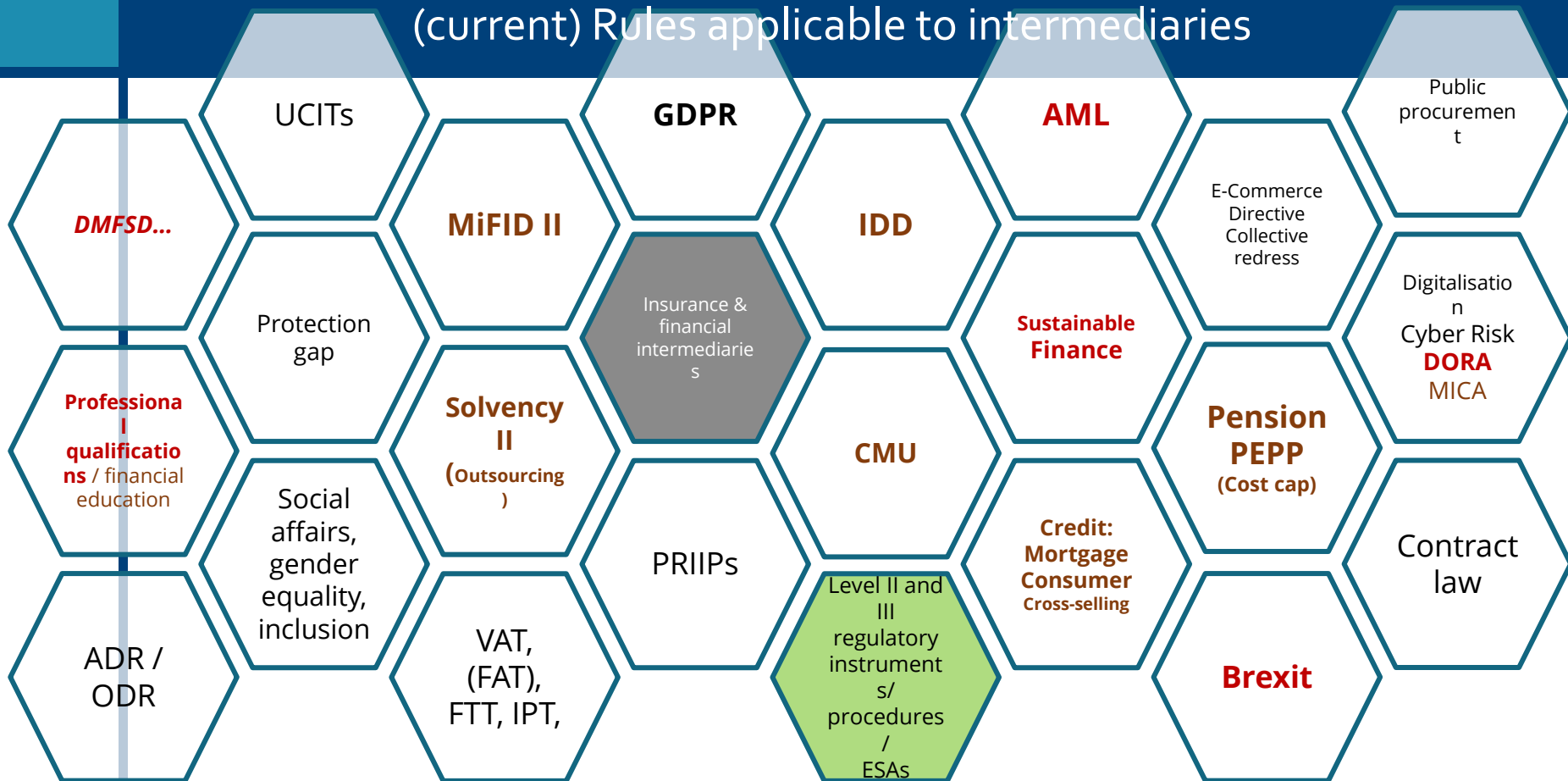
compliance

Insurer

KU LEUVEN

ICIR
International Center for Insurance Regulation

(current) Rules applicable to intermediaries



Question 4

- Do you believe that regulators should define when an insurance product offers value for money?
 - A. Yes
 - B. No

Value for money

- Problem of unit-linked business and of hybrid products that combine a unit-linked component with a profit participation component and/or a capital guarantee
- Costs can have a significant impact on returns for all insurance-based investment products
- Unit-linked products must be designed in a customer-centric manner, i.e. they must offer value for money whereby costs and charges are proportionate to the benefits (i.e. investment performance, guarantees, coverage and services) to the identified target market as well as reasonable, taking into account the expenses born by the providers
- See, EIOPA Supervisory Statement on value for money (2021) and EIOPA's methodology on setting value for money benchmarks for unit-linked and hybrid insurance products (October 2024)
- See also the Retail Investment Strategy proposal (2024) which is still being discussed between Council and EP

EIOPA Consumer Trends Report 2024

- IBIPs are the products with the lowest percentage of consumers believing that they offer VfM (45% compared to 50% for personal pensions and over 50% for certain non-life products – but the percentages vary amongst MS)
- Product complexity can contribute to consumers not understanding their products and result in the non-purchase and/or non-renewal of such products
- For non-life insurance, 12 out of 26 NCAs found instances of insurance products offering poor VfM because of unjustified costs and/or commissions in their market. This was highest for payment protection insurance (11 NCAs), followed by gadget insurance (4 NCAs), by income protection insurance (4 NCAs) and by legal expenses insurance (4 NCAs)
- The lines of business with the fewest VfM issues were motor insurance and household insurance
- Motor insurance and property insurance (often mandatory) had higher claims ratio and lower commission rates than other non-life lines of business

Example: household insurance and nat cat

- EIOPA report on the clarity of nat cat coverage in household Insurance Product Information Documents (19 May 2025)
- Only approximately 25% of the losses relating to nat cat events were insured in the past (1980-2023) in Europe
- Only 18% of EU consumers reported in 2024 holding coverage for damage to property resulting from nat cat events
- When insurance coverage is available many consumers still opt not to buy nat cat coverage
- The provision of accurate, clear, and simple information to consumers can enhance their understanding about coverage (problem of exclusions)
- Consumers often struggle to understand their level of coverage and sometimes mistakenly assume that they are covered for certain nat cat events, only to discover otherwise when filing a claim

Digitalisation and the use of AI

- The IDD does not include provisions regarding insurance distribution via AI systems, such as chatbots
- The IDD does however apply equally to distribution conducted by both human insurance agents and chatbots
- AI can help consumers to select a suitable insurance product
- Insurance distributors need to take account of the requirements of the European AI Act and DORA (digital operational resilience)
- See, EIOPA, Consultation Paper on Opinion on Artificial Intelligence Governance and Risk Management (2025)
- Digital tools do not always allow consumers to contact the insurer because the digital tools were developed for insurers and not for consumers
- The IDD is not entirely digital friendly but is a good regulatory basis also in a digital environment