CEA
Insurers of Europe

Briefing Note

Insurance distribution

July 2010

Serving consumers:
The diversity of insurance distribution markets

Points to consider when regulating insurance distribution
and CEA proposals for high-level principles

1. Points to consider when regulating insurance distribution

The CEA would like to contribute to the European Commission's work on selling practices in the framework of the revision of the Insurance Mediation Directive (IMD) and Packaged Retail Investment Products (PRIPs). The CEA believes that consumers should be offered the same level of protection regardless of the distribution channel used. Distribution structures across EU markets are diverse, complex and constantly adapting to consumer needs and demands[1]. The diversity of distribution channels benefits consumers, whose cultures, needs and preferences are the driving factors for this diversity. It also increases consumers´ choice of products and stimulates competition between different product providers and distributors.

The CEA believes that EU-wide "one-size-fits-all" legislation will not be able to capture the differences between the existing national distribution structures. Any regulatory approach which fails to recognise the diversity of national distribution systems may have significant negative implications for markets, and ultimately for consumers. Therefore, the CEA believes that the following points should be given appropriate consideration before regulating insurance distribution.

- **Not disrupting voluntary insurance**

Any new European legislation on selling practices for insurance should consider that differences between national insurance distribution structures derive, among other things, from the different number of compulsory insurance covers in Member States, which constitutes an element of their national regulatory policy. The number of compulsory insurance covers within the EU currently ranges from 4 in the UK to 400 in Spain. The nature of insurance cover influences consumer behaviour, and consequently, the insurance distributor's role in the selling process. Consumers purchasing compulsory insurance may be interested in different insurance distribution services compared to those purchasing voluntary insurance cover. The number of compulsory insurance covers in a country therefore impacts on the development and role of a national insurance distribution market. Insurance distributors play a key role in raising risk awareness and the diversity of distribution channels enables this message to be conveyed to the greatest extent.

- **Not destabilizing social structures**

Any new European legislation on selling practices should give consideration to the nature of pension systems and the way they function. The differing structure of pension systems across EU Member States has important implications for national (life) insurance distribution systems. While in some Member States mandatory occupational pension schemes, and/or those established by collective bargaining agreements (mandatory or otherwise), are predominant, and thus insurance distribution through intermediaries might be limited, other Member

1 For more information please consult the CEA report "CEA Statistics N°39: Insurance Distribution Channels in Europe" which is available on http://www.cea.eu/uploads/DocumentsLibrary/documents/1270043839_cea-statistics-nr-39-distribution.pdf

States rely to a much higher degree on voluntary individual pension schemes. In the latter group of Member States, insurance distribution fulfils the important task of raising consumer awareness to provide for retirement. In mandatory systems, this issue might be less relevant. Therefore, any new European regulation on selling practices should recognise the need to increase participation rates in voluntary pensions systems and to avoid social exclusion of low-income earners.

- **Not narrowing product choice**

Any new European regulatory framework on selling practices should respect the different design of life insurance products in different Member States and the resulting differences in the role of insurance distribution markets. In some Member States, national regulations for life insurance products request long-term contract durations, regular contributions and life-long annuity payments. In other Member States, contract periods are shorter and lump sum payments dominate. These differences have an impact on the (life) insurance distribution channels. For example, the duration of a contract is one of the characteristics of a product that may influence consumers' choice when purchasing a product. Since consumers are generally more reluctant to purchase products with a long duration, they need to understand the benefits of these products. Here, insurance distributors play a key role in raising consumer awareness of the benefits of long-term savings to provide for retirement. Therefore, European legislation on selling practices should not restrict the variety of products, as this would be to the detriment of consumers who will no longer find products tailored to their needs.

- **Not challenging 2 million jobs**

The insurance sector plays a key role in generating jobs in Europe. It contributes directly to the Europe 2020 strategy for a sustainable economy, delivering high levels of employment, productivity and social cohesion. People employed in the insurance distribution sector work in different capacities, eg as insurance companies' employees or as insurance intermediaries (agents or brokers). The number of employees working for insurance companies is approximately 1 million, with a further 1 million independent intermediaries and their employees, making a total of 2 million people employed in the insurance sector in Europe. Therefore, any new European legislation should prevent unintended collateral consequences for employment in the European insurance sector.

2. The way forward: CEA high-level principles on selling practices for insurance

The diversity of current distribution systems ensures that consumers have better access to insurance products. Moreover, the dynamism of the various distribution channels stimulates competition on price and quality of products and services between product providers and intermediaries for the benefit of consumers. Therefore, the CEA holds that the future European legislation on the distribution of insurance should be proportionate and have the form of high-level principles, which are flexible enough to accommodate the existing distribution structures' diversity, to adapt to evolving consumer needs and demands, and to avoid adverse effects on distribution markets.

The European Commission stressed the importance of high-level principles on selling practices for PRIPs in its April 2009 Communication on PRIPs. The CEA welcomes this approach. However, some principles proposed by the Commission in its Communication are based on concepts which are not known to the insurance sector. Therefore, the CEA proposes a series of high-level principles on selling practices which can be applicable to insurance. It is important to stress that although these principles may differ from those proposed by the Commission, they are adapted to the insurance business model and they guarantee the same outcome and the same level of consumer protection.

In that respect, the CEA stresses that, throughout the last few years, a worrying trend has emerged[2]. Several regulatory initiatives ultimately read across all financial sectors, and do not appropriately distinguish between the distinct business models of those different sectors. Although there is no evidence of its merits until now, MiFID is often cited as a benchmark for future regulation of all financial sectors. However, this approach fails to consider that the concepts of distribution in insurance and banking differ fundamentally. Whereas the IMD targets intermediaries, who may also be natural persons, MiFID addresses investment firms and regulated markets, and thus imposes requirements of a significantly different proportion. Whereas insurance regulation is founded on categories defined by the nature of the insured risk (large risk/mass risk), banking regulation refers to the classification of clients and products. We would like to draw the attention of the Commission to the risk of exporting banking rules to insurance, as it would induce a uniformity of product design in all financial sectors to the detriment of consumers. Any new European legislation in the area of distribution should therefore acknowledge the nature of the different products.

2 See the CEA paper of June 2010: "Insurance: A unique sector. Why insurers differ from banks" available on http://www.cea.eu/uploads/DocumentsLibrary/documents/1277383780_cea-report-insurance-a-unique-sector.pdf

The CEA proposes the following six high-level principles on selling practices for insurance[3]:

1. Selling practices must be focused on the fair treatment of the customer.
2. A distributor has to offer advice on request or on own initiative when the circumstances indicate there is a need.
3. A customer should always be informed about any limitation of the service (fair analysis).
4. Advice should be based on an analysis of the customer's needs, based on the information provided by the customer.
5. Any distributor providing information or advice on an insurance product must understand this product.
6. Before a contract is concluded, the customer should be given the information about the insurance product, which allows the customer to make an informed decision.

3 The above proposals reflect the current CEA views based on the existing situation as of July 2010

CEA

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The CEA is the European insurance and reinsurance federation. Through its 33 member bodies — the national insurance associations — the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of over €1 050bn, employ one million people and invest more than €6 800bn in the economy.

CEA aisbl
Square de Meeûs 29
B-1000 Brussels
Belgium
Tel: +32 2 547 58 11
Fax: +32 2 547 58 19
www.cea.eu