

## Europe requires more transparency for insurance

\* **Riccardo Sabbatini**

The new European Directive has yet to be formally presented, but the new rules on insurance mediation have arisen an ongoing debate in the European insurance sector. European companies require a common harmonization of the criteria for the distribution of insurance products and, above all, transparency on the remuneration and conflicts of interest of intermediaries will be provided only at the request of consumers. The concerns for a regulation which would adversely affect the competitiveness of the sector emerge in a report prepared by the consulting firm called MEDI in which the objections expressed by many European companies with guidelines for future European Union directive, which has been placed in consultation by the EU at the beginning of this year and would result in a draft legislation by December.

The Insurance Mediation Directive (IMD2) will overtake the previous legislation passed in 2002, which drew a loose framework for an area where there are about one million intermediaries (agents, brokers, business brokers) which distribute the policies of more than 5000 insurance companies. "We want to strengthen the protection of the insured and improve his life" said Internal Market Commissioner Michel Barnier last December, explaining the intentions of Brussels. But "good intentions – the MEDI report argues - is likely to be swallowed up by a series of new regulatory requirements which are likely to increase costs for insurance intermediaries."

However nobody objects the argument that a new set of legislations are needed in the insurance sector. Since 2002, the European insurance industry has changed dramatically. To the traditional figures of agents, brokers and direct employees, companies have added new subjects . Insurance contracts are increasingly being sold through a bank or reach consumers through a supermarket or an "aggregator", a website that provides a comparison different products. The IMD1 contains a regulatory framework that is increasingly inadequate. It does not provide, for example, any obligations on the brokers to tell their customers the cost of distributing the burden on insurance contracts, Nor to explicate their conflicts of interest. One, for example, leaps to the eye.

The brokers, which formally act on behalf of the insured (in charge of finding the "best" policies), are in fact paid by the companies which relegated them a share of the commissions levied on products. In some cases, brokers are paid contingency commissions that grow in proportion to the business brought to

the insurer, which increases the potential conflict. That practice should be prohibited - it is written in the report – but also the alternative route followed in the Scandinavian countries to require that distributors are paid only by the insured (for advice in finding the best value for money) has proved to be ineffective.

The so-called net-quoting "led - Medi notes - a dramatic reduction in the number of professionals (up to 50% in Denmark) and it is debatable whether that the impact would bring benefits to policyholders." The most important is non-life because in life, pension and other products contiguous to the branches of finances (savings industry) the regulation has already produced a substantial uniformity in the standards of transparency. And the first indication of policy is on this point.

The future directive has to be primarily concerned with non-life insurance. Including those products in a regulatory regime designed for financial services "is inadequate and expensive – the MEDI report points out -. It is a bit like using an enormous sledgehammer to crack a nut." For Non-life products, unlike in the financial sector, the information requirements on remuneration and on conflicts of interest should be graduated. MEDI, in particular, believes that 'a system of information *on request* is the most suitable for both retail and corporate customers. "The road towards a "level playing field" in the European insurance sector, is still long.

\* Journalist "Il Sole 24 Ore"