

Responses from FCA to questions raised on IDD

IDD	Insurance Distribution Directive	Affects all insurance companies throughout Europe, with maximum harmonisation rules
IPID	Insurance Product Information Document	Under the IDD consumers will receive a simple, standardised IPID, which aims to provide clearer information on non-life insurance products, so that consumers can make more informed decisions
PRIIPs	Packaged Retail Investment and Insurance-Based Products	covers all packaged retail investment products marketed in the European Union, including insurance policies with investment content
KID	Key Information Document	Replaces Key Features Documents for PRIIPs
IBIP	Insurance Based Investment Product	These are PRIIPs issued by insurance companies. A complex IBIP has terms customers may not understand, and under IDD cannot be sold without advice or an appropriateness test.
MiFID	Markets in Financial Instruments Directive	regulates firms and platforms who provide services to clients linked to 'financial instruments' (ie shares, bonds, units in collective investment schemes and derivatives)

1. *With the decision to delay IDD implementation until 1 October, how will FCA use the time between now and then to ensure a common understanding of its expectations?*

FCA stressed there is no guarantee yet that there will be a delay in implementation. Until Commission finalises change, firms should continue to work to 23 February implementation.

FCA is though looking at providing transitional arrangements where a firm might be ready before a 1 October implementation date.

If a firm issues IPID, FCA would consider a waiver application requesting continued use of the Key Facts logo in other literature such as brochure, assuming stocks are run down in a few months.

2. *If there is any further delay in implementing IDD- for example until after March 2019- would FCA plan to continue with implementation?*

FCA would need to consider issues of equivalence and transitionals should this context arise. Required to comply with IDD until UK exits EU.

3. *EIOPA has now issued follow-up guidance on complex IBIPs. Can FCA now offer a more extensive description of products which will be identified as complex/ non-complex. Our particular concern relates to with-profits savings contracts and Holloway contracts.*

FCA is not planning more guidance, as the EIOPA document is detailed and clear¹.

With regards to with-profits, the EIOPA guidance confirms that profit-sharing doesn't automatically mean a product is complex- what is important is end-effect on consumer. For example, a product with a guarantee on maturity and smoothing would normally not be considered complex. Clear rules on MVA free days, and established practices on smoothing both examples of where a firm can help communicate issues to customers. However, linking to a derivative, or something else customer typically might not understand more likely to be treated as complex.

Board should evidence it has considered issue now and describe how it ensures customer understanding, and include in annual product review process.

4. *Can FCA confirm that Holloways will not be treated as IBIPs?*

There is no blanket exemption for Holloways, though Holloway would only be considered to be an IBIP where the primary purpose of the product is investment. Where at most level of investment content is around 20%, this should mean no current Holloway products will be treated as IBIP.

5. *Will FCA avoid imposing MiFID requirements on insurance products which are not direct substitutes for MiFID-regulated products? The key audience here is non-life products, for whom the FCA cost benefit analysis indicated much greater implementation costs.*

FCA acknowledges this issue raised in our CP3 response, and will address in the next policy statement (due w/c 15/1). This will confirm arrangements and broad reassurance that only looking to exceed directive where needed. In particular, rules include a proportionality principle so firms need to consider how best to apply them in the product's context.

¹ FCA referred to the EIOPA guidelines: *"As stated in the explanatory text to the consultation paper, EIOPA does not consider that mechanisms such as profit sharing should automatically result in a product being deemed complex. The drafting of the Guidelines was intended to capture cases where the effects of these mechanisms can be difficult for the customer to understand.*

"Based on the comments received, EIOPA recognises that the drafting may have been too broad in some cases and has made some amendments to both the Guidelines and the explanatory text in order to avoid inadvertently capturing certain contractual structures that are used in traditional life insurance policies, such as the payment of discretionary benefits. In particular, the overarching provision regarding the existence of 'complex mechanisms that determine the maturity or surrender value or pay out upon death' has been replaced by the requirement that the effects of these mechanisms need to be assessed. The changes also take into account where specific consumer protection rules are laid down in national law."

6. *Where pure protection contracts are excluded from the need to provide an IPID (paragraph 13.14 of CP17/23), and don't need to provide a KID, is FCA planning any changes to disclosure requirements (for pure protection or other excluded products)?*

No further plans for disclosure change on pure protection.

7. *There was a further consultation due in December on IDD, covering registration. When will this now be issued?*

This was delayed as some of the forms now do not need review, but others may now do so.

8. *Has FCA seen any good practice so far on implementation it can share with us?*

Still early days for FCA. Many firms still seeking clarity, though some have indicated they will be ready for 23/2. Examples of firms using focus groups to evidence improvements in product governance and disclosure. Some firms established projects to explore conflicts of interest policy.

IDD questions from Cash Plan Providers

Remuneration disclosure

9. *Where do we have to put the disclosure regarding remuneration?*
10. *How specific does this have to be (our guys have a very good basic but have bonuses if targets met but not a simple structure and no special month incentive to sell more, such as double points)*

FCA: IDD requires disclosure on terms and nature of remuneration. FCA written into rules in first PS: info should be on type of remuneration and where received from. So, for intermediary: *"Remuneration received as commission from provider, which is funded from your premiums"*.

Commission doesn't require hard disclosure, but more detailed rules for cash payments. Bonus paid to sales team in an insurer: *"our sales agents receive a salary and also receive a bonus based on sales and on meeting certain quality thresholds"*.

Disclosure needs to be pre-sales, except for sales covered under Distance Marketing Directive. FCA not prescriptive on where information presented.

If you have an intermediary sales team liaising with brokers, don't need to disclose.

CPD

11. *There are concerns re asking retired NEDs to complete 15 hours CPD*
12. *Recording of the time (and the HR administration associated) and what makes up qualifying training*
13. *Disclosure of commission – how specific will the requirement be. If it is a generic statement as we all have planned we can live with it, but the more detail the more we would struggle*
14. *We have a person who is employed for 12 hours per week, the question would be as to whether this person would be required to do the minimum of 15 hours CPD?*

FCA: overarching requirement for individual to have skills and knowledge to perform roles. IDD provides prescription of min 15 hours of CPD, but not on nature. FCA not expecting 15 hours of class based learning for example- trying to be flexible on how, but 15 hours is the minimum. (Reading/ e-learning etc all count)

For NEDs: will depend on whether they have management responsibility for insurance distribution activity: this would exclude a general oversight role (which most NEDs have).

Part-time employees: 15 hours minimum still applies for relevant employees.

Recording information: may be on time sheets or on records of training undertaken. Firm should retain a record, eg spreadsheet

IPID

FCA: key issue is one IPID per contract.

15. Cash plans have a cool off period, our plans have a thirty day cool off period. As a result of the cool off period is the contract concluded once the cool off period has been exceeded?

IPID prior to conclusion of contract. So IPID required within 30 day cooling off.

16. Is it possible to combine current Key Facts with an IPID as this seems more appropriate? An alternative could be not to send Key Facts going forward?

17. How much detail do we need to go into on the benefits covered and excluded.

No. IPID must be stand alone. Key Facts no long required where an IPID is required for general insurance contract.

18. For a corporate client – company paid policy- is it sufficient to send the IPID to the company for distribution to their employee our policyholders?

Where selling to a company as BiK for employees, no purchasing decision by employee, so brochure would cover all information to employee (brochure would need to include details on FSCS and how to complain in absence of Key Facts).

19. Do we have to present the IPID as A4 portrait document or can it be presented as double page spread on two A5 pages. Many brochures are on an A5 format. Please see attached mock up.

Must be on A4 pages, and template is strict and can't be presented on A5 or in another document. Two pages is target (third page available if required).

20. The information suggests that the IPID should be two sides – three at a stretch - can we put this on one-side if that is achievable? A number of HCP providers have expressed a preference for this and thought that it would be achievable without customer detriment.

Two column format is OK: if you can get onto one page and size of text and content meets requirements, that is OK.

21. Will monthly renewable contracts be exempt from issuing the IPID at renewal given the cost this exercise would incur?

No. ICOBC 6.17 covers when information already provided. No need to reissue IPID as long as nothing has changed. Needs judgment call on how much time expired. If there is a change mid-term and contract is in force, no need to issue IPID mid-contract. If monthly renewable and contract has changed, would need to reissue: if product is same but contract has, no need to issue new IPID.

22. The Insurance Distribution Directive Implementation – Consultation Paper 2, appears to indicate that we should include the sum insured for each risk covered. Is this the intention and therefore a requirement?

IPID refers to sum insured where it is part of the product. Where sum assured is covered in contract, that can be covered in general in IPID. Can include by cross-reference where not practical to include in IPID.

23. What are the FCA's views on sending a IPID out on a telephone sale where cover is instant?

FCA: covered in Distance Marketing Directive

24. Exactly how generic can we be with the IPID, cash plan have a great many bespoke plans and having an individualised IPID per plan will cause a considerable administrative work that is really not necessary. To add the sums assured to the IPID may prove difficult as the Benefit Table for cash plans can be two pages. Can we refer to the Benefit Table on the IPID – the benefit Table includes all of the sums assured/benefits covered.

Needs to help customer make an informed decision, and to consider target market. Space constraints, so need to prioritise most relevant information.