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Press release | 01.07.2015

Insurance sector

EU strengthens consumer protection on insurance products

After two years of negotiations the Council of the EU, the European Parliament and the European Commission last night agreed on a compromise on the revision of the Insurance Mediation Directive (IMD II)/Insurance Distribution Directive (IDD) (1). The IMD II replaces the first Directive on insurance mediation (IMD I) and provides the new legislative framework for the sale of insurance products. Above certain thresholds (2) it covers products that protect against possible damage (for example term life insurance, private health insurance) as well as insurance policies with an investment component, where usually the customer receives a pay-out at the end of the contract (so called insurance investment products, such as a classical life insurance). The products covered by the IMD II compete directly on financial investments with the investment fund products under the Markets and Financial Instruments Directive (MiFID II) that have no insurance element. During the negotiations there were different perspectives on regulation and consumer protection in the European Parliament´s negotiation team and this has had an impact on the result of the negotiations. Once it has come into effect, the Member States must then transpose the Directive into national law. The member states may go beyond the minimum harmonisation provisions of the Directive in order to promote consumer protection.

Reacting to the outcome, MEP Sven Giegold, shadow rapporteur and financial and economic policy spokesperson of the Greens/EFA group commented:

“The compromise gives users of insurance products much better consumer rights across the EU. Insurance companies will now have to systematically take consumers’ needs into account right from the start of a product’s development. There should also be fewer nicely packaged but dud insurance products on offer. The negotiation outcome has here gone much further than what the Commission had proposed.

Furthermore, whereas its predecessor IMD I neglected this issue, the new Directive sheds light on the complexities of the so-called tying practices. If insurance products are sold bound together with goods, the customer must be informed about the prices of the individual components and have the possibility of purchasing them separately. Likewise, in order to improve customers' information about insurance products, the new regulatory framework will introduce a customer information document for everyday, non-insurance investment products.

The Directive does not, however, provide the desired level of transparency on the insurance business as a whole. While there are already transparency rules in place for investment funds and other investment products, they should also apply to potentially competing insurance investment products. However, the Parliament's leading draftsperson Werner Langen (centre right, EPP, Germany) was much less keen on a level playing field. Insurance intermediaries will also be able to continue receiving commissions without having to disclose them, whereas intermediaries operating under MiFID II rules are obliged to disclose such payments. These payments must nevertheless not have any negative impact on the professional advice given and all direct and indirect costs must be disclosed to the customer. The European Parliament contributed to an effective level playing field by empowering the Commission with the right to set standards for insurance investment products. Despite certain shortcomings, the new rules clearly strengthen consumer protection in comparison to the predecessor IMD I."

The European Parliament is expected to vote on IMD II/IDD in the September plenary session, giving its final approval to the new legislation on the insurance industry.

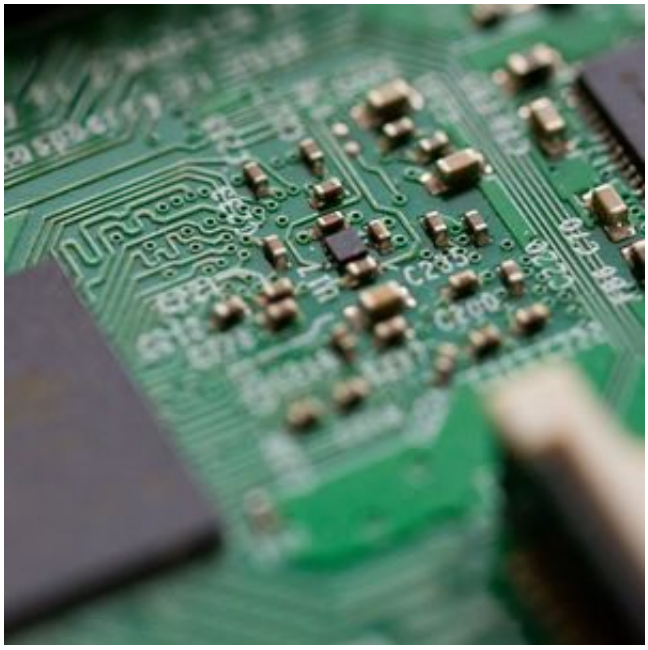
(1) As a result of yesterday's agreement the title of IMD II will be modified to "Insurance Distribution Directive (IDD)" when the directive comes into effect.

(2) The key threshold for the coverage of insurance products by IMD II/IDD is a premium payment of €600 pro-rata; if the insurance contract's duration is under one year, the premium payments will be extrapolated to a yearly basis. An exception applies to insurance products which are linked to a service (e.g. travel insurance) and if the respective service does not last longer than three months. In these cases, a threshold of €200 per person applies in order to be covered by IMD II/IDD. For insurance products below these two thresholds a minimum regulatory regime will apply, which depends on the product's complexity ("proportionality principle").

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