

AMICE Response to EIOPA survey on the application of the Insurance Distribution Directive

The improvement of quality of advice and selling methods and the impact of the IDD on insurance intermediaries which are small and medium-size enterprises

1) Improvement of quality of advice and selling methods

The IDD introduced a broader notion of “insurance distribution” (compared to its predecessor legislation, the Insurance Mediation Directive), covering a broader scope of providers of insurance (including direct sales by insurance undertakings). In addition, it introduced a number of new requirements regarding sales practices for insurance products, in particular, including a definition of “advice”, the inclusion of the activity of advising in the definition of insurance distribution and requirements for distributors to be more active when assessing demands and needs with customers prior to the insurance policy being sold. Furthermore, the IDD introduced enhanced requirements for the sale of insurance-based investment products (IBIPs) concerning prevention of conflicts of interest, disclosure of inducements and the carrying out of suitability or appropriateness assessments.

EIOPA would like to gather evidence with regard to the quality of advice and practices for selling insurance products, based on the experiences as to whether the IDD has brought about significant changes and areas where there is scope for further improvements.

EIOPA has identified some examples of the type of data/evidence for the European market, which could be used to assess whether the **quality of advice and selling methods have improved, deteriorated or remained the same** following the implementation of the IDD:

- Changes in the number/severity of mis-selling incidents Changes in the number/severity of advice-related complaints Changes in the number of advice-related legal proceedings Changes in the number of contract withdrawals
- Changes in the knowledge and ability of insurance distributors (resulting in better advice)
- Impact of the demands-and-needs test and suitability/appropriateness assessment (on quality of advice)
- Impact of pre-contractual information disclosure such as the Insurance Product Information Document (IPID) and ongoing information disclosure and reporting to customers (such as via a suitability statement)
- Impact of product oversight and governance (POG) rules on distribution processes Impact of remuneration and conflicts of interest rules
- Data gained through consumer interviews, screening, research, mystery shopping etc.

Provide in the box below any qualitative or quantitative data/evidence you have which could be used to assess whether the quality of advice and selling methods have improved, deteriorated or remained the same following the implementation of the IDD:

As the IDD has been applied for a little bit more than two years (and in some Member States even less than that as the national implementing rules have been introduced after the transposition deadline) it is too early to quantify the effects of the IDD on the quality of advice and selling methods. Nevertheless, the impression is that the new requirements have significantly improved sales practices for insurance products and enhanced consumer protection.

The new professional requirements have contributed to a high level of professionalisation of distribution networks. The insurance product information document (IPID) has been also recognised as a useful document both by professionals and consumer associations.

The implementation of the IDD rules resulted in significant adaptations to IT processes and tools, the implementation of new internal procedures, the organisation of training programmes, the production of IPIDs for various products. In view of these ongoing processes, we believe that there is no need to introduce new rules bearing in mind the impact in financial and organisational terms that this could entail. It is important to maintain the flexibility of the current regime to accommodate the diversity of the existing distribution structures, which are tailored to local market features and specificities, and local consumers' needs.

2) Functioning of the demands and needs concept

In order to avoid cases of mis-selling, the IDD introduced a demands-and-needs test on the basis of information obtained from the customers which must be completed for the sale of any insurance product, including for sales without advice. N.B. The concept of a demands-and-needs test is not new as it was already included in Article 12 of the Insurance Mediation Directive (IMD). However, the IDD goes beyond what was required under the IMD in the sense that any insurance product proposed to the customer should always be consistent with the customer's demands and needs and be presented in a comprehensible form to allow that customer to make an informed decision.

EIOPA would like to gather information as to whether the demands-and-needs test is functioning well for all insurance products considering it is mandatory for all distribution models and irrespective of whether or not advice is provided to the customer.

Indicate by ticking "Yes" or "No" whether, in your view, the demands and needs concept is well functioning being mandatory for all distribution models in relation to non-advised sales of any insurance product.

Yes

Please provide evidence for your answer in the box below:

AMICE members' experience so far is that overall, the demands-and-needs test is functioning well. In some cases, the test provides little or no value for products such as compulsory insurance or tailor-made insurance products. In these cases, performing the demands-and-needs test results in an operational burden with no added value and slows down the marketing of such products.

3) Functioning of "execution-only" sales

In some Member States, where no advice is given in relation to insurance-based investment products, insurance intermediaries and insurance undertakings are allowed to carry out insurance distribution activities within their territories without the need to conduct an assessment of appropriateness if certain conditions are met (so-called "execution-only" sales).

Indicate by ticking "Yes" or "No" whether, in your view, "execution-only" sales are functioning well in those Member State that do not require the assessment of appropriateness for the sales of insurance-based investment products if certain conditions are met.

Yes No

Please provide evidence for your answer in the box below:

4) Impact of the IDD on insurance intermediaries which are SMEs

The IDD seeks to ensure that it is not too burdensome for SME insurance distributors. One of the tools that were introduced to achieve that objective is the proper application of the proportionality principle (recital 72).

The proportionality principle applies in relation to a variety of areas in the IDD such as the

- continuous professional development requirements (*"taking into account the nature of the products sold, the type of distributor, the role they perform, and the activity carried out within the insurance or reinsurance distributor"* – Article 10(2), subparagraph 2);
- POG requirements (*"product approval process shall be proportionate and appropriate to the nature of the insurance product"* – Article 25(1), subparagraph 2);
- conflicts of interest (*"arrangements shall be proportionate to the activities performed, the insurance products sold and the type of the distributor"* – Article 27); and
- inducements (*"insurance distributor should put in place appropriate and proportionate arrangements in order to avoid such detrimental impact"* – recital 57).

Apart from that, recital 23 provides that all supervisory actions taken by the competent authorities should be proportionate to the nature, scale and complexity of the risks inherent in the business of a particular distributor.

EIOPA would like to gather information on the impact of the IDD on SME insurance distributors and, in particular, identify whether the administrative burden stemming from the IDD is proportionate with regards to consumer protection.

EIOPA has identified some examples of the type of data/evidence for the European market, which could be used to **determine the impact of the IDD on insurance intermediaries which are SMEs**:

- Changes in the number and type of registered insurance intermediaries that are SMEs
- Which IDD requirements have the biggest impact on SME insurance intermediaries
- Whether or not the IDD has been too burdensome for SME insurance intermediaries
- Impact of general good rules on SME insurance intermediaries operating in other Member States in accordance with the principles of freedom of establishment and freedom to provide services
- Number of SME insurance intermediaries that are manufacturers

Provide in the box below any quantitative or qualitative data/evidence you have which could be used to determine the impact of the IDD on insurance intermediaries which are SMEs:

5) Enhancing IDD framework related to digitalisation and new business models

The IDD was designed as a technology-neutral legislation and although there are some direct references to the digital distribution (e.g. comparison websites are now caught under the definition of "insurance distribution"), it is important to note that technology continues to evolve, consumers' expectations are changing, insurers and distributors will continue to develop and revise their business models and this brings both beneficial innovation and a new set of emerging risks for consumers – which regulation and supervision will need to take into account.

EIOPA would like to gather information from external stakeholders on if, and how, the IDD could be amended to capture these technological developments and new business models to facilitate sound and consumer-focused digital insurance distribution, including online disclosures and financial advice.

EIOPA has identified some examples of challenges presented by digitalisation and new business models:

- The IDD's default-paper based regime for communicating information to the customer and how information to consumers (including for non-life products the insurance product information document) is provided in a digital environment
- Distribution via innovative distribution models such as insurance platforms and ecosystems, including lack of transparency („who is doing what in the distribution process and who is accountable“)
- Scope of the definition of "insurance distribution" in an online environment. This could include business models where it is not entirely clear if they fall under "insurance distribution" definition or not. Examples could include certain decentralised/Peer-to-Peer (P2P) products (e.g. based on blockchain technology) where a group of individuals with mutual interests or similar risk profiles pool their "premiums" together to insure against a risk. This could also include the more general question of what does "indirect conclusion of a contract" stated in the insurance distribution definition entail in an online environment, e.g. in the context of insurance price calculators, how many clicks need to be made or moved to another website or data re-entered so that the contract is not "indirectly concluded" and hence not falling under the insurance distribution definition
- Lack of accessibility / exclusion to digital services for vulnerable customers, including elderly and disabled persons
- Price optimisation practices using new technologies and data sources where the premium paid by consumers is partly based on non-risk based factors aiming to identify the consumer's propensity to shop around (churn) and/or their "willingness to pay".
- Insurance undertakings outsourcing their underwriting to Managing General Agents (MGAs) in the context of introducing new technologies whereby the MGA goes deeper into the value chain of the insurance business with more influence on product development and pricing

Please explain in the box below how technological advancements are impacting on the application of the IDD and if, and how, existing provisions of the IDD need to be amended or what new rules need to be introduced to meet the challenges/opportunities presented by digitalisation and new business models from the point of view of insurance distributors:

The IDD rules should remain technologically neutral and reflect the evolving demands of consumers and the increased use of online services. The IDD rules should be sufficiently digitally-friendly and future-proof to be fit for the digital age. The mandatory default paper requirement (Article 23 of IDD) should be removed and replaced with the principle of communication on a durable medium with the option for the consumer to choose a communication on paper depending on his/her needs. This will make it easier to move towards digitalisation and enable consumers to control the way in which they access information.

Moreover, layering of information should be considered as this can facilitate comprehensibility and streamline the quantity of information. It would benefit consumers from receiving succinct information and to click-through the relevant parts of the information document.

We believe that there is no need to change the definition of "insurance distribution" or to introduce specific rules for new distribution models. The current definition is sufficiently clear and broad to encompass any type of distribution activity despite technological developments. In any case, the same level of consumer protection should be applied in relation to the activity carried out and regardless of the distribution models used to carry out that activity.

Additional issues which are of relevance when it comes to the application of the IDD

6) Difficulties in the application of the IDD due to the lack of clarity in the IDD provisions

For the purposes of developing its report, EIOPA is seeking to identify other aspects which have specifically impacted the application of the IDD at the national level. Based on the exchanges with NCAs and the IDD questions and answers received from external stakeholders, EIOPA has identified that the provisions of the IDD indicated below may be difficult to apply for insurance distributors, given the lack of clarity in these provisions. EIOPA seeks to gather further evidence as to what provisions of the IDD are particularly difficult to apply for insurance distributors, given the lack of clarity in these provisions.

Please indicate, by ticking one or more boxes, which of the following provisions of the IDD are the most difficult to apply for insurance distributors, given the lack of clarity in these provisions.

- POG rules (e.g. level of granularity of the target market, concept of "significant adaptation of existing products" and different definition of the target market under the IDD compared to EU legislation regulating other financial products)
- Treatment of group insurance policies / third party contracts, including in an online environment (e.g. the insurer is only obliged to provide information to the policyholder, but often the consumer, who is the insured person, thereby does not receive important information)
- Scope of the definition of "insurance distribution", including in an online environment (e.g. further clarity is required as to what the IDD refers to when referring to assisting in the 'administration' and/or 'performance' of a contract of insurance)
- Definition of ancillary intermediaries such as travel agencies (e. g. concept of "complementary" mentioned by Article 2(1), number 4) and of exempted insurance intermediaries)
- Demands-and-needs test / fulfilment of the suitability or appropriateness assessment (e.g. what happens in the situation where the customer does not cooperate with the intermediary and refuses to disclose information relevant for advice (typically data about their financial situation) and at the same time still wants to conclude the insurance contract)
- Remuneration / conflicts of interest (e.g. lack of clarity as to when a remuneration scheme conflicts with the duty to act in accordance with the best interests of the customer)
- Training and continuous professional development requirements (e.g. it is not clear which employees are directly involved in the distribution activity and are therefore required to carry out training)
- Definition and interpretation of cross-selling (e.g. distinction between the role of an ancillary insurance intermediary and the activity of cross-selling may not be clear)
- "Acting honestly, fairly and professionally in accordance with the best interests of their customers" (e.g. more guidance as to how this provision can be complied with when applying price optimisation techniques)
- Lack of clarity as to the applicability of the IDD to non-retail clients (e.g. no definition of "professional client" under IDD, as compared to EU legislation regulating other financial products)
- "Need to provide the customer with objective information about the insurance product in a comprehensible form to allow that customer to make an informed decision" (e.g. more clarity as to how this provision can be complied with when using black box algorithms)
- Definition of "close links" mentioned in Article 3(6) (e.g. need for more clarity as to when close links "do not prevent the effective exercise of the supervisory functions of the competent Authority")
- Different definition of "complex product" under IDD compared to EU legislation regulating other financial products

Specify in the box below any other provisions of the IDD which are difficult to apply for insurance distributors, given the lack of clarity in these provisions:

7) Challenges in applying the POG requirements

The IDD has introduced POG rules requiring insurance undertakings and intermediaries manufacturing insurance products ('manufacturers') to maintain, operate and review a process for the approval of each insurance product, or significant adaptations of an existing insurance product, before it is marketed or distributed to customers. Insurance distributors have to support this by operating product distribution arrangements to ensure that they have all the information needed to sell the product in line with the POG policy set by the manufacturer.

These requirements are designed to ensure that all insurance products for sale to customers meet the needs of their specific target market in order to avoid and reduce from an early stage risks of failure to comply with customer protection rules.

EIOPA would like to gather information from external stakeholders as to whether the POG requirements are well functioning or if there is a need to adjust them.

Please specify in the box below what challenges manufacturers and insurance distributors face in applying the POG requirements and if, and how, existing POG requirements of the IDD need to be amended or what new rules need to be introduced to meet these challenges.

Overall, in terms of product design and review, the POG rules have significantly improved the quality of insurance products.

Nevertheless, the obligation for the manufacturer to identify the interests, objectives and characteristics of the target market can create difficulties in practice and notably restrict the access of customers to insurance products within the internal market. A too narrow definition of the target market could lead to the exclusion of customers from suitable insurance coverage if, for different reasons, they do not form part of the target group despite the fact that the product still meets their individual needs. Therefore, we believe that the target market should not limit the possibilities of distributing a product when the demands and needs test demonstrates that this product would better correspond to the expectations and the situation of a given customer.

8) Challenges in carrying out cross-border business within the EU

One of the objectives of the IDD is to strengthen further the internal market and promote a true internal market for life and non-life insurance products and services. In order to enhance cross-border trade, for example, the IDD has introduced principles regulating mutual recognition of intermediaries' knowledge and abilities. Furthermore, the IDD requires Member States to ensure appropriate publication of general good rules applicable in their territories.

EIOPA would like to gather information on the obstacles preventing a true internal market and how to overcome them.

EIOPA has identified some examples of challenges insurance distributors may face in carrying out cross- border business within the EU:

- Quantity and level of diversity of information requirements contained in general good rules Cooperation with national competent authorities
- Insurance undertakings outsourcing their underwriting to MGAs (e.g. difficulties for the insurance undertaking to effectively monitor and oversight the activities of the MGA in a cross-border context)

Please specify in the box below what challenges insurance distributors face in carrying out cross- border business within the EU and if, and how, existing provisions of the IDD need to be amended or what new rules need to be introduced to meet these challenges.

9) Other major challenges in applying the IDD

Please explain in the box below what other major challenges insurance distributors face in applying the IDD and if, and how, existing provisions of the IDD need to be amended or what new rules need to be introduced to meet these challenges.

Although the IDD has significantly improved distribution methods, the new rules had a major impact on the internal organisation, adaptation of IT systems and tools of insurance undertakings/distributors, resulting in significant costs. These costs are particularly detrimental for smaller insurance undertakings/distributors.

Even though the IDD provides that all requirements shall be applied in compliance with the principle of proportionality, the actual application of the said principle is not sufficient. In this respect, further efforts to enhance an effective application of the principle of proportionality are needed.

10) Challenges consumers face when purchasing insurance products

One of the main objectives of the IDD is to ensure a high level of consumer protection by enhancing transparency for customers and the quality of advice provided to the customer.

EIOPA would like to gather information as to what challenges customers face in purchasing insurance and how existing provisions of the IDD need to be amended or what new rules need to be introduced to meet these challenges.

EIOPA has identified some examples of challenges consumers may face in purchasing insurance:

- Issues related to pre-contractual information (e.g. too much information/contradictory and unclear information)
- Challenges related to the purchase of insurance products bundled together with other goods/services Challenges related to purchasing products from ancillary intermediaries such as travel agencies Providing personal data during a suitability/appropriateness assessment
- Lack of financial education and literacy on the part of customers
- Substitutability of insurance-based investment products with other financial products and issues around comprehension and consistent protection of consumers

Indicate in the box below what challenges consumers face when purchasing insurance and if, and how, existing provisions of the IDD need to be amended or what new rules need to be introduced to meet these challenges:

There are several pieces of EU legislation (such as IDD, Solvency II, PRIIPs and SFDR), applicable to insurance products, which increase significantly the amount of pre-contractual information that insurance undertakings are required to disclose to consumers. This results in information overload, confuses consumers and provides limited benefit to them when comparing and purchasing products and finding the product which suits best their needs. In this respect, we suggest re-assessing the information provided according to the products and the needs of the consumer (retail or professional) in accordance with the principle of proportionality.

11) Challenges consumers face when purchasing insurance products from distributors pursuing cross- border activities

EIOPA has identified some examples of challenges which consumers might face when purchasing insurance from insurance undertakings or insurance intermediaries conducting cross-border business within the EU.

- Lack of clarity of the rules and the law applicable to cross-border insurance contracts Insurance products not suitable for the cross-border market
- Lack of cross-border portability of insurance products Lack of cross-border insurance distribution activity
- Different level of consumer protection in Member States due to lack of harmonisation and consistent application of consumer protection rules across Member States, products and sectors

Indicate in the box below what challenges consumers face when purchasing insurance from insurance undertakings or insurance intermediaries conducting cross-border business within the EU and if, and how, existing provisions of the IDD need to be amended or what new rules need to be introduced to meet these challenges:

12) IDD rules particularly useful for consumers

EIOPA has identified some examples of consumer protection rules in the IDD which may be particularly useful for consumers.

- Professional and organisational requirements (Article 10)
- Advice rules, and standards for sales where no advice is given (Article 20) Cross-selling requirements (Article 24)
- POG requirements (Article 25)
- Conflicts of interest and remuneration rules for sales of IBIPs (Articles 27-29) Assessment of suitability and appropriateness and reporting to customers (Article 30)

Specify in the box below what consumer protection rules in the IDD are particularly useful for consumers:

We believe that the IDD provides a good level of protection for consumers and no further addition to the rules is necessary at this stage.

13. Supervisory activities carried out to assess the application of the IDD rules

A key component of the successful application has been the role played by EIOPA and national supervisors in ensuring the IDD rules are applied consistently across the market. EIOPA seeks to gather information as to where this has functioned well and where there is room for improvement.

In particular, specify in the box below whether intrusive supervisory activities have been carried out to assess the application of IDD rules:

The supervisory activities should be based on a continuous dialogue with the supervised entities. In particular, we believe that NCAs should take greater account of substantial achievement of the desired policy outcomes instead of formal compliance aspects.

14. NCAs' approach during supervision

Another key component of the successful application has been the role played by EIOPA and national supervisors in ensuring the IDD rules are applied ensuring the spirit of the law is applied leading to the desired policy outcomes. EIOPA seeks to gather information as to whether NCAs have taken more a compliance oriented approach or whether they have looked into the way in which IDD has been applied has led to the desired outcomes.

In particular, specify in the box below whether supervisory activities have been carried out to ensure IDD application or whether supervisory activities have looked at whether the desired outcomes have been achieved.

The supervisory activities have been carried out taking full account of the objectives pursued by the legislation. However, it is worth noting that at times NCAs requested insurers already comply with the legislation even though it had not yet entered into force which undermines the value of the legislative provisions. These kinds of requests underestimate the considerable organisational efforts faced by insurers for adapting to new regulations.

Moreover, it is important to ensure that supervision does not result in detailed requirements which go beyond the IDD framework. The IDD already provides the necessary details for the application of the rules and sufficient flexibility should be allowed to adapt to the diversity of market characteristics and insurance products.

Abbreviations

EIOPA

European Insurance and Occupational Pensions Authority

IBIP

Insurance-based investment product

IDD

Insurance Distribution Directive

IMD

Insurance Mediation Directive

IPID

Insurance product information document

MGA

Managing general agent

NCA

National competent authority

POG

Product oversight and governance

Q&A

Questions and answers

SME

Small and medium-size enterprise

Explanation of terms used in this survey

Appropriateness assessment

In addition to completing a demands-and-needs test, an insurance intermediary or insurance undertaking, in relation to sales where no advice is given, has to ask the customer to provide information regarding that person's knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the insurance intermediary or the insurance undertaking to assess whether the insurance service or product envisaged is appropriate for the customer (Article 30(2) of the IDD).

Default-paper based regime

Article 23(3), IDD provides that even where certain information is provided to the customer such as the Insurance Product Information Document (IPID) by electronic means, the distributor must be able to provide a paper copy upon request and free of charge. In addition:

- Article 23(4)(b), IDD provides that, for certain information disclosures under the IDD, a durable medium other than paper may be used, provided "the customer has been given the choice between information on paper and on a durable medium, and has chosen the latter medium".
- Article 24(6), IDD provides that, other than paper, a durable medium or a website, can only be considered appropriate in the context of the business conducted between the insurance distributor and the customer if there is evidence that the customer has regular access to the internet

Demands-and-needs test

In order to avoid cases of sales of insurance products to customers for whom they are not suitable, the IDD introduced a demands-and-needs test that must be completed for the sale of any insurance product. It requires those selling insurance to obtain information from the customer and ensure that any product proposed to the customer is consistent with the customer's demands and needs and is presented in a comprehensible form to allow that customer to make an informed decision (Article 20(1) of the IDD).

Where advice is provided prior to the sale of an insurance product, in addition to the duty to specify the customers' demands and needs, a personalised recommendation should be provided to the customer explaining why a particular product best meets the customer's insurance demands and needs (Article 20(2) of the IDD).

Digitalisation

Digitalisation is the use of digital technologies to change a business model and provide new revenue and value-producing opportunities; it is the process of moving to a digital business (Gartner Glossary).

Execution-only sales

In some Member States, where no advice is given in relation to insurance-based investment products, insurance intermediaries and insurance undertakings are allowed to carry out insurance distribution

activities within their territories without the need to conduct an assessment of appropriateness if certain conditions are met. This concept refers to execution-only sales.

General good rules

General good rules in the context of the IDD refer to national provisions regulating insurance distribution in addition to those set out in the IDD. They are imposed by the host Member State on incoming insurance distributors doing cross-border business on the basis of the freedom of services or freedom of establishment and domestically registered insurance distributors (Article 11 of the IDD).

Insurance-based investment products

Insurance-based investment product means an insurance product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations (Article 4(2) of PRIIPs Regulation).

Insurance distributor

Insurance distributor means any insurance intermediary, ancillary insurance intermediary or insurance undertaking (Article 2(1), number 8 of the IDD).

Insurance product information document

The insurance product information document is a standardised information document which is provided to the customer prior to the conclusion of a contract. The document provides information on the key features of the product, such as the main risks insured and exclusions where claims cannot be made. See Article 20(5) to (8) for further information.

Level of granularity of the target market

Article 5(1) of the Commission Delegated Regulation 2017/2358 states that *"The product approval process shall for each insurance product identify the target market and the group of compatible customers. The target market shall be identified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the insurance product."*

Furthermore, recital 6 specifies that *"For simpler, more common products, the target market should be identified with less detail while for more complicated products or less common products, the target market should be identified with more detail taking into account the increased risk of consumer detriment associated with such products."*

While Article 5(1) and recital 6 provide some information as to how the target market should be identified, there is a lack of clear guidance as to the level of granularity of the target market for a specific product.

Managing general agents

Managing general agents (MGAs) are often referred to as "virtual insurers" or "insurers light". The role of an MGA is to coordinate and provide services to a capacity provider (i. e. insurance or reinsurance undertaking) in exchange for a commission. The services provided by the MGA are mostly related to

claims and underwriting, but can also be in relation to tech, pricing, distribution, system, culture, research and development. MGAs are classed as insurance intermediaries for regulatory purposes, but in practice, they hold the pen for underwriting and adjusting claims. MGAs transfer the actual underwriting risk to an insurance or reinsurance undertaking which offers a vehicle with a license and ensures regulatory compliance.

Mis-selling

Mis-selling in an insurance context means that an insurance undertaking or insurance intermediary is selling an insurance product to a customer for whom it is not suitable. In order to avoid cases of mis-selling, the IDD provides that the sale of insurance products should always be accompanied by a demands- and- needs test on the basis of information obtained from the customer.

Product oversight and governance requirements

The IDD has introduced POG rules requiring insurance undertakings and intermediaries manufacturing insurance products ('manufacturers') to maintain, operate and review a process for the approval of each insurance product, or significant adaptations of an existing insurance product, before it is marketed or distributed to customers. Insurance distributors have to support this by operating product distribution arrangements to ensure that they have all the information needed to sell the product in line with the POG policy set by the manufacturer.

These requirements are designed to ensure that all insurance products for sale to customers meet the needs of their specific target market in order to avoid and reduce from an early stage risks of failure to comply with customer protection rules.

See Article 25 of the IDD and Commission Delegated Regulation 2017/2358 for further information on these requirements.

Price optimisation practices

Price optimisation refers to the practice of adjusting the premiums paid by different groups of consumers to achieve certain business objectives. Given an understanding of the behaviours and economic characteristics of consumers in the market, and an awareness of the behaviours of their competitors, insurance companies can aim to adjust premiums paid by different groups of consumers in ways unrelated to their risk or cost to serve to maximise overall profit.

Small and medium-sized enterprises

Small and medium-sized enterprises (SMEs) are defined in the [EU recommendation 2003/361](#).

The main factors determining whether an enterprise is an SME are

1. staff headcount
2. either turnover or balance sheet total

Suitability assessment

In addition to completing a demands-and-needs test, when providing advice on an insurance-based investment product, the insurance intermediary or insurance undertaking shall also obtain the

necessary information regarding the customer's knowledge and experience in the investment field relevant to the specific type of product or service, that person's financial situation including that person's ability to bear losses, and that person's investment objectives, including that person's risk tolerance, so as to enable the insurance intermediary or the insurance undertaking to recommend to the customer or potential customer the insurance-based investment products that are suitable for that person and that, in particular, are in accordance with that person's risk tolerance and ability to bear losses (Article 30(1) of the IDD).