



# **IDD Consultation Paper CP17/7**

## **White Paper: RWA Questionnaire Responses**

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## Introduction

In April 2016 the FCA issued a consultation paper on the subject of Renewal Transparency.

The response from the insurance broking market was awful and no one remarked on the inconsistencies in the proposed policy statement and the activity of giving advice to clients. The resulting policy statement was not ideal for the authorised firms giving advice nor for the consumer.

During April 2017, members of the FCA GI Supervision team joined the panel at five Aviva / RWA / Edwin Coe Masterclass events, during which, we asked the 200 or so delegates to support the FCA's consultation process. We asked each delegate to take time out to consider the important consultation on the FCA's ideas on implementing the insurance distribution directive from Europe.

The team at RWA created a refined survey based around the FCA consultation, which focussed on the 19 key questions of CP, the IDD requirement, and the FCA proposals. The following white paper contains a summary of the responses received.

Of the 500 people invited to take part (400 firms), 150 responded (122 different firms). 101 respondents disagreed with at least 1 proposal, and 60 completed the survey in its entirety.

Most of the respondents made meaningful contributions, and many disagreements were well thought out and extended beyond 50 words. 22 people asked that they were not identified to the FCA.

All the answers have now been delivered to the FCA without any commentary from RWA. If the FCA wish to follow up with any points we will only divulge the name of the writer if we have permission.

The following report gives an RWA resume, in the form of a Masterclass Commentary, of the responses to each question (as many as 60 for some questions) with a few key extracts.

We feel that the RWA approach has had the following key positive points:

- The sample audience was a good proportion of the SME insurance broking market and the response at 30% of firms invited is incredibly high
- Experts putting time into some initial objective guidance on the merits of the FCA proposals or issues arising encouraged insurance brokers to embrace the exercise
- Many insurance brokers fearful of responding direct to the FCA were able to do so via the cover of the RWA survey.
- The responses were not only intelligent but also raised new issues and concerns

We hope that the Masterclass Commentaries in the following white paper will be of interest. As always, if you have any questions, please contact RWA directly.

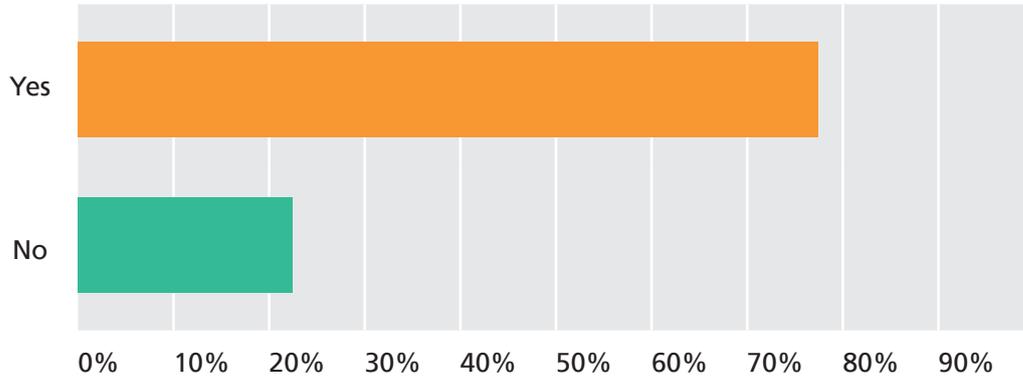
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# Respondent Locations

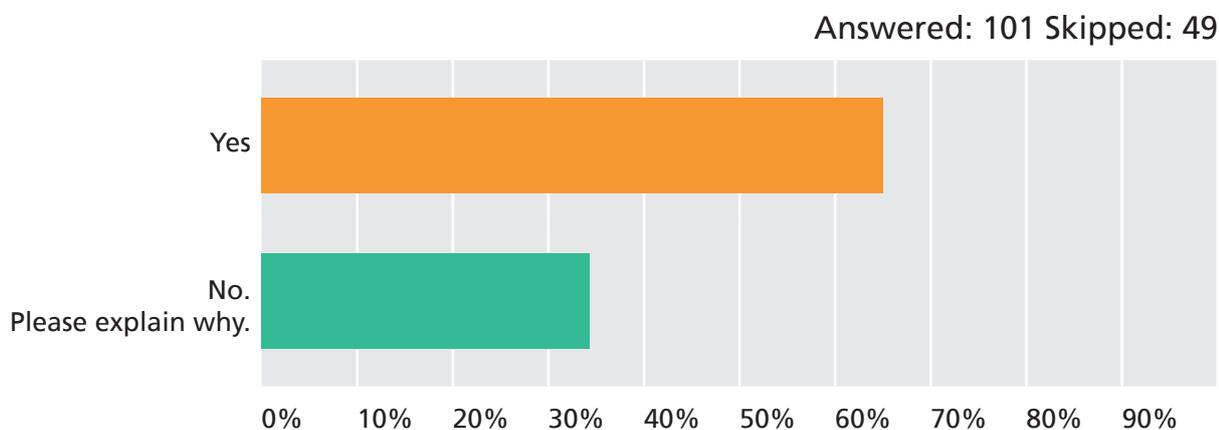


# Are you happy for your answers and comments to be attributed to you in the response to the FCA?

Answered: 150 Skipped: 0



## Q2: Do you agree with our proposed approach to incorporating the IDD knowledge and competence requirements? If not, please explain why.



### Masterclass Commentary:

101 responses were made to Question 2, with 66 respondents favouring the proposed approach and 35 expressing some disagreement. Qualitative responses were received from the 35 people who disagreed. From which certain themes were evident.

The responses indicate widespread support for a minimum standard of CPD to be undertaken by staff in advisory roles or those directly involved in insurance transactions, including call centre staff. However, **there was no consensus on the number of hours this should be, or the extent to which ancillary staff should be included in this requirement.** Nevertheless, the data suggests **little or no support for a CPD requirement of less than 15 hours per annum for staff involved in insurance transactions in any sector of the industry.** The link to professionalism was noted, with some insisting that a **minimum of 35 hours' CPD should be required to maintain the credibility of the profession.**

RWA notes that the proposed 15 hours is specifically limited to products, regulation and claims and are not convinced that respondents promoting 35 hours have considered this. RWA recommends 35 hours minimum CPD for those giving advice and see that the FCA requirement will simply add a statutory focus to part of that process.

There was some modest appetite for compulsory certification but we note only from respondents who are already qualified! The FCA has not proposed compulsory certification or external verification of CPD requirements being met. Self-certification linked to strict FCA Supervision is a proposal accepted by the clear majority of insurance brokers.

## Q2 (Cont'): Do you agree with our proposed approach to incorporating the IDD knowledge and competence requirements? If not, please explain why.

### Masterclass Commentary:

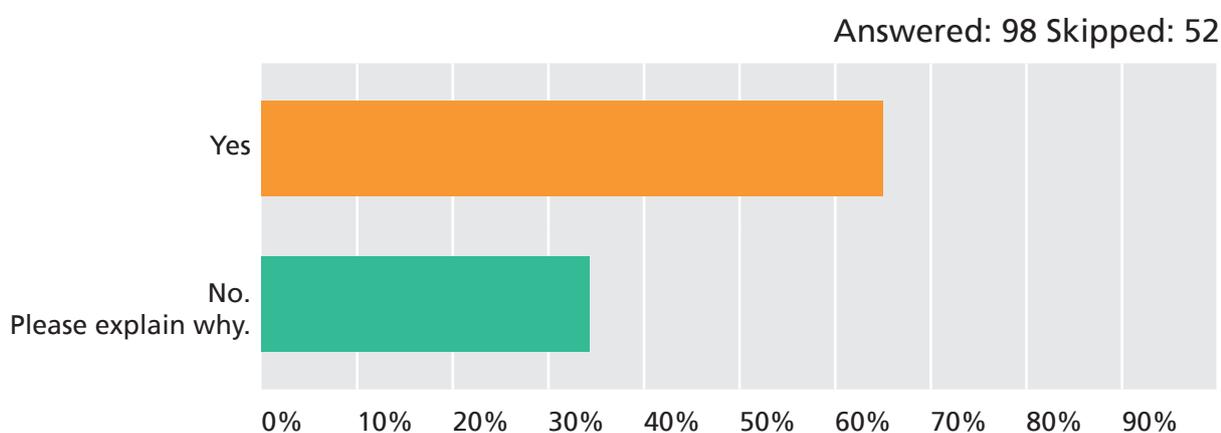
Nonetheless, there was some concern that a **high CPD requirement could impose onerous demands on businesses**, preventing staff from getting on with the completion of their principal tasks and responsibilities. This was particularly felt by smaller businesses, with limited staff and resources. One respondent expressed concern that not all small firms have access to accredited training and it may prove problematic, compiling a training programme that reaches 35 hours' CPD.

Furthermore, whilst there was broad agreement that staff directly involved in transactions or advising customers should be subject to a minimum CPD requirement, there was disagreement over how far these requirements should extend to other staff in the organisation. Certainly, **there was support for the principles of 'treating customers fairly' to be embedded throughout the organisation**, for example in Human Resources, ICT departments etc. But it was felt that **non-customer facing or non-advisory staff have different training and competency needs**. For example, it would not be necessary for someone in the ICT team to understand the intricacies of the Insurance Act 2015 yet that member of staff should have access to training and CPD to ensure a standard of reasonable competence in their own field.

Generally, the respondents saw the **regulation of the CPD of ancillary staff as a lower priority**, with some advocating a lower number of CPD hours to be undertaken. It was suggested that monitoring of such CPD should take place through standard appraisals or regular performance reviews with managers, instead of more formal regulation, which would necessitate additional bureaucracy.

**In terms of CPD record-keeping, there was general support for records being retained beyond the minimum of three years suggested in the consultation paper and that staff should have a right to see their training and CPD records.** Indeed, a strong view was articulated that the training record should be retained for a period of seven years (Statute of Limitations plus a year for potential legal proceedings). This seems entirely logical when the issue is a matter of statutory policy. For instance, in a dispute about competence, it is entirely likely (as is routine in financial services disputes) that training and CPD records will be called as evidence.

### Q3: Do you agree with our proposed PII requirements? If not, please explain why.



#### Masterclass Commentary:

Some 98 participants responded to Question 3. Again, there was a majority in favour of the proposals, with 65 respondents answering positively compared with 33, who disagreed. However, of those who disagreed, **there was a strong consensus that the proposed minimum levels for professional indemnity cover were too low.** This argument is supported by litigation taken against insurance brokers, where customers are left unprotected or disadvantaged by very low professional indemnity limits, when claims against the insurance broker exceed that amount.

Several of the respondents call for a minimum of between £3m to £5m, with a minority calling for a minimum of £10m or above.

*I do not feel that the proposals go far enough and would strongly urge the FCA to reconsider increasing this to an absolute minimum of £3m and to push for a mandatory increase to £5m within an agreed timescale, for example by 2022. The recent revision of The Ogden tables would support the case that settlements are increasing and the current proposals do not take account of this.*

*The current required minimum levels may leave consumers exposed to loss in the rare circumstance of a major personal injury claim occurring where an insurer repudiates liability. The recent changes to Ogden and market commentary demonstrate the potential size of awards in serious personal injury cases. Of course, this may then raise a market issue - how easy will it be for insurance brokers to obtain the level of PII cover they require?*

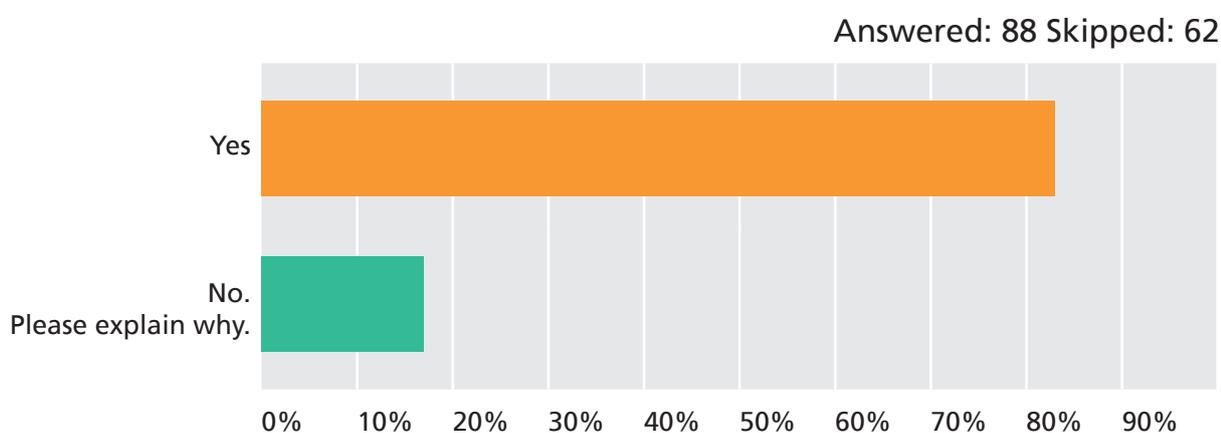
**Q4: Do you have any comments on our intended approach to implementing the IDD requirements concerning the protection of client assets, in particular:**

Answer Choices	Responses
A: The mandatory application of CASS 5 to reinsurance mediation?	96.67% (29)
B: Narrowing the scope available options for reinsurance contracts, for example only allowing risk transfer?	86.67% (26)
C: The potential application of CASS 5.8 to reinsurance mediation?	83.33% (25)

**Masterclass Commentary:**

With little involvement with the reinsurance market, there was little opinion expressed on this question.

## Q5: Do you agree with our proposals for implementing the IDD requirements in relation to complaints and out of court redress? If not, please explain why.



### Masterclass Commentary:

Of the 88 respondents to this question, 83% agreed with the proposals for implementing the IDD requirements in relation to complaints and out-of-court redress. Of those who disagreed, some fourteen qualitative responses were received. **These present an opinion that the Financial Ombudsman Service (FOS) has been a success for retail customers and micro SME services and that its scope should be extended.**

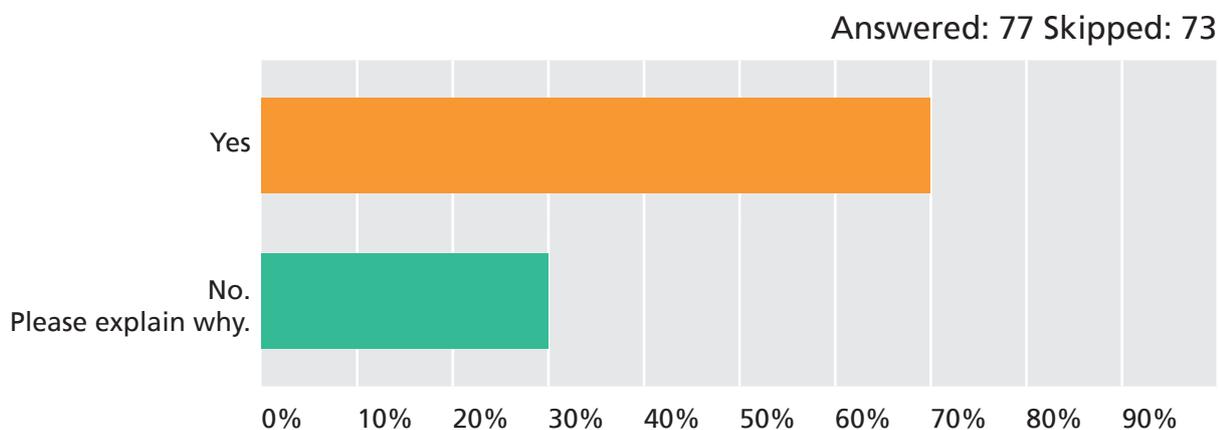
The exception, however, seems to be **larger commercial cases where the complexities are such that litigation, or mediation by experts, is probably the best route.** Furthermore, one respondent commented:

*I do not agree FOS should be dealing with larger commercial complaints for the following reasons; 1. It is more likely that these types of buyers have a higher degree of knowledge of what they are buying, with some firms having insurance personnel within their organisations. As such I do not feel larger firms need the same degree of regulatory protections than consumer customers. 2. The current FOS limit of £150k + interest is likely to be inadequate, turning any such decisions by the FOS into recommendations in any event. 3. The increased regulatory burden on regulated firms for the FOS additional powers plus the obvious knock-on effect this will have upon the FSCS levies too.*

It is arguable that, above the micro SME tier, the FOS mandate could be extended by size of claim rather than the size of the entities involved. For instance, one respondent noted:

*If the definition of an eligible complainant is to be widened to include more commercial customers, there would need to be consideration of the actual limit that can be claimed. Odds are that the larger the customer the larger the claim could be and the current limit may not be sufficient. Would this then have an impact on broker fees? We would welcome a separate consultation on this aspect.*

## Q6: Do you agree with our proposed amendments to ICOBS 2? If not, please explain why.



### Masterclass Commentary:

Of the 77 respondents who completed Question Six, some 54 (70.1%) agreed with the proposed amendments to ICOBS 2. Of the 23 (29.9%) who disagreed, **many of the comments concerned semantics and the definition of key terms.**

Thirteen respondents noted the problematic nature of the term '**professionally**' within proposed new rule in ICOBS requiring insurance distributors to 'act honestly, fairly and professionally in the best interests of the customer'. As the word 'professionally' is open to interpretation and ambiguity, it was considered a potential source of legal dispute and debate. Indeed, as one respondent observed:

*My concern here is the use of the word 'professional' without any attempt to define what this means - I suspect lawyers will be rubbing their hands with glee at the thought of court cases establishing precedent on meaning!*

It is possible that the word 'professionally' has arrived in the IDD by virtue of translation, but generally in the United Kingdom it is understood that whether a practitioner is acting professionally or not is a matter for peer professionals not for the Courts or a Statutory Regulator.

Therefore, RWA experts propose the following alternative, which seems entirely appropriate for the FCA to use: 'to a good and reasonable standard of conduct and competence.' This is something which the Courts and the FOS in particular, can measure with considerable expertise.

## Q6 (Cont'): Do you agree with our proposed amendments to ICOBS 2? If not, please explain why.

### Masterclass Commentary:

The use of the phrase '**best interest of the customer**' also prompted calls for greater definition and clarity. It was also cited as problematic by wholesaler brokers, one of which noted:

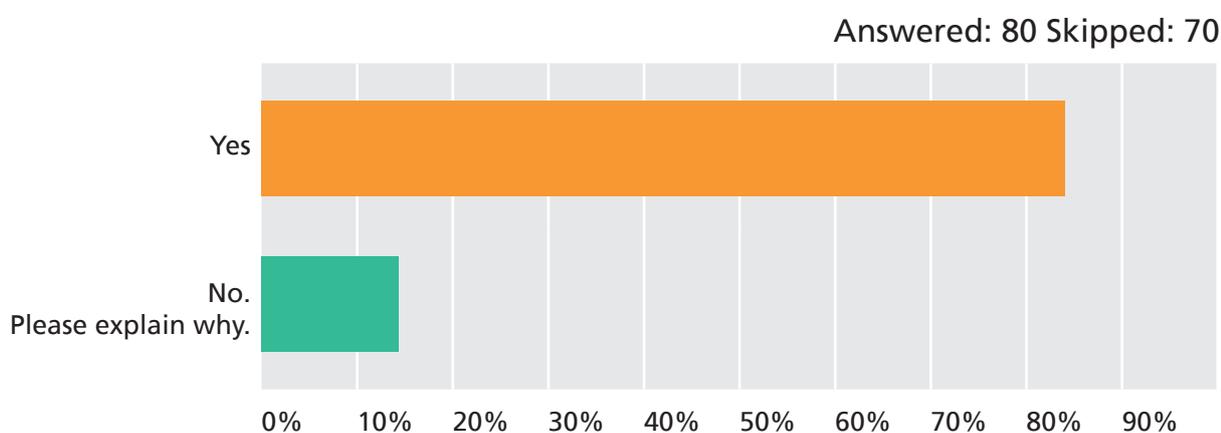
*The customer-facing broker will have approached us because we have a single, suitable, product to offer. In addition, we would have no indication of whether, for example, the customer was in any way vulnerable. Without knowing the customer's demands and needs how can we be expected to know if we are acting in his/her best interest?*

Perhaps the FCA could consider that the customer of the placing or wholesale insurance broker is in fact the retail insurance broker advising the client. This is the route the Courts are following. Clearly the FCA does have to think this particular point through carefully if it is to achieve its intention of policy holder focus through the distribution chain.

Another respondent questioned whether the IDD definition of '**remuneration**' was too wide, noting it would 'be almost impossible to calculate at individual policyholder level.'

In respect of the proposed amendment to the ICOBS rules on communication and financial promotions, concerns were raised over the use of the term '**marketing**' and the absence of a clear definition. The American Marketing Association (2013), for instance, use the following definition: 'Marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large.' Without clarity in this regard, it may be difficult to determine what constitutes a 'marketing communication'.

## Q7a: Do you agree with our proposed amendments to ICOBS 4? If not, please explain why.



### Masterclass Commentary:

In respect of ICOBS 4, which deals with information that firms must provide about themselves and their services, some 80% (68/80) of the respondents agreed with the proposed amendments. Of the 15% who disagreed, **there was a common belief that the amount of information already issued to customers is excessive and often goes unread.** Concerns about issuing additional information were disapproved of through several well-informed scenarios and reasons, ranging from 'information overload' to different areas of the profession having different relationships with the client and insurers. For example, one respondent noted:

*Describing agency arrangements could become overly complicated. You could argue that this goes beyond the information needs of the customer. For example, a customer approaches a broker, who places cover through a binding authority via Lloyds. Describing who acts for who when a why seems excessive and customers may not even be interested.*

### Another remarked:

*I do not believe that any changes are required, ultimately reputable brokers' clients know that we will act in their best interests, clients already comment that we give them too much information which they do not read.*

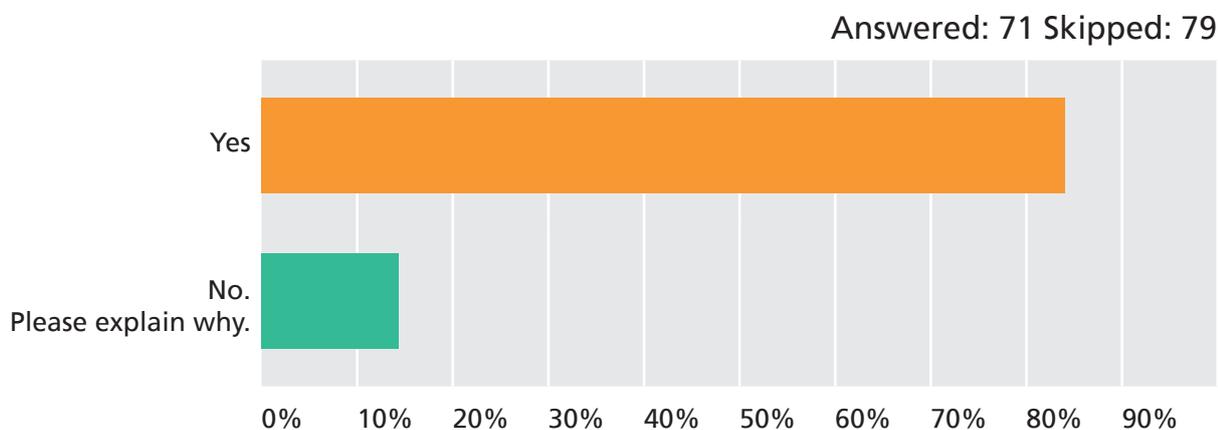
**Q7a (Cont'): Do you agree with our proposed amendments to ICOBS 4? If not, please explain why.**

**Masterclass Commentary:**

The responses also indicate concerns that **the FCA seems to be bringing the insurance broking profession into its plans for the non-advised market**, where the essence of the service is to provide a list of possible choices. However, **an insurance broker performs that function for the client and it seems illogical to expect an adviser to produce the IDD document proposed for other than products which are being recommended**. It is very common for an insurance broker to list (with some detail) the results of a fair market analysis to explain a particular recommendation, which is very different from a non-advised seller, presenting a list of possibilities for the customer to choose from.

The findings further suggest that the FCA should undertake greater examination of Delegated Authorities and Binder Agreements.

## Q7b: Do you agree with our proposed amendments to ICOBS 4? If not, please explain why.



### Masterclass Commentary:

In relation to remuneration issues outlined in ICOBS 4, 84.5% of the respondents (60/71) agreed with the FCA proposals. Of those who disagreed, **there was a perception that clients were not particularly interested in remuneration that firms received**, and were instead interested principally in what they, the customer, are to be charged. Indeed, one of the respondents noted:

*Our clients expect us to provide them with professional advice. They are not interested in the level of remuneration we receive, they are only interested in the bottom line, i.e. what they will actually be charged in total. Since the introduction of industry guidance, we have only ever received one request to disclose our earnings.*

Also, the **increased administrative burden** imposed by disclosing remuneration details was observed:

*Having to disclose ALL remuneration from ALL sources is going to be extremely cumbersome and time consuming and again, not to any advantage of the client. The existing requirement to inform clients of the right to ask is more than adequate and ensuring firms have information ready to disclose should be a requirement.*

The findings also suggest that **the FCA need to look more closely at the remuneration of wholesalers** and how, if at all, that affects the disclosure obligations of the retail insurance broker.

One issue that the FCA perhaps should address is the fact that most professional practitioners giving advice are unable to identify the amount of fees that might arise from a set of instructions. In the circumstances, a proposal that the customer must know what is to be charged at the outset of a piece of work seems illogical and contrary to established professional customs. The FCA should consider a requirement that those giving advice and charging fees should indicate the basis of calculation of the fee and an upper limit should be set before work commences and which cannot be exceeded without the customer's renewed agreement.

## Q8: Do you have any comments on the illustrative examples set out in Table 1 (in relation to remuneration disclosure)?

Answered: 38 Skipped: 112

#	Responses
1	No additional comments
2	Do not disagree in principle, BUT again concerned the documentation to clients will just be info overload.
3	Please explain why you state 'likely compliant' rather than 'compliant'. We are after certainty and clarification and this leaves uncertainty where there should be none. In the first scenario, why do you need to say 'You do not pay us a fee for doing this'? If they are only remunerated by commission then this sentence is not required.
4	I believe the route to fee charging as opposed to commission earning might well lead to insufficient fees being charged whether on renewal or new business. If fees are charged will there be any change to VAT - no charges allowed/made at the present time for this type of service.
5	Looks overly complicated. Happy to keep existing workings to disclose remuneration on request.
6	Ridiculously complicated and in some cases incomprehensible to the average person.
7	No
8	No
9	Fees need to be qualified as well as quantified as client has right to know what they are getting for their money. These should be highlighted in the Client TOBA and be a fair representation of any work that the fee relates to
10	For consumer business this appears to be unnecessary detail. Most customers have little or no interest in this kind of information. Retailers of non-financial products do not disclose how their mark-up is arrived at, or how much it is.
11	This sort of disclosure will not improve consumer outcomes. What consumers really need to know is whether an intermediary has entered into a sweetheart deal with an insurer that has the potential to skew advice. 'We receive a percentage of the annual premium' does not help when one insurer is paying, say, 75% of the first year's premium while most other insurers are paying 50%.
12	No
13	I don't have any comments to make on the table contents themselves but do question whether clients are going to read this information.
14	No
15	The majority of clients will already be aware we are paid commission's and all fees are disclosed. I think regarding the additional bonus is taking it a bit to far.

**Q8 (Cont’): Do you have any comments on the illustrative examples set out in Table 1 (in relation to remuneration disclosure)?**

16	No
17	No
18	None
19	Seem reasonable
20	No
21	In order not to bias potential sales in favour of one which has a greater reward for the firm, many sales staff are unaware of whether profit share arrangements - as such it will be impossible for them to select / provide appropriate wording, unless they are made aware of such arrangements.
22	Looks suitable and acceptable to us.
23	No
24	I actually would like to see an amount (£'s or a %age of the premium)
25	Just more and more information going to clients and is it relevant as clients have ample opportunity to shop around and get alternatives its the price they pay and the cover they get which is important. This looks more and more like another “Bash the Broker”
26	We have a slight concern in that not all colleagues will be fully aware of how we are remunerated as a business for each and every case. Whilst these circumstances will arise rarely, there are conflicts of interest that exist and are mitigated by colleagues not knowing about high level remuneration, in order to not affect placement. Would be interested to know whether this would affect this rule or the mitigation of a conflict takes precedence.
27	I think the main concern I have is that we already provide so much information to a client when closing a sale this adds another layer. How much will they actually take in so although I have no problem in disclosing that we are paid a commission % as well as a specific fee, I am not sure the average client will really listen or take the information in.
28	They don't seem too onerous
29	No
30	Information disclosed has to be accurate
31	All too formatted and over complicated. Clients know that brokers get a commission. Fees are disclosed. No need to do anything about remuneration disclosure. We already hand out so much disclosure documentation, that clients are now ignoring it all. Too much is worse than not enough
32	Why not just state what is actually received in earnings with commentary that additional earnings may be achieved dependent upon account performance. I know how much my IFA earns when he sells me a policy and I have no issue with that so why do we have the same hang up with general insurance?
33	We already cover this in a similar wording in our Customer Agreements
34	See Q7
35	No, these seem clear and easy to implement.

**Q8 (Cont’): Do you have any comments on the illustrative examples set out in Table 1 (in relation to remuneration disclosure)?**

36	<p>Yes there is nothing new there at all. The best policy moving forward given Insurers need as much distribution as possible is for every one to offer net quotes and brokers and intermediaries to declare what they charge net. It is then down to efficiencies to see who does the best and that would bring down the cost to the end client. To an outsider what is the difference between one legal firm and another? The more expensive can suggest all it likes but can still offer a useless delivery as can accountants. The SRA is hopeless and penalties offered are pittance, that’s not the same with the ACCA but penalties are still pitiful for poor delivery. The FCA loves to penalise and one almost thinks it is on a bonus programme to fine as much as possible. Somewhere the plot has been lost in regards to dealing with professional parties and parallel handling there of. Who says that the FCA is professional In what it does many would say it was singularly incompetent, and certainly when you hear its not fit for purpose enough and see no change its hard to think otherwise. Do we ask any retailer for the breakdown of how they sold the product or a dentist or doctor? This question is not helping any one and what is already in place is already more than enough</p>
37	<p>This is an area where disclosure muddies the relationship with the client. There are few industries where the customer prior to purchasing gets a clear disclosure of income and I would have to ask why? Telling the client how much or where you earned money from does not indicate the profitability of the enterprise or reinforce the client / broker relationship, it merely reinforces our continued concentration on premium. I have no problem with disclosure when asked or when you and the client agree it is fundamental to your agreement, but to force it on all seems to be more unwanted customer information that they don’t want and adds to the document / word confusion that we continue to create.</p>
38	<p>We feel these are reasonable</p>

## Q8 (Cont'): Do you have any comments on the illustrative examples set out in Table 1 (in relation to remuneration disclosure)?

### Masterclass Commentary:

19.3% (29/150) of the participants responded to the call for comments on Table 1 (Illustrative examples concerning remuneration disclosure). A minority of the respondents expressed satisfaction with the proposals. **The prevailing theme was that the disclosures would amount to a burdensome and unnecessary layer of information provision that could prove overly complicated, uninteresting or confusing to customers.**

One respondent stated somewhat bluntly:

*Ridiculously complicated and in some cases incomprehensible to the average person. This sort of disclosure will not improve consumer outcomes. What consumers really need to know is whether an intermediary has entered into a sweetheart deal with an insurer that has the potential to skew advice. 'We receive a percentage of the annual premium' does not help when one insurer is paying, say, 75% of the first year's premium while most other insurers are paying 50%*

Moreover, it was noted that **staff may not be fully aware of profit-sharing agreements** in place with their companies and therefore they would be unable to provide the correct wording in communications with customers. It is suggested that the FCA should undertake more research on this point.

*In order not to bias potential sales in favour of one which has a greater reward for the firm, many sales staff are unaware of whether profit share arrangements exist - as such it will be impossible for them to select / provide appropriate wording, unless they are made aware of such arrangements*

One of the key objections is that **other industries do not have to disclose their earnings**. Dealing solely with the profession of insurance brokers, the wider view of members of the profession is that, in comparison with other professions, disclosure of all income on request is the correct route to follow.

## Q9: Do you have any comments on our proposal to amend the Glossary definitions of 'durable medium', 'fee' and 'remuneration'?

Answered: 32 Skipped: 118

#	Responses
1	No additional comments
2	No
3	Information received from a client and used by the broker should then be restated in the final renewal or new business quotation putting it on the onus of the third party/client to agree same.
4	No
5	It is impractical, costly and damaging to the environment to be forced to provide paper copies when other adequate durable medium has been provided. Even if required to offer paper, the requirement would be incomplete as not all information is suitable for delivery in paper form (audio & video).
6	No
7	This is archaic. Most customers are happy to receive literature electronically and those that aren't can be relied upon to volunteer their preference.
8	Yes it is not always practical to provide information in a durable medium. For example if we receive it in an electronic format which should be able to return it in an electronic format. With regard to sending out our own documentation to clients we currently already offer our clients a choice. We live in a digital world and more and more of our clients are informing us that they want us to send documentation electronically. To go back to a default position of paper documentation is not what clients want and is a step backwards.
9	I believe this to be an outdated method of providing information to clients in the digital age. Business is now done by electronic mail, and it is an antiquated idea to say that we should always offer the client information in a durable medium. If it is sent electronically, it will also be a durable medium as the client has the ability to print it, whether commercial or consumer. Nowadays it is expected and required to receive digital communications as it is faster and more economical for businesses, but also eco-friendly.
10	None
11	No
12	No
13	Whilst it is noted that clients 'must always be offered....' this does not necessarily sit well with those organisations that have embraced technology and adopted paperless environments. It is accepted though that technology drive intermediaries are likely to have technology savvy clients.
14	Providing Durable Medium includes e-mailed communications which is often the method by which insurers communicate with ourselves this seems a sensible proposal. If, however paper is the only effective solution this seems a retrograde step and unnecessarily restrictive.
15	No

**Q9 (Cont’): Do you have any comments on our proposal to amend the Glossary definitions of ‘durable medium’, ‘fee’ and ‘remuneration’?**

16	None
17	Need to define Durable medium better.
18	No
19	I think the definition of durable medium will need to be clarified. Some people do not accept email and web pages as a durable medium for instance.
20	A lot of our clients communicate by email now.
21	We are concerned by the IDD statement that we must provide paper on request free of charge as this is a deviation from our online business model and has the potential to impose additional cost.
22	Yes Amend them in to plain English Durable Medium
23	N/A
24	No
25	This doesn’t cause a concern providing the FCA do not insist on paper being the default method. With the increase in required paperwork, the cost to firms having to post documentation is forever increasing and becoming prohibitive.
26	No
27	No
28	Durable medium - there should be an agreement at the outset as to what means of communication the parties agree to and that cannot be changed without prior the agreement of both parties.
29	No, this seems sensible and still allows flexibility.
30	The term reasonable has to be included as what is reasonable to me may be singularly unreasonable to others. Some Insurers do not want everything to assess its always going to be horses for courses
31	If a client has accepted a discount for the use of electronic documents (email or portal available PDF’s etc) why would a paper copy be free? Again seems counter to the need to supply more intelligent documentation to clients, where an multi-media approach looks to be the smart approach of the future.
32	No comment

## Q9 (Cont'): Do you have any comments on our proposal to amend the Glossary definitions of 'durable medium', 'fee' and 'remuneration'?

### Masterclass Commentary:

There were seventeen responses to Question Nine (11.3% of all participants).

**The main area of contention concerned the definition of 'durable medium' and how this would apply in practice.** A common theme was that the widespread use of the digital technologies and the move towards the 'paperless office' meant that producing hard copies of documentation was unnecessary, inefficient and potentially expensive.

The impracticalities of providing paper copies were noted by several respondents. For example:

*It is impractical, costly and damaging to the environment to be forced to provide paper copies when other adequate durable medium has been provided. Even if required to offer paper, the requirement would be incomplete as not all information is suitable for delivery in paper form (audio & video).*

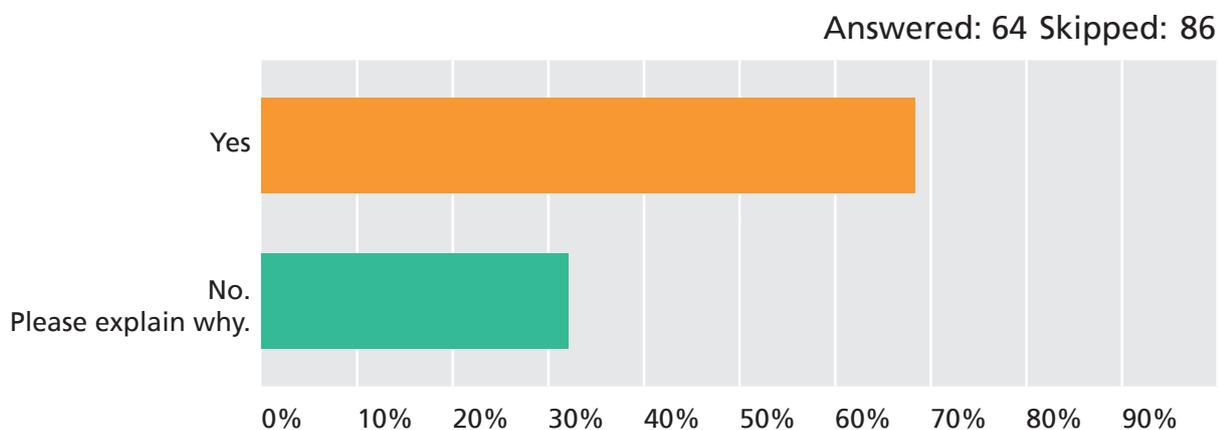
Another commented:

*This is archaic. Most customers are happy to receive literature electronically and those that aren't can be relied upon to volunteer their preference*

**Others were content to provide material in a paper format, provided that it was simply obtainable on request and not the 'default method'.** Indeed, RWA wonders whether the FCA is actually insisting that all records are kept in a durable medium. Do they actually intend that all records can be reproduced in a durable format on request?

Greater clarity could perhaps be obtained from the FCA on this point. At an expert level, one can, in particular, understand that in the event of a dispute that there might be a need to produce data in a durable format. This would normally occur on request from the client or their agents.

## Q10: Do you agree with our proposed amendments to ICOBS 5? If not, please explain why.



### Masterclass Commentary:

44 respondents (68.8%) agreed with the proposed amendments to ICOBS 5 in relation to advised and non-advised sales. Of the twenty who disagreed, a **strong opinion was expressed that the FCA has not registered a key factor in why the customer appoints an insurance broker, namely to make a recommendation for them, not to give a series of options.** One respondent noted:

*A person going to see a solicitor respects their knowledge of the law, which is why clients choose to use a broker, as they respect our prior knowledge of insurance. With all the information currently being sent, we are in danger of trying to make clients become brokers themselves.*

Indeed, clients trust brokers to make recommendations on their behalf, utilising their expertise and understanding of the markets and relevant products. The legal position is that the insurance broker has a duty to put the client into a position that they can make an informed decision about the advice/recommendation and whether to follow it, not an informed decision about which insurance options to choose.

**Concerns were again raised that, by presenting clients with too much data, there is a risk of overwhelming clients and overcomplicating the broker-client relationship.** The role of the customer in insurance transactions was also highlighted. Whilst it was noted that clients will have varying levels of understanding concerning insurance, **it was argued that clients are not 'inherently stupid' and should not be considered so by the regulator. As such, it was suggested that clients must also be prepared to accept some level of responsibility for their purchase decisions.**

**Q10 (Cont'): Do you agree with our proposed amendments to ICOBS 5? If not, please explain why.**

**Masterclass Commentary:**

In respect of the proposal for firms to 'identify the customer's demands and needs, and match them to the available products...', several respondents called for the text to be amended to the following: 'and match them to an available product or to more than one if suitable'.

There were also calls for the FCA to provide an explanation of what is meant by 'fair and personal' and how this differs from a 'fair analysis of the market.'

**Q11: Do you have any comments on the illustrative examples set out in Table 2 (in relation to requirements concerning the customer’s insurance demands and needs)?**

Answered: 27 Skipped: 123

#	Responses
1	No additional comments
2	We would again ask you to please explain why you state ‘likely compliant’ rather than ‘compliant’. We are after certainty and clarification and this leaves uncertainty where there should be none. Your examples are for two very simplistic products (pet and breakdown). Can you please explain how you envisage this being stated for a multi-national organisation with a full insurance programme?
3	No
4	No
5	Another scenario: Quotes that do not meet all D&Ns. The client wants PI Insurance where one of many D&N is that it considers claims on a “claims occurring basis”. The firm offers PI terms for policies that consider claims on a “claims made basis” but meets all other D&Ns. The firm explains that PI is rarely, if ever, arranged on a claims occurring basis and they are not aware of any insurer that can meet this D&N. (This should be deemed compliant)
6	These examples seem to be muddled. Sending details of cover based on limited information may prevent the customer from seeing other products/covers that may be helpful
7	No further comments
8	No comment
9	None
10	No
11	See answer to question 10
12	Commercial illustrations might also be helpful I think albeit it is accepted that we are talking ‘consumer protection’ here. That said if good consumer habits can be translated across to the commercial space (especially if DISP eligibility is being expanded) that can only be positive.
13	None of these examples mentions commercial covers such as Commercial Combined where the range and extents of cover can be very wide and to document each aspect would create a complex and confusing document - e.g. BI options
14	No comment - seem reasonable.
15	None

**Q11 (Cont’): Do you have any comments on the illustrative examples set out in Table 2 (in relation to requirements concerning the customer’s insurance demands and needs)?**

16	Yes, with Pet insurance some animals because of age or history may not qualify for full cover although this would be available for younger fit pets. How does this fit with offering restrictive only cover. We also have a accidental external only product which is sold with no Underwriting restrictions at inception no alternative is available!!!
17	No
18	No comments
19	Its nonsense, the onus should be on clear wording, simple wording that everyone can understand set out so its clear what they are getting for their money. Playing around with demands and needs wordings is a complete waste of time and expense. If someone contacts us for a motor quote are we going to give him a house quote instead. We need to get real.
20	No
21	No
22	Too simplistic. Its like a lower sixth form discussion groups notes, before the teacher has pointed out what is obvious and what is wrong. Leave it to the Broker.
23	No
24	No
25	The examples are patronising in the extreme and lead one to believe that every client is stupid. There should be a duty of care from the client that they understand what is required when running a car and whether they have a sufficient grasp of the English language. The examples seem limited to small details on low value policies. It would be interesting to see how to handle a leaking tank of fuel or medical insurance. I am trying to work out if its exercise which has taken well over an hour so far is nothing more than a sick wind up. Some things do not deserve comment when they are so patently simple
26	At some point the client must be responsible for their needs, a broker can help them explore them and ensure they have enough information to make an informed decision prior to purchasing but still fall foul under the examples outlined.
27	The illustrated examples are reasonable

**Masterclass Commentary:**

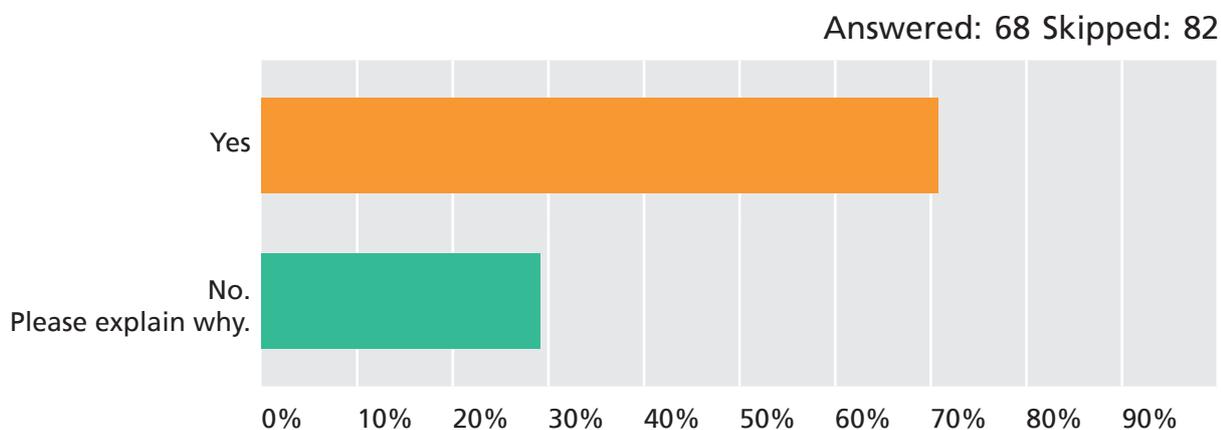
Thirteen qualitative responses were received in relation to the illustrative examples regarding customers’ insurance demands and needs (8.7% of the respondents).

Whilst some of the comments state that the illustrated examples were reasonable, the prevailing theme amongst the qualitative responses, is that **the examples (and the products described) are too simplistic for the majority of advised relationships, particularly commercial.**

Concerns were also raised that the role of the customer has been underplayed or patronised and that clients must ultimately take responsibility.

*At some point the client must be responsible for their needs, a broker can help them explore them and ensure they have enough information to make an informed decision prior to purchasing but still fall foul under the examples outlined*

## Q12: Do you agree with our proposed amendments to ICOBS Chapter 6 to incorporate the IDD cross-selling requirements? If not, please explain why.



### Masterclass Commentary:

Over the 68 responses to Question 12, there were 48 responses in agreement and twenty in disagreement.

**The overriding opinion is that the FCA might have misunderstood the history of the packaged policy and particularly when recommended by insurance brokers, the benefit this provides to the client over buying packaged covers separately. One of the respondents noted:**

*If the idea here is to allow the client to change from buying a package to buying individual sections, are we taking a step backwards in our industry. Package products were designed to make things easier for the smaller business to ensure they would be covered for most, if not all, the risks they are likely to face in their business, therefore negating the possibility that they have omitted to include certain types of cover. The industry has spent a great deal of money developing this concept and it seems ludicrous that we would start to provide clients alternative solutions to packages*

The comment that the proposals would be a step back in a positive development of the insurance industry is, we believe, the accurate one.

The underlying issue is that default sums insured and indemnity periods can prove to be insufficient but that is better dealt with by policy warnings and discussions between insurers and insurance brokers than by unravelling a highly successful solution to the retail and commercial customers.

**Q13: What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

Answered: 62 Skipped: 88

#	Responses
1	Agree with option 3
2	Running huge risk of over complicating the communication process, most commercial clients have a level of understanding and less time should be spent on confusing them but rather advise them
3	No comment at this time.
4	Not necessary for larger commercial customers.
5	Different standards must apply to small SMEs where the cover is being bought by the business owner as compared to a larger company with a financial director who is experienced at placing the company's insurance business and has a reasonable understanding of the types of cover and management of risk.
6	A key facts/summary of cover for commercial cases is, in my experience, well received by SME customers
7	No objection
8	No
9	Regardless of the method of communication, In addition to the product information, Insurers and intermediaries should be required to provide comprehensive pre-contract information to the client. This should be confirmation of the D&N, Fact-Find (SoF?), Assumptions, Basis of Cover, Basis of Calculations - particularly advance information of insurers downstream charges, fees, or declaration calculations.
10	I think too much information is already provided to commercial customers and it can often be misleading. A self employed plasterer requiring public liability only would get a key facts document which is a generic document detailing all the covers that Insurance Company offers. It could be easily 10 to 15 pages in length. Customers often think that they are getting all those covers detailed even though they have just requested Public Liability only. This is on the basis that they actually read Key facts documents or policies that outline the principal features and exclusions of the policy. I would say 95% of customers don't even look through this information. I cant recall the last time a customer queried any phrase, paragraph or definition of something they don't understand in such documents. I would be against anything that increased the volume of paperwork being sent to customers. The more there is the less likely they will read it.
11	Yes, it should depend on the client, product, experience etc. Not all categories of client should be classed together
12	We would prefer to wait until CP2 is issued to see what the content of the IPID contains.
13	What information should be provided to commercial customers? I think this is key and the individual practitioner get involved at an early stage. As above
14	Some form of 'standard policy' or reference to industry average/standard and example of how these apply in a brief claim example would be the clearest. Often policies with huge but unnecessary inner policy limits make the policy look great from the clients perspective but the wording of these limits can mean they are of little or no use.
15	I would welcome the IPID also being applicable to commercial customers, particularly SMEs.

**Q13 (Cont’): What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

#	Responses
16	I do not feel that the IPID document will be detailed enough for commercial customers. It may also struggle to convey all of the key complexities to the SME client. It is suitable for consumers.
17	The IPID, being a one page document, would be fine in format for consumers, if this was to replace the current policy summary, which sometimes can be many pages long, but we would need a further consultation for commercial customers, as a one page document like this would clearly not provide sufficient relevant information, particular now we are working under the Insurance Act. So we do not feel this document would be practical for commercial customers.
18	n/a
19	None.
20	We are already providing so much paperwork that can either confuse or mean it is not read. This needs to be reduced, not increased.
21	We are sending the clients enough information as it stands. Any further information will reduce the effectiveness of what is trying to be achieved
22	n/a
23	When we see a finalised version of an IPID we may be able to provide a better position here. Also note that the IDD does not differentiate between a commercial and retail customer and this needs to be considered.
24	tba
25	Offering a suite of IPID’s across numerous different commercial customer types will become burdensome and open itself to misinterpretation or mistake. A standard IPID supported by a broker’s own material would seem sensible.
26	I feel that there should be no change in this area - the insurer’s already vary the scope/ extent of documentation and support provided - perhaps the FCA should focus on standardising that area before imposing a duty on the broking firms here.
27	Some form of disclosure should be provided but it must differ from that used for consumer clients.
28	Quality brokers already go to enormous lengths to ensure that clients understand the scope of protection being offered and how the products available meet client needs. I am not convinced that having to supply more paperwork to a client will achieve any greater engagement with the terms. Clients already comment that as an industry we provide them with too much to read.
29	Increasing amounts of information is passed on the customer as a result of prescriptive documentation. The more information supplied the less engagement and understanding. Meaningful summaries are needed to avoid this and less is often more useful. Allow more freedom to design and structure Key Fact summaries to help no hinder the customers understanding.
30	Information needs of commercial customers should be given sufficient consideration, avoiding temptation to take a blanket approach. This will ensure that the information provided is tailored to the commercial customer accordingly and will help to mitigate risk associated with information overload and providing commercial clients with too much information. The development of a modified form of pre-contractual disclosure for commercial customers with the same objectives as IPID and broadly similar technical standards may therefore be the most appropriate option to better target the information needs of commercial customers and better accommodate the complexity of some products provided to commercial customers.

**Q13 (Cont'): What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

#	Responses
31	I have probably misunderstood but is this not an insurers key facts summary which provides a summary of the products cover. We would also send this or the policy wording
32	Further discussion is required.
33	none
34	Customers are already complaining over the volume of paper work SME have limited time and budgets by the very fact that brokers are trying to ensure that they do not get sued we have to point out all relevant information
35	As a broker firm advising a broad spectrum of clients both large and small on a wide range of insurance covers, we see it as our role to advise on the suitability of products to meet a client's needs. We do this as a matter of course and to add a formal IPID to the information we already give would be pointless and simply duplicate what we already provide. This is particularly relevant on the larger risks which may involve several different policies and adding a formal IPID would create additional work and would not serve a purpose to the client who will understand the nature of the insurance products anyway. We have no objection to having IPIDs for retail customers who are looking for a single product and may benefit from the information supplied in an IPID.
36	My view is that SME customers do in fact have differing needs to those that require more complex cover. So perhaps we need to think of pre-disclosure for large complex cases and possibly leave SME disclosure in its current guise?
37	Most commercial clients are very busy and the last thing they want is a mountain of paper work. We basically do what is required highlighting areas of a policy that usually cause problems but our letters are getting longer and longer.
38	We'd need to see the full proposal on the IPID to comment - I think this is due shortly
39	Sufficient clear information should be provided according to complexity of product and/or process
40	Every customer will have different needs and requirements and their knowledge base will be different from one to the next, no one form you give out will cover every aspect that you may want to convey to a customer at the pre contractual stage of a sale, but a standardised form to give out to prompt conversations about the sale and how it works is always a good idea.
41	
42	
43	We believe it is not relevant for commercial customers
44	This is a good idea in principle but will client's read the document as we are providing so much information already? It is important to look after the smaller end of the market such as tradesman, small retailers etc. as they are often in a similar situation to a retail client with respect to their knowledge/understanding of the insurance they buy. The information contained in the document should reflect the possible limited knowledge about insurance that the client has.
45	IPID application would be positive, it is assumed Commercial customers have more knowledge than retail customers, but this is not the case.

**Q13 (Cont’): What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

#	Responses
48	This is fundamentally at odds with TCF when considering larger or more complex commercial risks. We have run a study and estimate that information volume for a consumer will grow by at least 15 pages of A4. Current Commercial Combined, PI/D&O/ Liability and other wordings run into 30/40/50 pages plus and the detail and information required to explain clauses, conditions, exclusions, warranties and endorsements will generate another 10-20 plus demands and needs statements, fair presentation disclosures, claims reporting, notification and statement of fact papers we could well be providing a client with hundreds of pages - especially commercial clients who often have multiple policies renewing at one single renewal date. This will not provide TCF it will lead to even greater confusion and lack of engagement with the Consumer. From 35 years experience getting a client to read 10 pages is a miracle, let alone to actually read, understand and feel comfortable with 60+ pages - this needs serious consideration and an active understanding of what policy wording are, how they operate and the detail with which clarification of those needs to be provided.
49	
50	SME customers rarely read any pre-contractual material. Their onus is simple. How much? It is then the brokers role to supply the best cover at the best price.
51	My understanding is that this would be produced by the Insurer and delivered by the intermediary. My view is the simpler the information to a client the better.
52	We have no issue in providing pre contract information to any range of client small , medium or large. We believe this is an important transparent part of the sale process.
53	I do not think it is appropriate to extend an IPID for commercial customers. They hold a greater sophistication in the buying chain and I think this would be irrelevant to them and just another bundle of unnecessary paperwork which would need to be served
54	The whole situation around insurance language has become unwieldy. Clients are hit with far to much information: TOBA’s, Statement of Demands & Needs, Policy Wordings, Policy Summaries, Glossary of Terms, Registers, Schedules, Endorsements to policies et al. I also wish to set out to clients our way of doing business, expressing culture values and beliefs. So for the simplest of client purchases, a report can extend to 40+ pages, most of which is ignored. Indeed, the overwhelming response, is to ‘just tell me what I need to know’. The regulator needs to think about how a competitive market place can simplify what at its most efficient, overwhelms customers with literature most of which is alien and intimidating. This needs a working party in my opinion.
55	The smaller SME client may view as information overload and not recognise the value. It will depend on the level of detail needed to be disclosed and what outcome is desired.
56	You have answered the question already by admitting it is a can of worms as who knows how much the end client knows to grasp what is being offered. Are all clients to be investigated by the FCA to establish if they are fit to purchase a particular product, Caveat Emptor still reigns supreme and no amount of cross checking will ever be enough
57	
58	Yes
59	This should be proportional to the complexity of the product.

**Q13 (Cont’): What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

60	An SME’s first thought will be to cover their core needs whilst remaining within their cost limits. The broker challenge is to bring to their attention all of the risk mitigation tools available to them without drowning them in paperwork and or information.
61	The IPID should be for consumer products only. Commercial product offerings are wide ranging with major cover differentials and commercial clients have varying needs. An insurance programme for a larger commercial client often involves a number of insurers so as to obtain the best deal and the content of insurer documents may vary.
62	

**Masterclass Commentary:**

There were fifty qualitative responses in relation to the provision of an IPID or other form of pre-contractual disclosure for commercial customers.

**Over-complication was a theme that once again had prominence.** A number of respondents argued that too much information is confusing and unnecessary. One respondent noted that the proposals posed a ‘huge risk of overcomplicating the communication process. Most commercial clients have a level of understanding and less time should be spent on confusing them but rather advise (sic) them’.

There was acknowledgement that the provision of key facts, in an accessible format to commercial customers could prove useful, particularly to smaller businesses. However, it was also noted that **IPIDs were not appropriate for all commercial customers**, particularly because their understanding of insurance is likely to be higher than a consumer and that more detailed information may be required, rendering the IPID superfluous.

*I do not think it is appropriate to extend an IPID for commercial customers. They hold a greater sophistication in the buying chain and I think this would be irrelevant to them and just another bundle of unnecessary paperwork which would need to be served.*

Another responded commented:

*I do not feel that the IPID document will be detailed enough for commercial customers. It may also struggle to convey all of the key complexities to the SME client. It is suitable for consumers.*

**Nevertheless, there were conflicting opinions among the respondents and there was acknowledgement that there should not be a ‘one-size fits all approach’.**

## Q14: What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?

Answered: 60 Skipped: 90

#	Responses
1	Agree with option 3
2	Practically if IPID requirements are to apply key information must come from the insurers
3	I agree with your comments however I would not wish to see one's own client or a potential client using an insurance broker as a second opinion if the question should be directed to a legal mind.
4	Insurers could/should do this.
5	None at this stage
6	I think relying on the existing ICOBS 6.1.5R to implement this requirement is a valid approach.
7	Needs to be concise with enough information to allow the client to make an informed decision and prepared by the insurers
8	No
9	The commercial customers must be in scope. Maybe I have a T&C concern, but it may also be relevant here. There is a bigger, and more complex, risk to commercial customers where a broker gives advice where not competent to do so. The knowledgeable client must have some way of understanding the brokers competency - which may not become apparent as inadequate until late in the buying process. (As a buyer of complex insurance, I have been subjected to an incompetent broker that only became apparent after trawling through hundreds of pages of documentation provided.) The lack of specific detail, summaries and failure to "close the loop" made the task much more difficult. Many commercial customers would have been unable to find the flaws in the insurance products and would have bought products that were inappropriate.
10	I refer you to the comments made in Q13. Most Insurers already provide clauses on their policies schedules that are specific to the customer and this is where the information should be detailed. It is probably the only document a customer may view in detail. Generic conditions and exclusions in the policy wording and major differences in cover that the broker thinks are relevant to that business will still need to be drawn to clients attention. This is the brokers responsibility and the broker will compare Key facts documents and policy wordings to compare. The customer will never do this as they see this as the brokers role. Good brokers are already doing this. If regulation imposed too many duties on the broker, the broker will have to charge for his time. Added regulation is a growing burden for brokers.
11	I think this will provide better protection to the Broker
12	Same as response to Q13
13	I believe that the customer is provided with too much information. Key information should be provided in one document.
14	I personally think that guides provided by BIBA could be taken a stage further to give less sophisticated clients a genuinely independent understanding of the workings of a policy. This is essentially the role of the broker however they should have a guide, pitched at the right level of understanding for them to distinguish a good broker from a bad one
15	Fully agree with RWA's commentary on this point.

## Q14 (Cont'): What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?

#	Responses
16	From what I have seen the idea is that an IPID is a one page document, and we are concerned that this will be insufficient to provide the client with the information they need. We also need to consider that if this document only supplies part of the information, the Broker will then need to provide the rest of the information in a different document. Is it not better to put all the relevant information into one document to prevent the client being selective in what they read, and will we also be duplicating information by introducing the IPID for commercial customers. I cannot see that having the IPID changes what the broker needs to provide in the way of information, just the manner in which it is provided, and is yet another document the client is likely not to read.
17	I strongly agree that all insurers, or wholesalers, MGA's etc should be required to provide key information in one key document. Clients will respond positively to this change. They already ask us which document provides them with the key points of cover.
18	n/a
19	None
20	As in all these things balance is the key but if the broker/ client is to be protected by change I am all in favour.
21	Insurers should put all key information on one document.
22	
23	They should match as much as possible. This would make it easier for insurers and brokers to control/understand and customers will get used to seeing the same format.
24	tba
25	The world of a broker is becoming more complex and increasingly challenging. Issuing a standard format IPID would assist in the process of delivering important insurance information and ensure greater understanding by the insured
26	As stated above a more cohesive industry standard document for insurers would assist the customer's understanding of the products being purchased. Some insurers do this well, others much less so. However in most cases the documents still need an expert view to interpret particularly in areas such as Business Interruption and Liability covers.
27	Format would need to be simple and clear. As mentioned above there is often the danger of overloading client with information.
28	I can see benefit to us as brokers if Insurers have an obligation to confirm key product information into one document as long as this is comprehensive in scope including such things as service time scales for communication, claims handling, and document production as well as the approach taken to claims handling support.
29	One rule for all both commercial and retail!!
30	The production of a document whereby the insurer provides all the necessary key information for the customer would help to support the requirement of the broker to take reasonable steps to help a client make an informed decision. The document should specify key information and sign post the customer to further detailed information should they require it. This would help to support the insurance broker in delivery of its duty in balance with the insurance knowledge of the client.

## Q14 (Cont'): What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?

#	Responses
31	It amazes me how an underwriter may handle a handful of his own company policies compared to many hundreds handled by broking firms and we often find our knowledge of their product is still higher. Insurers rely to much on broking firms to do all the work form them despite having usually much more resource to become involved
32	I feel that by "upgrading" IPID, linked to the new duty for insurers and wholesalers to consider the customers best interests will provide better protection for insurance brokers and their clients as the duty to explain and emphasise significant and onerous conditions will also fall on the insurers and their agents in the distribution chain.
33	Positive
34	If this document replaces a policy schedule but commercial policy schedules are extensive the Ins Act means that we have to explain technical terms therefore commercial risks could not be placed on one page its impossible.
35	We see an issue with the production of 'standardised' IPID documents which may refer to exclusions and conditions that the broker has negotiated should be removed, or has agreed that an exclusion, which is not on the standard IPID, should be added to the policy. The broker then has to explain why the cover being recommended is different to the IPID. In addition, with so many variations in the availability of cover for some of the more complex covers, how can a standard IPID be produced across the market.
36	My view is that anything that will provide better protection for all commercial clients has got to be considered. My concern is the amount of extra work that this will generate for brokers. This area needs a lot of careful thought before any decision is made.
37	I think this is already covered by case law and any Broker is at risk if they do not explain the policy. I am aware some Brokers don't but they are leaving themselves open to being sued. I don't like standardised forms from a Regulator as each case is individual.
38	We'd have to see the proposal. Our commercial customers are limited to commercial vehicle right now and we'd like to be able to treat them as close to how we treat consumers as possible
39	The insurance broker has to balance the insurance knowledge of the client with this duty and I am happy to be represented by the views of RWA experts
40	The insurance act has already made the renewal letter and new business letters we send take on a whole new look and format which is crossing over into IPID
41	It is essential that IPID should apply to commercial customers. Insurers sometimes issues policies that are over 100 pages long. It is impossible for a broker to explain every aspect of a 100 page document as this is information overload
42	Upon reading this commentary it is clear that there is some value in this albeit in a different format to that received by a Retail client. A rule that requires the insurer to put all the key information in one document could help substantially in that process.
43	It is important for a client to be able to make an informed decision with respect to the policy they are purchasing. Using a "Key" document would be of great benefit! The design of the document is really important it can neither be too brief or information overload. The content should include the policy covers and the benefits of such cover along with exclusions/ limitations and refer to standard excesses etc. Reference to optional covers within the policy should be made i.e. a tradesman package, core cover Public Liability with the ability to add: Employers Liability, Tools, Personal Accident etc. Probably apply the document to all commercial customers as if pitched right the document will help all make informed decisions.
44	Agree with the proposals
45	Fine.

**Q14 (Cont’): What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?**

#	Responses
46	Insurers should be encouraged to develop in this area and as these documents are an aid to sales hopefully they will continue to develop
47	Refer to prior question
48	
49	As nobody will read the things, let the existing TOBAS continue
50	Very difficult to produce for such diverse risks
51	Insurers need to group together in one place within documentation all of the limitations of cover, terms and conditions that could impact upon a client in the event of a claim as to tuck something away on page 78 of a 120 page policy wording which the insurer then relies to avoid or a limit a claim doesn't seem fair to me.
52	No view
53	An insurance broker has the duty to explain the policy to the commercial client. A rule that requires the insurer to put all the key information in one document could help substantially in that process.
54	This should be applied to all clients but must be drawn up in a way that presents a useful set of data and not be seen as a rework of a policy wording full of jargon.
55	The requirements only matter when you are comparing like with like, many EU states have insurance offices that only sell one insurers products and with 27 different understandings and local regulators not seeing eye to eye on the same things the question at nest seem fatuous
56	As the brokers aim is to ensure that the client is well informed, understands the risks they face and what can be done to mitigate them, an IPID makes sense. The challenge is ensuring we do not end up with a one size fits all
57	
58	This should be proportional
59	A problem was encountered in the past where insurers were issuing policy summaries and these differed substantially from one A4 page to several A4 pages and added to the volume of material to be presented to a client.
60	

**Q14 (Cont'): What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?**

**Masterclass Commentary:**

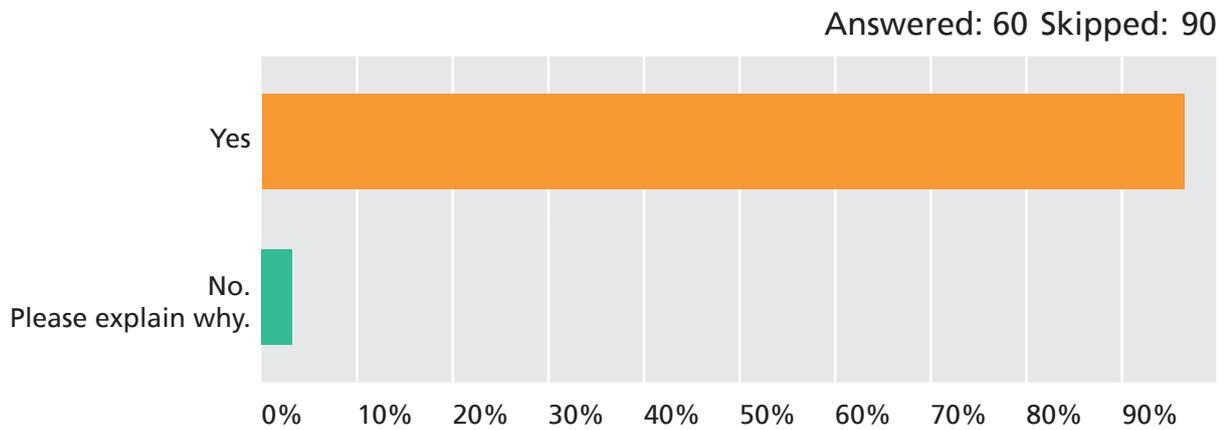
Fifty qualitative responses were received in relation to Question 14. **The dominant opinion articulated is that it should be compulsory for insurers, MGAs and wholesalers issuing their own branded products, to publish, for every policy, a prominent section which includes only terms and conditions which if not complied with, they might rely on to reduce or reject a claim.**

**It was felt that the provision of key points, in a single document, will make the communication clearer to the customer and reduce the danger of overloading the customer with information.**

*The production of a document whereby the insurer provides all the necessary key information for the customer would help to support the requirement of the broker to take reasonable steps to help a client make an informed decision. The document should specify key information and sign post the customer to further detailed information should they require it. This would help to support the insurance broker in delivery of its duty in balance with the insurance knowledge of the client.*

*I believe that the customer is provided with too much information. Key information should be provided in one document*

**Q15: Do you agree with our proposal to extend the professional, organisational, and prudential requirements to in-scopes Alls? If not, please explain why.**



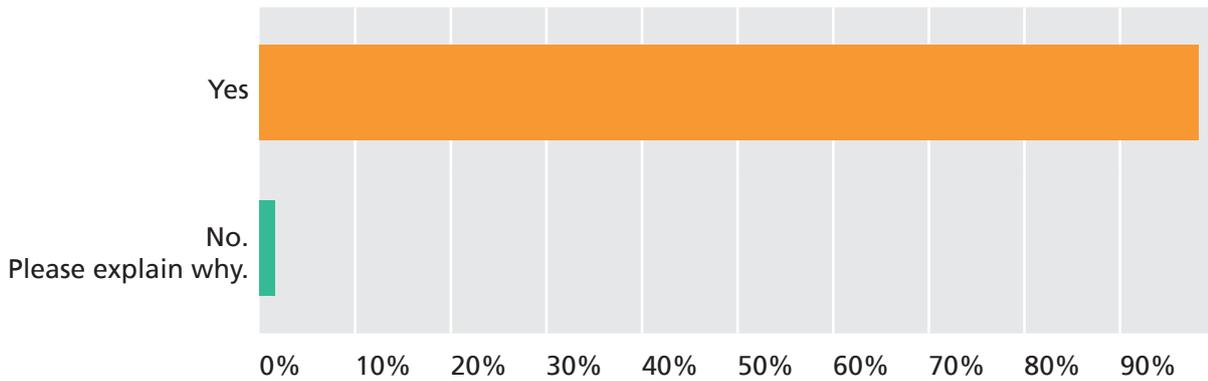
**Masterclass Commentary:**

58 agreed, two disagreed.

These indicate broad agreement, although the lack of negative responses could suggest fatigue on the part of the participant due to the length of the survey etc.

**Q16: Do you agree with our proposal to align the conduct of business regime for in-scope Alls with that for insurance intermediaries? If not, please explain why.**

Answered: 60 Skipped: 90

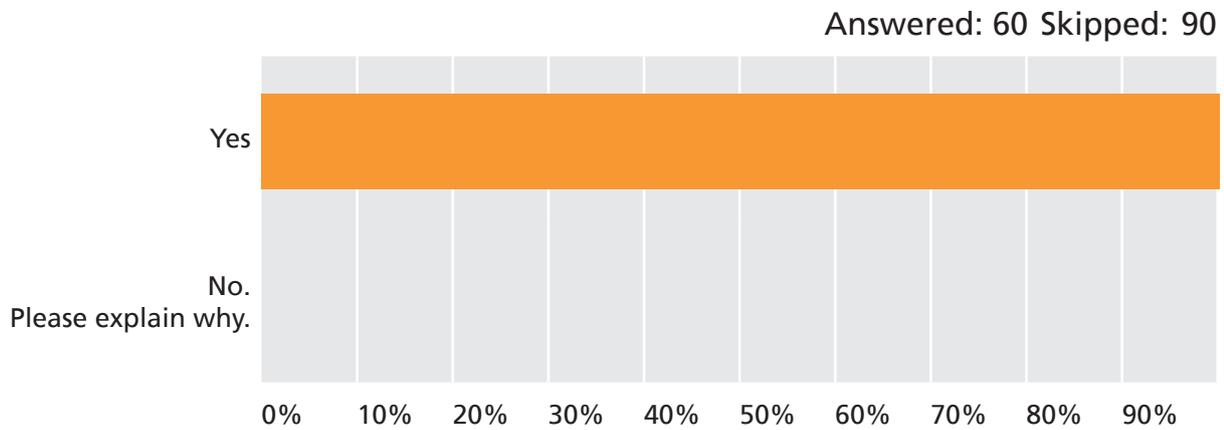


**Masterclass Commentary:**

59 agreed, one disagreed.

These indicate broad agreement, although the lack of negative responses could suggest fatigue on the part of the participant due to the length of the survey etc.

**Q17: Do you agree with our proposal to extend the professional and organisational requirements to CTI providers?  
If not, please explain why.**

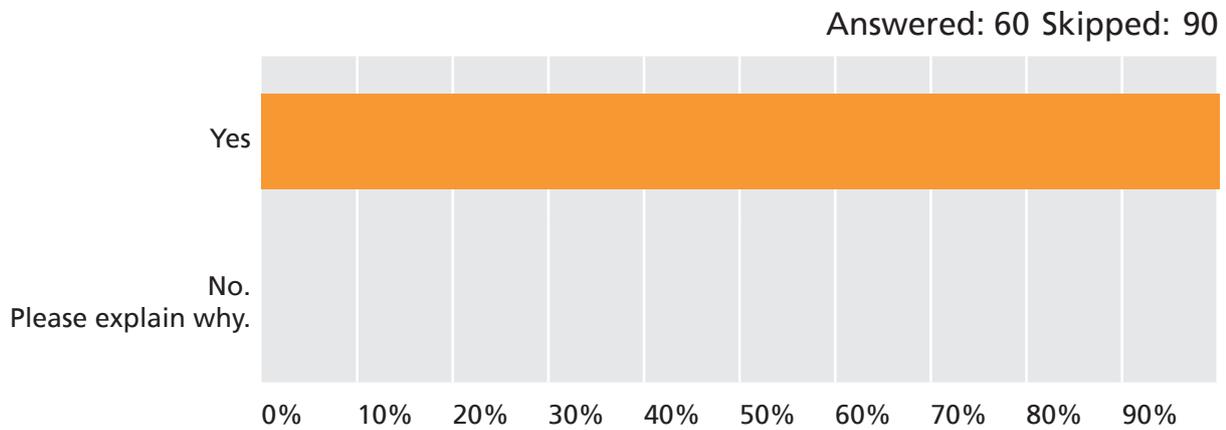


**Masterclass Commentary:**

60 agreed, no-one disagreed.

This indicates universal acceptance of the proposals, although the lack of negative responses could suggest fatigue on the part of the participant due to the length of the survey etc.

**Q18: Do you agree with our proposed conduct of business regime for CTI providers? If not, please explain why.**

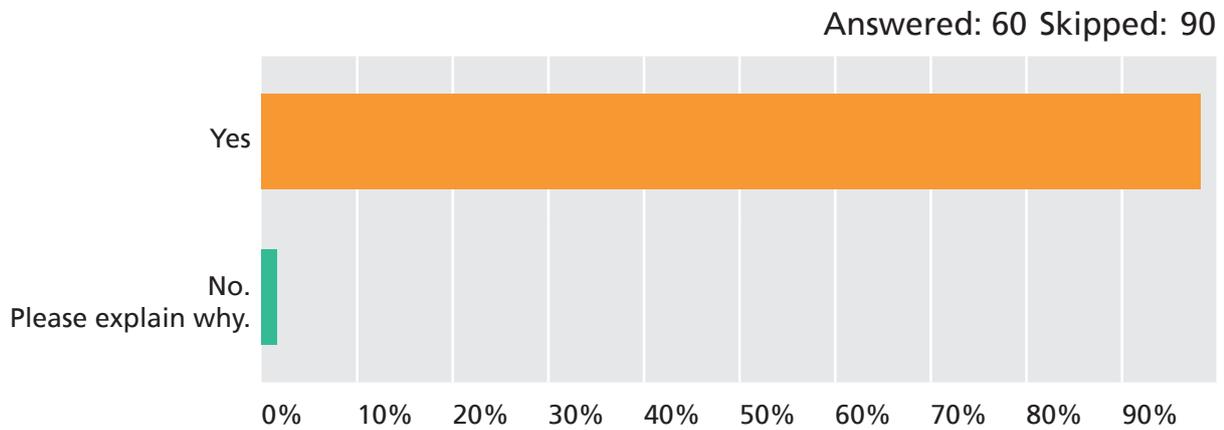


**Masterclass Commentary:**

60 agreed, no-one disagreed.

This indicates universal acceptance of the proposals, although the lack of negative responses could suggest fatigue on the part of the participant due to the length of the survey etc.

**Q19: Do you agree with our proposals for authorised firms distributing through out-of-scope AIs?  
If not, please explain why.**



**Masterclass Commentary:**

59 agreed, one disagreed.

These indicate broad agreement, although the lack of negative responses could suggest fatigue on the part of the participant due to the length of the survey etc.

## Q1: Do you have any comments on our proposed approach to the application of the IDD?

Answered: 29 Skipped: 121

#	Responses
1	No additional comments
2	Do not agree with over burdening the insurance industry or clients. If there is risk it should be addressed for best client outcomes, BUT not just for the sake of change. Should be consistency across the market via different distribution channels.
3	Will we become responsible for the control and monitoring of All's and have to appoint them as new Introducer Appointed Representatives (IARs)?
4	Already made.
5	Only to the extent of the responses we have already made, particularly regarding "best interests" and wholesalers
6	The idea of insurers becoming more intrusive is a concern. There should be a clear line of separation between insurers, who are focused on sales, and brokers, who are (or should be) focused on advice. There is talk in our industry of insurers effectively being asked to supervise brokers, which can only lead to poor consumer outcomes.
7	No comment
8	No further comments
9	A good thing, albeit with some downside for the retail broker in the questions etc they may have to deal with from others in the distribution chain.
10	No
11	
12	The distinction between a consumer and commercial customer should remain, changes to the requirements here would have a huge impact on the industry when there is no call or need for it.
13	Customers (consumer and commercial) deserve to be treated professionally and fairly, therefore, there should be no IDD discrimination.
14	By the time I got to the end of this questionnaire I was up to my ears in Alls, IPIDs. IDD's, ICOBS etc so just imagine what a client thinks when receiving pages and pages of information, explanations etc which they do not particularly want and seldom gets read. Just keep it as simple as possible.
15	There needs to be a clear line of responsibility in the sales process via insurer, wholesale broker and point of sale to establish who is responsible for ensuring compliance at the point of sale. There is no one solution for every situation but the insurer should probably lead on this and be ultimately responsible.

## Q1 (Cont’): Do you have any comments on our proposed approach to the application of the IDD?

16	It is our opinion that these scope proposals will change things for the retail insurance broker to the extent that others in the chain will become more focussed on the Conduct Risk presented by all parties in the chain so you can expect wholesalers, insurers and placing insurance brokers to become more intrusive in assessing your performance in recommending their products.
17	No
18	Everybody in the chain must have an obligation to look after the best interest of the clients
19	No, well thought out as one would expect
20	Only comment I have is that anyone transacting Insurance should ALL abide by the same rules. Buying on line is a big concern as cover can be lower such as Foreign use not given and the client goes to Ireland 4 times a year.
21	None
22	Agree with the Masterclass commentary
23	It seems logical and will help maintain the integrity of our industry.
24	No
25	Insurance should not be sold by travel agents and motor trade etc. - all from experience of the products sold to clients. Wrong policies to wrong clients.
26	Fair and reasonable assessment
27	No
28	Bringing everyone involved in the distribution of insurance into the regulatory net except those who advise or give personal recommendations on the best way to interpret FCA regulations is wrong. The FCA must include under its regulatory wing all compliance service providers as they can no longer be exempted from legal blame
29	You have made it clearer and more approachable.

## Q1 (Cont'): Do you have any comments on our proposed approach to the application of the IDD?

### Masterclass Commentary:

Of the 29 responses received, **there appears to be general support for the main themes identified within the consultation paper** and the proposed approach to application. **Bringing everyone involved in the distribution of insurance into the loop of responsibility to the customer was welcomed by many of the participants.** Indeed, there was concern amongst the responses that the integrity of the industry needs to be upheld and that the proposed approach will support this through stronger regulation.

However, there were some reservations that the application of the IDD will prove burdensome for practitioners within the industry, clients and customers, particularly in respect of the amount of information that customers are now expected to receive. Indeed, as one commentator observed:

*By the time I got to the end of this questionnaire, I was up to my ears in Alls, IPIDs, IDDs, ICOBS etc. So just imagine what a client thinks when receiving pages and pages of information, explanations etc which they do not particularly want and seldom gets read. Just keep it as simple as possible.*

There was also concern that the FCA has not fully analysed how the proposals will affect the advised sale relationship between insurance broker and client. This was perhaps a weakness of the Renewal Transparency CP and needs to be addressed before the FCA progresses to its policy statement. Some of the proposals will clearly lead to customer detriment.

Commentary prepared by:

Robin Wood & Dr. Nathan Matthews

On behalf of the Board of Directors  
of RWA Compliance Services Limited

31st May 2017



Robin Wood  
Chartered Insurance Practitioner

Robin Wood founded RWA in 1991. He is an acknowledged Expert on insurance broker's duties and Conduct Standards and Risk Management and has been an Expert to the courts on a number of reported cases including *Environcom v Miles Smith*, *The Café De Lecq* case and *Eurokey v Giles*.

Robin was also the co founder of the Insurance Brokers Standards Council with Paul Anscombe.

Robin has written a number of important guide books on topics such as *Training & Competence*, *The Duty of an Insurance Broker*, *The Insurance Act* and *Professional Standards of Insurance Brokers*.



Dr Nathan Matthews  
Content Writer & Researcher

Nathan was awarded a PhD by Research from the University of Wales in 2016 and is now responsible for researching and writing the business skills modules on our eLearning platforms.

He has wide experience in stakeholder engagement, community consultation, and research design, implementation and analysis, particularly in the context of socio-economic regeneration and the cultural heritage tourism industry.

## With Thanks

We would like to thank the firms that took the time to respond to this survey. Respondents can take pride in helping to shape the future of the insurance industry.

Firms include (those wishing to remain anonymous have been excluded, but are equally deserving of our thanks):

- Access Underwriting Ltd
- Adler Insurance Brokers Ltd
- AJ Insurance Service Ltd
- AMB Insurance Services Ltd
- Amicus Insurance Solutions Ltd
- AMS Insurance Solutions Ltd
- A-One Insurance Services Ltd
- Bartlett & Company Limited
- Belmonte Ltd
- BH&S Insurance Services Ltd
- Bluefin
- Bricks And Motor Insurance Brokers Ltd
- Bridge Insurance Brokers Ltd
- Broadhurst & Co
- Brownhill Insurance Group Limited
- Bryan James & Co Ltd
- BWA (Commercial) Ltd
- Castlemead
- CBI Insurance Consultants
- CC Flint & Co
- Churchill Insurance Consultants Ltd
- Clark Thomson Insurance Brokers Ltd
- Coffey
- Compass
- Cooke And Mason
- County Insurance Services Limited
- David J Miller Insurance Brokers Ltd
- David Roberts & Partners Ltd
- Davies Craddock
- Delta Corporate Risk Llp
- Dobson & Hodge Ltd
- Eastwood & Partners Ltd
- ERMG
- Goodmans
- Griffiths & Armour
- Grove & Dean Ltd
- Hale Kavanagh Insurance Brokers Ltd
- Hayes Parsons Ltd
- Heritage Insurance Brokers
- Hettle Andrews & Associates
- HIBL
- Home Counties Insurance Services Ltd
- Impact Insurance Services Ltd
- Inspire Insurance Services Ltd
- J Bennett & Son
- J Hatty & Co
- Jacksons
- Jaggi And Co
- K Burton & Son Ltd
- KBIS Ltd
- KDH Insurance Brokers
- Kelliher Insurance Group
- KGJ Group
- Lloyd & Whyte
- Manor Insurance Services Ltd
- Marine Aviation & General
- MG Underwriting
- Mitchell Charlesworth
- MRIB Limited
- Munro-Greenhalgh Limited
- Nimmos Insurance Brokers
- Ntegrity Insurance Solutions Ltd
- P B Curran
- Pembroke General Insurance Services Ltd
- Peter Hattersley & Partners Ltd
- Pharos Insurance Brokers Ltd
- Portcullis Insurance
- Portishead Insurance Services Ltd
- Pounder Insurance (Ne) Ltd
- Proaktive
- Quidsi Ltd
- R F Ponsford Insurance
- R J King (Insurance Brokers) Ltd
- Rees & Co Insurance Brokers Ltd
- Regency Health
- Reid Briggs & Co Ltd
- Romero Insurance Brokers
- S C Insurance Brokers Ltd
- Sentinel Corporate Risk
- Sutcliffe Insurance Brokers Ltd
- T H March & Co. Limited
- TBO Services Ltd T/As The Insurance Octopus
- TFP Schemes
- The Insurance Octopus
- Thew
- Tonic Insurance Ltd
- Touchstone Underwriting
- Townergate
- Townley Insurance Brokers Limited
- TR Youngs
- Trident Insurance
- Victor Millwell Insurance Agency Ltd
- Wilby Ltd

## Appendix 1

The following pages contain the details of the FCA summary for each question, which we have extracted from the Consultation Paper for reference purposes.

### **Q2: Do you agree with our proposed approach to incorporating the IDD knowledge and competence requirements?**

#### **FCA Proposals:**

3.7 We propose to implement the IDD requirements in SYSC. For firms subject to the TC regime we will rely on this to implement the IDD.

3.8 The IDD minimum knowledge criteria only apply to insurance and reinsurance intermediaries. However, we propose to also apply them to insurance and reinsurance undertakings as well as to intermediaries. The minimum knowledge criteria cover areas such as product coverage, the claims process and insurance regulation. These are areas which are just as relevant to insurers distributing products directly to the customer as they are to intermediaries. In our view, these are areas on which we would expect insurers to train their employees.

3.9 The current requirements in TC go beyond the minimum IDD requirements and we propose to maintain these. We consider that this will not have an additional impact on firms and will help firms demonstrate an objective baseline when complying with their IDD obligations and the 'competent employees' rules.

3.10 We propose to apply the knowledge and competence requirements only to those employees directly involved in insurance distribution. This includes relevant people within the management structure with responsibility for insurance distribution (for example, product or sales managers). The requirements will not apply to employees in ancillary roles such as HR, facilities management and IT. We are also proposing to move knowledge and competence requirements currently in MIPRU 2.3. To SYSC so that they are in the same sourcebook (subject to additional requirements in TC).

3.11 We have considered the proportionality of applying minimum CPD requirements to employees such as call centre operatives whose role may be limited to conducting non-advised, script-based sales. We propose to issue guidance that the format and content of the CPD can be modulated according to the nature and complexity of the employee's role. For example, CPD could include:

- completing eLearning modules relevant to insurance distribution
- time spent reading insurance product literature or publications from bodies such as the FCA, PRA or Financial Ombudsman Service (FOS)

#### Record-keeping

3.12 The IDD requires insurance and reinsurance undertakings to establish, maintain and keep appropriate records to demonstrate their compliance with the employee knowledge and ability requirements. For consistency we believe it is appropriate to extend record-keeping to all firms. We expect that firms will already maintain records of employee competence as part of compliance with SYSC.

3.13 We propose to make it clear in our SYSC and TC record-keeping requirements that a firm must not prevent an employee from obtaining a copy of their IDD CPD records.

3.14 The IDD does not prescribe time limits for record-keeping, we propose a minimum requirement that records should be held for not less than three years. This is in line with the requirements for firms subject to TC.

#### Certification/qualification discretion

3.15 Other than as already required by TC, we do not propose to require employees of insurance distributors to obtain a qualification as part of their role. However, we expect firms to consider employees' compliance with their IDD training and development when assessing their competence, and when certifying employees for FCA's significant harm functions under section 63E(5) of the Act.

# Appendix 1

## Q3: Do you agree with our proposed PII requirements?

### FCA Proposals:

3.20 We propose to maintain the existing requirements in MIPRU 3 and IPRU (INV) 13. In our view, the rationale for retaining the existing PII requirements (as set out in MIPRU 3.1.3G) remains correct. We will amend the minimum levels of PII cover in line with the IDD minimum levels. We will retain the additional income-based minimum aggregate requirements. In our view, there has been no material change in circumstances since these were introduced.

What the IDD says:

Professional Indemnity Insurance

3.16 The IDD requires intermediaries to hold PII or a comparable guarantee against liability arising from professional negligence.<sup>12</sup> Minimum levels of cover are €1,250,000 per claim per year, and €1,850,000 per year in aggregate.

3.17 Our existing rules are more detailed than the IDD requirements in some respects:

- a requirement for intermediaries to maintain a higher minimum aggregate cover – 10% of annual income up to £30m – where this is greater than the directive minimum amount<sup>13</sup>
- requirements around excess levels<sup>14</sup>
- the need to have specific terms which the PII cover must incorporate (such as cover for legal defence costs and Ombudsman awards)<sup>15</sup>

3.18 MIPRU 3.1.3G sets out our reasons for our more detailed requirements. These are “to meet the statutory objectives of consumer protection and protecting and enhancing the integrity of the UK financial system by ensuring that firms have adequate resources to protect themselves, and their customers, against losses arising from breaches in its duties under the regulatory system or civil law”

3.19 PII coverage remains an area of focus for FCA in other areas in addition to the IDD<sup>16</sup> and in December 2016 we announced a broad review of the PII market.<sup>17</sup> Our proposals in this CP and the outcome of this consultation will inform our wider work.

## Appendix 1

### **Q4: Do you have any comments on our intended approach to implementing the IDD requirements concerning the protection of client assets...**

#### **Masterclass Commentary on FCA Proposals:**

As this question relates specifically to reinsurance, it is unlikely that many SME insurance brokers will be expected to express a view.

Amendments to CASS – for discussion:

3.24 The IDD requirements relating to client assets are very similar to those in the IMD. The main differences are:

- the minimum intermediary financial capacity amount has increased
- the provisions now apply to reinsurance intermediaries.

3.25 We will consult formally on our CASS proposals in our second Consultation Paper. The paragraphs below, however, set out our possible approach for your initial views.

3.26 Currently, the IMD is implemented in CASS, where intermediaries are given the option between risk transfer and segregation of accounts. CASS 5 is optional for reinsurance intermediaries.<sup>18</sup>

3.27 Given that reinsurance intermediaries are covered by the IDD we are considering amending CASS 5 so that it becomes compulsory in relation to reinsurance contracts. This will mean that money received in the course of reinsurance distribution would be held subject to CASS 5 (or, where available, CASS 7 as an alternative). We are also considering narrowing the scope of available options for reinsurance mediation, for example, making CASS 5 compulsory but allowing only risk transfer.<sup>19</sup> In addition, we are considering whether to apply CASS 5.8, requiring safe keeping of client's documents and other assets, to this business.

## Appendix 1

### **Q5: Do you agree with our proposals for implementing the IDD requirements in relation to complaints and out of court redress?**

#### **The FCA Proposals:**

4.5 We propose to implement the requirements of IDD in relation to complaints handling and the availability of out of court redress arrangements by relying on DISP, with amendments where necessary.

4.6 For article 14 IDD we will continue to rely on DISP 1 for eligible complainants. We propose to create a new rule which will contain the existing requirement in DISP 1.1.8R and extend it to all insurance and reinsurance distributors when carrying on distribution activities.

4.7 We also propose to amend our rules to include complaints about insurance and reinsurance distribution business carried on by UK firms from a branch in another EEA state. This reflects the IDD home state responsibility which applies to article 14. We intend to continue to retain the application of our complaints rules in DISP 1 to UK establishments of EEA firms.

4.8 For Article 15 of the IDD we will continue to apply DISP 1 requirements and the existing scope of the Financial Ombudsman Service to firms with establishments in the UK. This will ensure that eligible complainants are able to refer complaints arising from business carried on from an establishment in the UK to the Financial Ombudsman Service including where this is done by incoming EEA firms.

4.9 The requirement for Member States to ensure that there are out of court redress arrangements available in relation to complaints about insurance distribution activities in respect of retail consumer disputes is a home Member State responsibility. Insurance distributors with an establishment in the UK are already covered by the FOS. We propose to introduce a requirement for insurance distribution business conducted by EEA branches of UK (re)insurers and intermediaries to adhere to an Alternative Dispute Resolution (ADR) entity in the EEA state in which they are established to resolve consumer disputes.

4.10 We have considered whether the IDD requires the Ombudsman's jurisdiction to be expanded in scope to include all complaints from commercial customers. Currently the Ombudsman may consider complaints about commercial insurance that are referred to it by micro-enterprises and certain trustees. We consider that out-of-court redress arrangements required by the IDD are intended to provide an alternative dispute resolution process for the benefit of retail consumers. This is consistent with acts such as the Alternative Dispute Resolution Directive.<sup>20</sup> Therefore we do not propose to extend the scope of the jurisdiction of the FOS beyond eligible complainants to consider complaints from wider commercial customers.

4.11 More widely we are considering whether the definition of an eligible complainant for the purposes of the FOS, which includes micro-enterprises, should be extended to include some larger Small to Medium Enterprises (SMEs).<sup>21</sup> Whilst we do not propose to expand the definition of an eligible complainant in our implementation of the IDD we will keep this position under review.

## Appendix 1

**Q6: Do you agree with our proposed amendments to ICOBS 2? If not, please explain why.**

### **The FCA Proposals:**

5.6 The existing provisions we have in place and the requirements of the IDD are very similar. However, there are differences which require amendments to the Handbook.

5.7 We propose to incorporate the IDD requirements by:

- including a new rule in ICOBS requiring insurance distributors to act honestly, fairly and professionally in the best interests of their customers ('the customer's best interests rule')
- amending the current ICOBS rules on communications and financial promotions to require that all marketing communications be clearly identifiable as such
- including a new rule in SYSC to prohibit remuneration and performance management practices that would conflict with the customer's best interests rule.

5.8 The existing non-Handbook guidance FG13/122 (on incentives) and FG15/1023 (on performance management) will continue to be relevant and applicable to the proposed new customer's best interests rule.

5.9 The guidance within ICOBS 2.3.1G is similar to the proposed new customer's best interests rule. However, it goes further by including conflicts between customers. We propose to retain this guidance, with an amendment so that it refers to the new customer's best interests rule.

5.10 Firms should note that these overarching general principles will apply to all firms carrying out insurance distribution activities, where they have a direct impact on the policyholder. This means that firms conducting insurance distribution activities as part of a distribution chain will be caught by the customer's best interests rule. This will include, for example, a wholesale intermediary who concludes a policy placed with it by a retail intermediary, or a price comparison website who proposes a contract but directs a customer to another intermediary or insurer.

5.11 We will also be including in ICOBS 2 the new requirements on authorised firms who distribute policies through ancillary insurance intermediaries exempt from authorisation.<sup>24</sup> These proposals are discussed in Chapter 6.

# Appendix 1

## Q7a: Do you agree with our proposed amendments to ICOBS 4?

### The FCA Proposals:

5.15 We propose to amend ICOBS to incorporate the new the IDD requirements.

5.16 We consider that the guidance referred to in paragraph 5.13 above is particularly relevant to making clear whether or not advice is being provided. Our experience is that customers do not always understand the difference between information and advice.

A well-worded and timely disclosure can help the customer understand the scope (and limitations) of the service the firm is providing.

Disclosures relating to conflicts of interest and transparency The IDD requirements and existing provisions relating to links between firms

5.17 The IDD builds on the existing conflicts of interest disclosure requirements in ICOBS. The IDD requirements apply only to insurance intermediaries:

- Intermediaries must disclose if they have 10% or more voting rights or capital in an insurer, or vice versa. Currently the requirement is “more than 10%”.
- Intermediaries must disclose if they give advice based on “a fair and personal” analysis of the market.
- Where an intermediary is contractually bound to place business with a specific insurer or insurers it must provide the names of these insurers. Currently this information need only be supplied on request by the customer.

We note that the Financial Advice Market Review Industry Working Group is currently considering the introduction of definitions for terms such as guidance and advice

- Where an intermediary is not contractually bound to place business with specific insurers but does not provide advice on the basis of a fair and personal analysis of the market, it must name the insurers with whom it may place business. Currently this information need only be supplied on request by the customer.

5.18 We propose to amend the existing rules in ICOBS 4 to align with the IDD.

5.19 These requirements apply to both advised and non-advised sales. Intermediaries who conduct non-advised sales will always need to disclose the names of the insurers with whom they may place business.

# Appendix 1

## Q7b: Do you agree with our proposed amendments to ICOBS 4?

### The FCA Proposals:

#### Fee disclosure

5.31 ICOBS 4.3 currently requires firms to disclose the amount of any fees payable by the customer. We propose to rely on this to implement the IDD. However, we are proposing to amend the definition of 'fee' within the Handbook Glossary to align with the IDD definition. Firms should consider the following points when implementing these requirements:

- Firms must provide the exact amount of the fee, or the method of calculation if the exact amount cannot be provided. Merely providing a range of possible fees (for example, "up to £50") without more information is unlikely to be compliant with our rules.
- It is only permissible to provide the method of calculation if the exact amount cannot be calculated at the time. If the exact amount is known it must be disclosed. Firms should bear in mind the requirement to communicate in a manner which is clear, fair and not misleading. This means that the 'method of calculation' should be expressed in a way that the consumer can understand, and by reference to information available to them. In practice, we believe that if firms can set out the method of calculation adequately, they will also be able to state the actual amount of the fee.
- The requirements of the IDD apply to all post-contract fees that the customer may incur during the life of the policy. This includes administration fees for matters such as mid-term adjustments.

## Appendix 1

**Q8: Do you have any comments on the illustrative examples set out in Table 1 (in relation to remuneration disclosure)?**

### The FCA Proposals:

Nature and basis of remuneration.

5.25 The table below sets out some scenarios and whether they are likely to be compliant with our proposed rules and guidance.

**Table 1: Illustrative examples concerning remuneration disclosure**

Scenario	Likely compliant?	Comments
We arrange the policy with the insurer on your behalf. You do not pay us a fee for doing this. We receive commission from the insurer which is a percentage of the total annual premium.	Yes	This gives a disclosure of the type of remuneration the intermediary received. It also explains the source of the remuneration.
We receive commission from the insurer for selling this policy.	No	This does not state that the source of the commission is that it is included within the premium.
When you take out a policy with us we charge you a fee of £50. In addition, the insurer pays us a percentage of the annual premium 14 days after the policy starts.	Yes	This provides the amount of the fee payable by the customer, and also gives an explanation of the other remuneration.
Insurers pay us commission to sell policies on their behalf. They also provide us with periodic incentives (such as bonus payments) if we meet certain sales targets.	No	This does not state that the source of the commission is that it is included within the premium.
When we sell you a policy the insurer pays us a percentage commission from the total premium. If the type of policy we sell reaches specific profit targets the insurer also pays us an additional bonus.	Yes	This gives an explanation of both types of remuneration the firm receives (or may receive).
The insurer pays us a flat fee per policy to deal with claims on their behalf.	Yes	This gives an explanation of the type of remuneration and who pays it. However, it would be insufficient if the firm received more remuneration than just the flat fee.
The insurer pays us a flat fee per policy to deal with claims on their behalf. Every month the insurer calculates the profit made on policies we administer. If this is above a certain amount they also pay us a share of this.	Yes	This gives an explanation of both types of remuneration the firm receives (or may receive).

## Appendix 1

### **Q9: Do you have any comments on our proposal to amend the Glossary definitions of 'durable medium', 'fee' and 'remuneration'?**

#### **The FCA Proposals:**

5.33 The IDD covers a wider range of information (in particular, product information) to be disclosed by a wider range of firms than is required under the IMD. We propose to incorporate the IDD requirements into ICOBS, and to apply them to the disclosures required by other ICOBS provisions.

5.34 Where firm wishes to provide the information through a durable medium other than paper or a website (where it is not a durable medium), we expect firms to present the customer with a choice between the available options, rather than simply presenting the customer with one option and asking for their consent. This is in line with the IDD requirements and intention reflected in Recital 50 which states the customer "should be given the option to receive (the information) on paper".

Our proposals on the definition of durable medium

5.35 The notion of durable medium is embedded in several pieces of European legislation which require that a firm must provide certain information to a client in writing, either on paper or in another 'durable medium'. The core definition of durable medium is consistent across the legislation. The exception has been the IMD. However, the IDD brings the definition into line with other Directives.

5.36 We propose to amend the definition of 'durable medium' in line with the IDD. We are consulting on this proposed change in response to feedback received from stakeholders on our Smarter Consumer Communications Discussion Paper.

5.37 This initiative aims to encourage better communications in the financial services industry and create a change of mind-set about how to communicate effectively with consumers. Consumer engagement can be best achieved through rethinking not just what is communicated but also how it is communicated and delivered to consumers.

5.38 In our Feedback Statement (FS 16/10) we committed to undertaking a review of the use of the term 'durable medium' in the Handbook and consult on possible changes. As a result of this, in this consultation we are proposing to remove references to floppy disks included in IMD/IDD from our Handbook.

## Appendix 1

### **Q10: Do you agree with our proposed amendments to ICOBS 5? If not, please explain why.**

#### **The FCA Proposals:**

5.41 The IDD makes it clear that firms need to specify the customer's insurance demands and needs based on information obtained by the firm from the customer. This clarifies that firms must take an active role in identifying the customer's demands and needs (through asking questions).

5.42 In addition the IDD includes an additional provision that "any contract proposed shall be consistent with the customer's insurance demands and needs" meaning that firms must only offer contracts that meet the customers' demands and needs. We propose to copy out this new provision into ICOBS 5.

5.43 To comply with this additional requirement, firms need to take two steps:

1. Identify the customer's demands and needs, and match them to the available products, and
2. State the customer's demands and needs to assist them in making an informed decision.

5.44 We recognise the need to retain a clear distinction between advised and non-advised sales. In relation to non-advised retail sales, we do not expect firms to carry out a detailed investigation of the customer's circumstances, but they should identify their demands and needs, and ensure that the contracts proposed provide cover that meets those demands and needs. For example we would expect a firm which sells motor insurance on a non-advised basis to ask the customer questions about the level of cover they require, the amount of excess they are prepared to pay, and the type/amount of their driving (amongst other relevant things). They should then limit their product offering to those which would meet these specified demands and needs.

5.46 The IDD states that the purpose of the demands and needs requirement is 'to assist the customer in making an informed decision'. Firms should therefore identify demands and needs early on in the sales process, and take this into account when designing their customer journeys.

5.47 We have considered whether our existing guidance on the format of a statement of demands and needs<sup>30</sup> remains appropriate in light of the IDD wording. We have amended the guidance to make it clear that firms must ensure that they identify and specify the demands and needs of the particular customer. For example, it would not be appropriate to provide a generic statement of demands and needs where the firm has not first taken steps to identify the demands and needs of the actual customer. However, generic statements of demands and needs may be appropriate if the firm has narrowed the product options it offers to only those where the customer's demands and needs match those in the statement.

#### **Our proposals – advised sales**

5.48 We propose to include a new requirement for firms which provide a personal recommendation to provide a personalised explanation why the proposed product best meets the customer's insurance demands and needs.

5.49 We expect firms to match the customer's demands and needs to the available products, and set out a personalised explanation of why the product proposed best meets those needs. To comply with this and the requirement to act in the customer's best interests, if the firm does not offer a product which meets the customer's needs it should say so.

## Appendix 1

**Q11: Do you have any comments on the illustrative examples set out in Table 2 (in relation to requirements concerning the customer's insurance demands and needs)?**

### The FCA Proposals:

Do you have any comments on the illustrative examples set out in Table 2 (in relation to requirements concerning the customer's insurance demands and needs)?

**Table 2: Illustrative examples concerning insurance demands and needs<sup>29</sup>**

Scenario	Likely compliant?	Comments
The customer is concerned about their cat falling ill. The firm offers only those pet insurance products which cover all vet's bills.	Yes	This is likely to be compliant as the firm has identified the customer's demands and needs, and offered only products which meet them.
The customer is concerned about their cat falling ill. The firm offers all their pet insurance products, including <i>accident only</i> cover.	No	This is unlikely to be compliant as the firm has proposed contracts which are not consistent with the customer's basic need.
The customer is concerned about their car not starting on a cold morning. The firm offers only breakdown insurance which offers cover at the home address.	Yes	This is likely to be compliant as the firm has identified the customer's demands and needs, and offered only products which meet them.
The customer is concerned about their car not starting on a cold morning. The firm offers all its breakdown policies, including those which only cover >¼ mile from home.	No	This is unlikely to be compliant as the firm has proposed contracts which are not consistent with the customer's basic need.
The firm offers the customer all their available products, and provides a generic statement with each product about the type of needs the product will meet.	No	This is unlikely to be compliant. Providing a generic statement may be sufficient to state the customer's demands and needs, but the firm has taken no steps to identify the needs of the specific customer or ensure the products are consistent with those demands and needs.
Offering the customer only motor policies which meet their demands and needs, but then offering add-ons to all customers regardless of whether these add-ons are consistent with those demands and needs.	Yes	This is likely to be compliant for the motor policy but not for the add-ons. This is because the firm has taken no steps to identify the needs of the customer or ensure the add-on products are consistent with those demands and needs.

## Appendix 1

### **Q12: Do you agree with our proposed amendments to ICOBS Chapter 6 to incorporate the IDD cross-selling requirements?**

#### **The FCA Proposals:**

5.54 We propose to copy out the IDD requirements into ICOBS 6.

5.55 Firms are also reminded that our existing ICOBS rules will apply to an insurance policy sold as part of a package, irrespective of whether insurance was the primary or ancillary product in a package. This includes pre-contract disclosure requirements and the prohibition on opt-out selling.

5.56 Firms must continue to comply with the existing provisions relating to the sale of guaranteed asset protection (GAP) and insurance as part of a packaged bank account, as well as our rules and guidance on the sale of add-on insurance products.

## Appendix 1

**Q13: What are your views on the provision of an IPID or other form of pre-contractual disclosure for commercial customers? Are there particular commercial customers (such as SME customers) that have different information needs?**

### **The FCA Proposals:**

Matters for discussion

IPID 5.58 For non-life insurance products

The IDD requires that product information be provided in a standardised Insurance Product Information Document (IPID). We intend to consult on IPID related transposition in our second Consultation Paper, after the relevant implementing technical standards have been adopted.

5.59 In developing the implementing technical standards for the IPID, EIOPA has focussed on retail consumers. They have stated that it will be for Member States to determine whether the IPID should be provided to all customers or just to retail consumers. It is important to bear in mind that the IPID will not be required in relation to the distribution of contracts of insurance for large risks.

5.60 We are seeking views on the application of the IPID to commercial customers. We consider that there are three options for this:

1. No change. To the extent possible under the implementing technical standards and the IDD, make no change to our current product information rules as they relate to commercial customers.
2. IPID application. Require the IPID template to be used for commercial customers, with no modification to the requirements as set out for consumers.
3. Alternative format. Develop a modified form of pre-contractual disclosure for commercial customers with the same objectives as IPID and broadly similar technical standards. This could, for example, take the form of an update to our policy summary guidance in ICOBS 6 Annex 2 to better target the information needs of commercial customers and better accommodate the complexity of some products provided to commercial customers.

5.61 Although these three options and their feasibility may change following the finalised implementing technical standards, we are seeking early stakeholder views on these options and the overall information requirements of commercial customers.

## Appendix 1

### **Q14: What are your views on the practical considerations of format and content if IPID requirements were to apply to some or all commercial customers?**

#### **The FCA Proposals:**

Matters for discussion

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The IDD requires that product information be provided in a standardised Insurance Product Information Document (IPID). We intend to consult on IPID related transposition in our second Consultation Paper, after the relevant implementing technical standards have been adopted.

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5.61 Although these three options and their feasibility may change following the finalised implementing technical standards, we are seeking early stakeholder views on these options and the overall information requirements of commercial customers.

## Appendix 1

### Q15: Do you agree with our proposal to extend the professional, organisational, and prudential requirements to in-scopes Alls?

#### Masterclass Commentary on The FCA Proposals:

It is difficult to consider that insurance brokers would not agree with this proposal unless there are commercial reasons linked to the Firm's own activities.

If your firm is linked to the activities of in -scope Alls then you should consider this section carefully and respond if you disagree with the proposals.

**Table 3: Summary of our proposals for Alls**

the IDD Requirement	In-Scope Alls	CTI Providers	Out-of-Scope Alls <sup>36</sup>
<b>SYSC – Professional, Organisational and PII Requirements (Chapter 3)</b>			
Must employee staff with appropriate knowledge and competence	✓	✓	✗
Minimum 15 hours CPD for employees involved in insurance distribution	✓	✓	✗
Minimum PII requirements	✓	✓	✗
Restriction on the use of intermediaries	✓	✓	✗
<b>DISP – Complaints and Out-of-Court Redress (Chapter 4)</b>			
Complaints arrangements	✓	✓	✓ <sup>37</sup>
Out of court redress	✓	✓	✓ <sup>38</sup>
Adhere to appropriate ADR scheme where providing insurance distribution services to customers in another EEA country	✓	✓	✗
<b>ICOBs 2 – Overarching Conduct of Business Requirements (Chapter 5)</b>			
General Principles	✓	✓	✓
<b>ICOBs 4 – Pre-Contract Information Disclosure Requirements (Chapter 5)</b>			
General Pre-Contract Disclosure <ul style="list-style-type: none"> <li>• Identity and address</li> <li>• Complaints procedures</li> <li>• Status disclosure</li> </ul>	✓	✓	✓
General Pre-Contract Disclosure <ul style="list-style-type: none"> <li>• Providing advice or information?</li> <li>• Acting for customer or insurer?</li> </ul>	✓	✓ <sup>39</sup>	✗
Conflicts of Interest and Transparency Disclosure <ul style="list-style-type: none"> <li>• Shareholding links with insurer</li> <li>• Personal recommendation based on fair analysis of the market or place business with a limited panel of insurers – to be named</li> <li>• Contractual obligations to place business with specific insurer(s) – to be named</li> </ul>	✓	✗	✗

## Appendix 1

### **Q16: Do you agree with our proposal to align the conduct of business regime for in-scope AIs with that for insurance intermediaries?**

#### **The FCA Proposals:**

All = Ancillary Insurance Intermediary

CTI = Connected Travel Insurance contract

Complaints and out-of-court redress

6.16 We propose to maintain the current position that our DISP rules apply to the activities of all firms within the UK regulatory perimeter; including in-scope AIs and CTI providers. We view this as a key customer protection.

Conduct of business requirements

6.17 We propose to keep our existing approach which aligns the regime for in-scope AIs with that for insurance intermediaries. This means that in-scope AIs will need to comply with the same conduct of business requirements as other intermediaries. This is for the general reasons set out in paragraphs 6.9 – 6.10. We also note that:

- It is important for customers to know whether they are receiving advice. The distinction between advice and information is often misunderstood by customers, so there is a benefit in firms stating this clearly upfront. This is particularly important in situations such as a vehicle purchase where the customer's attention is likely to be focused on the primary product.
- Conflicts of interest are as relevant in relation to an AI and another party in the distribution chain as they are to an insurance intermediary.

## Appendix 1

### **Q17: Do you agree with our proposal to extend the professional and organisational requirements to CTI providers?**

#### **The FCA Proposals:**

All = Ancillary Insurance Intermediary

CTI = Connected Travel Insurance contract

CTI providers

6.19 When CTI providers were brought within the UK's regulatory perimeter, the FSA consulted<sup>41</sup> and put in place a regulatory regime where some of the existing ICOBS requirements on disclosure were disapplied.

6.20 The rationale for that different regulatory regime was:

- the need to ensure a regulatory regime proportionate to the risks posed by CTI providers relative to the costs of regulation
- recognition of the fact that CTI providers are outside of the scope of the IMD, which afforded the FSA greater freedom to decide what is appropriate than for other general insurance intermediary business
- much of the competition to CTI providers in the travel insurance market at the time came from insurers distributing products directly to customers, and these insurers were not subject to the IMD derived requirements. It was considered proportionate to rely on certain high level rules in ICOBS rather than apply the more detailed ICOBS rules stemming from the IMD to CTI providers.

6.21 Since then, the market and regulatory context has changed considerably. For example, the growing use of price comparison websites means that market participants now include more insurance intermediaries, and the IDD requirements now extend to insurers.

Professional, organisational and PII requirements

6.22 For the same reasons as those set out in relation to in-scope AIs (see paragraph 6.15), we propose to extend the requirement for employees to undertake 15 hours of CPD per year to CTI providers, along with the minimum PII levels.

## Appendix 1

### **Q18: Do you agree with our proposed conduct of business regime for CTI providers?**

#### **The FCA Proposals:**

All = Ancillary Insurance Intermediary

CTI = Connected Travel Insurance contract

Complaints and out-of-court redress

6.23 We propose to maintain the current position that our DISP rules apply to the activities of all firms within the UK regulatory perimeter; including in-scope Alls and CTI providers. We view this as a key customer protection.

Conduct of business requirements

6.24 The FSA's original consultation paper on the regime for CTIs pointed out that when purchasing insurance alongside travel services there is a risk that they will focus less on the quality of the policy than they would if they were buying the insurance directly. To mitigate this risk, we propose requiring CTI providers to inform customers upfront whether they provide advice. This will help consumers be clear on the importance of their role in the decision-making process, given our understanding is that most CTI providers operate on a non-advised basis.

6.25 The FSA decided that it would not be proportionate to require CTI providers to make the other pre-contract disclosures required by IMD, other than disclosing the complaints process. We have considered whether there have been any changes in the market that would justify amending this position, and have concluded that there have not. As such, we do not propose to require CTI providers to make the other general information pre-contract disclosures required by the IDD.

6.26 We have also concluded that there is no justification for extending most of the IDD conflicts of interest and transparency disclosures to CTI providers. However, CTI providers will continue to be required to disclose fees payable by the customer in the same way as other insurance intermediaries. CTI providers should take note of our expectations set out in paragraph 5.31.

6.27 As required by our view of the minimum the IDD requirements, we propose that CTI providers should meet the requirements to identify and specify the customer's insurance demands and needs prior to completion of the contract. They will also be required to ensure that any contracts proposed are consistent with the customer's demands and needs. CTI providers should take note of the illustrative examples set out in Table 2 of Chapter 5.

6.28 We believe that it would not be appropriate to extend to CTIs the requirement to provide a personalised recommendation explaining why a specific product would best meet the customer's needs. This is because our understanding is that most CTI providers sell either a single product or a very limited range, usually on a non-advised basis.

6.29 We propose to apply the IDD cross-selling requirements to CTI providers in the same way as they apply to other authorised firms. This is in line with our view that the cross-selling rules form part of the IDD minimum requirements.

## Appendix 1

### **Q19: Do you agree with our proposals for authorised firms distributing through out-of-scope AIs?**

#### **The FCA Proposals:**

All = Ancillary Insurance Intermediary

CTI = Connected Travel Insurance contract

Out-of-Scope AIs

6.31 This section sets out our proposals for the requirements described in paragraph 6.7.

6.32 Our view is that an authorised firm which chooses to distribute products through an out-of-scope AI is responsible for ensuring that the AI complies with the requirements described in paragraph 6.7. This is likely to mean that the authorised firm will need to put in place measures to monitor the activities of the out-of-scope AIs.

6.33 We propose to incorporate into ICOBS a requirement on the authorised firm to ensure that customers are provided with information on its identity, address and its complaints procedure.

6.34 We consider that the provisions relating to the general principles and cross selling are such that the only appropriate and proportionate standard would be alignment with the requirements applied to all other firms. We do not believe it would be appropriate or desirable that firms distributing through out-of-scope AIs could operate to different standards than those carrying out direct distribution activities. As such, in these areas we propose that authorised firms will be responsible for ensuring any out-of-scope AIs that they use comply with the same standards as insurance intermediaries.

6.35 In relation to the standards for advised and non-advised sales, we propose that authorised firms must ensure that the AI complies with the same standards as insurance intermediaries. This includes:

- identifying and specifying the customer's demands and needs
- only proposing contracts which are consistent with those demands and needs
- (for sales involving a personal recommendation) providing a personalised explanation of why a particular product would best meet the customer's needs.

6.36 Both authorised firms and out-of-scope AIs should take note of the illustrative examples set out in Table 2 of Chapter 5.

6.37 The IDD states that the responsibility for ensuring compliance with these requirements rests either with the insurance undertaking or the insurance intermediary carrying out distribution activity through an out-of-scope AI. We currently expect all authorised firms to have sufficient oversight of their distribution chains to ensure their products are distributed appropriately through out-of-scope AIs. We consider that these IDD provisions will enhance the oversight requirements that already apply to authorised firms.

# Appendix 1

## Q1: Do you have any comments on our proposed approach to the application of the IDD?

### The FCA Proposals:

What the FCA Says:

In this chapter we set out how we propose to apply the requirements of the IDD to different classes of insurance, types of firms and groups of customers.

2.2 The IDD applies to persons who conduct insurance distribution to customers. Broadly, this means firms who sell, advise on, or conclude insurance contracts, and those who assist in administering or performing insurance contracts.<sup>5</sup> Typically these are insurers, insurance brokers, and firms such as banks or retailers who provide insurance alongside their primary business. Customers of these firms range from individual consumers to large multinational corporations.

2.3 The IDD introduces a new category of firm called an ancillary insurance intermediary (AII). These are firms whose primary business is something other than insurance distribution, and who sell insurance ancillary to the other goods/services they provide. These include firms such as motor vehicle dealers and travel agents. We discuss our proposals for the regulatory regime to apply to these firms in Chapter 6.

2.4 In our Handbook, insurance distribution is captured by a group of regulated activities called insurance mediation activities.<sup>6</sup> To bring the Handbook into line with the IDD we propose to rename this term insurance distribution activities.

### Application to insurance and reinsurance undertakings

2.5 Although the IMD only covered the activities of insurance intermediaries, our current rules also impose requirements on insurance undertakings when they are distributing products directly to customers. This was intended to create a level playing field between firms, and to ensure customers are protected regardless of the firm they choose. As the IDD applies to the distribution of insurance by both intermediaries and undertakings, we propose to maintain the application of these rules to insurers. Where the minimum requirements of the IDD go beyond our existing rules, we will include these requirements in our rules.  
Distributors of insurance for large risks and reinsurance

2.6 The current Insurance Conduct of Business sourcebook (ICOBS) rules exclude reinsurance contracts and only limited rules apply to transactions for contracts covering large risk.<sup>8</sup> We are proposing some changes to this.

<sup>5</sup> The full definition can be found in Article 2(1)(1) the IDD. <sup>6</sup> The regulated activities set out in Article 21, Article 25, Article 39A, Article 53 and Article 64 RAO, when carried out in regards to insurance contracts. <sup>7</sup> Contracts of large risks is defined by reference to Solvency II (2009/138/EC) <sup>8</sup> ICOBS 1 Annex 1 part 2

2.7 The IDD requirements within Article 17 (General Principles) and Article 24 (Cross-Selling) apply to distribution relating to large risks. We propose to implement these requirements through changes to ICOBS. These changes are discussed in Chapter 5. However, the IDD does not apply these requirements to reinsurance transactions.

2.8 The IDD information disclosure requirements<sup>9</sup> need not be applied in relation to large risks. We propose to maintain the approach we took under the IMD, which was:

- to rely on the exemption, in its entirety, for distribution of contracts of insurance for large risks where the customer is a commercial customer
- to not rely on the exemption in relation to large risks transactions with retail customers within the EEA



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