FINANCIAL CONDUCT AUTHORITY

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Rules applicable to firms who are within the scope of the Insurance Distribution Directive (IDD)

Lead regulator: FCA

Date of assessment: 20/06/2018

Commencement date: 01/10/2018

Origin: The Insurance Distribution Directive (IDD)

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? General Insurance and Life Insurance

Brief outline of proposed new or amended regulatory activity

The Insurance Distribution Directive (IDD), a European Directive, replaces the Insurance Mediation Directive, it aims to give consumers greater protection when they buy insurance (including life and general insurance) and to support competition.

The IDD applies to the distribution of contracts of insurance. It applies some general requirements to all types of insurance. Additional rules apply for products classed as Insurance-based investment products (IBIPs). IBIPs include, for example, endowments and insurance bonds but not pensions.

Our default position has been to introduce the minimum standards of the IDD into our handbook. For some areas of the directive we have gone beyond the minimum standards required, mainly where our existing requirements are higher than those in the directive, or to apply IDD standards to a wider range of firms than within the scope of the directive to ensure consistency, and in some cases, to align standards with the Markets in Financial Instruments Directive II (MIFID II). This is because IBIPs, which are within the scope of IDD, are generally viewed as being in the same relevant market and often substitutable for MIFID II investment products. Where we are levelling up requirements between firms, this will provide a level playing field ensuring consistent competition and consumer benefits including increasing trust and reducing barriers to entry, and enabling firms to expand/diversify their products more easily. In addition, this approach provides consistent compliance and reduced costs for firms doing mixed IDD/ MiFID business.

We have gone beyond the IDD minimum in 8 key areas as set out below. 3 of these areas relate to extending the scope of elements of the directive to Ancillary Insurance Intermediaries

(AIIs), a new category of firm created by the IDD. AIIs' primary business is something other than insurance distribution. They may only distribute insurance products complementary to the goods/services they provide, for example providers of motor goods.

Conflicts of interest (extending scope to GI and life insurance)

We are retaining the current scope of our existing conflicts of interest provisions. These apply broadly to both life and General Insurance (GI) business. In contrast, IDD conflicts requirements apply to the distribution of IBIPs only.

As well as retaining the existing scope of the rules, we are maintaining some additional requirements that go beyond the IDD, and are updating the rules to align with changes made by MiFID II. By aligning the requirements, we will ensure a level playing field in this area between investment-based insurance and other substitutable products covered by MiFID II. This will ensure consistent competition and consumer protection benefits (including the provision of more comprehensive and detailed information helping inform consumers) as well as improving firms' own oversight over their potential conflicts.

Good repute record keeping (extending scope to GI and life insurance intermediaries)

The IDD requires that insurance undertakings and intermediaries undertake good repute checks, and that insurance undertakings also (i.e. excluding intermediaries) keep records of those checks. We are extending the record keeping part of the good repute requirements to include intermediaries. This should ensure competitive benefits of ensuring consistent standards, ensuring a level playing field in the sector. Furthermore, this will make it easier to verify the requirements are met and so help reduce the risk that staff are not of good repute and reduce the risk of insurance mis-selling.

Product oversight and governance (POG) (extending scope to GI and life insurance)

The IDD includes provisions which promote effective product governance. However, where firms do not engage in insurance distribution, e.g. if they design products but rely on other firms to distribute them, the minimum requirements of the Directive will not apply to them. In addition, some insurers (such as small friendly societies) are not within the meaning of an 'insurance undertaking' in the IDD and would not be subject to the minimum requirements. To ensure a level playing field and the fair treatment of all insurance customers, regardless of the type of firm providing products or whether they also distribute the product, we have chosen to apply the requirements to both life and GI firms that manufacture or distribute insurance products including, those outside the scope of the IDD.

We have also gone beyond the IDD requirements to improve alignment with MiFID II. This will help ensure a level playing field where insurance-based investments can compete with MiFID products and will improve consumer protection for customers buying all types of insurance.

We consider that the rules will, in particular, help improve some firms' assessments of target markets, distribution strategies and product reviews, helping to reduce the risk of harm to consumers and complaints to firms.

Information disclosure to customers (extending scope to all types of life insurance) Pre-contract disclosures (Life insurance)

Our rules incorporate the IDD requirement to provide product information to all customers purchasing a life insurance policy. Our new requirements will apply to all types of life insurance, going beyond Insurance Based Investment Products (IBIPs) (the IDD minimum). We have chosen to do this to ensure a level playing field between firms and ensure that consumers receive similar disclosure when purchasing products which are substitutable, which will provide the relevant information to help them make informed decisions about whether to take out the product.

Inducements (going beyond IDD requirements for life insurance)

The IDD requires that remuneration for insurance distribution does not conflict with firms' duty to act in the best interests of customers and that firms must disclose the nature of remuneration. We are maintaining a consistent inducements regime across IDD and MiFID II business, where possible, and levelling up to MiFID II standards where higher than existing COBS rules or the IDD where appropriate.

Employee competence and training (extending scope to AIIs)

The IDD requires that employees of insurers and insurance intermediaries complete 15 hours of Continuing Professional Development (CPD) per year. We have also applied the 15 hours CPD requirement to AIIs to retain a level playing field between firms and to reduce the risk of mis-selling. We do not consider that products sold by AIIs have a lower risk of customer detriment than sales by other intermediaries.

Knowledge, competence and good repute record keeping (extending scope to AIIs)

The IDD requires insurers to maintain records of the CPD undertaken by their employees. However, this does not apply to insurance intermediaries or AIIs. We have extended this requirement to insurance intermediaries including AIIs to retain a level playing field between firms and to reduce the risk of mis-selling.

Pre-contract disclosures (extending scope to AIIs)

The IDD sets out a number of pre-contract disclosure requirements which apply to insurers and insurance intermediaries. Although AIIs must comply with most of these disclosures, some are dis-applied. We have imposed all pre-contract disclosures to AIIs to ensure that, as far as possible, we have a single set of standards across all insurance intermediaries and to help ensure that customers of AIIs can make an informed decision.

Which type of business will be affected? How many are estimated to be affected?

Each of the areas that we have extended IDD requirements in applies to a particular group of firms:

Measure	Firms affected
Conflicts of interest	GI and life insurance
Good repute record keeping	GI and life insurance intermediaries
Product oversight and governance (POG)	GI and life insurance firms
Information disclosure to customers	Life insurance (extending beyond IBIPS to all life products)
Inducements	Life insurance
Employee competence and training	AIIs
CPD and good repute record keeping	AIIs
Pre-contract disclosures	AIIs

It is not possible for us to determine the exact number of firms that will be affected where we have gone over and above IDD minimum standards because this would require detailed analysis of: each firm's specific activities (and their existing systems and processes), and distribution arrangements for all products in the UK. However, we estimate[1] that the following firms will be affected:

- GI Insurers (with personal lines gross written premium (GWP) above £50,000) – approximately 30 firms estimated to be affected by measures for conflicts of interest, and POG
- GI intermediaries (with insurance income above £1m) – c300-400 estimated to be affected by measures for conflicts of interest, good repute record keeping, POG
- GI and non-GI intermediaries (with insurance income between £150,000 and £1m) – up to 4,500 affected by measures for conflicts of interest, good repute record keeping, POG and inducements.
- GI and non-GI intermediaries with insurance income between £1 and £150,000 – 2,185 affected by measures for conflicts of interest, good repute record keeping, POG and inducements
- Life providers (firms that underwrite life policies) – 25 estimated to be affected by measures for conflicts of interest, POG, inducements and information disclosure to customers
- Non-GI intermediaries[2] with regulated income above £1m – 280 estimated to be affected by measures for conflicts of interest, good repute record keeping, POG, inducements and information disclosure to customers
- AIIs 500 estimated to be affected by measures for employee competence and training, CPD and good repute record keeping and pre-contract disclosures)

Price base year	**Implementation date**	**Duration of policy (years)**	**Business Net Present Value**	**Net cost to business (EANDCB)**	**BIT score**
2018	01/10/2018	10	-£80.7	£9.4	£46.9

Please set out the impact to business clearly with a breakdown of costs and benefits

The relevant requirements relating to the rules are set out and discussed below. At a high level, the levelling up of requirements across firms will increase trust and reduce barriers to entry, enabling firms to expand/diversify their products more easily. More detail on our approach is set out on page 1 of this impact assessment. These changes should also reduce familiarisation costs, create consumer protection benefits, and encourage persistency benefits, with bigger potential markets in time.

We expect changes set out below to reduce the number of complaints received by firms and generate a total benefit to firms of £6.4m per annum, based on an assumed 7.5%[3] reduction in insurance complaints (excluding PPI).

[1] We have estimated the number of firms using data from Synthesis and the Retail Mediation Activities Return (RMAR) returns. We have also used the responses to our compliance cost surveys

[2] Excluding firms classified as arranging only, no primary category, home finance, consumer credit and service.

[3] This assumed improvement is based on the changes we introduced

We estimate that these changes, together, create familiarisation costs of £4.5m. This cost covers reading the three IDD policy statements and the final instrument. We have factored in that a substantial proportion of the policy statements and instrument cover changes implement the IDD minimum.

For the proportion of GI and non- GI intermediaries (with insurance income between £150,000 and £1m) expected to incur costs, we estimated these to be in the region of £250 or £500 (one-off costs) with no ongoing costs for each of the affected areas.

When estimating the costs, we used the results from the compliance cost survey to calculate the proportion of relevant firms expected to incur costs and the average cost for those firms. Additional adjustments were made for firms with income below £5m to reflect the fact that the average income of the firms responding to the compliance cost survey was significantly higher.

More detail on the cost calculations can be found in **Annex 1**.

1) Conflicts of interest (align with MiFID II/ broader scope of firms)

The IDD has a set of provisions designed to stop conflicts of interests leading to consumer harm in the distribution of IBIPs. The IDD requirements focus on the need for effective organisational and administrative arrangements by insurance intermediaries and undertakings to avoid conflicts leading to consumer detriment in relation to IBIP distribution.[4]

Firms are, amongst other things, required to:

- take all appropriate steps to identify conflicts of interest between themselves and their customers, or between one customer and another,
- take all reasonable steps to prevent conflicts of interest, and
- where the arrangements put in place to manage conflicts of interest are not sufficient to ensure that the risks of damage to customer interest will be prevented, disclose to the customer the general nature or sources of any conflicts.

Existing FCA conflicts of interest requirements applied to intermediaries of all types of insurance (as well as other products). These were largely consistent with the IDD measures but were not limited only to IBIP distribution. Insurers were subject to high-level requirements rather than the more detailed conflicts of interest requirements. The high-level requirements were that firms must establish and maintain such systems and controls as are appropriate to its business.

We maintained the current approach in our rules of applying conflict of interest requirements to intermediaries of all types of insurance (including all life and general insurance business) rather than limiting the application to IBIP business only. The IDD requirements are broadly consistent with existing detailed rules, so the impact on firms should be low, while maintaining existing consumer protections.

Whilst the IDD requirements are not expressed in identical terms to the MiFID II conflicts requirements, we consider that, in many respects, the substance of the obligations are the same. Where the MIFID II requirements go beyond the IDD requirements (for example, in relation to the disclosure of conflicts) we levelled up to the MIFID II requirements to create a level playing field of consumer protections and to avoid competitive distortions. We therefore

[4] For further information, see the second and third IDD consultation papers: https://www.fca.org.uk/publication/consultation/cp17-23.pdf and https://www.fca.org.uk/publication/consultation/cp17-33.pdf.

applied relevant existing rules (as amended following MIFID II implementation) to firms carrying on insurance distribution.

Where IDD requirements go beyond those in MiFID II or our existing rules, we copied out those requirements. For example, the IDD specifies that the arrangements put in place to prevent conflicts of interest should be proportionate to the activities performed, the insurance products sold and the type of intermediary.

As explained above, insurers were subject to higher-level requirements than the more detailed existing conflicts provisions, but the IDD applied the conflicts provisions to insurers as well as third-party intermediaries. We implemented the IDD minimum requirements to insurers in relation to conflicts save that, as with other insurance intermediaries, the rules apply to all types of insurance rather than IBIP business only.

Our approach applies to a wider scope of firms, but we consider that the IDD and MiFID II requirements are broadly consistent with our existing SYSC 3 and SYSC 10 rules. SYSC 3 covers systems and controls requirements and SYSC 10 covers conflicts of interest.

- A significant majority of GI providers (70%) and intermediaries (70%) that responded to the compliance survey therefore indicated that they did not expect these requirements to generate additional costs.
- Intermediaries distributing life policies generally conduct mixed business (i.e. distributing both MiFID products and life policies). These firms are likely to have already implemented the higher MiFID II conflict requirements (with which we aligned our requirements) for non-MiFID II business. We therefore expect costs to be minimal for these firms. This was confirmed by a number of firms in the cost survey for the second IDD consultation.
- Life providers reported that the requirements would result in little or no costs, and our estimate for industry costs for life providers are £0.1m for one-off costs and no ongoing costs.
- Estimated total industry costs (including both GI and life) were £2.1m for one-off costs and £2.2m for ongoing costs. These costs were estimated using the compliance cost survey results to calculate the proportion of relevant firms expected to incur costs and the average cost for those firms.

2) Good repute record keeping (broader scope of firms)

The IDD requires that natural persons working in an insurance or reinsurance undertaking, or insurance or reinsurance intermediary, who pursue insurance or reinsurance distribution shall be of good repute. This includes persons within the management structure responsible for, and any staff that are directly involved in, insurance or reinsurance distribution. In addition to the good repute requirements, the IDD requires that insurance and reinsurance undertakings establish, maintain and keep appropriate records to demonstrate their compliance with the good repute requirements. In relation to the record-keeping provisions, we applied the requirement to all firms to which the good repute requirements apply, as we consider this an appropriate way to demonstrate compliance with the rules.[5]

We consider that the costs to firms of the additional record keeping requirements will be low. Approximately 50% of firms reported that these requirements would not result in additional

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[5] For further information, see the second IDD consultation paper: https://www.fca.org.uk/publication/consultation/cp17-23.pdf.

costs. Of the intermediaries that reported potential costs, most considered that the one-off and ongoing costs would be low. The highest ongoing cost estimates for record-keeping was £10,000 for one large firm. The estimated industry costs were £3.4m for one-off costs and £1.1m for ongoing costs.

We consider that applying the record keeping requirement to intermediaries will lead to ongoing and consistent consumer protection benefits across different distribution channels – and will help reduce the risk for firms that staff are not of good repute and reduce the risk of insurance mis-selling.

3) POG (broader scope of firms/ align with MIFID II)

Product governance relates to the systems and controls firms must have in place for the design, approval, marketing and ongoing management of products throughout their lifecycle.[6]

In summary, the IDD provisions require firms that manufacture insurance products to:

- maintain, operate and review a product approval process for new products, and existing products to which significant adaptations have been made, before such products are marketed or distributed,
- specify a target market for each product,
- ensure all relevant risks to the target market are assessed,
- develop a distribution strategy consistent with the target market,
- take reasonable steps to ensure the product is distributed to the target market,
- regularly review products, at least to ensure the product remains consistent with the needs of the target market and the distribution strategy remains appropriate, and
- make available all appropriate information on products and the product approval process to intermediaries.

Firms that distribute products which they do not manufacture are required to have in place adequate arrangements to obtain information about the product and the product approval process, and to understand the identified target market.

The FCA already looked at how firms design products and at their ongoing governance procedures to ensure that products function as intended and reach the right customers. Prior to the introduction of the IDD provisions, there was guidance on firms' obligations for product governance. We consider that this guidance covers broadly similar matters as the IDD provisions. Therefore, we do not expect the introduction of the new provisions to require significant change for UK firms in practice.

Where the existing guidance went further than the IDD provisions, we retained it by copying it to the new rules. For example, we included guidance that, in monitoring and reviewing products after sale, manufacturer firms should consider the need for communication of contractual breakpoints to customers and the need for fair and prompt claims handling.

MiFID II also introduced product governance requirements for MiFID business. In general, the IDD and MiFID II product governance requirements are similar, though not fully aligned. The MiFID II requirements go further than the IDD in a number of areas. We improved alignment

[6] For further information, see the second and third IDD consultation papers: https://www.fca.org.uk/publication/consultation/cp17-23.pdf and https://www.fca.org.uk/publication/consultation/cp17-33.pdf.

between the two by introducing requirements based on the additional MiFID II provisions, adapted where necessary for firms conducting insurance business. This covers areas such as:

- product design considerations in assessing product charging structure and value for money
- ensuring manufacturers make available to any distributor information regarding the target market assessment undertaken
- information that intermediaries should seek from manufacturers

We applied the product governance provisions to all insurers and insurance intermediaries where those firms manufacture or distribute insurance products. This includes applying the requirements to all insurers, whether they distribute products directly or via intermediaries. We also applied these requirements to firms which may not be within scope of the directive. We consider that these new requirements should apply to all firms involved in insurance product manufacture and distribution to create a level playing field of consumer protections, and to promote effective competition in the interests of consumers by avoiding competitive distortions.

Where manufacturer firms do not already have sufficient product governance processes in place, there will clearly be costs for compliance including the development of new processes and managing those processes each year. However, most firms in our compliance cost survey considered that they would not incur any additional costs. Where firms expected costs to be included, the largest potential one-off costs were considered to be legal and compliance, followed by setting up arrangements to manage relationships with other firms (such as intermediaries) and training staff about the new procedures. For ongoing costs, the highest costs are expected to be managing relationships with other firms followed by product testing and compliance monitoring. Cost estimates from firms ranged from £30,000 to £345,000 for one-off costs for GI insurers, and between £15,000 and £475,000 for ongoing costs. For manufacturers of life products, cost estimates ranged from £0 to £11,000 for one-off costs and no ongoing costs. For intermediaries who expected to incur costs, cost estimates for one-off costs ranged between £1,000 and £50,000 for most firms and ongoing costs between £0 and £5,000 for most firms. The estimated industry costs were £9.3m for one-off costs and £5.5m for ongoing costs. For the ongoing costs we expect that £0.2m of these costs (which relate to ongoing IT costs) will not be incurred during the first year.

4) Information disclosure to customers (broader scope of firms)

The IDD introduces a range of new requirements for firms distributing IBIPs including providing appropriate information, providing adequate periodic reports to customers and keeping a record of customer agreements.[7] The IDD requires:

- appropriate information to be provided to the customer including, at least, all costs and charges, risk warnings and whether the firm will conduct periodic assessments of suitability
- firms to establish and keep a record of a document that includes the rights and obligations agreed with customers and any other relevant terms of service
- adequate reports on the firm's service are provided to customers, including, where applicable, the costs associated with the transactions and services undertaken on behalf of the customer

[7] For further information, see the second and third IDD consultation papers: https://www.fca.org.uk/publication/consultation/cp17-23.pdf and https://www.fca.org.uk/publication/consultation/cp17-33.pdf.

Existing FCA rules required firms to provide:

- fair, clear and not misleading information,
- information in a comprehensible format (which may be standardised),
- general and specific information about the firm and its services, and
- general and specific information on all costs and associated charges, including timing and ongoing disclosure requirements

These requirements relate to firms distributing life policies and apply differently depending on customer type. In a number of places our current rules do not require that information is provided to professional customers and/or in relation to eligible counterparty business.

We implemented the new IBIP disclosure requirements alongside their MiFID II counterparts in the Handbook and, in some cases, relocated current standards in order to consolidate rules into one location. We retained existing rules for non-IBIP life business. This included relocating and rewording existing requirements for life policies to consolidate rules, while retaining the existing standards expected under them.

We expect some minor one-off transitional costs as firms amend their existing documents to meet the revised rules. However, we do not anticipate that there will be a substantial change to ongoing costs as we expect firms to be able to incorporate these requirements into documentation and processes already established to comply with our current Conduct of Business Sourcebook (COBS) disclosure rules. We consulted stakeholders over the course of 2017 and no additional costs were identified.

5) Inducements (align with MiFID II) (Life business)

There are a number of IDD requirements that relate to inducements:[8]

- In relation to the distribution of an IBIP only, firms must ensure that the payment of any fee, commission or non-monetary benefit by any person except the customer or a person acting on behalf of the customer (a) does not have a detrimental impact on the quality of the service provided and (b) does not impair compliance with the duty to act honestly fairly and professionally in the best interests of customers, and
- Member States are also empowered by the IDD to limit or prohibit fees, commissions or other monetary and non-monetary benefits paid to insurance intermediaries and to impose stricter requirements on intermediaries in respect of certain specific matters.

The FCA's existing inducements rules applied to designated investment business which includes life policies. These were largely derived from MiFID I requirements and, regardless of whether advice is provided, these rules prevent firms from paying or receiving fees, commissions or non-monetary benefits except in certain prescribed circumstances. These rules were updated following the introduction of MiFID II.

In December 2012, as part of the RDR, we introduced new adviser charging rules for the retail investment advice market. Building on the inducements regime, these rules were designed to remove the potential for adviser remuneration to distort the advice that consumers receive. The rules require that advisers providing advice to retail clients in the UK on RIPs are remunerated by adviser charges agreed with, and paid by, clients (rather than through commissions or other types of monetary or non-monetary benefit) and that provider firms may

[8] For further information, see the second and third IDD consultation papers: https://www.fca.org.uk/publication/consultation/cp17-23.pdf and https://www.fca.org.uk/publication/consultation/cp17-33.pdf.

not offer or pay inducements to adviser firms. In addition to this there are other rules within the Handbook which limit how firms remunerate or are remunerated in relation to their business.

Our approach was to:

- apply the high-level inducement rule to firms doing insurance distribution activities in relation to IBIPS
- maintain the existing requirements for other life policies without changes; and
- continue to apply the RDR rules.

Where IDD requirements differ from those in MiFID II or our existing rules, we copied out those requirements in addition to existing requirements. We consider that there is only one provision in the IDD inducements requirements where this was necessary. The IDD requires that the payment of inducements by a third party must not have a detrimental impact on the quality of the service. This differs from the MiFID II requirement that inducements must be designed to enhance the quality of the service. We consider the concepts are aligned to an extent; however, they can be viewed as setting different standards. We recognise the Commission's apparent intention to set a specific minimum standard for the insurance sector under the IDD. However, we do consider that there are circumstances in which the MiFID II test may deliver better consumer outcomes and so we intend to retain this and to include the additional IDD wording in our rules. In many cases, the two requirements should lead to similar outcomes, so we do not consider that this is a significant change.

We expect firms will already be looking to apply MiFID II standards to relevant business. Therefore, as previously set out in this Impact Assessment, we do not expect that levelling up in this way will generate additional costs. Where we are proposing to maintain existing super-equivalent rules we do not consider that these requirements will result in additional costs for firms. We therefore estimate the cost estimate for inducements to be £0.0m.

6) Employee competence and training (AIIs)

The IDD introduces ancillary insurance intermediaries (AIIs) as a new category of insurance intermediary. These are firms who meet the following requirements:[9]

- The firm's principal professional activity is not insurance distribution, and
- The firm only distributes insurance products which are complementary to goods and services they provide as their primary professional activity.

The IDD does not require the direct regulation of AIIs whose insurance distribution activities are limited to products which meet particular criteria. These criteria relate to the nature of cover provided by the products, the amount of the annual premium and certain other matters.

For the purposes of our work, we considered three categories of AIIs. These categories are:

- "In-scope AIIs" – Firms who meet the definition of being an AII and are within the UK's regulatory perimeter. This includes firms within scope of the Directive and firms such as motor vehicle dealers whose insurance distribution activities may be outside of the IDD but who are within the UK regulatory perimeter.
- "Connected travel insurance (CTI) providers" – Firms whose primary business is to make travel arrangements for customers, but who distribute insurance that is

[9] For further information, see the first IDD consultation paper: https://www.fca.org.uk/publication/consultation/cp17-07.pdf.

complementary to those services, such as travel agents, tour operators and airlines. The distribution of CTI contracts was bought into FCA regulatory scope subsequent to the implementation of the Insurance Mediation Directive (which was replaced by the IDD) and is currently subject to a different regulatory regime.
- "Out-of-scope AIIs" – Firms who are outside the UK regulatory perimeter by virtue of the UK's connected contracts exclusion (CCE). Common examples include electronic goods and furniture retailers.

Our general approach is to align the regime for AIIs with the regime for insurance intermediaries. However, there are some areas where we do not consider that this is necessary for CTI providers. We propose to introduce new rules on firms distributing products through out-of-scope AIIs to ensure the minimum IDD requirements outlined above are met.

The rationale for this approach is that we believe it is important to have, as far as possible, a single set of standards across the industry. In particular:

- We do not consider that products sold by AIIs have a lower risk of customer detriment than others. Indeed, our previous reviews into markets such as Guaranteed Asset Protection (GAP) and mobile phone insurance have found that these types of ancillary insurance products can present a high risk of customer detriment.
- The distinction between AIIs and insurance intermediaries is not likely to be well understood by customers. It is unlikely that the firm's category will be a major factor in influencing customers' decisions about where to buy their insurance. Having two different standards of conduct would have the effect of lessening customer protections based on a distinction that customers are unlikely to be understand, or see as relevant.
- We are also conscious of the need to avoid market distortions by reducing the regulatory burden on some firms relative to their competitors.

In relation to employee competence and training, the IDD requires that AIIs ensure their employees have appropriate knowledge and ability. However, it does not require employees of AIIs to undertake a minimum of 15 hours continuing professional development per year. The IDD also provides discretion over the level of PII cover that AIIs are required to hold.

We required in-scope AIIs providers to comply with the same requirements as insurance intermediaries. This is because:

- We believe it is important that services are provided to customers by competent employees. This is a key customer protection, and we believe it should be in place regardless of the category of firm.
- In discussions with relevant stakeholders, we have been told that staff working for AIIs usually have a primary responsibility that is unconnected to insurance (for example, to sell cars or electrical goods which are the firm's primary business). It is understandable that this will be the main focus of their training, and will take up the majority of their working day. However, we believe this increases the risk that sales or other distribution activities will not be performed to the required standard, and supports the need for additional training.
- We believe it is appropriate to continue with the existing requirement for in-scope AIIs to hold the same level of PII cover, or comparable guarantee, as insurance intermediaries.

Compliance survey information received from large AII firms (with high levels of insurance income) indicated one-off costs of £10,000 to £100,000, and ongoing costs of £100,000 to £450,000. Based on the number of advisors for these firms the average cost per advisor was

£22[10] per advisor for one-off costs and £137[11] per advisor for ongoing costs. Our estimate for AIIs across the market is £0.8m[12] for one-off costs and £5.0m[13] for ongoing costs, based on an estimated number of advisors for these firms of 36,763.

However, we consider the estimates of both the one-off and ongoing costs to be higher than the costs which will in fact be incurred as they do not take into account guidance which allows the content of CPD to be modulated, and for some unstructured activities to be considered CPD. They also do not take into account the costs which firms currently incur in providing training to their employees. Subsequent discussions with industry have suggested that these will significantly reduce the costs; in particular, by reducing the costs of designing/delivering internal training and of paying for external training.

7) CPD record keeping (AIIs)

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 in-scope AIIs. We expect that firms will already maintain records of employee competence as part of compliance with existing high-level rules.[14]

We consider that this cost will be low and most firms in our survey confirmed there would be no or minimal costs associated with this requirement. Our estimate for AIIs is nil for one-off costs and £0.3m[15] for ongoing costs.

8) Pre-contract disclosures (AIIs)

As set out above, some pre-contract disclosures are dis-applied for AIIs. We have applied those disclosures which were dis-applied (being whether or not the AII is providing advice and whether the AII is acting for the customer or insurer) to ensure that, as far as possible, we have a single set of standards across all insurance intermediaries and to help ensure that customers of AIIs can make an informed decision. The information we received from intermediaries and insurers was that the cost for most firms is likely to be nil or minimal and in practice some AIIs will already disclose this information. The majority of firms with whom we have engaged consider the costs associated with this change to be low. Furthermore, information received from firms indicates that adjusting the disclosures will have a low or nil cost. Our estimate of the one-off costs to AIIs is £0.1m[16].

The impact of our rules on small and micro firms

We do not expect the proposals in this paper to have a proportionally different impact on small and micro firms. Based on responses from small firms in the compliance cost survey we estimated costs on small firms (with insurance income below £1m) to be £250 or £500 per area for one-off costs and minimal for firms with insurance income below £150,000. The

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[10] Being estimated total one-off costs of £130,000 for the AII firms in the survey divided by the number of advisors for those firms (5,800)

[11] Being total ongoing costs of £795,000 for the AII firms in the survey divided by the number of advisors for those surveyed firms (5,800)

[12] Being 36,763 advisors x £22.4 = £823,491

[13] Being 36,763 x £137 = £5,036,531

[14] For further information, see the first IDD consultation paper: https://www.fca.org.uk/publication/consultation/cp17-07.pdf.

[15] Being 36,763 x £7.8 = £286,751

[16] Being 36,763 x £1.9 = £69,850

consumer protection measures are important protections for all consumers, whether they are served by a large or small firm. However, the rules are generally principles-based and apply in a way that is appropriate and proportionate to the service provided.

Review of the rules

We are committed to a full Handbook review. We will undertake this review once the Handbook has been adjusted to reflect the UK's exit from the EU.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

https://www.fca.org.uk/publication/policy/ps-18-1.pdf

https://www.fca.org.uk/publication/policy/ps17-21.pdf

https://www.fca.org.uk/publication/policy/ps17-27.pdf

Relevant sections of the cost-benefit analysis from FCA consultation papers

IDD implementation consultation paper 2,
https://www.fca.org.uk/publication/consultation/cp17-23.pdf Annex 2:

- Conflicts of interest (align with MiFID II/ broader scope of firms) – page 52 (paragraphs 9-11)
- Good repute record keeping (broader scope of firms) – page 56 (paragraphs 33 to 34) - By way of further background, not included in the CP (paragraph 33), of the 52% of firms who identified approximately 22% identified costs relating only to the record keeping checking (minimum requirements) rather than record-keeping. Hence around 30% of firms were identified as incurring additional costs relating to the record-keeping requirements. For paragraph 34 in the CBA, a high proportion of the costs quoted relate to the IDD minimum requirements of performing good repute checks rather than record keeping.
- Inducements (align with MiFID II) (Life business) – pages 52-53 (paragraphs 14 to 16)

IDD implementation consultation paper 3,
https://www.fca.org.uk/publication/consultation/cp17-33.pdf Annex 2

- Conflicts of interest (align with MiFID II/ broader scope of firms) – page 37 (paragraphs 16 to 18) - By way of further background, not included in the CP (paragraph 17) the insurers (i.e. providers) which responded to the cost survey were larger on average (in terms of insurance income) compared to the average size of the firms in the wider population and hence the average costs in Annex 1 of this impact assessment are relatively low compared to the figures in the CBA.
- POG (broader scope of firms/ align with MIFID II) – pages 38 to 39 (paragraphs 25 to 30). By way of further background and not included in the C (paragraph 37) the insurers which responded to the cost survey were larger on average (in terms of insurance income) compared to the average size of the firms in the wider population and hence the average cost in Annex 1 of this impact assessment are lower than the average of the three firms reporting costs in paragraph 37 of the CBA.
- Inducements (align with MiFID II) (Life business) – page 25 (paragraphs 5 to 7)

IDD implementation consultation paper 1,
https://www.fca.org.uk/publication/consultation/cp17-07.pdf Annex 2

- Employee competence and training (AIIs) – page 48 (paragraphs 56 to 60)
- CPD record keeping (AIIs) – page 41 (paragraph 8)

Annex 1 – Detail of the cost calculations

Conflicts of interest

Area	One-off costs	Ongoing costs
Conflicts of interest	- GI intermediaries – an estimated 269 firms affected (reflecting our survey which found that 30% of intermediaries would incur costs) with insurance income between £1m and £5m x £5,000 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £336,250 - GI intermediaries – an estimated 145 firms affected with insurance income above £5m x £5,000 = £725,000 - GI intermediaries with insurance income below between £150,000 and £1m – estimated 1,673 x £250 = £418,250 - Insurers – an estimated average cost for 32 affected firms of £16,427 = £525,667 - Life providers – an estimated average cost of £3,095 x 25 firms = £77,663 Total estimated one-off costs of = £336,250 + £725,000 + £418,250 + £525,667 + £77,663 = £2,082,830	- GI intermediaries – an estimated 269 firms affected (reflecting our survey which found that 30% of intermediaries would incur costs) with insurance income between £1m and £5m x £3,839 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £258,173 - GI intermediaries – an estimated 145 firms affected with insurance income above £5m x £3,839 = £556,655 - Additional cost identified by a large firm considered to be an outlier = £500,000 - Insurers – an estimated average cost for 32 affected firms of £28,099 = £899,168 Total estimated ongoing costs of = £258,173 + £556,655 + £500,000 + £899,168 = £2,213,996
Good repute record keeping	- GI intermediaries – an estimated 251 firms affected (reflecting our survey which found that 28% of intermediaries would incur costs) with insurance income between £1m and £5m x £7,929 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £497,545 - GI intermediaries – an estimated 135 firms affected with insurance income above £5m x £7,929 = £1,070,415 - GI intermediaries with insurance income below between £150,000 and £1m – estimated 1,673 x £250 = £418,250 - Life intermediaries with income over £1m – an estimated average cost for 281 affected firms of £2,546 = £715,426 - Life intermediaries with income between £150,000 and £1m – estimated 2,836 x £250 = £709,000	- GI intermediaries – an estimated 251 firms affected (reflecting our survey which found that 30% of intermediaries would incur costs) with insurance income between £1m and £5m x £3,929 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £246,545 - GI intermediaries – an estimated 135 firms affected with insurance income above £5m x £3,929 = £530,415 - Life intermediaries with income over £1m – an estimated average cost for 281 affected firms of £1,262 = £354,622 Total estimated ongoing costs of = £246,545 + £530,415 + £354,622 = £1,131,582

<table>
<tr><th>Area</th><th>One-off costs</th><th>Ongoing costs</th></tr>
<tr><td></td><td>Total estimated one-off costs of = £497,545 + £1,070,415 + £418,250 + £715,426 + £709,000 = £3,410,636</td><td></td></tr>
<tr><td>Product Oversight and Governance</td><td>- Insurers – an estimated average cost for 32 affected firms of £89,917 = £2,877,344
- GI intermediaries – an estimated 192 firms affected (reflecting our survey which found that 21% of intermediaries would incur costs) with insurance income between £1m and £5m x £18,500 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £888,000
- GI intermediaries – an estimated 104 firms affected with insurance income above £5m x £18,500 = £1,924,000
- GI intermediaries with insurance income below between £150,000 and £1m – estimated 1,673 x £500 = £836,500
- Additional cost identified by a large firm considered to be an outlier = £500,000
- Life intermediaries with income over £1m – an estimated average cost for 215 affected firms of £5,934 = £1,276,455
- Life intermediaries with income between £150,000 and £1m – estimated 2,836 x £250 = £709,000
- Life providers – an estimated average cost of £11,201 x 25 firms = £280,025,

Total estimated one-off costs of = £2,877,344 + £888,000 + £1,924,000 + £836,500 + £500,000 + £1,276,455 + £709,000 + £280,025 = £9,291,324.</td><td>- Insurers – an estimated average cost for 32 affected firms of £149,141 = £4,772,512
- GI intermediaries – an estimated 192 firms affected (reflecting our survey which found that 21% of intermediaries would incur costs) with insurance income between £1m and £5m x £1,500 (average cost where firms identified there would be a cost) x 25% (to reflect the smaller size of these firms relative to the respondents to our compliance survey) = £72,000
- GI intermediaries – an estimated 104 firms affected with insurance income above £5m x £1,500 = £156,000
- Additional cost identified by a large firm considered to be an outlier = £400,000
- Life intermediaries with income over £1m – an estimated average cost for 215 affected firms of £481 = £103,415

Total estimated ongoing costs of = £4,772,512 + £72,000 + £156,000 + £400,000 + £103,415 = 5,503,927.</td></tr>
<tr><td colspan="3">For the other areas please see the main body of the impact assessment for the calculation detail.

This includes information disclosure (pages 8-9), inducements (pages 9-10), employee competence and training (AIIs) (pages 10-11), CPD and good repute record-keeping (AIIs) (pages 11-12) and pre-contract disclosures (AIIs) (page 12).</td></tr>
</table>