

IMPLICATIONS OF INSURANCE DISTRIBUTION DIRECTIVE ON THE COSTS OF TRAINING IN ROMANIA

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Abstract

Taking into consideration the latest developments in the area of consumer protection at the level of European Union concerning the intermediation of financial products, the national insurance markets are striving to adapt to the requirements of the professional development of the personnel offering intermediation services to the final consumer. The continuous professional development (CPD) systems have to be implemented also on the insurance industries, starting from the experience of the banking or investment sectors, and thus the interest of the insurance undertakers' into designing training budgets that will be sufficient for the requirements of the regulator. The paper is aimed at presenting the situation existing over Europe and coming up with proposals that are already in motion on the Romanian market.

Keywords: CPD, training, consumer protection

JEL Classification: G22, I25

1. Introduction

The European insurance industry has the largest share at global level, of 33%. After the crisis, between 2008 and 2012, the economic environment where insurance companies operated was a challenging one. This European context was characterized by low interest rates, and limited resources of people, who could not afford to spend money on insurance, even though financial markets recorded some visible improvements. The gross premiums written by European insurers in 2013 totaled €1.119 trillion (\$1.470 trillion), a 2.7% increase over the previous year, according to statistics published by Insurance Europe (2014), but impacts loom from upcoming Solvency II rules. The 2013 increase was due to factors such as the depreciation of the single currency and decreasing oil prices. This

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economic context determined an improvement on the insurance market, as reflected in the value of gross written premiums.

European insurance market was heavily changed due to the requests of the consumers of financial products that required to have more protection from the part of the intermediaries that were offering products, sometimes tailor-made, specifically for them, without full disclosure of the terms and conditions. One step further was the implementation in the year 2002 of the **European Insurance Mediation Directive** (Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation) that would bring about a reassurance for the customers to have protection from the insurance sellers, according to Bedhouche J. (2014). The Insurance Mediation Directive (“IMD1”) introduced a pre-condition for registration that insurance and reinsurance intermediaries meet “strict professional requirements in relation to their competence, good repute, professional indemnity cover and financial capacity requirement”. In addition, Article 4(1) provided that insurance and reinsurance intermediaries must possess “appropriate knowledge and ability, as determined by the home Member State of the intermediary”.

After more than ten years of the IMD 1, the requirements to adapt to the new world of financial products that involve not only traditional products but also unit-linked products, investment products, private pensions products – all including an investment component on the long term with significant exposure for the customer, brought about the necessity to adjust IMD1 to the now called Insurance Distribution Directive (IDD or IMD2) as it is known on the market. The final objective of the directive is to protect the consumer but in the same time to increase the level of professionalism of the insurance distributors.

This is where the burden for the insurance companies will become obvious – due to compliance reasons, they are more interested in budgeting the compulsory training than the competence-based training that are more efficient for their employees.

2. Overview of the European Insurance Distribution Directive

The Insurance Distribution Directive represents a set of guidelines concerning the assurance of consumer protection by offering professionalized products by personnel that have appropriate knowledge and competencies. The directive serves the protection of customers’ interests that individuals / companies providing insurance or reinsurance mediation are registered in their home EU country

(which allows them to do business elsewhere in the EU). The objective can be achieved only by offering clear explanations to customers on a given advice.

The national regulators, the European Commission, the insurance companies, in fact all providers of financial products must ensure a certain level of professionalism and competence among insurance intermediaries – this is one of the priorities for the following five years, taking into consideration other legal provisions concerning the insurance activity (such as Solvency II requirements for a full disclosure and transparency of the activities performed by the insurance undertakers). The companies must show respect for **minimum professional requirements** such as:

- appropriate knowledge and ability
- good repute
- professional indemnity insurance or other comparable guarantee
- sufficient financial capacity to protect customers.

Insurance intermediaries are key actors in the process of selling insurance products in the EU. They are facilitating entry into the market, helping new insurers reach a wide client base without having to incur the costs of building a distribution network. But not only that, the intermediaries are the ones assisting with claims-related services and policy administration. Over the last 10 years, the role of the insurance intermediaries has increased, in terms of range of services provided for the final client of insurance products – the services and guidance offered are expanding over the service of sales. They also help insurance customers by:

- identifying the risks customers face
- ensuring that customers take informed decisions about the risks they wish to insure
- designing new and innovative solutions
- reducing customers' search costs
- providing personalized advice
- assisting customers with claims-related services and policy administration.

Insurance products are also sold **directly** by some insurance companies and bank-assurance. The channels of selling insurance products have also suffered a significant diversification – beside the classical sales force, the insurance products are nowadays offered through banks, but there are some sellers of insurance products, such as **car rentals** and **travel agents**, exercise this business activity on ancillary basis. The occurrence of these types of intermediaries

are bringing forth concerns for the training of these persons and also for the costs of training that should be included in the annual budgets of their employers or other concerned companies.

3. Implication of IDD on the national insurance training programs

European Commission (2012) gathered the existing information of all national markets concerning the application of IMD1 referring to the insurance of the professional knowledge of the insurance intermediaries. The survey that was made public at the end of 2012 was in fact a mapping exercise carried out by EIOPA Members from March-September 2012 on the types of industry training standards applicable in different national jurisdictions.

As mentioned before, the implementation of the IMD1 was left at the level of the national regulator to be observed and adjusted, and therefore a multitude of differences concerning the types of training, the duration of training, the necessary proof of training was recorded over time.

As a general conclusion, knowledge and ability requirements were generally seen a **combination of academic and professional experience**, but, in some countries such as Norway or The Nederland, academic qualifications could be waived if professional experience was long enough. In many of Members States, the **requirements for knowledge and ability are more stringent for insurance brokers** than insurance agents. There were some exceptions such as Germany, Greece, Italy, Malta where the requirements for knowledge and ability are more stringent for agents and brokers than for other categories of intermediaries.

One aspect that was visible in all countries of the European Union was referring to the evaluation of the training carried out by the insurance intermediaries - knowledge and ability were only **assessed by national competent authorities** before the first registration of the intermediary.

The national regulations on the area of professional development included also the issue of **life-long learning** or **continuous professional development** (CPD). Thus, there were some countries such as Bulgaria, Hungary, Island, Malta, Latvia or Lithuania where there was no formal requirement for continuous education. In Austria and Cyprus, the introduction of a system was looked upon in 2012 (in 2014 Cyprus implemented a CPD system in the insurance business). In other jurisdictions, continuous education was seen as a formal requirement but the amount of continuous education and the duration was established differently. For example,

in Nederland, Poland and Romania (every 3 years); in Slovakia (every 4 years); in Belgium (30 hours for brokers /agents and 20 hours for sub-agents over a period of 3 years); Czech Republic, Greece (approximately every 5 years), Ireland (15 hrs/year), Italy (30 hrs/year); UK (35 hours/year for investment insurance mediation only).

Apart from some exceptions, there were a limited availability for intermediaries to carry out updating courses through e-learning. The **responsibility for assessing knowledge and ability at national level** varies considerably between assessment being carried out by national competent authorities only or in tandem with undertakings/professional associations, or through delegation to professional associations in some jurisdictions or to the intermediary/undertaking itself.

According to European Commission (2013), CPD represented a series of study activities that competent authorities would reasonably expect distributors to carry out to ensure that they keep their knowledge and ability updated. The methods of staying updated for each of the intermediaries registered in the national register would vary from an examination taken with recognized schools or professional bodies, or simply by proving the attendance.

The Insurance Distribution Directive proposal in 2013 introduced an explicit obligation for insurance and reinsurance intermediaries and members of staff of insurance undertakings carrying out insurance mediation activities to “**update their knowledge and ability through continuing professional development in order to maintain an adequate level of performance**”. The general conclusion of national parties concerned with the training of the employees was that e-learning or video-linked programs to reduce costs in order to provide training offered by employers, or an appropriate professional training/ educational body, and thus to maintain a sufficiently high level of knowledge and ability. The CPD is effective when undertaken on a periodical basis, regardless if this is through a formal requirement or not.

The European guidelines concerning the **curricula of the training** for the intermediaries covers not only professional knowledge (e.g. insurance legislation, anti-money laundering legislation, market, products , assessment of consumer needs), but also ability (e.g. risks perception, underwriting process, claims procedures) and ethics (codes of conduct/ethics).

From these points of view the implementation of IDD requirements on the insurance market should be quite easy to

perform. Except for the **increased costs of training** that the insurance companies had and still have to support in their annual budgets in order to prove their personnel development. In the end, these costs are reflected in the final price of the product – but is it really necessary to have higher costs just to have a better and more professionalized employees for the customers? Is it really the needed effort to ensure that the final customer is protected sufficiently?

On the other hand, the compulsory form of training that was required through law made the management of the insurance companies to focus only on achieving those national requirements for intermediaries, meaning there has been a **significant decrease in the volume of professional training for other positions** in the companies, such as legal department or actuarial department. Even if they are not in the front line of the company, these jobs should also have certain concerns to be taken into consideration – professional development is necessary for all the types of employees working in this highly exposed domain.

Another effect of IMD1, and consequently of IDD, is referring to the idea that the companies strived to obtaining only the **minimum requirements of training** for their personnel. No one was any longer concerned with achieving an adequate level of training – in this regard, even from 2012, the Chartered Insurance Institute from UK brought forth the concern for a limitation of all persons working in the sales force that would no longer seek to improve their knowledge, but only to “tick” the required number of training hours.

There is also, the issue of mutual recognition of national training. There is very **little experience amongst national competent authorities with receiving applications for mutual recognition of knowledge and ability requirements**. Reliance is often placed on existing EU legislation on professional qualifications and screening of applications may be carried out either directly by supervisors, by national qualification bodies or by professional associations. At European level there is no longer a specific committee to take care of the professional development – as the former Social Relations and Training became Social Relations Committee). The only initiative existing at present in this field of professional development in insurance that offers a certain level of acknowledgment of recognizing the levels of knowledge and abilities of national intermediaries is EFICERT –an international platform of local insurance institutes, supported by national professional associations. The problem with recognizing forms of training in insurance does not lie in the academic program where the system of

European Transferable Credits can be used as a benchmark, but the problem lies with the short term types of training that are not so regulated at international level – how to quantify the abilities and knowledge acquired during a three days conference organized the national association of insurance in Austria for an intermediary that intends to prove his CPD in Germany?

Another effect of IDD implementation refers to the fact that IDD brings about the minimum qualifications for those offering insurance products even without working in the industry. Local markets are to implement specific systems that would emulate the local situation. Already in certain countries, the regulator of the market imposed a minimum level of knowledge for those offering insurance products that are belonging to adjacent activities (Germany, Austria). In other countries, such as Romania – there are debates also in the area of claim settlement for motor insurance – CEETAR initiative that brings into discussion the entities required to monitor the application of IDD requirements of the intermediaries.

After the last proposals on the text of IDD in March 2015, there were noticed some **developments**.

- Thus, Continuous Professional Development systems are already implemented in Germany, Cyprus or Ireland taking into consideration certain number of training hours / CPD points that each intermediate should have in order to maintain his/her validation on the insurance market.

- For CPD systems minimum EQF (European Qualification Framework) for those involved in the distribution of insurance products should be EQF 3, setting thus a common ground of recognition at the European level of academic training.

- The training curricula of IDD (the last version) covers not only professional knowledge (e.g. insurance legislation, anti-money laundering legislation, market, products, assessment of consumer needs), but also ability (e.g. risks perception, underwriting process, claim procedures) and ethics (codes of conduct/ethics).

- The training should be maintained and updated. It is suggested that CPD should be undertaken regularly (for example, as a minimum, a cycle of 3 to 5 years).

- Last, but not the least, the professional training should be appropriately evidenced and that evidence should be retained. The competent authority or professional body should review evidence demonstrating achievement of CPD, on a regular basis.

There were some proposals made by Germany suggesting a difference to be made between the **different types of**

intermediaries: insurance personnel people working outside the industry offering insurance products. The plan the German association of insurance companies. The difference in terms of the training requirements should be focused on the number of CPD points – for example, one training day = 1 CPD point for insurance personnel and only half of training day = 1 CPD point for those working outside industry. The distinction is generated by the different levels of responsibility of these distributors and also the waivers of their jobs. Moreover, Germany insists that both types of training to be taken into consideration:

- Formal education
- Informal education – research studies, conferences, workshops organized by insurance industry or others

In the end, the Insurance Distribution Directive is offering just a regional frame of guidelines. The important issues to be taken care of are in the implementation phase – each national regulator will interpret these guidelines in their local legislation- the way in which this interpretation shall be done will be of significant importance both for the insurance market, the final consumer and why not the entire financial sector.

4. Study case: Insurance training in Romania

According to PriceWaterhouseCoopers (2011), insurance and pensions sectors in Romania have been described as “small, but growing in importance” and facing important development challenges. In 2014, the insurance penetration degree was of 1.21% of GDP, at a rather low level comparing to the European average but still one important for the south part of Europe. The volume of gross written premiums decreased in 2014 at 2 billion EUR in 2014, from which approximately 51,2% of total gross written premiums were cashed in only in Bucharest. The decrease in the premiums was caused by a decrease in the non-life insurance market by almost 6% and in the life-insurance segment by almost 10%. In terms of weight of the two categories of insurances, the non-life insurance represents approximately 80% of the gross written premiums collected in 2014. As usually, the motor insurance has the highest weight in the general gross written premiums collected (43.61%). The life-insurance market represents around 20% of the total value of the gross written premiums. In terms of average expenditure with insurance, in 2014, a Romanian paid 93 EUR/capita (versus 1900EUR European average).

In 2013, a study made by a local marketing company revealed that Romanians have no trust in the financial institutions, only 29% of the customers of financial products showed any interest in this type of

products, based mainly on the level of financial education they have and also on the personal experience with this field. This is the reason for which the national regulator, the Financial Supervisory Authority proposed a series of actions determined to improve the level of financial education of Romanian customers and also continued to monitor the implementation of the IDD requirements for intermediaries, as mentioned by Rangu (2015).

Concerning the focus of the Romanian Financial Supervisory Authority, in 2015, there are several directions to be observed:

- Information of the consumer concerning his rights
- Counseling of the consumer for application of complaints
- Financial education of the consumer – financial markets, financial products, instruments, operations
- Increased awareness of the methods to avoid fraud in insurance

The national authority had the role of interpreting the requirements of the IMD1 so that all the insurance intermediaries had the obligation of complying with the curricula proposed at European level. Thus, starting with 1st of September 2011, persons intending to work as intermediaries of insurance products, have the obligation to have a qualification certificate in order to be employed as a sales personnel by an insurance company or an insurance broker. Moreover, employees working in the sales department must prove each 3 years/ 2 years for the managers of teams/ managers of brokerage companies the completion of a continuous professional development program, approved by the Romanian Financial Supervisory Authority.

The **curricula** for this type of compulsory insurance training takes into focus the following:

- Legal framework of insurance in Romania referring to the insurance activity but also to the consumer protection, personal data protection
- Insurance basic concepts and technical elements
- Communication and negotiation techniques in insurance
- Sales techniques for insurance products.

The evidence of a certain level of knowledge and abilities is to be proven by taking a written examination at the **Romanian Institute of Management in Insurance** – founded by the Romanian Regulator- that is in charge of the examinations and also of the national register of the intermediaries in Romania. The lack of the

qualification certificate brings about exclusion from the national register and also the interdiction to sell insurance products on the Romanian market.

At this point, there are 12000 employees and approximately 70000 intermediaries that had the obligation of obtaining the compulsory training in insurance. During the period 2011-2014, the focus of all insurance companies was on training the existing sales force, thus the general **effects** of the national legislation were:

- Increased budgets for compulsory training- the lack of the certificate would have brought them out of the market, in the impossibility to sell for new customers.
- Reduction of intermediary contracts – just for those performing, the company provided coverage of costs of the training program, the ones with small results were let off. The process proved itself a good filter of performance among the existing sales agents/ brokers
- Reduced training budgets for other types of personnel – the increased amount of budget allocated for the compulsory training generated heavy reductions in the other areas (conferences, team building, specialized training a.s.o).

There were also other effects such as the **reduction in the quality of professional training** – the necessity to prove 50 training hours, plus the passing of an examination held by only one entity became just a “thick on” process for all those involved (sales agents, brokers, human resource manager). The quality of the training was not observed – no efficiency ratios were computed for this type of training.

On the bright side, the market observed an **increased number of training entities** authorized by the Romanian Financial Supervisory Authority, just for the insurance markets, meaning fees that were paid for the authorization of the programs, of the e-learning platforms, for the authorization of the trainers.

In terms of **CPD**, the existing legislation stipulates that the Romanian intermediaries and/or their executives must make prove of the following:

- Minimum 20 hours of CPD training, 35 hours for managers – the ways of obtaining these numbers are: in-class training provided by an authorized training entity in insurance, e-learning platforms, online training
- The passing of the examination – the rules are set by the Authority

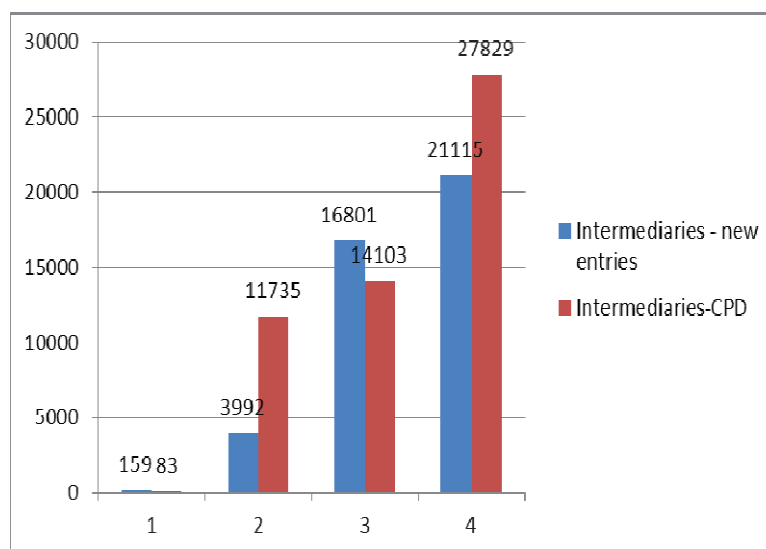
- Curricula includes legislation, principles, technical elements, ethics, sales techniques, insurance products, consumer protection, money laundry. The CPD training implies a development / an update of the initial training for those working in the industry. There are certain topics that are new at this level concerning ethics and professionalism or money laundry.

- As for managers, the curricula includes beside the topics obligatory for any intermediary certain specific topics that are related to the tasks of managing activities/ persons , such as HR management, financial and technical reports, motor claim settlement

In terms of graduates from the compulsory programs, the following situation was compiled based on the registers provided by the entity designated to carry on examinations in order to issue certificates for intermediaries and their executives. Thus, for intermediaries there may be noticed an significant density in the years 2013 and mostly 2014, as the insurance undertakers postponed to maximum the costs of training their personnel – 51.08% of the 95,817 intermediaries were certified in the last year allowed by the national regulation for certification.

Taking into consideration an average cost of training of 350 RON paid by insurance companies on in-class training or online training, a total cost of 33,535,950 RON at the level of the industry was recorded. Additional to this cost, the training budgets of the companies also supported the examination tax of 250 RON/person, meaning a total training budget for compulsory education of 57,490,020 RON, for the period of 2011-2014, an incredible cost if we take into consideration that the other forms of specialization training for the same period was 20 times less (based on number of participants).

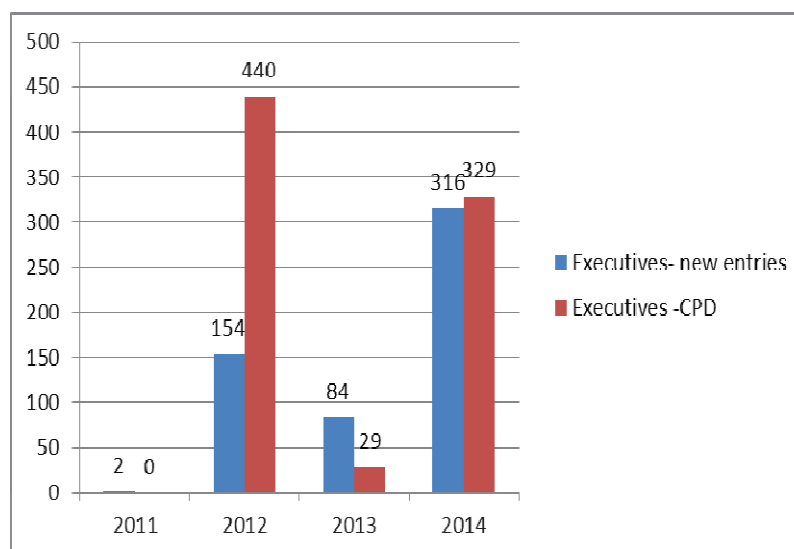
Evolution of number of intermediaries certified



For executives it may be noticed a different pattern – the responsibilities in their job description reflected also in the taking of certification – 2012 and 2014 (the last year when they were obligated to register) represented the peak in the certification process. At the end of 2014, there were registered a total of 1,354 persons working as executives in insurance industry and being recognized (through their certification) by the national regulator to perform managerial activities.

On average, the investment in the certification training for executives rose to an average of 900 RON/person (including the certification tax) which for the period analyzed generated a total budget of 1,218,600 RON. Comparing this figure with the competence-based training for executives, the ratio is more favorable than that of the intermediaries, meaning compulsory training in number of participants was 10 times only higher than the number of those seeking adequate professional training during this period.

Evolution of number of executives certified



A market of almost 14 million EUR in the last 4 years does not necessarily mean a bad result; on the contrary, it signifies a market that is operating, is striving to develop. The important issue is to combine this form of training with other forms, focused more on the skills and abilities to be used than only the formal compliance education.

The results of IDD shall be seen in the following years to come – it is in my opinion that the system of compulsory training should be revised, in terms of accepting also non-formal training (such as participation to workshops or events organized by the national association of insurance companies or brokers, conferences). The number of hours should be correlated with CPD points and thus the requirements should be expressed in points – taking into consideration educational systems that have been implemented with success in other countries with large experience in insurance and also in professional education.

The system should take into consideration also academic training – a master program of 2 years should be equivalent with a form of CPD, especially for managers, even though universities are not authorized on the insurance market. What I mean to say is that, in terms of education, the insurance regulator should observe the authorization given by the national ministry of education and for the

professional training, the authorizations given by the national ministry of labor.

The insurance companies and the insurance brokerage companies should be careful about the achieving of compulsory training – it is in my opinion that a “ticked” training has zero relevance for the knowledge and abilities of a person – maybe a combination of compulsory and competence training should be in the focus of human resource departments of the companies, even though such approach would increase significantly the costs in the annual budgets.

5. Conclusions

There is obviously a need to adapt to the European requirements – the different types of persons offering financial products should be taken into consideration either in terms of knowledge and abilities needed to be acquired, in terms of duration of the training programs or in the types of training programs, be it in class or online.

The Continuous Professional Development systems around Europe take into consideration either number of credit or hours, the distinction shall be clearer if informal and formal types of training will be acknowledged by the national regulators as a means to achieve their compulsory training.

The Insurance Distribution Directive will change the level of training costs for the insurance undertakers but not only for them – the partners selling products that are object to insurance products will have to consider potential costs for the training of their own sales forces.

The life-long learning for human resources in insurance does not necessarily resume to the intermediaries, there are claims adjusters, actuaries, marketing promoters, legal counselors and others that are in need of development – my concern is that the human resource department shall have difficulties in obtaining the necessary funding for them as the consumer protection means primarily the development of the front line of the companies, as a result of Distribution Directive implementation.

Not last, choosing between compliance and competence training, in theory, the answer is obvious – in practice, the reality of the last 4 years on the Romanian insurance market is more or less blurry – efficiency is brought by high quality training based on the needs of the participants; but in order to be on the market, the company must have its employees certified according to compulsory training. So, what is the solution? A combination of both, that must be recognized by the regulator without excessive forms of evaluation.

Acknowledgement

This paper was co-financed from the European Social Fund, through the Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields -EXCELIS", coordinator the Bucharest University of Economic Studies.

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