

# INSURANCE DISTRIBUTION DIRECTIVE - EVALUATION OF THE STRUCTURE OF INSURANCE INTERMEDIARIES MARKETS IN EUROPE

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**INSURANCE  
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## List of abbreviations

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BoS	Board of Supervisors
bn	Billions
CAGR	Compound Annual Growth Rate
EC	European Commission
ECJ	European Court of Justice
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Authorities
EU	European Union
FoE	Freedom of Establishment
FoS	Freedom to Provide Services
GDP	Gross Domestic Product
GWP	Gross Written Premiums
IBIPs	Insurance-Based Investment Products
IDD	Insurance Distribution Directive
IMD	Insurance Mediation Directive
IMD <sub>2</sub>	European Commission's legislative proposal for a recast of the Insurance Mediation Directive of 3 July 2012
IPID	Insurance Product Information Document
IRSG	Insurance and Reinsurance Stakeholder Group
JC	Joint Committee
LHS	Left-hand-side
NCA	National Competent Authority
MGA	Managing General Agents
MTPL	Motor Third Party Liability
OECD	Organization for Economic Development and Cooperation
PP	Percentage points
PPI	Payment Protection Insurance
RHS	Right-hand-side
RUI	Italian Register of insurance intermediaries
SME	Small and Medium Enterprise
Solvency II	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
YoY	Year on Year
WFii	World Federation of insurance intermediaries

## List of Country Abbreviations and National Competent Authorities (NCAs)

Austria	AT	Financial Markets Authority (FMA)
Belgium	BE	Financial Services and Markets Authority (FSMA)
Bulgaria	BG	Financial Supervision Commission
Croatia	HR	Croatian Financial Services Supervisory Authority (HANFA)
Cyprus	CY	Ministry of Finance Insurance Companies Control Service (ICCS) Ministry of Labour, Welfare and Social Insurance Registrar of Occupational Retirement Benefit Funds
Czech Republic	CZ	Czech National Bank
Denmark	DK	Financial Supervisory Authority (Danish FSA)
Estonia	EE	Estonian Financial Supervision Authority
Finland	FI	Finnish Financial Supervisory Authority (FIN-FSA)
France	FR	Autorité de Contrôle Prudentiel et Résolution (ACPR)
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	HE	Bank of Greece
Hungary	HU	Central Bank of Hungary
Iceland	IS	Financial Supervisory Authority (FME)
Ireland	IE	Central Bank of Ireland Pensions Authority
Italy	IT	Istituto per la Vigilanza sulle Assicurazioni (IVASS)
Latvia	LV	Financial Capital Market Commission
Liechtenstein	LI	Financial Market Authority (FMA)
Lithuania	LT	Bank of Lithuania
Luxembourg	LU	Commissariat aux Assurances
Malta	MT	Malta Financial Services Authority
Netherlands	NL	Financial Supervisory Authority (AFM)
Norway	NO	Financial Supervisory Authority of Norway
Poland	PL	Financial Supervision Authority (KNF)
Portugal	PT	Insurance and Pension Funds Supervisory Authority (ASF)
Romania	RO	Financial Supervisory Authority (ASF)
Slovakia	SK	National Bank of Slovakia
Slovenia	SI	Insurance Supervision Agency
Spain	ES	Ministry of Economy - Directorate General of Insurance and Pension Funds
Sweden	SE	Finansinspektionen (FI)
United Kingdom	UK	Financial Conduct Authority (FCA) The Pensions Regulator

<sup>1</sup> List of NCAs referred in this document, unless expressly stated otherwise

## Executive Summary

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The European insurance intermediation market is characterised by a very wide diversity of local distribution channels and different definitions adopted at the national level. Registration practices and reporting frameworks vary significantly amongst Member States, also contributing to the diversity in terms of size (total number of registered intermediaries) of European intermediaries markets.

While EIOPA has sought as much as possible to collect data in a standardized format, not all Member States were able to provide data (or comparable data) for all the indicators that are analysed in this report. What can be concluded from this 'evaluation' exercise is that, not only is there a significant variation in terms of size (total number of registered intermediaries) and intermediaries categories operating in each Member State, but also that reporting frameworks and Member State-specific developments are varied, making it difficult to draw conclusions at the European level.

Despite these challenges, by looking at the data received in an aggregate manner, some key developments across European markets have been identified. These developments should be interpreted bearing in mind that they do not concern all Member States – indeed in some Member States opposite developments have been observed - and that the drivers behind these developments are most often Member State-specific:

- **There are significant variations in terms of the size of insurance intermediaries markets** (total number of registered intermediaries) and often there is a limited relationship with total population and insurance market size. Often, the size of the intermediaries market depends mostly on registration practices.
- **Albeit small, a decrease in the number of registered intermediaries can be noticed at the European level**, despite the number of total registered intermediaries having increased in some European markets. Such trend has been more marked in recent years. The causes behind this trend are varied and are mostly Member State-specific, ranging from more stringent regulatory requirements and the growth of alternative innovative distribution channels to other factors such as the liquidation of some insurance undertakings. This decrease, however, does not appear to have had a significant impact on the role which intermediaries play in distributing insurance products.
- **In most markets, this decrease has mainly affected intermediaries registered as natural persons and those operating as agents**, which are also the prevalent category at the European level. In fact, despite brokers and intermediaries registered as legal persons representing a small portion of the European intermediaries market, their number has been increasing at the European level and in most Member States.
- Finally, **there are a significant number of intermediaries operating under Member State-specific categories** (representing 56% of the total).<sup>2</sup> This diversity and lack of homogeneity makes it difficult to draw conclusions on the prevalent model(s) at the European level.

For what concerns the role that insurance intermediaries play in the distribution of specific lines of business or products, granular information is lacking. This makes it difficult to draw specific conclusions and impairs the possibility of making an analysis of the impact that different regulatory regimes can have on distribution models, including the report on the application of the Insurance Distribution Directive (IDD), which EIOPA will need to prepare by February 2020.

In addition, this raises challenges in terms of identifying and monitoring potential conduct risks associated with different distribution models. For example, as it is difficult to establish which distribution model is prevalent for unit-linked insurance, including the underlying remuneration structure, it is hard to identify potential conduct risks relating to the distribution model prevalent in certain Member States.

Although comparable data is lacking, what can be noticed at the European Economic Area (EEA) level is that intermediaries still play a significant role in distributing and selling both life and non-life insurance products: bancassurance is an important vector for the sale of life insurance products, in particular in some Member

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<sup>2</sup> This does not necessarily mean that Member States have additional categories but they may categorize intermediaries differently (for example, in IE insurance intermediaries are either intermediary or tied agents) resulting in the fact that a number of registered intermediaries in these market may not fall under the split agent, brokers, and bancassurance.



States. Agents, on the other hand, are distributing non-life products. Of course, these are trends observed at the EEA level and in some Member States, they may be different.

Albeit small, there is an increasing role played by direct writers in both lines of business (for life insurance, in particular, in those Member States where bancassurance is not the predominant channel), reflecting also the newly enlarged scope of the IDD. Online insurance marketplaces, such as comparison websites, are also increasingly having a role in selling insurance products, in particular in certain markets and for the most common products such as motor insurance.

In terms of cross-border business, the overall picture remains patchy, largely due to the quality of existing national reporting frameworks under the Insurance Mediation Directive (IMD) and now the IDD. Data is lacking on volumes and products/lines of business mediated on a cross-border basis, meaning that a complete picture of insurance intermediaries' cross-border activities is not available. As a proxy, the number of notifications to carry out cross-border business has been used, even though some discrepancies were identified in data on incoming vs. outgoing notifications.

Based on this data, the most notable features to be drawn are:

- **An incremental increase in cross-border notifications by insurance intermediaries between 2013 and 2017** (with a slight decrease in FoS notifications between 2016 and 2017) both on a Freedom of Establishment (FoE) and Freedom to Provide Services (FoS) basis.
- **The significantly high proportion of intermediaries that have notified their home competent authority of their intention to passport in another Member State.** In fact, a comparison with the data collected on insurance undertakings' cross-border business shows that, in some Member States, the proportion of intermediaries' notifications is significantly higher than the percentage of insurance undertakings' cross-border business.
- **The overall trend of insurance intermediaries notifying their home competent authorities to conduct business in neighbouring Member States.** This often mirrors data collected on insurance undertakings' cross border business.

For what concerns remuneration models, there are significant variations and most Member States do not monitor remuneration structures and models on a continuous basis. The two most common remuneration models are a commission-based model and a fee-based model. The former is the most prevalent one in several Member States.

Overall, with the entry into application of the IDD, some of the challenges identified by EIOPA in conducting this assessment would be partially addressed. Others, such as lack of common definitions and common taxonomy in terms of the types of intermediaries operating in Europe (due to an activity-based approach to regulation), would however subsist, raising potential constraints in terms of providing a detailed picture of the European insurance intermediaries market in 2020.

## Interview with Prof. Dr. Matthias Beenken

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Prof. Dr. Matthias Beenken teaches Insurance Business Administration at Dortmund University of Applied Sciences, Germany. He has more than 31 years of professional experience in the (re)insurance industry where he held several positions, including as a sales manager for an insurance company and as a tied insurance intermediary. He also worked in the publishing industry, first as publishing director and as head of sales for a publishing company, and then as Editor-in-Chief for a leading newsletter for insurance professionals. Prof. Beenken graduated from the University of Cologne,

with a dissertation on the implementation of IMD and holds two diplomas in Business Administration. His research and publications focus on insurance sales.

**For historical reasons, including the way in which the insurance and insurance intermediaries markets have evolved in the EEA, there are significant differences in terms intermediaries markets' size. Do you think registration requirements have had an impact on this?**

In my opinion, in particular in certain markets, registration requirements have had an impact on the way in which the intermediaries market evolved. For example, in UK the number of registered intermediaries declined (i.e., tied agents have disappeared) due to changes in registration requirements over the last 30 years. In contrast, in Germany, where up until 2007 there were almost no regulatory restrictions, the number of agents and tied insurance intermediaries remains high.

There are, of course, also other important factors, including cultural traditions and consumers' behaviours towards insurance. In fact, the contractual relationship between an insurer and a consumer is based on trust. This results in the fact that traditionally (and to some extent still today) many consumers rely more on the personal relationship they have with insurance intermediaries than on brand or objective policy-related facts and features.

The internet is changing this behaviour, as it de-personalizes trust. However, this is taking place at different speed and degree in Europe. For example, I remember when I started working on insurance – before age of the internet, in the Netherlands and in the UK, consumers were already beginning to get accustomed with direct writing practices (e.g., sales via phone).

**A decreasing trend in the number of total registered intermediaries has been observed. What do you think are the reasons behind this decrease?**

IMD already had an impact on registration practices. For example in Germany, we observed a significant decrease in the number of registered intermediaries when registration requirements were implemented. Many inactive agents 'exited' the market.

IDD substantially increased compliance costs, which will lead to a decline in the number of very small, semi-professional intermediaries. In Germany – where IDD has already been in force since February 2018 – we have already seen a decrease in the number of registered tied agents, mainly in relation to the yearly training requirements. In fact, the small amount of business these agents generate does not justify training them on an early basis.

**What impact could this decrease have on consumers?**

I believe customers are becoming/should become accustomed to the fact that they are less likely to find a local intermediary who can give them personal advice and assist them in policy servicing practices. Consequently, they will increasingly buy online low-value policies, while also demanding for more consumer protection.

In particular for life insurance products/personal pension products, if not adequately monitored, in my opinion, this trend could lead to an advice gap for more vulnerable consumers, as we are already beginning to observe in the UK. If this were to happen, there would be a need to strengthen the pension system (either via strengthening Pillar I or Pillar II pensions) to ensure people have enough savings for their retirement, even if they do not receive/seek advice with regard to personal pension products.

**Although the number of registered agents in Europe is still significantly higher than the number of brokers, the former has been decreasing while the latter has been increasing. Do you think this trend will continue?**

Indeed, I believe brokers will 'win' as they provide customers with more sophisticated advice. In addition, brokers are free to decide on and identify new ways to provide better services to consumers, like online insurance mediation. They can also more easily take advantage of benefits offered by IMD and now IDD (e.g., Freedom to Provide Services and Freedom of Establishment) than agents can, as the latter are mostly restricted to national or local markets.

On the other hand, as brokers are mostly SMEs, the burden of regulatory compliance and bureaucracy should not be underestimated. It is easier for tied agents to handle bureaucracy as insurance undertakings support them in this task.

Of course, there are consumer protection benefits relating to these increased bureaucracy; however, from an intermediaries' perspective the burden is real and needs to be taken into account.

**Do you think there are any connections between the number of agents decreasing and an increase in direct writing?**

A correlation analysis (source of data: MEDI 2011) shows a significant, negative dependence between agents' market shares of agents and direct writing, but also between agents and brokers. A plausible interpretation is that agents are being replaced by both direct writing and brokers.

**EIOPA was not able to collect data from Members on the actual volume of cross-border business performed by intermediaries; hence, an analysis of the number of notifications to carry out cross-border activities was conducted. Do you think the number of notifications can be indicative of actual volume?**

I think this is a second-best solution.

The clearest conclusion from this Report, which despite the data challenges is complete and comprehensive, is that, in concert with the new IDD requirements, there is a need to consider establishing: common definitions for intermediaries' categories, uniform registration and reporting requirements, and minimum data collection principles across the continent. This could include data about the share of cross-border business performed by intermediaries, as insurers already do via Solvency II reporting.

**This Report takes as a reference 2013-2017; hence it is based on IMD, do you expect IDD to have a significant impact on European intermediaries markets and, hence, the Report which EIOPA needs to prepare in 2020 to be significantly different?**

I think the implementation of IDD will accelerate the trends seen in this Report. In particular, it will have a significant impact in three ways:

- i. Part-time intermediaries will no longer be able to meet the new, increased, ongoing professional requirements and will, one way or another, be forced out of the market;
- ii. Further, stricter compliance requirements and increased documentation-related requirements may overstrain smaller intermediaries. This, in my opinion, will lead to concentration into large mediation companies and to the increase of online sales via price-aggregators and comparison websites;
- iii. As consumers are increasingly buying insurance online, they will also demand for hybrid mediators, offering products and policy-servicing online and offline. These hybrid intermediaries will need a lot of capital to operate, leading to further concentration.

I believe the '2020 Report' will continue to show the decreasing trend highlighted in this report. In particular, this will affect natural persons/small intermediaries. However, given the new IDD requirements this trend will be further accentuated.

## 1. Introduction - Scope and Methodology

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Under Article 41(5) of the Insurance Distribution Directive (IDD), EIOPA shall “prepare a report by 23 February 2018 [having undertaken] an evaluation of the structure of insurance intermediaries’ markets”. This evaluation of the market needs to be differentiated from the evaluation/review related to: the provisions of the Directive and the application of the Directive.<sup>4</sup>

Article 41(7)(a) also provides that in the report on the application of the Directive EIOPA has to prepare by 23 February 2020, EIOPA should examine “any changes in the insurance intermediaries’ market structure”. Hence, the objective of this evaluation is to provide an **‘overview’ of the structure of insurance intermediaries’ markets as of 31 December 2017**, based on the information which EIOPA jointly with NCAs decided to collect and cover in this report. The purpose of this ‘overview’ is to serve as a benchmark for comparison when EIOPA will prepare the 2020 report.

In terms of scope, given the above, **the Insurance Mediation Directive (IMD) was the main reference point for this report**. Furthermore, EIOPA has chosen to limit its quantitative analysis to insurance intermediaries and direct writers, while including a section in the report, considering ‘other emerging distribution channels’ such as comparison websites/ aggregators, robo-advice, social media platforms, and InsurTech start-ups. In fact, information on ‘other emerging distribution channels’ is still lacking and registration practices still vary amongst Member States. Finally, while EIOPA has not sought information on ancillary intermediaries as they are only now being formally caught under the scope of regulation in the IDD, in some Member States this type of intermediary may fall under the agent category; hence, they may be counted in in the analysis made. More information on national specificities is provided in Annex IV.

**Some data limitations in terms of both data quality and comparability have been encountered when drafting this report:**

- **Local definitions of distribution channels** are generally Member State-specific, **making comparisons of collected data extremely challenging**. This has been evidenced also in a number of external studies carried out on insurance distribution channels in Europe.
- In terms of assessing the number of insurance intermediaries which are SMEs, the criteria for defining SMEs used by the European Commission (EC) is not easy to apply in different Member States and therefore, it has been difficult to identify the number of intermediaries that are SMEs.
- Monitoring of insurance intermediaries market is not yet fully embedded at national level. The **reporting of market data varies considerably across Member States**. For example, some data on types of remuneration model were not readily available to NCAs. Further, when comparing data on incoming cross-border business, inconsistencies with data on an outgoing basis have been noticed; hence, EIOPA for its analysis has used only the latter, as it is more complete.

To make an analysis of the European market, EIOPA has sought as much as possible to collect data in a standardized format; however, not all Member States were able to provide data (or comparable data) for all indicators analysed in this report. Henceforth, the analysis at times may cover a limited number of Member States for which the information is comparable. **Overall, given the significant gaps and inconsistencies**, more harmonized reporting would improve the quality of this study and would better enable supervisors to monitor the market.

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<sup>3</sup> Under Article 41(2), the Commission is required to submit a first report reviewing the Directive by 23 February 2021.

<sup>4</sup> Under Article 41(4), EIOPA has to prepare a further report on the application of the Directive by 23 February 2020.

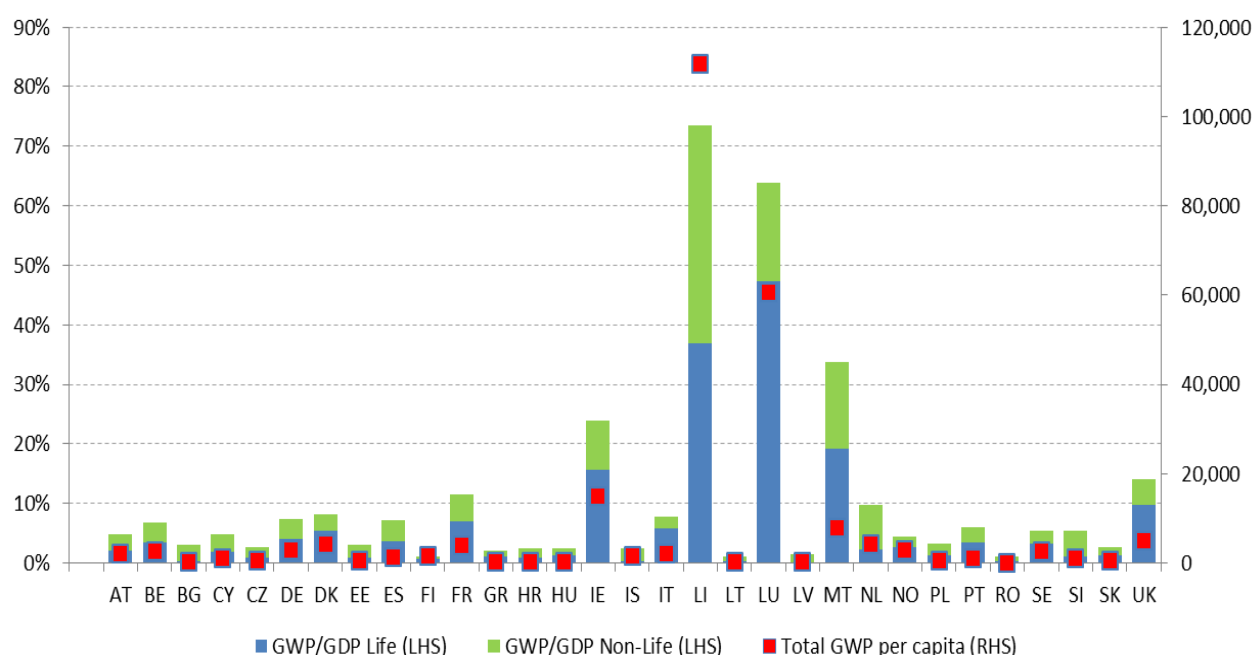
## 2. Overview of the European insurance sector

Before evaluating the structure of insurance intermediaries markets in the EEA, it is important to set this in the current socio-economic context of the insurance sector as a whole. The following is a description of the EEA insurance sector as outlined in EIOPA's Financial Stability Report (June 2018), with some adjustments where required, given the different perspective of this Report and the lenses through which data are analysed.

The relative size of the insurance sector differs substantially among European countries (Figure 1):<sup>6</sup> As a share of the economy, LU has the largest life insurance sector, followed by LI and IE, as measured by the penetration rate; however, in these countries a large portion of GWP is generated from cross-border business.

Concerning non-life business, LI and MT have the highest volume of GWP relative to their Gross Domestic Product (GDP). Again, in both these jurisdictions the percentage of premiums written on a cross-border basis is high. Overall, the total GWP as a percentage of total GDP declined slightly from 10 percent to 9 percent in 2017, despite life GWP having increased across the EEA.

Figure 1 GWP as a Share of GDP in % (LHS) and Total GWP per capita by country in EUR bn (RHS) in Q4 2017



Source: EIOPA Quarterly Solo

Similarly, the share of non-life business to life business also differs considerably among countries (Figure 2). Non-life business remains predominant in IS (91% of GWP), BG (88%), and LV (87%), whereas in countries such as IT (75%) and DK (69%) the proportion of life premiums is higher. However, the share of life premiums has been decreasing in some countries, as insurance companies seem to increasingly focus on non-life products in the current low-yield environment.

For more information on the insurance sector in 2017 refer to EIOPA *Financial Stability Report*, June 2018 and EIOPA *Seventh Consumer Trends Report*, forthcoming.

<sup>5</sup> Chapter 6 of EIOPA *Financial Stability Report, June 2018*, gives an overview of Solvency II data sources that were used in the entire report.

<sup>6</sup> Liechtenstein GDP calculated by applying the Swiss quarterly growth rate; 2015 is the last publicly available GDP measurement.

<sup>7</sup> The penetration rate is defined as the percentage share of GWP over GDP and gives an indication of the size of insurance sector relative to the economy of the country.

### 3. Overview of the role and size of the European insurance intermediaries market

Insurance intermediaries facilitate the placement and purchase of insurance, and provide services to insurance undertakings and consumers that complement the insurance placement process.

Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers, but other types of insurance intermediaries and distribution channels also exist such as bancassurance and direct writers. Finally, in many markets, there are Member-State specific categories (e.g. sub-agents, tied insurance intermediaries etc.) of insurance intermediaries operating.

#### 3.1 Different types of insurance intermediaries and other distribution channels prevalent in the European market

**The European insurance intermediation market is characterised by a very wide diversity of local distribution channels.** One factor that has contributed to this diversity is that EU legislation such as the IMD did not provide for legally defined categories of insurance intermediary. Instead, an ‘activity-based definition’ has been used<sup>8</sup>, leaving flexibility to Member States to define categories of insurance intermediaries and other distribution channels at national level. The same approach has also been adopted under the IDD<sup>9</sup>. It should also be borne in mind, as indicated in a recent EC report<sup>10</sup>, that “*distribution channels may also vary depending on where consumers live and what type of products they buy...In addition, several channels may be used in the process of purchasing a non-life insurance product*”.

The following is an overview of the different types of insurance intermediaries and other distribution channels at national level.

##### 3.1.1 Insurance agents

**Insurance agents are generally authorised to conduct business on behalf of insurance undertakings.** Agents represent the insurance undertaking in the insurance process and usually operate under the terms of an agency agreement with the insurance undertaking. The insurer-agent relationship can take a number of different forms.

In some markets, agents work with more than one insurance company (usually a small number of companies) (‘multi-tied agents’); in others, agents operate exclusively – either representing a single insurance undertaking in one geographic area or selling a single line of business for each of several companies (‘single-tied agents’). In some markets<sup>11</sup>, the law may prohibit and render void contractual clauses requiring intermediaries to conduct non-life insurance distribution business exclusively with one or more insurance undertaking. In some markets<sup>12</sup>, the law may prohibit and render void contractual clauses requiring intermediaries to conduct non-life insurance distribution business exclusively with one or more insurance undertaking.

Agents can operate in many different forms including in an employed and self-employed capacity. It is also worth mentioning that, within the agent category, some Member States also included ancillary

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<sup>8</sup> Article 2(3), IMD: “insurance mediation” means the activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim. These activities when undertaken by an insurance undertaking or an employee of an insurance undertaking who is acting under the responsibility of the insurance undertaking shall not be considered as insurance mediation.

<sup>9</sup> Article 2(1) first sub-paragraph, IDD

<sup>10</sup> European Commission, *European Commission Study on consumers’ decision making in insurance services: a behavioural economics perspective - Final report - Specific contract - No 2014 85 08 Implementing Framework Contract - EAHC/2011/CP/01/LE*, Prepared by London Economics, Ipsos and VVA Europe May 2017

<sup>11</sup> The report notes “interviewees in Germany suggested that consumers purchase insurance products via brokers more commonly in towns than in the countryside. In Luxembourg, non-life premiums are mostly sold via agents on the domestic market, while for cross-border products 70% of the contracts are written by brokers”.

<sup>12</sup> “Typically, consumers would first use insurance companies’ websites and price comparison websites to look for information and to explore product options available to them, and then contact an agent or a broker to get additional advice and purchase the non-life insurance policy. Interviewees agreed that consumers still value professional advice and personal contact to make an informed decision, but it is important to ensure accuracy of information available online”.

<sup>13</sup> For example, in IT, pursuant to the limitations introduced by the law No. 248/2006 and No. 40/2007.

<sup>14</sup> For example, in IT, pursuant to the limitations introduced by law No. 248/2006 and law No. 40/2007.

intermediaries. More information is provided in the Country Analysis in Annex IV.

### 3.1.2 Managing General Agents

A current area of growth in a number of markets concerns the so-called ‘managing general agents’ (MGA). These are essentially “agents whose primary function and focus is the provision of underwriting services and whose primary fiduciary duty is to its Insurer principal”<sup>15</sup>. As noted by one jurisdiction,<sup>16</sup> this model is a cost effective way for insurance undertakings from one EU Member State to enter another EU Member State or as a distribution channel for specialised or niche products, even though it is also commonly used for general insurance products such as motor insurance. The MGA generally distribute to other intermediaries who then sell the product to the customer.

### 3.1.3 Insurance brokers

**Insurance brokers help consumers in assessing their insurance needs and in their choice of insurance by presenting them with alternatives in terms of insurers and products.** Acting as ‘agent’ for the buyer, brokers usually work with multiple undertakings to place coverage for their customers. Brokers also facilitate transactions for insurance undertakings. What distinguish brokers from agents is that in most cases, they do not have a direct contractual relationship with one (or multiple) insurers to place business on an exclusive basis.

**An intermediary’s status is determined by the totality of the facts regarding the specific transaction at issue.** An intermediary might be called a ‘broker’, but actually represents the insurance undertaking in a particular transaction. In such situations, the broker is (legally) considered the company’s agent, not that of the customer. Although, such an activity-based approach is increasingly used around the world, the legal status of insurance intermediaries varies throughout the international insurance market.

### 3.1.4 Bancassurance

Although there is no formal legal definition for bancassurance<sup>17</sup>, it is generally considered as encompassing the partnership or relationship between a bank, acting as an insurance agent or broker, and an insurance undertaking whereby the insurance undertaking uses the bank sales channels (namely, bank branches) in order to help drive the sale of products supplied by an insurer.

It is important to note (as further described in Section 3.2.3 and 4) that, **in some jurisdictions, what is commonly described as ‘bancassurance’ does not exist as a separate standalone category and banks<sup>18</sup> selling insurance products are either registered as agents or brokers** (or under a specific intermediary’s category existing in some Member States) depending on which capacity they act. In addition, as a result of this registration process, sales via ‘bancassurance’ can be reported as sales via other distribution channels such as agents and brokers or fall under a ‘catch-all’ other category. In other jurisdictions, where bancassurance is a separate registration category, NCAs have data on the size of ‘bancassurance’ both in terms of registration numbers but also in terms of written premiums.<sup>19</sup> Finally, in some jurisdictions NCAs collect separate data on bancassurance for reporting purposes and have information on the size of ‘bancassurance’ in terms of mediated premiums.

Bancassurance, since the 1980s, is a major distribution channel for life insurance products in some European countries (see Section 4.1), whereas, for the distribution non-life insurance products, it is a less common channel.

### 3.1.5 Direct Writers

The category of direct writers typically includes insurance undertakings that distribute to customers **without** the use of an insurance intermediary, selling via employees or using distance communication

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<sup>15</sup> Definition used on the website of the UK’s Managing General Agents’ Association. [[Link](#)].

<sup>16</sup> See country report for IE in Annex IV.

<sup>17</sup> N.B. The terms ‘bancassurance’ is also used in a broader context to describe all kinds of relationship between the banking and the insurance industries.

<sup>18</sup> In some Member States this has been interpreted to also include credit unions.

<sup>19</sup> For example, in IT the Register of insurance intermediaries (RUI) has a separate section (Section D) for banks mediating insurance, financial intermediaries, stock brokerage companies and Divisione Banco Posta of Poste Italiane (Italian Post Service).

channels like the internet, e-mails, and phones. Agents, brokers, and bancassurance are predominant sales channels; however, thanks to technological innovations, **direct writing has been growing and in some Member States and for some lines of business is an important channel.**

As elaborated in more detail in Section 4, data on the role that direct writing plays in terms of distribution of insurance products are limited and only a few Member States collect this information. Nevertheless, based on qualitative information collected from NCAs, direct writing is the distribution channel that increased the most in recent years, in particular with regard to the most common non-life insurance products such as MTPL insurance and household insurance.

### 3.1.6 Comparison websites/social media platforms

Comparison websites and price-aggregators are continuing to grow in terms of numbers of operating websites and aggregators. In some markets and in relation to some lines of business (e.g., motor insurance), they are a significant distribution channel, often offering a ‘first port of call’ for consumers, wishing to compare different types of insurance products and enhance their choice, before making contact with an intermediary or undertaking. For example, according to the EC report,<sup>20</sup> consumers in DE and FR generally use insurance companies’ websites and comparison websites as a first channel to seek information and explore different products and options.<sup>21</sup> (N.B. A more detailed analysis of the emergence of ‘new distribution channels’ can be found in Section 7.1).

There is no generally agreed definition of comparison websites. For the purpose of EIOPA’s own *Good Practices Report for Comparison Websites*<sup>22</sup>, they have been understood as: “*interfaces, the objective of which is to display to Internet users a number of insurance offers, and compare their prices and/or what is covered*”.

IDD provides clearer regulation of comparison websites by bringing them more explicitly under the definition of ‘insurance distribution’, namely it refers to:

*“the provision of information concerning one or more insurance contracts in accordance with criteria selected by customers through a website or other media and the compilation of an insurance product ranking list, including price and product comparison, or a discount on the price of an insurance contract, when the customer is able to directly or indirectly conclude an insurance contract using a website or other media”<sup>23</sup>.*

It is important to note that because of differences in registration practices (e.g. in some Member States, price comparison websites may be required to be registered as brokers), neither information on the number of registered comparison websites was available nor information on the role which they play in placing life and non-life insurance products on the European market. Some Member States were able to provide information at the national level, which has been included in the Country Analysis (Annex IV).

## 3.2 Registered insurance intermediaries in the EEA

This section of the Report aims at **giving an overview of the insurance intermediaries’ population in the EEA and evaluate specific trends, commonalities and/or variations**, particularly in terms of size of insurance intermediaries (natural or legal persons) as well as category (i.e., broker, agent, bancassurance, or other) under which they operate.

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<sup>20</sup> European Commission, *European Commission Study on consumers’ decision-making in insurance services: a behavioural economics perspective - Final report - Specific contract – No 2014 85 08 Implementing Framework Contract – EAH/2011/CP/01/LE*, Prepared by London Economics, Ipsos and VVA Europe May 2017.

<sup>21</sup> The report notes that following the research on comparisons websites, consumers would “*then contact an agent or broker to get additional advice and purchase the non-life insurance policy. Interviewees agreed that consumers still value professional advice and personal contact to make an informed decision, but it is important to ensure accuracy of information available online*”.

<sup>22</sup> EIOPA identified three types of comparison websites: (i) commercial websites run by the private sector; (ii) non-commercial websites run by consumer and/or industry associations and (iii) non-commercial websites run by public authorities. The good practices outlined in this report concern primarily the activities of commercial comparison websites. [\[Link\]](#).

<sup>23</sup> Article 2(1), first sub-para, IDD



### 3.2.1 Number of registered insurance intermediaries at the EEA level

As explained, there are **significant differences** in the way in which NCAs require intermediaries to be **registered, different categories in different markets, and differences in the data collected by NCAs.** Hence, conducting an accurate analysis of the size, in terms of registration number, of the European intermediaries market and relevant developments at the European level is difficult.

Despite these limitations, EIOPA has been able to collect overall figures and at the end of 2017, **there were 1,069,655<sup>24</sup> registered insurance intermediaries in Europe.**

#### Box 1 Size of the intermediaries' market in selected Member States

CZ, DE, and IT have high number of registered intermediaries; accounting for over 58% of the total number of intermediaries registered in the EEA. On one hand, this relates to historical traditions and the way in which both the insurance sector and the insurance intermediaries' market developed in these Member States; on the other hand, it relates to registration practices.



In CZ, the total number of registered intermediaries at the end of 2017 amounted to 174,581. However, all intermediaries operating in the market including (single) tied-agents, sub-agents, etc. need to be registered with the home competent authority and they could be registered multiple times (i.e., as an agent, as a broker, as a tied-agent). Without taking into account these duplications, tied-agents, sub-agents, etc. it is estimated that only 30,000 intermediaries are active in CZ.



In DE, the total number of registered intermediaries at the end of 2017 amounted to 217,825. The structure of the insurance distribution market in DE has historically been large.<sup>25</sup> Up to today, insurance intermediaries in DE are predominantly small businesses or natural persons. However, over 50% of the total number of intermediaries are tied-insurance agents. Not taking them into consideration, at the end of 2017, in DE there were 80,614 registered insurance intermediaries.<sup>26</sup>



In IT, at the end of 2017, there were 228,676 registered intermediaries. While, like in DE, traditionally the Italian insurance market has been characterized by a personal relationship between intermediaries and customers, the high number of registered intermediaries is partially due to registration requirements. In fact, in the Italian Registry of insurance intermediaries (RUI) there are multiple sections, including Section e) where 'staff' involved in mediation outside the premises of intermediaries registered in other sections (e.g., brokers, agents, banks) need to be registered. This category, which covers collaborators (both individuals and legal persons) of other intermediaries falling under other sections of the RUI, represent by far the majority of the total number of registered intermediaries. Under Section c) of the registry direct canvassers<sup>27</sup> also need to be registered. Not taking into consideration intermediaries registered under Sections c) and e) of the RUI, at the end of 2017, the number of intermediaries operating in IT amounted to 34,773.

Although these intermediaries are officially registered and a core essential part of the intermediaries market in these Member States, to make a more comparable analysis (i.e., to avoid that trends in these three markets influence EEA trends) at times either the latter adjusted figures or both figures have been taken into consideration – and this has been specified in the analysis. The choice of taking only partial figures for the number of registered intermediaries has only been made to allow more comparability across the EEA and does not reflect any judgement or conclusion on the way in which intermediaries should be registered.

Source: EIOPA Committee on Consumer Protection and Financial Innovation

Not considering in this calculation selected categories of registered intermediaries, as explained in Box 1, shows that the number of intermediaries is lower (593,960 registered intermediaries at the end of 2017). It is important, however, to note that even this adjusted number also includes 'inactive' intermediaries.

<sup>24</sup> It was not possible to collect 2017 data for NL; hence, this figure takes into consideration the data reported in 2016. Furthermore, in NO, Finanstilsynet registers insurance brokers and agents that have concluded a contract with a foreign undertaking (including on an ancillary basis), other agents are registered directly by insurance undertakings on other publicly available registers. As data for all intermediaries were not available, NO has not been included in this analysis.

<sup>25</sup> It is estimated that in the early 1900s more than 100,000 individuals exercised the insurance intermediation profession.

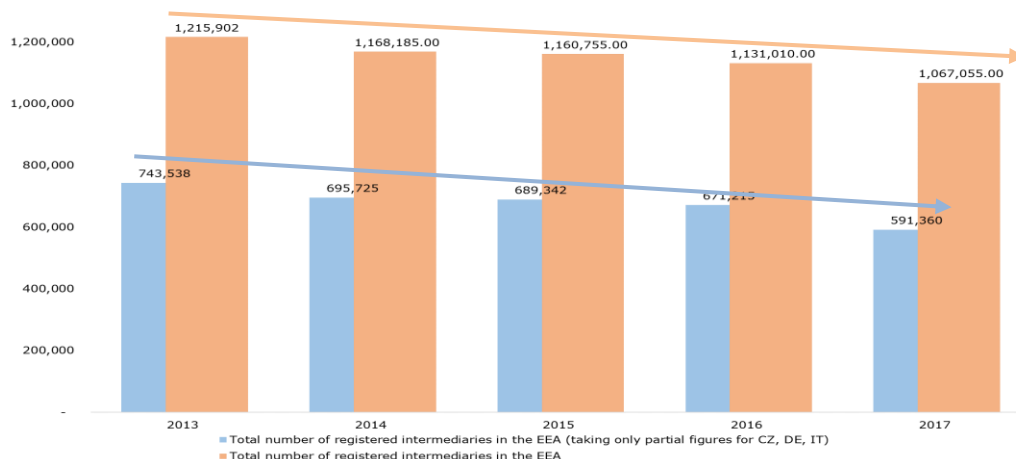
<sup>26</sup> Even this adjusted number may not be fully representative of the German intermediaries market. In fact, within the number of registered agents also tied-agents (up to 2/3 – see Beenken/Radtke 2013) which have opted to be registered by their local Chamber of Commerce are also included. Moreover, within the total number of registered brokers, there may be sub-agents representing brokers as, according to German registration laws, they also need to be registered as brokers.

<sup>27</sup> Direct canvassers are intermediaries who sell life and accident and health insurance mediation solely for and under full responsibility of an insurance undertaking.

Furthermore, neither figures consider intermediaries employed by large mediation companies. Hence, drawing an accurate picture on the number of intermediaries actually operating in Europe as of 31 December 2017 is not possible.

In terms of growth, as Figures 2 shows, the number of registered intermediaries in the EEA decreased from 2013 to 2017, a trend which was already taking place prior to 2013. In fact, in 2013, there were 1,215,902<sup>28</sup> registered intermediaries in the EEA and this number has been slowly decreasing: - 4% in 2014, - 1% in 2015, -3% in 2016, and -6% in 2017; registering a compound annual growth rate (CAGR) of -3%. If only partial figures for CZ, DE, and IT are taken into consideration, the decrease has been larger (CAGR of -6%).

Figure 2 Total number of registered insurance intermediaries in the EEA 2013-2017<sup>29</sup>



Source: EIOPA Committee on Consumer Protection and Financial Innovation

Identifying specific factors leading to these market developments at the European level has been challenging as different markets experienced different trends (Figure 3), including several markets where the total number of registered intermediaries increased. However, this decline could be attributed to changes in market conditions, including technological innovations and/or more stringent regulatory and supervisory conditions, including the implementation of online registration tools.

Some reasons explaining the decrease have been reported by NCAs. For example, in BE, where the number of registered intermediaries went from 16,538 in 2013 to 11,434 in 2017, the decrease is mainly due to the implementation of a new online registration tool for intermediaries (Box 2) and to the fact that the ‘first’ generation of intermediaries is approaching retirement. In RO, the total number of registered intermediaries dropped 56% between 2016 and 2017, as a result of three insurance undertakings entering the liquidation process.

#### Box 2 Insurance intermediaries’ online registration systems

Following initial registration, as intermediaries are not required to report on the actual business they conduct, it is difficult for NCAs to have a clear picture of the number of active intermediaries. Some NCAs have developed online tools to better monitor and communicate with the intermediaries’ population in their market and have a clearer picture.

In June 2017 the Belgian NCA, implemented a new online registration and monitoring tool for all intermediaries falling under its purview. Such tool requires registered intermediaries, to renew on a yearly basis, their registration and it verifies that all registration conditions (professional knowledge, fit & proper, professional indemnity insurance, payment of registration fees, etc.) are met. Moreover, this tool enables continuous communication between the NCA and registered intermediaries, facilitating the collection of information and providing an almost real-time picture of the number of intermediaries operating in the market.

<sup>28</sup> This number does not include data for IE (as only data from 2016 onwards was available) and NO (see footnote 17).

<sup>29</sup> IE has not been included as information on the total number of registered intermediaries was only available from 2016 onwards. NO has not been included (see footnote 20). The number of total registered intermediaries in NL has been assumed to be the same for 2016 and 2017, as 2017 data were not available.

A few other NCAs have also implemented similar tools, which had a similar effect of ‘lowering’ the number of registered intermediaries. For example, the Finnish NCA has been operating an on-line registration system for many years, which, when it was implemented, had a big impact on the number of registered intermediaries. In HU, the NCA recently did a ‘cleaning’ of the registry resulting in the removal of several inactive intermediaries. In IT, in order to be ‘active’, intermediaries need to have professional indemnity insurance and, with the exception of brokers, a specific mandate from insurance undertakings. Intermediaries are removed from the register in case of unjustified inactivity for three consecutive years or more.

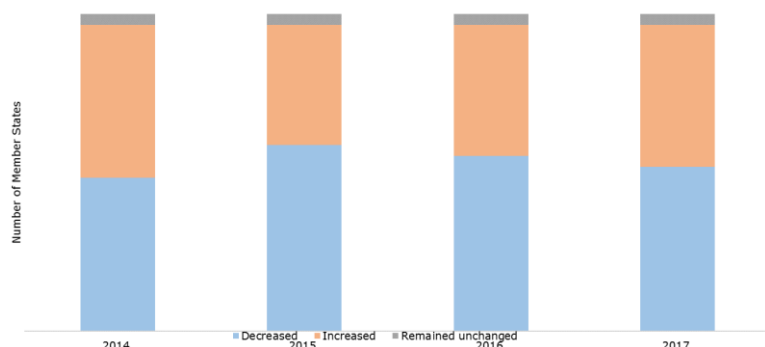
In NO, the NCA warns those intermediaries that have not documented their compliance with professional indemnity insurance requirements, informing them that they will be deleted from the register unless adequate documentation is provided. Furthermore, the Norwegian NCA contacts inactive intermediaries, which following this ‘nudge’ often request to be removed from the register.

Finally, it is worth noting that several NCAs indicated their plan to implement such tool following the entrance into force of IDD, which could potentially result in a further decrease in the total number of registered intermediaries.

Source: EIOPA Committee on Consumer Protection and Financial Innovation

As mentioned, growth trends are not homogenous: out of the 29 Member States for which data are available for the entire reporting period, just slightly above half of them reported a decrease (with the exception 2014-2015). Implying that several Member States, including ones with a large intermediaries’ population such as CZ, experienced growth.

Figure 3 Number of Member States that reported a growth or a decrease in terms of the total number of registered intermediaries (2013-2017)<sup>30</sup>



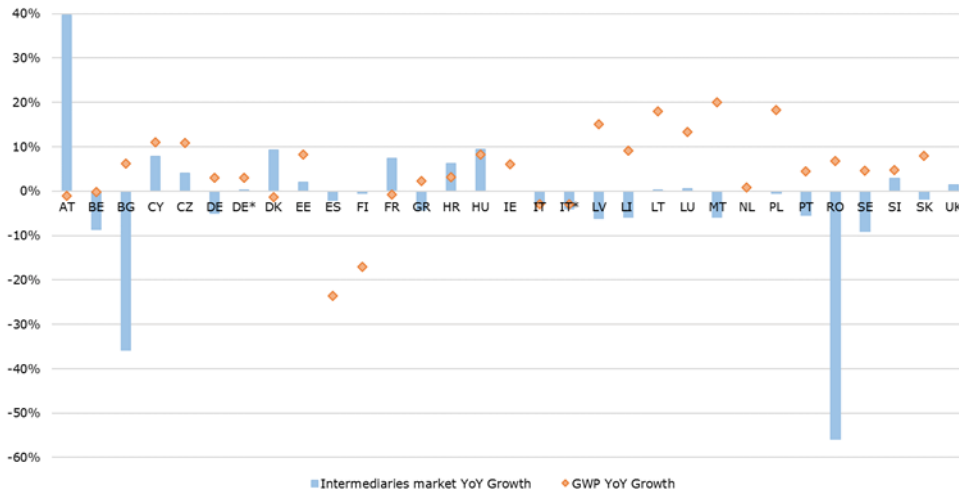
Source: EIOPA Committee on Consumer Protection and Financial Innovation

Finally, it is worth noting that no specific EU-wide development can be identified by looking at market-sizes and growth trends. In fact, growth (or contraction) in the total intermediaries’ population affected both larger markets and small ones (see Graph Panel 1 in Annex I). In addition, although there is no direct relation between GWP growth and growth in the number of registered intermediaries, in certain markets (like CY, SI) developments are similar (i.e., growth in GWP is similar to growth in the number of registered intermediaries) while in others developments are opposite (like BG, RO).<sup>31</sup>

<sup>30</sup> For this analysis all intermediaries registered in CZ, DE, and IT have been taken into consideration. IE has not been included in this analysis, as information on the total number of registered intermediaries was available only from 2016 onwards. The number of total registered intermediaries in NL has been assumed to be the same for 2016 and 2017, as 2017 data were not available. NO has not been included in this analysis (see footnote 20).

<sup>31</sup> This comparison is only limited to 2016, as Solvency II data are available only from 2016 onwards.

Figure 4 year-on-year (YoY) GWP and number of registered intermediaries growth (2017)<sup>32</sup>

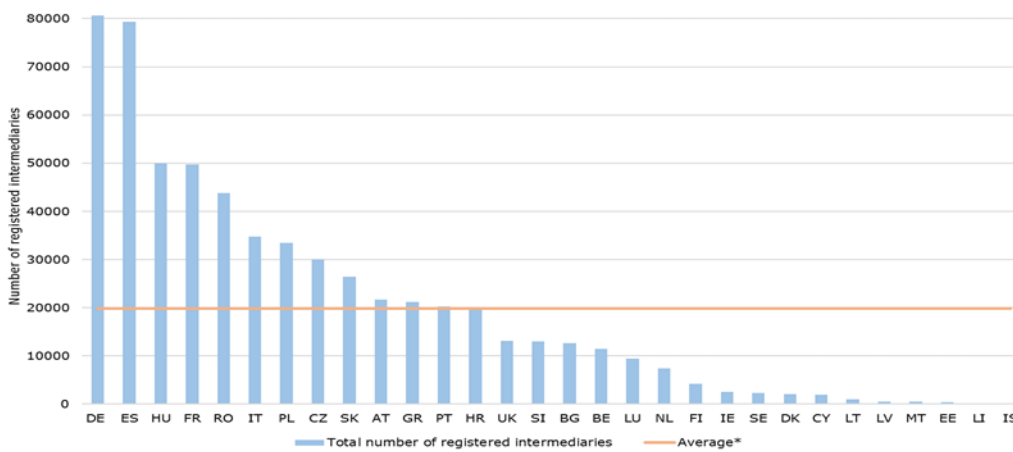


\*This considers only partial figures in terms of the total number of registered intermediaries for DE and IT. For CZ it has not been possible to make an analysis based on partial figures, as the 'adjusted' numbers are only indicative and solely available for 2017.

Source: EIOPA Committee on Consumer Protection and Financial Innovation

In terms of size, Figure 5 seeks to provide an overview of the 'latest state of play' as regards to the number of registered insurance intermediaries per Member State in 2017. The figures collected from NCAs illustrate that **there are some wide variations in the numbers of registered intermediaries across the EEA.** However, **this naturally needs to be assessed against the size of the insurance market in terms of GWP (Figure 6) and against other factors, such as domestic population, number of insurance undertakings or number of insurance contracts (see Graph panel 1 in Annex I).**

Figure 5 Registered insurance intermediaries per Member State (2017)<sup>33</sup>



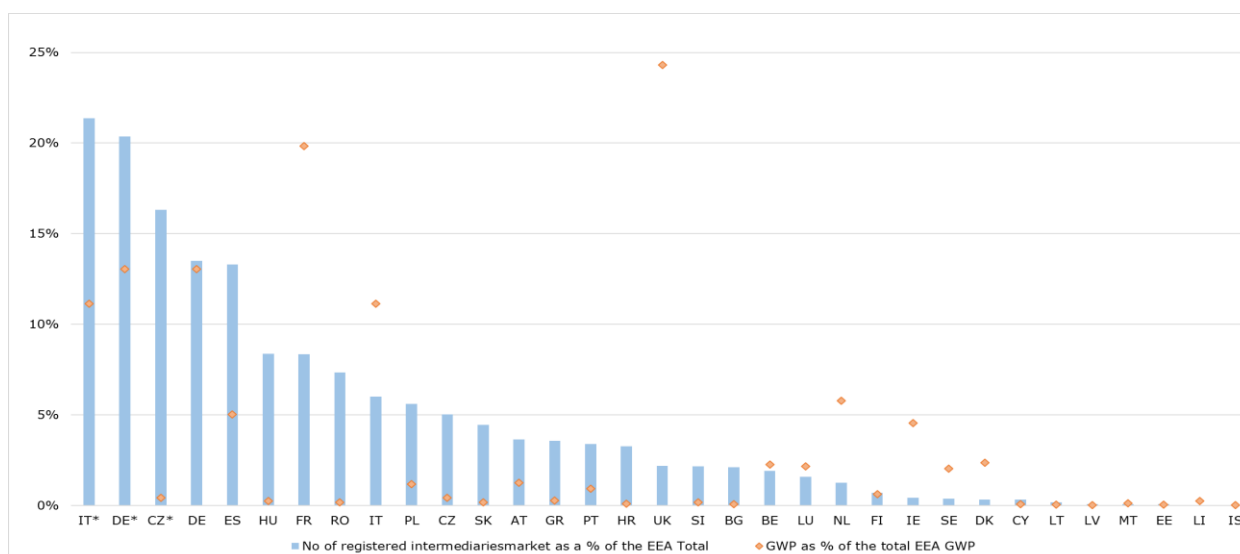
\*The average is based on only partial figures for CZ, DE, and IT (see Box 1)

Source: EIOPA Committee on Consumer Protection and Financial Innovation

<sup>32</sup> Does not include data for NO (see footnote 20).

<sup>33</sup> This figure has been calculated using only partial figures for CZ, DE, and IT as explained in Box 1. Does not include data for NO (see footnote 2-).

Figure 6 Relative market size in terms of total number of registered intermediaries and GWP <sup>34</sup>



\*It has been calculated taking into consideration all registered intermediaries in CZ, DE, and IT and the EEA total. For all other figures, adjusted data (see Box 1) has been used.

Source: EIOPA Committee on Consumer Protection and Financial Innovation and EIOPA Solvency II Database

Figure 6 shows markets size in terms of GWP and the size of insurance intermediaries’ markets in Europe, in terms of total number of registered intermediaries. In some markets, there seems to be an ‘alignment’ – as a share of the EEA total – in terms of size of the intermediaries market and market’s size in terms of GWP; while, in Member States like ES, PL, RO, SK, in relative terms, the size of the intermediaries market is much larger than the insurance market (measured as a share of total EEA GWP). Vice-versa, in Member States like DK, IE, SE, in relative terms, the market is much larger in terms of GWP than in terms of the intermediaries market’s size.

### 3.2.2. EEA intermediaries markets: split by natural and legal persons

The 2020 report requires EIOPA to examine *inter alia* “the impact of this Directive on insurance intermediaries which are small and medium-size enterprises”.<sup>35</sup> Hence, for this report, EIOPA has sought to collect data on the number of registered intermediaries, which fall under the EU SME definition<sup>36</sup>. Unfortunately, the definition of SME is applied differently in Member States and comparability is difficult, **impeding making an analysis of the number intermediaries that are SMEs.**

**As a proxy,**<sup>37</sup> EIOPA has collected data on the split between natural persons and legal persons. As Figure 7 shows, while 5 Member States do not collect disaggregated data and in NO all intermediaries are required to be registered as a company,<sup>38</sup> 25 NCAs were able to provide data on the split between natural and legal persons, making it possible to make a EEA-wide analysis.

<sup>34</sup> For NL the number of registered intermediaries in 2016 has been used for 2017. Does not include data for NO (see footnote 17).

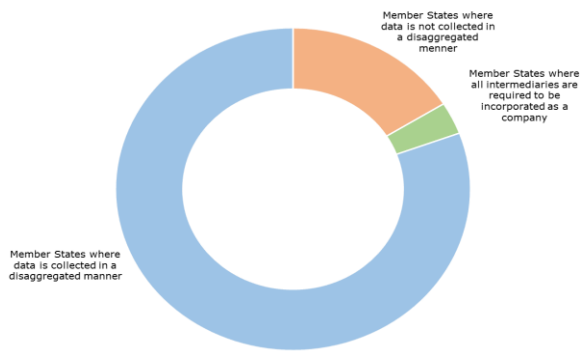
<sup>35</sup> Article 41(7)(c), IDD.

<sup>36</sup> EU recommendation 2003/361: [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en). The Commission is currently evaluating the existing definition for a possible revision.

<sup>37</sup> Given it was not possible to collect data on SMEs, these figures are just a proxy and need to be interpreted carefully, as in some Member States large partnership without their own legal personality (i.e., legal persons) may fall under the natural persons category.

<sup>38</sup> According to the Act on Insurance Mediation (Section 2.2), a firm in order to receive authorisation to operate as an insurance brokerage firm must be organised as: a private limited liability company, a public limited liability company, a partnership or a sole proprietorship (still to be incorporated as a company). While no specific organizational requirements are imposed for agents, the wording of the Act assumes that legal persons and not natural ones carry out the activity of insurance agent. Further, in administrative practice it is assumed that insurance agents need to be organized in the same way as insurance brokerage firms.

Figure 7 Member States where disaggregated data on the split between natural and legal persons is available



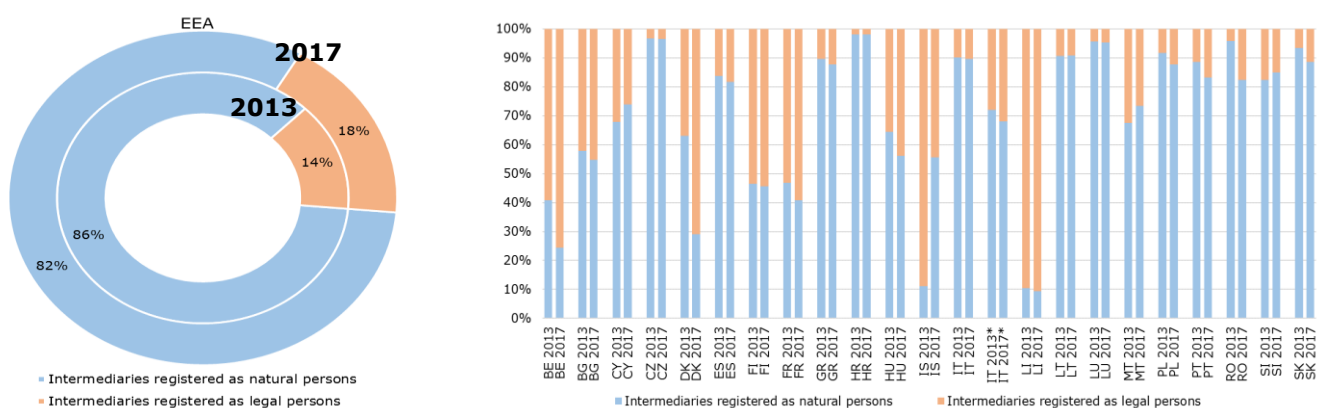
Source: EIOPA Committee on Consumer Protection and Financial Innovation

Based on the data provided by 25 Member States, at the end of 2017, intermediaries registered as natural persons represented 82% of the total number of intermediaries (Figure 8). However, it can be seen that the number of intermediaries registered as natural persons, decreased over the reporting period (CAGR -4%<sup>39</sup>); while the number of intermediaries registered as legal persons increased. There could be multiple causes for, and implications of, these developments, including this entailing further professionalization of the sector.

The total number of intermediaries registered as legal persons went from 126,452 in 2013 to 146,034 and the share of intermediaries registered as legal persons has increased 4 percentage points (pp), driven by increases in 18 Member States. This contrasts with CY and SI, where the percentage of intermediaries registered as legal persons dropped 6 and 3 pp respectively.

In some Member States, decreases affected both categories. For example, in BG, the number of legal person intermediaries decreased from 12,363 (2013) to 5,710 (2017), experiencing a sharp drop in 2016 (-19%) and 2017 (-41%). The number of natural person intermediaries dropped significantly (from 17,002 – 2013 – to 6,914 – 2017), resulting in the fact that the percent of legal person intermediaries went from 42% in 2013 to 45% in 2017. Figure 8 provides an overview of the split in terms of intermediaries registered as legal persons and those registered as natural ones.

Figure 8 Intermediaries registered as natural persons or legal persons in 2017 (25 Member States in<sup>40</sup>) and in 2013 (in 22 Member States<sup>41</sup>) EEA and Member States



\*This considers only partial figures for IT (see Box 1)

Source: EIOPA Committee on Consumer Protection and Financial Innovation

Despite the decrease, as shown in Figure 9, in most Member States (19 out of 26<sup>42</sup> for which these data are available), in terms of registration numbers, the share of natural persons to total intermediaries is higher than 50% of the total.

<sup>39</sup> This is based only on data reported by 22 Member States as 3 Member States were not able to provide data for the entire reporting period.

<sup>40</sup> These Member States are AT, BE, BG, CY, CZ, DK, ES, FI, FR, GR, HR, HU, IS, IE, IT, LI, LT, LU, MT, PL, PT, RO, SE, SI, and SK. For CZ and IT all registered intermediaries have been taken into account.

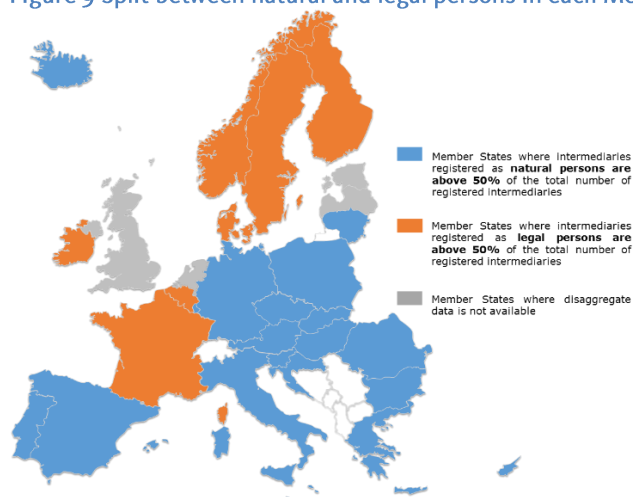
<sup>41</sup> These Member States are BE, BG, CY, CZ, DK, ES, FI, FR, GR, HR, HU, IS, IT, LI, LT, LU, MT, PL, PT, RO, SI, and SK. For CZ and IT all registered intermediaries have been taken into account.

<sup>42</sup> Data for DE has been calculated by making an estimate using data published by Gartner/Eltzsch/Beenken (2014).

Intermediaries registered as natural persons have particular predominance in Member States such as ES, GR, HR, PL and PT. In IT, where the majority of intermediaries registered as natural persons fall under Section e) of the RUI, natural persons are the predominant category. If this Section e) and c) (in section c) all intermediaries are natural persons but only a few intermediaries are registered in this section) are not taken into consideration the share of legal persons intermediaries is higher but still not majority.

In Member States such as BE, DK, and LI, over 70% of the total number of registered intermediaries are legal persons. To a large extent, this reflects historical growth trends of the intermediaries' population in these markets.

Figure 9 Split between natural and legal persons in each Member State (2017)



Source: EIOPA Committee on Consumer Protection and Financial Innovation

### 3.2.3. EEA intermediaries markets: split by categories

Because IMD took an activity-based approach, there is a significant diversity amongst Member States in terms of distribution channels. This diversity is further emphasized by the fact the insurance is a non-homogenous sector (e.g., life and non-life insurance; personal vs. commercial lines of business). **This diversity made it difficult for EIOPA to make a Europe-wide analysis of the intermediaries' market structure by looking at the number of intermediaries, differentiated by categories: brokers, agents and bancassurance.**

For example, in several jurisdictions, banks offering insurance products operate as either agents of insurance undertakings or brokers and no disaggregated data are collected. In LI, two banks are registered insurance intermediaries and one operates as a broker while the other one operates as an agent. Like in LI, in PT, banks offering insurance products can be either agents or brokers. On the other hand, in DK and BG, all banks offering insurance products need to be registered as agents.

Moreover, in several jurisdictions there are other existing intermediaries categories such as 'tied insurance intermediaries' or 'sub-agents' (see the Country Analysis, Annex IV) under which banks offering insurance products (such as in DE, MT, or PT) can be registered. Because of these differences in registration requirements, only 9 Member States were able to provide data for all three categories for which EIOPA requested data, while 18<sup>43</sup> provided data on the split between brokers and agents.

In addition, as the intermediaries' landscape across Europe is varied, 16 Member States also provided data on 'other intermediaries' which do not fall under the three categories mentioned above (Figure 10). These include:

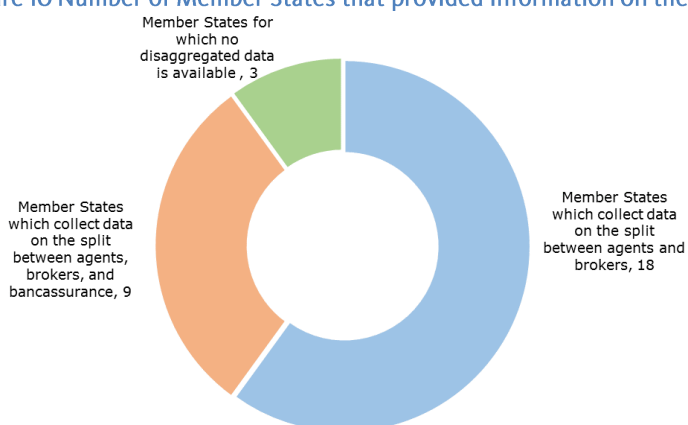
- Subordinated or tied insurance intermediaries which are present in countries like DE and MT;

<sup>43</sup> NO provided data on the split agents-brokers; however, as mentioned in footnote 20 this does not take into account all intermediaries operating in NO; hence it has not been included in this analysis.

- Insurance intermediaries representatives or ‘employees’ of insurance intermediaries registered under different categories, which are present in CZ, FR and IT (if they perform mediation activities outside of the premises of the intermediary) and either work for insurance intermediaries or act on their behalf;
- Multi-tied agents, which operate in countries like PL and represent more than one insurance undertaking in one line of business;
- Direct canvassers, which operate in IT selling solely life and accident and health products for and under the full responsibility of an insurance undertaking.

For more details see the Country Analysis in Annex IV, which provides an overview of the types of intermediaries operating in each Member State.

**Figure 10 Number of Member States that provided information on the different intermediaries’ categories**



Source: EIOPA Committee on Consumer Protection and Financial Innovation

In order to make an analysis based on comparable data, it has been decided to separate the analysis on the split between different intermediaries’ categories as follows:

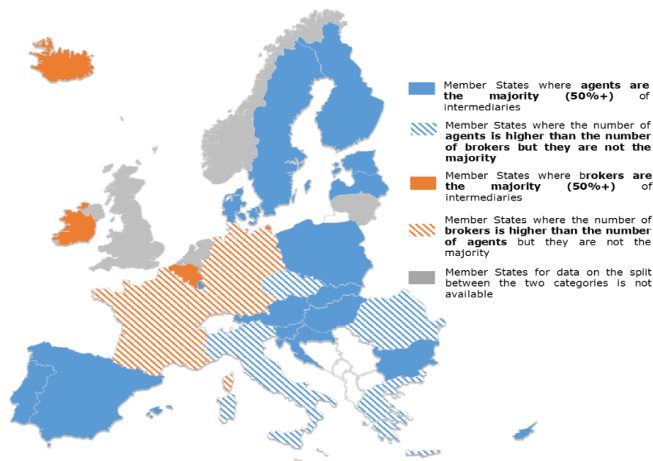
- Make an overall analysis based on the split between brokers and agents and overall trends across the 27 Member States which provided this information;
- Make an analysis of the size of ‘bancassurance’ in terms of registration numbers for the 9 Member States that provided split data; and
- Make an analysis of the size of the ‘other intermediaries’ category for the 16 Member States that also have other categories which do not fall under the ones pre-identified by EIOPA.

Even this analysis is not conclusive as, due to the activity-based approach taken by IMD, the definition of agents, brokers and bancassurance, can vary from Member State to Member State. Therefore, the figures presented should be interpreted carefully, taking into account Member States specificities.

In 2017, based on the data provided by 27 Member States, there were 338,788 registered agents vs. 120,711 registered brokers. **The number of intermediaries operating as agents represents 32% of the total number of registered intermediaries** in these 27 Member States and being over 50% in 16 Member States (over 80% in 11 of them). Figure 11 below provides an overview of the intermediaries’ population in each Member State.



Figure 11 Most prevalent intermediary category, by Member State (2017)



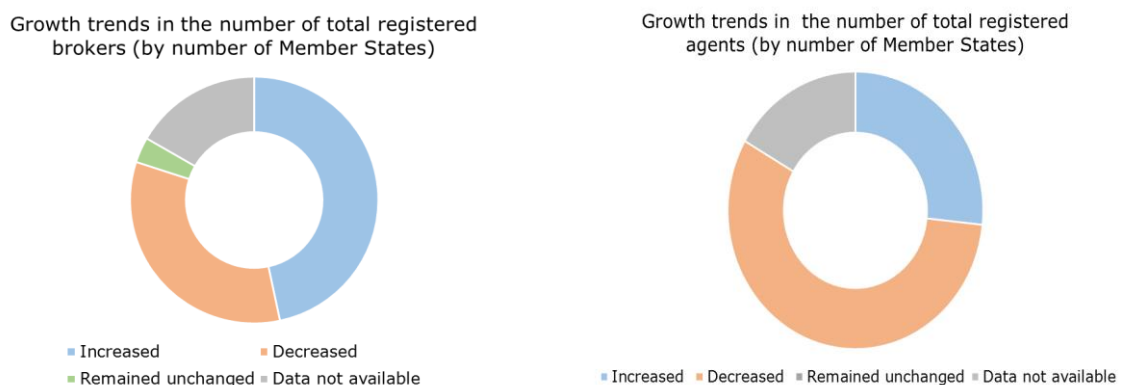
Source: EIOPA Committee on Consumer Protection and Financial Innovation

Because of the difference in reporting requirements, as well as the variety of categories existing in different countries, **Figure 11 needs to be interpreted carefully**, as, in many Member States, **the majority of intermediaries operating in the market fall in a national specific category** (as explained below in Figure 13) and not in the agent vs broker split. For example, in DE and FR, there is a significant high number of ‘other intermediaries’ that are mostly tied insurance intermediaries or sub-agents; hence, the ‘agency model’ is the prevalent one, despite the number of brokers being higher than the number of agents. In addition, in DE, the number of brokers includes tied agents representing brokers that also must be registered as brokers themselves.

The number agents went from 423,429 in 2013 to 338,426 in 2017.<sup>44</sup> While the overall decrease has been -5% (CAGR),<sup>45</sup> it has been higher in recent years reporting a -7% drop in 2016 and -8% in 2017. There are substantial differences amongst Member States: the decrease has been significant in RO (-41% CAGR) because the liquidation of the three insurance undertakings affected mostly the number of insurance agents that went from 52,648 in 2016 to 28,713 in 2017. On the other hand, the number of registered agents grew in AT, DK, and HU and decreased moderately in BE, and GR.

Brokers, on the other hand, went from 110,591 in 2013 to 119,067 in 2017.<sup>46</sup> In relative terms, this means that brokers went from representing 9% in 2013 to 11% in 2017 for the 27 Member States for which this information is available. Despite the number of registered brokers having increased in both relative and absolute terms in several Member States (Figure 12), in only 4 of them the number of registered brokers represents 50% of the total number of registered intermediaries (Figure 11).

Figure 12 Growth trends (2013-2017) in terms of registered agents and registered brokers by number of Member States



Source: EIOPA Committee on Consumer Protection and Financial Innovation

<sup>44</sup> This does not take into consideration data from IE, as only data from 2016 onwards is available.

<sup>45</sup> This does not take into consideration data from IE, as only data from 2016 onwards is available.

<sup>46</sup> This does not take into consideration data from IE, as only data from 2016 onwards is available.

Because of its nature and the way in which banks obtain authorization to offer insurance products and services, **in terms of registration bancassurance numbers are significantly lower**; however, this does not provide an accurate picture of the role that banks play in distributing insurance products (see Section 4). In 7 out of the 9 Member States which provided this information, the number of banks offering insurance products represents less than 1% of the total number registered intermediaries. This is because, after obtaining registration, banks rely on their existing branch networks and customer base to offer insurance products. In SE, this figure is 3.4%, while, in IE, it is 7.5%; this is because, in IE, there are a significant number of credit unions operating in the market (162) and they have been included in this calculation.

In terms of registration numbers, **bancassurance figures have been rather steady**. For example, in IT, which has the highest number of intermediaries operating as ‘bancassurance’, they went from 653 to 496 (2013-2017).

Finally, in several Member States, there are many other intermediaries’ categories, which often represent the majority of intermediaries. To make a comparable analysis, such categories have been classified as ‘others’ in this report; however, details have been included for each Member State in the Country Analysis in Annex IV.

**These ‘other intermediaries’ are varied in nature and size, making it difficult to conduct a proper assessment**, including making relevant conduct of business-related conclusions with regards to potential risks and issues relating to distribution models. These challenges are accentuated by the large size these ‘other intermediaries’ represent in certain markets.

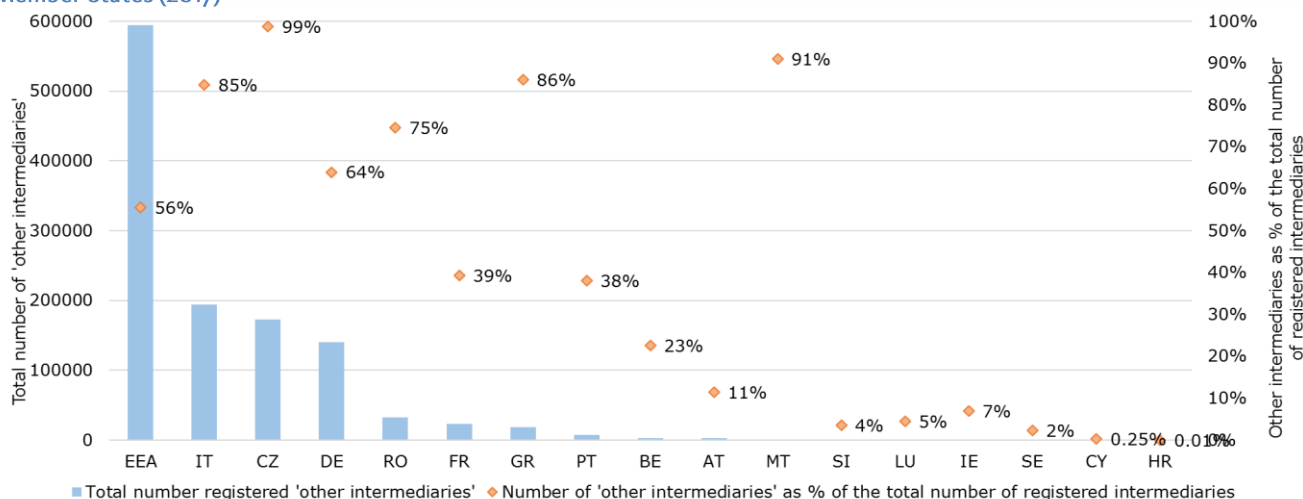
For example, as mentioned in IT, in Section e) of the RUI also people working in collaboration with an intermediary falling under another section of the RUI are registered. In CZ, also sub-agents are registered; hence, the number of other intermediaries operating in these Member States is high (81% and 99% respectively). At the European level, for the 16 Member States for which this information is available, the number of other intermediaries represents 70% of the total number of registered intermediaries in these Member States (56% of the EEA total).

In addition, in other Member States such as GR, MT and RO, the number of intermediaries not falling under the three categories identified by EIOPA is above 50%. In GR, ‘consultants’, which are intermediaries cooperating with one or two insurance undertakings, but for which they do not act as agents, are the dominant category of insurance intermediaries. In MT and DE, the vast majority of intermediaries are tied-insurance intermediaries.

On the other hand, in Member States such as AT, BE, SE, and SI, the number of registered ‘other intermediaries’ is lower than 30%. In AT for example, they are just intermediaries operating as both agents and brokers; while, in SI, this category also covers ancillary insurance intermediaries.

Figure 13 below provides an overview of the size of the ‘other intermediaries’ category in the 16 Member States that reported it, as well as at the EEA level.

**Figure 13 Total number of registered ‘other intermediaries’ (LHS) and as a percentage of the total (RHS) in the EEA and 16 Member States (2017)**



Source: EIOPA Committee on Consumer Protection and Financial Innovation

The diversity and **non-homogeneity of the number of registered intermediaries makes it difficult to draw data-led and precise conclusions on the prevalent model(s)** (i.e., whether the majority of intermediaries are intermediaries acting on behalf and in the interest of customers or whether they are intermediaries acting on behalf and in the interest of insurance undertakings). However, considering that several categories falling under ‘other intermediaries’ tend to follow a model closer to the agency one, it can be inferred that this is still the most prevalent model at the EEA level.

Finally, for what concerns direct writers and comparison websites, it has not been possible to make an analysis on the number of registered comparison websites, which often operate as brokers. For direct writers, insurance undertakings often do both direct writing and sales via intermediaries. An analysis of the role that direct writing plays in terms of distribution of life and non-life products is provided in Section 4 and Section 7 provides an overview of the role of ‘other emerging distribution channels’ like comparison websites.

## 4. Role intermediaries play in the distribution of insurance

Traditionally, **insurance intermediaries have played a significant role in distributing insurance products**; in fact, the role of intermediaries has been recognized to bring significant benefits for both insurance undertakings and consumers. They can guide consumers through the different products available and respond to consumers' needs, while lowering distribution costs for undertakings and facilitating research for consumers.<sup>47</sup>

While the role that intermediaries play in the underwriting process differs from market to market, some external studies estimate **sales from insurance intermediaries to account for more than 50% of total premiums (life and non-life)**.<sup>48</sup> Of course, as the insurance sector is not homogenous, with several types of intermediaries and types of products, different intermediaries' categories have different roles in distributing different insurance products.

For example, in several Member States, 'bancassurance' plays an important role in distributing life insurance products. On the other hand, agents generally have a larger role in the distribution of non-life products. In addition, based on information received from NCAs, 'bancassurance' plays a significant role in distributing Payment Protection Insurance (PPI), probably because such product is often tied with mortgage and consumer loans; while ancillary intermediaries have an important role in distributing products like travel insurance and mobile phone insurance.

Moreover, trends mentioned above are not uniform; the popularity of each different distribution channel varies based on market characteristics, the type of products sold, the target market itself, and the distribution model adopted by insurance undertakings. In fact, this *"diversity of channels, makes it possible for insurers to adjust to differing cultures, needs and preferences in different markets, reflects the historical development of insurance markets across the various Member States"*.<sup>49</sup>

### 4.1 Split by distribution channels in the EEA

While for other indicators, the majority of Member States were able to provide, at least partially, the data requested by EIOPA; **data on the split between different distribution channels on an EEA-wide basis has been difficult to gather**.

This is due, not only to very broad variations in categorising insurance intermediaries and other distribution channels, but also because of different reporting requirements (as opposed to data quality issues). For example, in NO, ancillary insurance intermediaries are not yet required to report data on the amount of written premiums to the NCA. In PT, information regarding premiums written by banks operating as tied insurance intermediaries are reported as 'other' and, in RO, insurance undertakings are required to report data on GWP, but neither split by each category of intermediary category nor split between direct sales and mediated ones.

**For these reasons, it has not been possible to make an EEA-wide analysis on the role that different distribution channels play.** Furthermore, EIOPA has not been able to fully rely/or complement the information received by NCAs with information from industry bodies, as they face similar issues and difficulties. Therefore, it has been decided to make an analysis only for those Member States for which this information is available (see Section 4.2), complementing data received by NCAs with data collected by the industry, when available, to cover as many Member States as possible.

Based on comparable information received by 8 Member States,<sup>50</sup> it can be noticed that, in recent years, **there have not been major shifts in the role that distribution channels play in the life and non-life business.** It can also be observed that 'bancassurance' continues to be an important distribution channel for life insurance. On the other hand, agents are an important vector for the distribution of non-life insurance. Finally, the role that direct sales play in distributing insurance products remains small, despite an increasing trend.

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<sup>47</sup>London Economics report to BIPAR, *Insurance Intermediaries in Europe*, 2010.

<sup>48</sup>London Economics report to BIPAR, *Insurance Intermediaries in Europe*, 2012 update.

<sup>49</sup>European Commission, *European Commission's study on distribution systems of retail investment products across the European Union*, 2018.

<sup>50</sup> For life insurance these Member States are: BE, ES, FR, HR, IT, LT, PT, and SE. For non-life insurance these Member States are: BE, ES, FR, HR, IT, LT, and PT.

These are aggregated figures based on information received from only 8 Member States, which are not representative of the EEA insurance sector and, in some Member States, including large insurance markets like the UK, the overall picture is different. Growth trends relating to certain distribution channels are also more prevalent in some Member States. For example, growth in terms of the role played by direct sales has been reported across all life and non-life products in some Member States and some NCAs reported the role of agents having increased in the distribution of ‘other life insurance’.

In terms of Europe-wide figures, although similar issues were identified in collecting data, CGPA’s Fourth edition of the European Observatory on Insurance Intermediaries provides an analysis based on information for 15 markets for which comparable data is available. These markets more accurately represent the European insurance panorama as they make up for over 90% of the market in terms of GWP. By looking at these data, similar conclusions can be drawn. In fact, according to these data in 2016 **bancassurance played an important role in the distribution of life insurance products while other intermediaries such as brokers and agents mainly accounted for the distribution of non-life insurance products** (Figure 14).<sup>51</sup>

Figure 14 Life and non-life GWP, split by different distribution channels in 2016

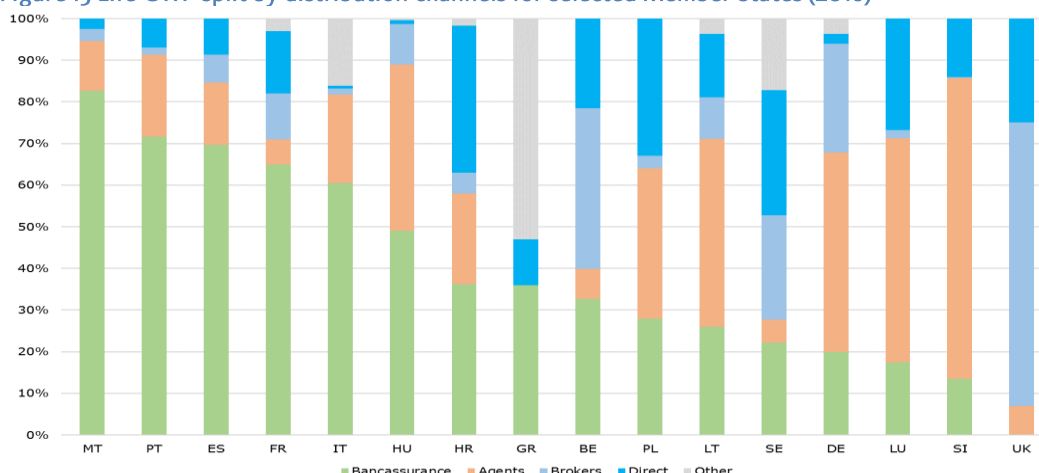


Source: 4<sup>th</sup> Edition of the European Observatory on Insurance Intermediaries (CGPA Europe)

## 4.2 Split by distribution channels for life insurance and non-life insurance GWP in different Member States

By looking at the split by distribution channels for both life and non-life insurance products at national level, it can be noticed that, generally, it is true that ‘bancassurance’ plays an important role in the distribution of life insurance products while agents are the main vector for the sale of non-life insurance product. Nevertheless, **significant differences exist** (Figures 15 and 16).

Figure 15 Life GWP split by distribution channels for selected Member States (2016)



Source: EIOPA Committee on Consumer Protection and Financial Innovation and Insurance Europe<sup>52</sup>

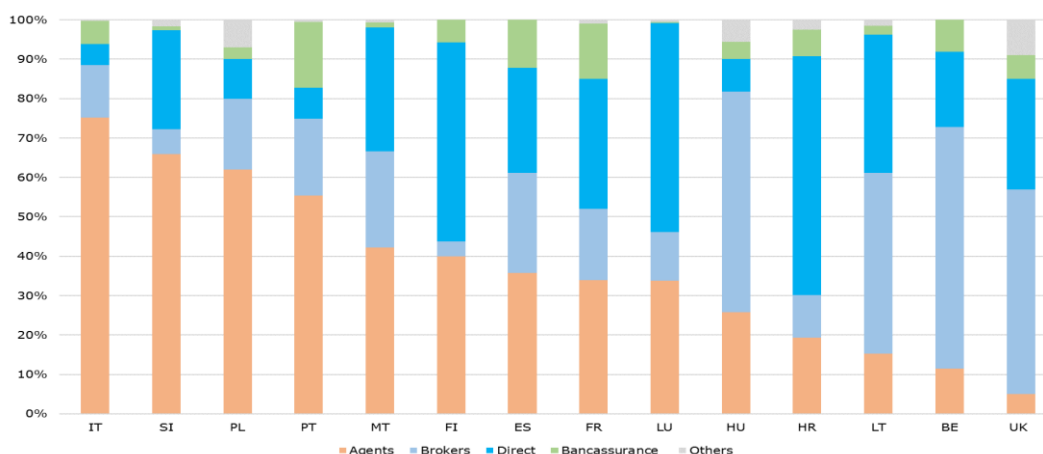
<sup>51</sup> These numbers refer to data from only 15 countries (representing 90% of the European market in terms of total GWP) for which homogenous data was available.

<sup>52</sup> Data shared by NCAs for DE, GR, MT, PT, SI, and the UK has been complemented with data collected by Insurance Europe. For GR it is important to note that ‘Others’ refers to the total amount of GWP mediated by intermediaries which are not credit institutions (e.g., bancassurance) and it includes agents and brokers.

In five markets, ‘bancassurance’ accounts for over 50% of total life GWP, and in the majority of the markets, for which this information is available, bancassurance is the most important distribution channel. Data from CGPA’s Fourth Edition of the European Observatory on Insurance Intermediaries shows similar conclusions: in countries like ES, FR, IT, and PT bancassurance accounted for over 60% of total GWP.

On the other hand, as **brokers** traditionally have been extremely important in the UK market, they **play a significant role in the distribution of both life (Figure 15) and non-life (Figure 16) insurance**. For what concerns direct writing, it appears to be playing an important role in the life-insurance sector in those markets where bancassurance is not the ‘dominant’ (i.e., above 50% of the shares) channel, such as HR, BE, SE, LT, and PL and the UK.

**Figure 16 Non-life GWP split by distribution channel for selected Member States (2016)**



Source: EIOPA Committee on Consumer Protection and Financial Innovation and Insurance Europe<sup>53</sup>

Agents play a significant role in the distribution of non-life products in several markets for which this information is available. **Direct sales are the most important distribution channel of non-life insurance products in certain markets such as LU, FI, and HR** and play an important role in others such as FR, MT, and SI. More than in life insurance, brokers have an important role in several markets.

On the other hand, **bancassurance has barely any relevance in the distribution of non-life insurance products**. Data from CGPA’s Fourth Edition of the European Observatory on Insurance Intermediaries also shows that bancassurance is less relevant for non-life insurance products, not reaching 10% in most countries, with the exception of ES, FR, and PT where it represents respectively 11.7%, 14%, and 16.7% of total GWP for non-life lines of business.

For more detail on particular jurisdictions, see the Country Analysis in Annex IV.

<sup>53</sup> Data shared by NCAs for FI, MT, PL, PT, SI, and the UK has been complemented with data collected by Insurance Europe.

## 5. Patterns of cross-border activity

This section has the objective of showing the extent to which insurance intermediaries are availing themselves of the opportunity to carry out cross-border activities based on numbers of notifications and making a comparison with insurance undertakings' cross-border activities. In fact, it is not possible to show the extent to which these passports are being exercised and to, therefore, have a clear indication of the amount of business actually being written on a cross-border basis.

This analysis will also assist EIOPA with looking at changes to such patterns for its report in 2020<sup>54</sup> and with regard to its general objective to “*improve the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision*”<sup>55</sup>.

Although the legal context for ‘cross-border activity’ is ultimately set down in case-law of the European Court of Justice (ECJ), the term ‘cross-border activity’ is understood, for the purposes of this report, in terms of:

- ‘*Freedom to provide services*’: the right of an insurance intermediary to provide a policyholder (whose principal place of residence or establishment is in a different Member State to the one where the insurance intermediary is registered) with an insurance contract relating to a risk situated in a Member State, different to the Member State where the insurance intermediary is established; and
- ‘*Freedom of establishment*’: the right of an insurance intermediary located in Member State (X) to provide an insurance contract to a policyholder located in another Member State (Y) by establishing a permanent presence in Member State (Y).

### 5.1 Number of notifications to provide services on a FoS or FoE basis

In 2017, there were 13,861<sup>56</sup> intermediaries, which had notified their home competent authorities of their intention to carry out cross-border business. Of this 13,861, **more than 90% (13,047) notified their intention to conduct business on a FoS basis**, while only 413 notified their intention to conduct business on an FoE basis.

As Figure 17 illustrates, **the evolution of passport notifications for insurance intermediaries has been steadily increasing**, with the exception of FoS notifications between 2016 and 2017. Taking into consideration only the data received from NCAs reporting for the entire 2013-2017 period, the number of FoS notifications grew from 7,990 in 2013 to 9,304 in 2017 (CAGR of 4%). On the other hand, the number of FoE notifications, despite being significantly lower, grew more (7% CAGR) going from 294 in 2013 to 377 in 2017. As for other aspects analysed in this report, trends vary significantly amongst European markets: while, **in 17 Member States** (out of 21 for which this information is available across the entire reporting period), **the number of FoS notifications grew between 2013 and 2017; in 4 Member States, it decreased.**

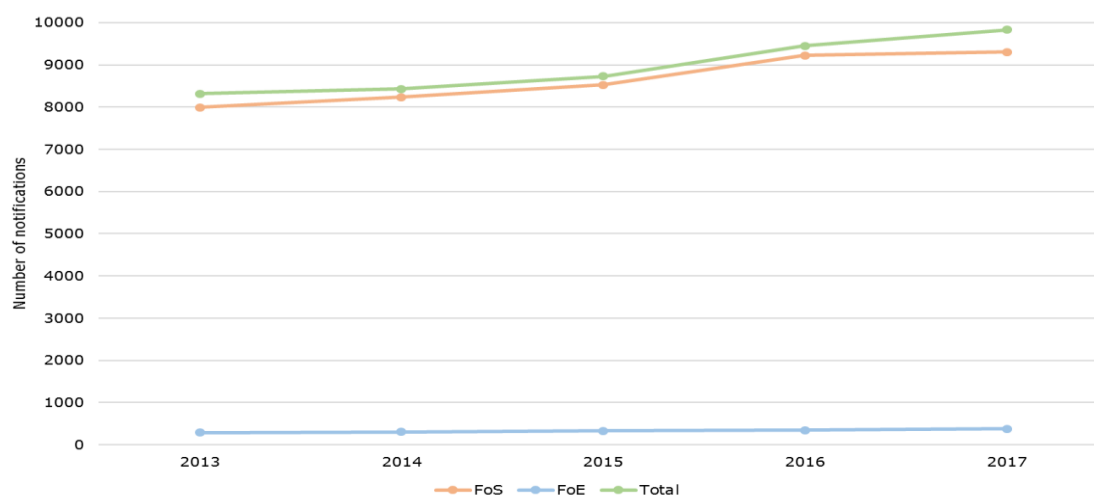
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<sup>54</sup> See Articles 41(4) and 41(7), IDD.

<sup>55</sup> See Article 1(6)(a), Regulation 1094/2010 establishing EIOPA.

<sup>56</sup> This Figure does not take into consideration DE, DK, IS, LV and SK as data for these Member States were not available; furthermore it is based on the assumptions data for NL there was not variation between 2016 and 2017 as 2017 were not available.

Figure 17 Passport notifications for insurance intermediaries (2013-2017)<sup>57</sup>



Source: EIOPA Committee on Consumer Protection and Financial Innovation

This growth needs to be interpreted carefully as the markets registering highest growths tend to be those with very small number of notifications. For example, HR reported a significant growth (73% CAGR); however, the number of intermediaries that notified the home competent authority of their intention to carry cross-border business on a FoS basis, only went from 3 in 2013 to 27 in 2017. **In markets with high number of intermediaries, the number of FoS notifications remained generally stable, with the exception of the UK where there was a constant, albeit small, growth across the entire reporting period (5% CAGR).**

For what concerns **FoE notifications, what can be noticed is that, in several markets, growth was much more substantial.** This is probably because of the small number of FoE notifications. For example, in ES, the number of FoE notifications reported a 32% growth (CAGR) and, in LU, the number of intermediaries having notified of their intention to carry out cross-border business on an FoE basis went from 3 in 2013 to 16 in 2017 (52% CAGR).

The largest amount of FoS notifications was identified in AT. This is probably because the registration for passporting in AT is quite simple and often intermediaries notify without taking advantage of the passport. It can also be noticed that, for some Member States, notifications are solely on a FoS basis (see Graph Panel 2 in Annex I).

In terms of FoE, larger markets, like UK and FR, have the highest number of notifications in absolute terms, but also CZ and AT have a rather significant number of FoE notifications. Finally, as already mentioned, for some Member States, data (both for FoS and FoE) was not reported or was unavailable, showing the wide diversity in national reporting frameworks.

Absolute figures need to be interpreted jointly with the size of the insurance sector and the size of the insurance intermediaries' market (See Section 5.2). In addition, even this analysis is not fully representative of actual cross-border business; as intermediaries **notify of their intention provide services (FoE or FoS) without having to report actual business.** Many NCAs reported receiving multiple simultaneous notifications to conduct business in several Member States. On the other hand, under the Solvency II Framework, insurance undertakings are required to report the amount of business written domestically and in other Member States.

## 5.2 Patterns of cross border notifications and business

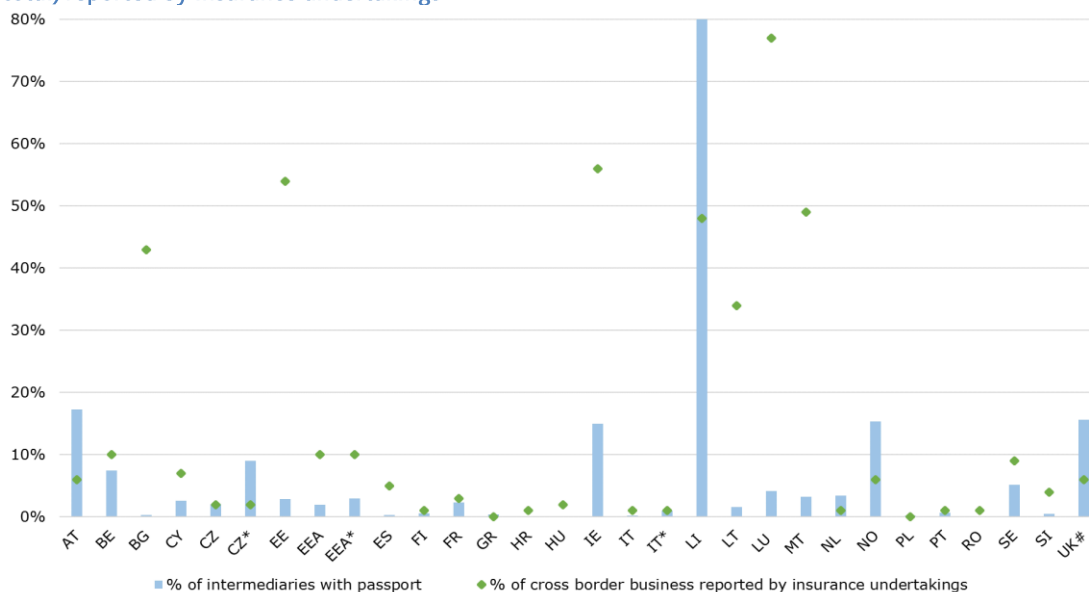
Although it is not possible to draw conclusions on cross-border business carried out by insurance intermediaries because of lack of data, this sub-section aims at providing an overview of patterns in terms

<sup>57</sup> This Figure does not take into consideration DE, DK, IS, LV and SK as data for these Member States were not available. Moreover, it does not include data for AT, FI, HU, and NL as for these Member States data for entire reporting were not available. IE figures are only included in the total as they were not available as a split FoE / FoS.



of cross-border notifications. It includes a comparison with data on cross-border business reported by insurance undertakings, although often there is no correlation between the two,<sup>58</sup> as well as consumer attitudes towards buying insurance products in another Member States or from a provider from another Member State (Box 3). Nevertheless, the comparison below is only illustrative and non-conclusive.

**Figure 18 Ratio total number of notifications/total number of intermediaries<sup>59</sup> and cross-border business (GWP as a % of total) reported by insurance undertakings**



\*These figures are calculated not taking into consideration all intermediaries operating in CZ and IT (see Box 1)

#Cross-border business for the UK also includes business coming out of Gibraltar

Source: EIOPA Committee on Consumer Protection and Financial Innovation and Solvency II Database

As Figure 18 illustrates, **there are some Member States where the ratio of total number of notifications to carry out cross-border business compared to total number of registered intermediaries, is significantly high** - for example, in LI (95%), despite the amount of cross-border business as a percentage of total GWP reported by insurance undertakings being ‘only’ 48%. In other Member States, such as LU and IE, where the percentage of cross-border business is high (above 50%), the ratio total number of notifications over total number of registered insurance intermediaries is less than 10%.

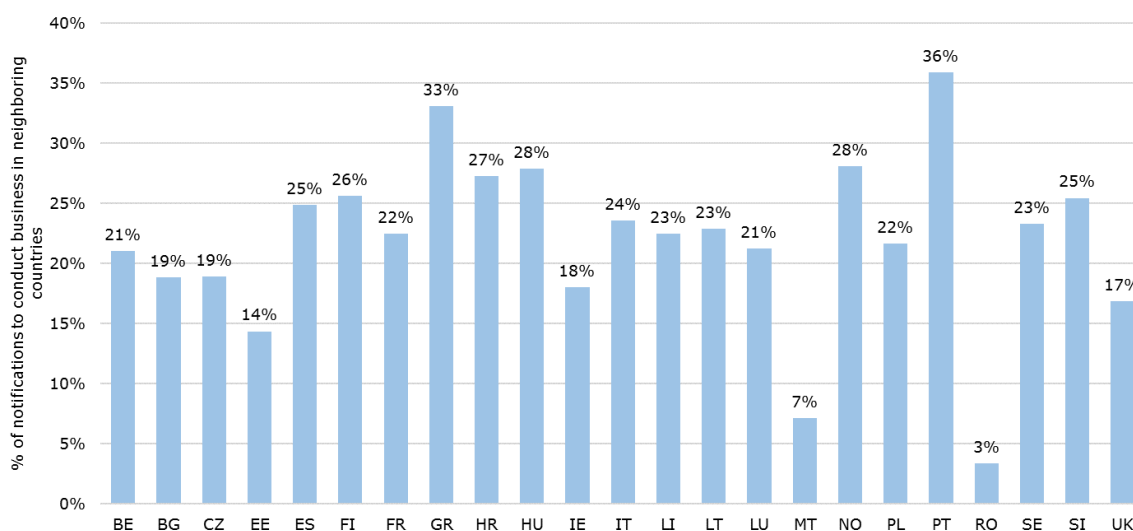
It is also noteworthy that **a significant portion of intermediaries’ notifications mainly relate to ‘neighbouring’ Member States**. In fact, although the analysis does not fully capture the reality, with many intermediaries submitting notifications for multiple Member States, there appears to be a tendency to privilege neighbouring Member States.

Figure 19 shows that, in the majority of Member States for which this information is available, around 20% of the total number of notifications received in 2017, concerned passporting into neighbouring Member States. There are some exceptions: in RO, the highest number of notifications, in 2017, concerned passporting into large markets such as the DE, FR, IT and the UK. On the other hand, notifications received by the Maltese home competent authority were almost even across Member States.

<sup>58</sup> In fact, insurers doing cross-border business tend to rely on existing distribution networks in the targeted Member State market. In addition as mentioned intermediaries notifications often do not necessarily translate in intermediaries carrying-out cross border business.

<sup>59</sup> The Member States for which data was not available have not been included in this analysis.

Figure 19 Number of (FoS and FoE) notifications to conduct business in neighbouring countries as percentage of total passport notifications<sup>60</sup>



Source: EIOPA Committee on Consumer Protection and Financial Innovation

By looking at the information collected via Solvency II Quantitative Reporting Templates (QRTs), **it can be seen that, in some Member States, trends are similar.** For example, 36% of the total number of intermediaries' notifications received by the Portuguese home competent authority are to conduct business in ES, which, jointly with FR, is also the Member State where the majority of insurance undertakings' cross-border business from PT goes to. Similarly, NO and SE are the countries where there are significant cross-border activities from FI and in terms of intermediaries' notifications, they represent 20% (26% with DK) of the total notifications in FI.

On the other hand, **for other Member States, there are some differences.** For example, the Member State where the largest shares of cross-border business from MT go to is the UK. However, in terms of intermediaries' notifications, only 10 out of 267 concerned passporting into the UK. Similarly, for LU, with the exception of BE, the majority of intermediaries' notifications and cross-border insurance undertakings' business are in relation to FR. However, despite the UK and IT representing respectively the second and third largest share of total Luxembourgish cross-border business, the number of notifications of Luxembourgish intermediaries to passport in these countries is lower than the one to passport in DE.

It is clear from the data on insurance intermediaries' notifications to carry out cross-border activities that **the overall picture remains extremely patchy, largely due to the quality of existing national reporting frameworks which existed under the IMD.** Not only some NCAs do not have information on notifications, but also by comparing data on incoming and outgoing business significant discrepancies were identified. In addition, the lack of data on volumes and products/lines of business mediated on a cross-border basis, means that **a complete picture of the cross-border activities of insurance intermediaries in the EEA is not available.** This is starkly contrasted with the data available for cross-border business of insurance undertakings under Solvency II, where a more precise overview can be obtained (For more information on cross-border business conducted by insurance undertakings see Box 7 in Annex I).

<sup>60</sup> For the purpose of this Report the notion of neighbouring country does not solely mean countries which share a border with one another but rather countries which have a certain degree of geographical proximity and significant economic ties (for example, for the purpose of this Report CY and IT have been considered neighbouring countries of GR).

### Box 3 Consumers attitudes towards purchasing financial products and services on a cross-border basis

Although information on consumer attitudes towards purchasing financial services in another Member State is limited and not directly comparable, it is worth providing an overview of the data collected by the Special Eurobarometer. Like the number of notifications to conduct cross-border business, the percentage of consumers who purchased financial products and services in another Member States slightly increased from 5% in 2011 to 7% in 2016.<sup>61</sup> After bank accounts, MTPL insurance and life insurance are the most purchased products on a cross-border basis.

Like trends in terms of cross-border business, there are significant variations across Member States. In fact, *“compared to 2011, respondents in Romania, Luxembourg (both +12 pp), Cyprus and Ireland (both +10 pp) are now much more likely to say they have purchased at least one financial product or service in another EU country. In fact, with the exception of Estonia (-2pp), Germany and Spain (both -1pp), respondents in all Member States are more likely to have purchased at least one financial product or service in another EU country compared to 2011”*.<sup>62</sup>

Generally, consumers' attitudes towards buying financial services in another Member States are more linked to their habits than to the availability of foreign providers in their Member States. For example, *“around half of respondents in the Czech Republic (51%), Greece (50%) and Lithuania and Estonia (both 47%) say they can buy everything they need in their country. Over one third of respondents in Austria (34%), and 30% in Sweden and Denmark prefer to buy financial products and services in their country. This compares to around one in ten respondents in Lithuania (10%), Bulgaria and Romania (both 11%). Respondents in France (24%), Cyprus (23%) and Ireland (22%) are the most likely to be concerned about the fact that they do not have clear information when purchasing financial products or services in another EU country”*.<sup>63</sup>

Finally, it is worth noting that some consumers perceived discrepancies in consumer protection rules and this is a barrier to cross-border purchases of financial products and services. In fact, *“one in six respondents in Sweden (16%) mention the fact there is less consumer protection in other EU Member States, followed by 9% in Germany, and 8% in Austria and the Netherlands”*.<sup>64</sup>

Source: Special Eurobarometer 2016, Financial Products and Services.

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<sup>61</sup> Special Eurobarometer 2016, Financial Products and Services.

<sup>62</sup> Special Eurobarometer 2016, Financial Products and Services.

<sup>63</sup> Special Eurobarometer 2016, Financial Products and Services.

<sup>64</sup> Special Eurobarometer 2016, Financial Products and Services.

## 6. Remuneration models used by insurance intermediaries and other distribution channels

### 6.1 Different remuneration models

Specific remuneration models may vary significantly from Member State to Member State and detailed and comparable information on remuneration models is lacking. However, the following is a description of **two remuneration models prevalent in sales of insurance products by insurance intermediaries in the EEA:**

- A **commission-based model** under which the insurance intermediary is given a percentage of the premium paid by the customer for insurance coverage based upon the insurance intermediary's agreement with the insurance undertaking. Commission is only payable if a contract is concluded. It is important to stress that different commission rates may arise depending on the type of product. In addition, different types of commissions can be paid at different stages depending on different types of contractual events, e.g. commission paid/received initially based on conclusion of a contract or paid/received on a recurring basis, based on a portfolio ('trail commission').
- A **fee-based model** whereby the customer pays the insurance intermediary for the services to be rendered. Fees may be charged on an hourly rate, as a percentage of the premium, or as fixed amount.<sup>65</sup> Fee-based may be viewed as generally being more transparent. However, hourly fees may often be more expensive than the commissions included in the insurance premium and the customer will typically have to pay upfront for the services rendered.<sup>66</sup>

In some cases, remuneration can be 'mixed', i.e. being composed of commissions from the insurance undertaking to the insurance intermediary for the activity of insurance distribution and a fee from the customer for managing the contract after the conclusion of the contract (for example, in relation to management of claims).<sup>67</sup>

As regards to direct writing, employees of insurance undertakings are typically subject to 'fixed remuneration' or a 'variable remuneration' (bonuses) models:<sup>68</sup>

- **'Fixed remuneration'**: a traditional way of compensating primarily the employees of an insurance undertaking. The income of the sales staff is based on an employment contract, paid in equal proportions throughout the year.
- **'Variable remuneration'**: depends on performance and/or commission amounts and percentages based on different performance measures vary by company. Employees/ agents may be required to maintain a certain performance level to continue receiving commission percentages. Remuneration will decrease if quotas are not met.<sup>69</sup>

### 6.2 Quantitative and qualitative data on remuneration models

Due to limited data available from NCAs, EIOPA was only able to gather basic **quantitative data** on

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<sup>65</sup> The 2017 Financial Conduct Authority, Financial Advice Market Review Baseline Report, in fact, showed that for example only a small percentage of fees (around 20%) are initial/ongoing charges based on times (i.e., hourly rate). Around 50% of fees are based on premium percentages and the rest tend to be fixed charges or a mixture of different types of charges.

<sup>66</sup> As referred to in *Study on remuneration structures of financial services intermediaries and conflicts of interest (MARKT/2012/026/H) - Final Report*, Institut für Finanzdienstleistungen e.V.(iff), October 2013, "e.g. 400-500 euro for 1.5-2 hours financial advice without additional fees for advice services by email, or by mail in Germany)".

<sup>67</sup> This is one of the three main forms of remuneration paid to brokers in Italy. The other two are: commissions paid by insurance undertakings and commissions paid entirely by large corporate clients on the basis of specific negotiations between the client and the broker. A combination of commission and fees basis also exists in Malta.

<sup>68</sup> Institut für Finanzdienstleistungen e.V.(iff), *Study on remuneration structures of financial services intermediaries and conflicts of interest (MARKT/2012/026/H) - Final Report*, October 2013.

<sup>69</sup> It is to be noted that Articles 17(3) and Article 29(2), IDD introduce tougher requirements regarding remuneration of insurance distributors. In particular, Article 17(3) states "Member States shall ensure that insurance distributors are not remunerated or do not remunerate or assess the performance of their employees in a way that conflicts with their duty to act in accordance with the best interests of their customers. In particular, an insurance distributor shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to itself or its employees to recommend a particular insurance product to a customer when the insurance distributor could offer a different insurance product which would better meet the customer's needs".

commission rates through Solvency II reporting, more information on national specificities is provided in the Country Analysis (Annex IV). In fact, EIOPA was not in a position to gather data from NCAs on the types of remuneration model used according to volumes of contracts mediated and/or gross written premiums, broken down for life, non-life, MTPL business nor was able to get information on different ‘commission rates’ for specific products. As a result, EIOPA used data gathered via Solvency II reporting to calculate commission rates,<sup>70</sup> which, however, refer to lines of business given the prudential nature of Solvency II, and not to specific products.

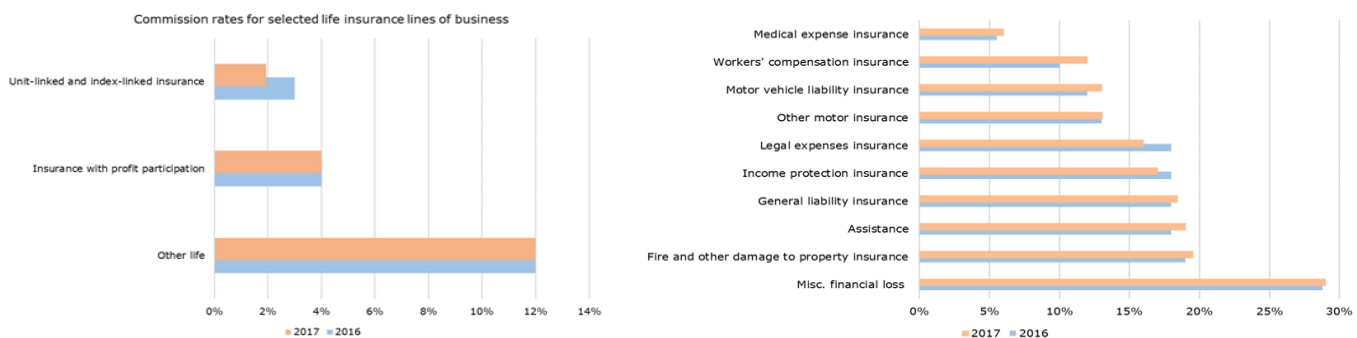
**On the other hand, NCAs were able to provide more qualitative data on the types of remuneration models used by different types of insurance intermediaries such as brokers, agents, sub-agents and tied/ancillary intermediaries in Member States. These are set out in more detail in the Country Analysis in Annex IV. It is evident in the national regimes where national provisions prohibiting or restricting the payment or receipt of commissions have not been introduced,<sup>71</sup> the commission-based model remains predominant.** Insurance agents appear to be almost exclusively paid by commissions in most Member States, whereas brokers are often paid with either commissions or fees or a combination of both.

In addition to qualitative data provided by national authorities, EIOPA has had to rely on data and information from stakeholders and external studies to obtain a picture of remuneration models used by insurance intermediaries. For example, as identified in a study on commissions,<sup>72</sup> they are typically based on volume of sales and volume-based sales commissions prevailing in product distribution by tied and linked agents, brokers, bancassurance and retailers.

### 6.2.1. Commission rates

Concerning commission rates, while they have remained stable between 2016 and 2017 **there is significant difference in commission rates between lines of business (Figure 20) and amongst Member States (Graph Panel 3, Annex I).** Other life insurance the life insurance line of business with the highest commission rates. For some non-life insurance lines of business commission rates are around or above 20%.

Figure 20 Commission rates for selected life and non-life insurance line of business



Source: Forthcoming EIOPA Seventh Consumer Trends Report

It is also noteworthy that there are significant variations in terms of commission rates amongst Member States. Such variations could be the result of national regulations in place to limit commissions but also a result of competition (and concentration) in different distribution markets. It also relates to different distribution models in place. While variations in terms of commission rates between 2016 and 2017 are limited at the EEA-level, there are some, often significant, YoY variations in some Member States (Graph Panel 3, Annex I).

<sup>70</sup> Commission rates are calculated using data reported by insurance undertakings via the QRTs (reporting template S.05.01). They are calculated by taking reported data on total acquisition costs over total gross written premium. It is important to note that acquisition costs are broader than commissions and direct writers also have costs.

<sup>71</sup> See section on national and EU regulation of remuneration below.

<sup>72</sup> Institut für Finanzdienstleistungen e.V.(iff), *Study on remuneration structures of financial services intermediaries and conflicts of interest (MARKT/2012/026/H) - Final Report*, October 2013.

#### Box 4 National and EU regulation of remuneration

National regulation of remuneration under IMD has taken various forms. There has been no single model prevailing across the Member States as legal definitions have varied across the EU due to the lack of a formal definition in IMD.<sup>73</sup> Up until the arrival of IDD, there has been, to date, no harmonised approach to conflicts of interest or as regards what conduct should be expected from which insurance intermediaries in the context of conflicts of interest. This has led to a patchwork of regulation across all Member States.

A number of national restrictions or prohibitions are in place in relation to different insurance products,<sup>74</sup> mostly targeting third party payments by brokers. In addition, some Member States have toughened or plan to toughen disclosure requirements to include disclosure of the amount of the remuneration in relation to the sale of both life and non-life products, as opposed to just the nature and basis of the remuneration.<sup>75</sup> Other Member States have also introduced rules targeting variable remuneration and bonuses paid to sales forces of insurance undertakings.<sup>76</sup> Other Member States have targeted sales of products through types of group policies sold via the bancassurance channel<sup>77</sup> or payment of commission in connection with life insurance policies with a savings element.<sup>78</sup>

Looking ahead, as stated by the European Commission,<sup>79</sup> IDD will “*allow Member States to keep their existing systems of remuneration. It does not prescribe a particular method of remuneration for insurance distributors, but it lays down rules to ensure that the nature or basis of the remuneration or payment is transparent. If customers are required to pay a fee for insurance intermediation services in a given Member State, they will continue to be required to do so.*”<sup>80</sup>

As regards third party payments (or ‘inducements’) for the sale of IBIPs can only be accepted if they do not have a detrimental impact on the quality of the relevant service to the customer.<sup>81</sup> These third party payments therefore remain possible, but the sale must remain free of conflicts of interests and serve the best interests of the customer. Implementing rules clarify this requirement, the basis of which was detailed technical advice provided by EIOPA to the European Commission.<sup>82</sup>

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<sup>73</sup> Article 2(5), IMD provided that “*insurance intermediary means any natural or legal person who, for remuneration, takes up or purposes insurance*”. However, the notion of remuneration was not formally defined (apart from a general reference to a “pecuniary or some form of agreed economic benefit tied to performance” in recital 11). In addition, the information disclosure requirements in Article 12 of the IMD did not extend to disclosure of the nature or basis of the insurance intermediary’s remuneration.

<sup>74</sup> Examples of different national restrictions or prohibitions on the payment/receipt of commissions include in Denmark, Finland, the Netherlands, Norway and the UK.

<sup>75</sup> Examples include Belgium, Ireland, Italy, and the Netherlands. In Italy, for example, regulatory provisions, already in force prior to the transposition of IDD, require the disclosure of: i) the level of commissions received by intermediaries for the sale of motor liability insurance products; ii) the type of remuneration and the amount of remuneration paid by insurance undertakings to banks, credit institutions, and financial intermediaries (in terms of both absolute amount and as a percentage of the total amount), for the sale of insurance contracts linked to the provision of mortgage and other types of consumer loans.

<sup>76</sup> Examples include Guidelines on Variable Remuneration in 2015 in Ireland and bonus caps introduced in the Netherlands

<sup>77</sup> An example here includes rules introduced in Poland to ban the policyholder (the bank) from receiving from the insurer any remuneration or other benefits in group insurance with offering the insurance cover to the consumer or any activities related to the performance of the insurance contract.

<sup>78</sup> In relation to regulation introduced in Hungary in January 2014.

<sup>79</sup> The Insurance Distribution Directive, Frequently Asked Questions, Brussels, 23 February 2016. [\[Link\]](#).

<sup>80</sup> Under Article 29(3), IDD, prohibitions or further restrictions on the offer or acceptance of fees, commissions or non-monetary benefits from third parties in relation to the provision of insurance advice can be retained or introduced by Member States.

<sup>81</sup> Article 29(2), IDD

<sup>82</sup> Technical Advice on possible delegated acts concerning the Insurance Distribution Directive, EIOPA 17/048, 1 February 2017. [\[Link\]](#).

## 7. The Growth of ‘Other Emerging Insurance Distribution Channels’ and InsurTech in the EU

The objective of this section is to seek to capture a general overview of the extent of the growth of ‘other emerging insurance distribution channels’ through digital technologies such as comparison websites<sup>83</sup>, price aggregators, robo-advice, Social Media Platforms, InsurTech start-ups etc. and their impact on the insurance distribution channels analysed so far in this report. At the same time, it should be borne in mind that, in some jurisdictions, to keep up with innovation, insurance intermediaries could be already set up as online brokers.

The growth of online sales of insurance and innovation in the entire value chain, including distribution, have been identified through EIOPA’s own *Annual Reports on Consumer Trends and Good Practices Report on comparison websites*, and also in the recently published Joint Committee (JC) report on Automation in Financial Advice and the continuous monitoring conduct by the European Supervisory Authorities (ESAs).<sup>84</sup> In addition, a number of external studies in the past<sup>85</sup> have identified the potential for growth in these areas. In fact, investments in InsurTech are growing.<sup>86</sup>

On the one hand, many existing insurers (so-called ‘incumbents’) and insurance intermediaries are reportedly embarking on ambitious digital transformation projects, and upgrading their digital capabilities through the set-up of in-house and external innovation labs, partnering with large tech firms and/or collaborating with InsurTech start-ups. Insurance intermediaries have also harnessed technology to optimise their offer, including the speed, fluidity, efficiency, and traceability of transactions.

On the other hand, InsurTech start-ups are partnering with incumbents (both insurers and intermediaries) and this partnership is beneficial to both sides: as it allows incumbents to benefit from cutting edge technology while start-ups can benefit from incumbents’ customer-base – this is particularly important for insurance intermediaries as they often have an established personal relationship with consumers – market knowledge, and regulatory expertise. As a result of new technologies and actors several aspects of the value-chain are being digitized (see Box 5 for examples of innovations in different Member States).

### Box 5 Illustrative examples of national developments

With the objective of reducing operational costs, **Danish** insurers are reportedly shifting towards implementing **automated claims handling systems** for minor claims such as windshield damages, where payments are transferred automatically, without ever being checked by a claims clerk.

In **NO**, insurers are working towards automating the claims-handling process in a large proportion of damages claims so that they are settled within an hour. In **GR and SK** motor insurance claims can now be filed via an app and in **IT** insurers begun using data collected via telematics in claims management.

**Artificial intelligence** technology is also reportedly being used by Zurich insurance and the start-up firm, Lemonade, to process personal injury claims.<sup>87</sup>

In **PT and RO**, motor insurance is being sold through machines similar to ATMs known as “**payment kiosks**” or “**payment points**”, which, as any other distribution channel, have to comply with the applicable insurance distribution legislation. In the case of RO, a specific regulation related to on-line insurance sales has been approved, opening the door to innovative products from FinTechs, complemented with a regulation for managing information technology (IT) operational risks.

In **BE** several insurers calculation of motor insurance premiums via a **online platform**, as customers want to get in touch more easily with insurers and compare their result with other simulations done by other users of the platform. ‘App-based distribution’ is also been reported to have increased in **EE**. Finally, the usage of robo-advice is growing in several markets such as **FR, MT, and NL**.

Source: Country Analysis and EIOPA’s Fifth, Sixth, and Seventh Consumer Trends Report

<sup>83</sup> For the purposes of this report, the working definition of “comparison websites” is used based on the IDD, with the objective of capturing commercial comparison websites only. In 2013, EIOPA published a Report on Good Practices for comparison websites also contains an Annex with a market overview of comparison websites, although this also captures non-commercial comparison websites.

<sup>84</sup> Report on automation in financial, Joint Committee of the ESAs, December 2016. [\[Link\]](#).

<sup>85</sup> CapGemini, *World Insurance Report 2014*, 2014. The World Insurance Report 2014 from Capgemini and Efma assessed the digital capabilities of more than 250 insurers in 14 countries. Swiss Re, 2014, Digital distribution in insurance: a quiet revolution. [\[Link\]](#).

<sup>86</sup> EIOPA, *Financial Stability Report*, June 2018.

<sup>87</sup> Zurich Insurance starts using robots to decide personal injury claims, Reuters, 18 May 2017. [\[Link\]](#).

## 7.1 Comparison websites and price aggregators

Comparison websites and price aggregators continue to grow as a distribution channel for insurance products, often offering a ‘first port of call’ for consumers, wishing to compare different types of insurance products and enhance their choice.

As identified by one recent academic study, “*comparison websites have proliferated in recent years as online technologies have developed and consumers have sought fast, easy access to comparative information about various products, including insurance. Comparison websites have stimulated competition between insurers and intermediaries and helped enhance the transparency and comparability of information available to consumers*”<sup>88</sup>. In the UK, in 2017, around 60% of the total number of MTLTP policies were either purchased directly through a comparison website or arranged through one.<sup>89</sup>

Not only is the presence of comparison websites expanding in European markets, but also they are evolving into what has been defined as ‘concierge distribution’<sup>90</sup>. In fact, these websites are not only assisting consumers in identifying the best price by comparing between a wide variety of insurance undertakings and different products but they are offering advice via chatbox or other tools.<sup>91</sup>

Data on existing comparison websites and price aggregators is limited making it difficult to make a fully accurate analysis. It is estimated that in Europe in 2016 there were 214 major websites and online brokers operating, equally present across the continent.<sup>92</sup> In some markets, such as HU, there is high a concentration of these websites and they need to be registered as any other insurance intermediary (see Box 6 for an overview of different comparison websites operating in some Member States).

### Box 6 Overview of comparison websites operating at the national level

**Hungary** has a large number of **comparison websites/aggregators**. They pursue business primarily in MTLTP, home insurance, and travel insurance. Besides these broker owned websites, the Association of Hungarian Insurance Companies has an aggregator for information purposes only.

The number of comparison websites are also reportedly increasing in **PT and DE**. The insurance agents association (BVK) recently won a court case against a popular comparison website, Check24, in DE<sup>93</sup>. In **CZ**, price comparison websites were launched on the insurance market a few years ago and have begun to exert pressure on the price of insurance products, as the majority of the Czech customers are price-oriented. Some insurance companies therefore decided that their products should not be part of these comparison websites.

In 2016, insurance intermediaries, operating price comparison websites/aggregators, concluded approximately 325,428 insurance contracts, representing approximately 10.4% of the total number of insurance contracts concluded (that were reported within the annual activity report for 2016 by insurance agents and brokers). However, there is no data on whether the reported figures relate only to contracts concluded via the respective comparison web sites/aggregators as there is no reporting obligation on the way in which these contracts are concluded.

Source: Country Analysis in Annex IV and EIOPA’s Fifth and Sixth Consumer Trends Report

Potential issues such as high commissions, misleading information regarding ranking of products with excessive focus on price (as opposed to terms and conditions) and conflicts of interest have been identified with comparison websites and/or price aggregators.

The lack of unequivocal regulation of comparison websites of insurance products under IMD and the risks of consumer detriment has led to much stricter regulation and supervision at national level.<sup>94</sup> For its part,

<sup>88</sup> Marano, Pierpaolo, *The EU Regulation on Comparison Websites of Insurance Products*. [\[Link\]](#)

<sup>89</sup> EIOPA, *Seventh Consumer Trends Report*. [Forthcoming].

<sup>90</sup> Wrede, Peter Friedrich Wilhelm, *How technology can make insurance more inclusive*. *Fintech Note*; no. 2., World Bank Group, 2018. [\[Link\]](#)

<sup>91</sup> Wrede, Peter Friedrich Wilhelm, *How technology can make insurance more inclusive*. *Fintech Note*; no. 2., World Bank Group, 2018. [\[Link\]](#)

<sup>92</sup> Mount Onix, Universität Wien, *The Corporate intelligence, Online Insurance Trends, Europe & Country Report*.

<sup>93</sup> BVK accused Check24 of obscuring its brokerage activities. A court case followed in which the Upper Regional Court in Munich ordered Check24 to pay a fine of €15,000 and meet conditions to help consumers better understand Check24’s business model (including the activities of brokers and the payment of commissions).

<sup>94</sup> For example, the UK FSA published Guidance on the selling of general insurance policies through price comparison websites in 2011 and followed this with up with a Thematic Review in 2013, with a Report in 2014 setting out expectations and the actions for firms.

In Italy, IVASS carried out an *Investigation into comparison websites in the Italian insurance market*, aimed at verifying their level of transparency and fairness, the results of which were published on IVASS’s website. The investigation brought to light critical situations for consumers linked to the existence of conflicts of interests in the operation of the websites, to the methods for drawing up ranking lists and to transparency and fairness of advertising.



EIOPA published a *Report on Good Practices for Comparison Websites* in 2014<sup>95</sup>. The IDD provides clearer regulation of comparison websites, bringing them under the definition of ‘insurance distribution’.<sup>96</sup>

## 7.2 Robo-advice

Insurance is a non-homogenous sector making it difficult for consumers to understand different existing products, their features and risks. Furthermore, when looking to buy insurance products, consumers aim at protecting themselves against potential risks, which may arise in the future. Therefore, **financial advice, based on an assessment of customers’ demands and needs, has to date been fundamental to the insurance business** and is one of the specificities relating to insurance distribution models.

Recent developments, responding to undertakings’ needs to lower distribution costs but also to consumers’ demands to have more constant interactions with their ‘service providers’, have aimed at digitizing core parts of the insurance business.<sup>97</sup> Robo-advice, consisting in the provisions of advice without or with limited human intervention, relying on algorithms or decision trees,<sup>98</sup> is the digitization of ‘financial advice’.

Robo-advice has been expanding in the life sector, by using consumers’ data to produce customized financial plans and asset allocations.<sup>99</sup> Nevertheless, it is also expanding towards other insurance products. “*Some NCAs noted that intermediaries offering...travel insurance, foreign health insurance, personal liability insurance, supplementary dental insurance...*”<sup>100</sup> are reverting to automated financial advice.

There are many different types of ‘robo-advisors’ operating in Europe, ranging from simple chatbox to sophisticated algorithms, making it difficult to quantify to what extent undertakings and consumers revert to robo-advice. As emphasized by the Joint Committee of the ESAs, not many NCAs have figures on the number of clients using robo-advice nor on the customers’ segment where it is prevalent. Overall, it appears that this phenomenon is growing, but not very rapidly and the scale of the market is still rather limited.<sup>101</sup>

Robo-advice can have advantages for consumers including lower costs and contributing to making advice more affordable.<sup>102</sup> For example, it estimated that annual portfolio management fees in Europe range from 0.61% in DE to 1.88% on FR.<sup>103</sup> Robo-advisors also require limited relatively low account minima,<sup>104</sup> making it more accessible. However, the lack of transparency in terms of the algorithms used raises some concerns.<sup>105</sup> Finally, some NCAs noted that, even via automated advice, it is important that users provide accurate information; however, some applications fail to include enough warnings, prompting consumers to do so.<sup>106</sup>

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To remove these critical situations IVASS required the insurance intermediaries who manage the websites investigated to take corrective measures by 31 January 2015.

<sup>95</sup> EIOPA identified three types of comparison websites: (i) commercial websites run by the private sector; (ii) non-commercial websites run by consumer and/or industry associations and (iii) non-commercial websites run by public authorities. The good practices outlined in this report concern primarily the activities of commercial comparison websites. [\[Link\]](#).

<sup>96</sup> The definition of “insurance distribution” under Article 2.1(1), IDD now includes: “the provision of information concerning one or more insurance contracts in accordance with criteria selected by customers through a website or other media and the compilation of an insurance product ranking list, including price and product comparison, or a discount on the price of an insurance contract, when the customer is able to directly or indirectly conclude an insurance contract using a website or other media”.

<sup>97</sup> Wrede, Peter Friedrich Wilhelm, *How technology can make insurance more inclusive. Fintech Note; no. 2.*, World Bank Group, 2018. [\[Link\]](#)

<sup>98</sup> EIOPA, *Sixth Consumer Trends Report*. [\[Link\]](#).

<sup>99</sup> European Commission’s study on ‘Distribution systems of retail investment products across the European Union’, 2018

<sup>100</sup> Joint Committee of the ESAs, *Joint Committee Report on the results of the monitoring exercise on ‘automation in financial advice’*, September 2018. [\[Link\]](#).

<sup>101</sup> Joint Committee of the ESAs, *Joint Committee Report on the results of the monitoring exercise on ‘automation in financial advice’*, September 2018. [\[Link\]](#).

<sup>102</sup> Joint Committee of the ESAs, *Report on automation in financial*, December 2016. [\[Link\]](#).

<sup>103</sup> European Commission’s study on ‘Distribution systems of retail investment products across the European Union’, 2018.

<sup>104</sup> European Commission’s study on ‘Distribution systems of retail investment products across the European Union’, 2018.

<sup>105</sup> Joint Committee of the ESAs, *Report on automation in financial*, December 2016. [\[Link\]](#).

<sup>106</sup> EIOPA, *Seventh Consumer Trends Report*. [Forthcoming].

## 8. Conclusions & Next Steps

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This report provides an overview of the structure of insurance intermediaries markets across Europe at the end of 2017. It clearly shows the wide diversity of insurance intermediary channels and other distribution channels brought about by the national implementation of the IMD.

Although it has been difficult to make an accurate and comprehensive analysis because of the lack of harmonized categorization and reporting, some conclusions can be made with regard to developments in the European intermediaries' population. Such developments, need to be interpreted taking into account the fact that they may not concern all Member States and the causes behind them can be multiples.

- There are significant variations in terms of size – total number of registered intermediaries – and nature of European intermediaries' markets and often there is limited relationship with total population and insurance market size. In fact, the number of total registered insurance intermediaries often relate to the variation in registration practices.
- At the EEA-level, a decrease in the number of registered intermediaries can be noticed. Such decrease has been more remarked in recent years and affects both Member States with large and small intermediaries' populations. In the majority of Member States, this decrease has mainly affected intermediaries registered as natural persons and those operating as agents, despite still representing the significant majority of intermediaries operating in Europe. On the other hand, despite the general decrease at the EEA-level, a little less than half of Member States reported an increase in the total number of registered intermediaries over the reporting period.
- The number of intermediaries operating as brokers and registered as legal persons has been increasing. For what concerns bancassurance, it is hard to draw any EEA level conclusion as only 9 Member States provided disaggregated data.
- Over 50% of the total number of registered intermediaries fall into Member States specific categories, which limits the possibility of making an accurate analysis on the prevalent model in Europe. In fact, although most of these Member State-specific intermediaries tend to be closer to the agent model, the lack of common data and frameworks makes it difficult to draw conclusions.

Similar issues in terms of reporting have been encountered when analysing which distribution model are more prevalent. For instance, not only are there variations in terms of the role that different intermediaries play in different Member States, but also there is data lacking for the majority of Member States. Furthermore, even for those Member States for which data is available, more granular information on specific lines of business or products is often lacking,<sup>107</sup> making it difficult to draw conclusions.

What can be said is that traditional distribution channels including insurance brokers, bancassurance (mostly for life insurance), and insurance agents (mostly for non-life insurance) continue to be predominant in most Member States. However, direct sales, online insurance marketplaces (e.g. comparison websites), are becoming more and popular, in particular in some Member States (e.g. HU, UK).

There are different challenges and potential conduct risks that different distribution models can pose (e.g. cross-selling of insurance products with other financial products, which is fairly common in 'bancassurance' or cross-selling of insurance with other goods or services which is common when products are distributed by ancillary intermediaries). However, from a supervisory and oversight perspective, **the lack of data makes it difficult to identify the risks associated with different distribution models** in order to monitor and address them. In addition, the lack of data impairs the possibility of making an analysis of the impact, which different regulatory regimes can have on distribution models, including the evaluation that EIOPA will need to make in 2020.

In terms of cross-border business, the discrepancies in the data reported by NCAs on incoming and outgoing cross-border activities raise concerns on the current state of the play as it shows that the current notification framework could lead to NCAs not having a full picture of the number of intermediaries operating on a cross-border basis from their market or into their market. This contrasts with the much

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<sup>107</sup> For example, less than 10 6 NCAs were able to provide data on MTPL GWP split by distribution channel.

clearer picture provided by the standardized reporting framework for insurance undertakings under Solvency II. Beyond this, the most notable features to be drawn out from the data gathered are:

- The specific incremental increase in cross-border activity by insurance intermediaries between 2013 and 2017 (with a slight decrease in FoS notifications between 2016 and 2017) both on a FoS and FoE basis;
- The significantly high proportion of notifications in certain Member States, in particular in comparison with the data collected on cross-border business of insurance undertakings;
- The fact that insurance intermediaries notify their home competent authorities of their intention to conduct business in neighbouring countries.

This Report has also been submitted to the European Commission and European Parliament. Going forward, EIOPA will continue to closely monitor developments in national markets, in preparation for a further report on the application of the IDD, which it will prepare by 23 February 2020<sup>98</sup>. This report will examine at least the following issues:<sup>99</sup>

- (a) any changes in the insurance intermediaries' market structure;
- (b) any changes in the patterns of cross-border activity;
- (c) the improvement of quality of advice and selling methods and the impact of the IDD on insurance intermediaries which are small and medium-sized enterprises.

The IDD introduces a number of important new professional and conduct of business obligations. These will most likely lead to important adaptations to be made by all insurance intermediaries, but particularly small and medium-sized insurance intermediaries. To the extent possible, given data limitation, EIOPA will be closely monitoring the impact of these new requirements on the insurance intermediaries markets in the EU. In the same vein, the IDD introduces specific market monitoring, data reporting/exchange obligations both for EIOPA and for national competent authorities. These include the following:

- Article 1(5) – a requirement for competent authorities to monitor the market, including the market for ancillary products, which are marketed, distributed or sold in, or from, a Member State and a facilitation and co-ordination role for EIOPA.
- Article 3(4) – a requirement for EIOPA to establish, publish on its website and keep-up-to-date a single electronic register containing records of insurance, reinsurance and ancillary insurance intermediaries which have notified their intention to carry on cross-border business.
- Articles 11(3) and (5) – a requirement for EIOPA to include on its website the hyperlinks to websites of competent authorities where information on “general good” rules is published and a requirement for EIOPA to examine in a report and inform the European Commission about the “general good” rules published by Member States in the context of the proper functioning of this Directive and of the internal market before 23 February 2019.
- Articles 31, 32 and 36 – Reporting to EIOPA of administrative sanctions and other measures imposed by competent authorities regarding insurance distributors and publication of an annual report by EIOPA

In addition, EIOPA published recently a Decision<sup>100</sup> on the cooperation of national competent authorities with regard to the supervision of cross-border insurance distribution activities of insurance undertakings and insurance intermediaries, under the IDD. This seeks to enhance cooperation and exchange of information between national competent authorities both in the process of registration and on an ongoing basis.

Given the new requirements included in IDD, while monitoring more closely the insurance intermediaries market and producing a new evaluation 2020, EIOPA will also seek specific data on ancillary intermediaries and price comparison websites and price aggregators registered as insurance intermediaries. Furthermore,

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<sup>108</sup> Article 41(4), IDD

<sup>109</sup> Article 41(7), IDD

<sup>110</sup> EIOPA-BoS/18-340, 28 September 2018, Decision of the Board of Supervisors on the cooperation of the competent authorities of the Member States of the European Economic Area with regard to Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution: <https://eiopa.europa.eu/publications/protocols-decisions-and-memoranda>

EIOPA will work with Members to seek more quantitative information on remuneration models.

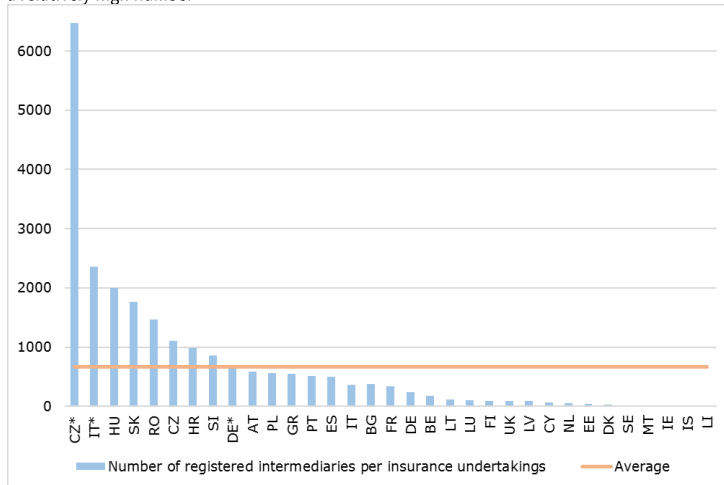
However, despite the fact that a combination of these different regulatory developments both at national and EU level, will lead EIOPA in a direction towards producing a more detailed picture of insurance intermediaries markets in 2020, the lack of common definitions, registration practices, and reporting frameworks will subsist. Therefore, even if the report will seek to be more complete, it is expected that similar challenges to ones outlined in this Report may be faced when evaluating the impact of the IDD on insurance intermediaries markets in Europe in 2020.

## Annex I – Additional Data Analysis

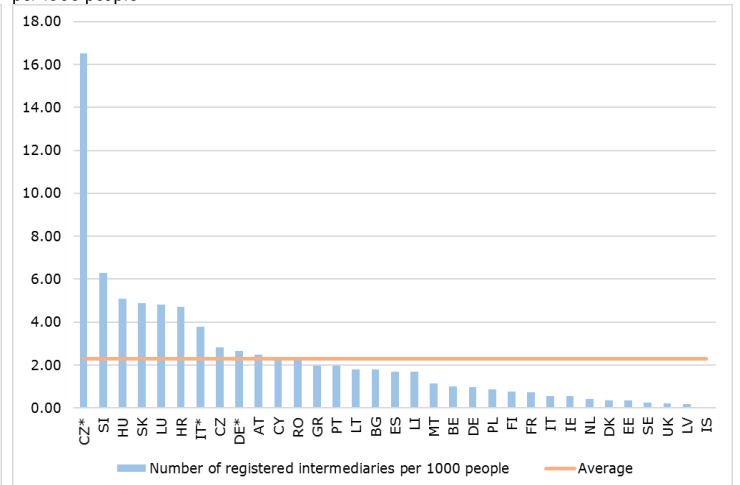
Graph Panel 1 below provides an overview of the size of European intermediaries markets both in absolute terms and in taking into account other metrics such as number of licensed insurance undertakings, population, number of contracts.

**Graph Panel 1 Intermediaries markets size and growth trends**

By looking at the number of registered intermediaries per insurance undertakings, it can be seen that there are significant differences amongst Member States with HU, SK, and RO have a relatively high number

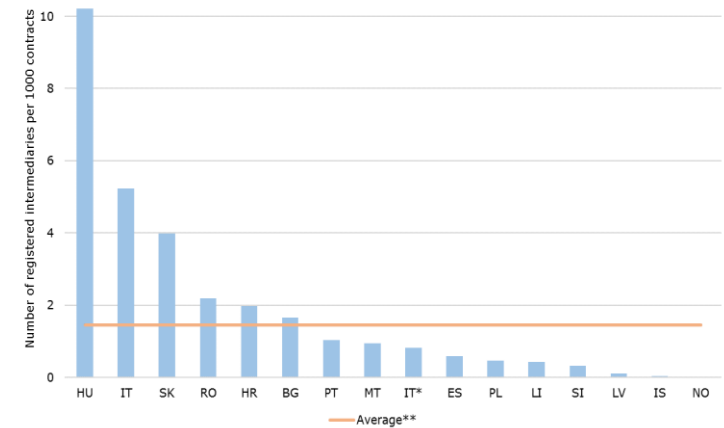


By looking at number of intermediaries per 1000 people, similar differences can be noticed. HU and SK remain amongst the Member States with the highest number of intermediaries per 1000 people

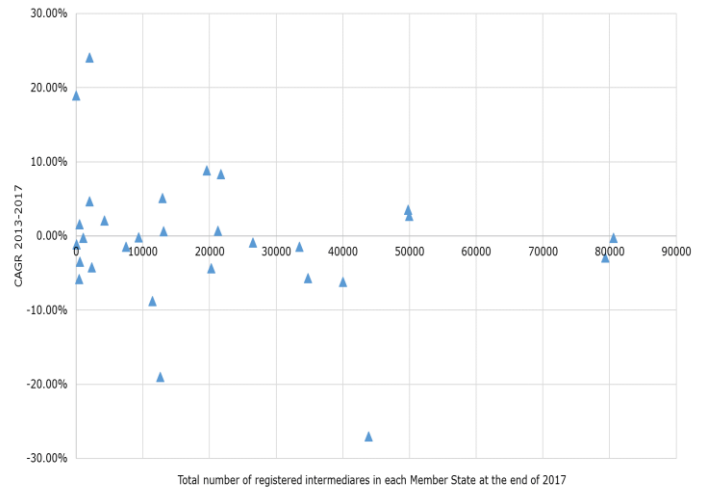


\*It has been calculated taking into account all registered intermediaries. All other figures consider adjusted number for CZ, DE, and IT. A similar picture can be seen by looking at the number of registered intermediaries per 1000 contracts. HU, SK, and RO are amongst the Member States with the higher number of intermediaries per 1000 new contracts

Number of registered intermediaries for 1000 contracts



\*It has been calculated taking into account all registered intermediaries. All other figures consider adjusted number for CZ, DE, and IT. The figure below shows CAGR (2013-2017) in terms of total registered intermediaries and number of registered intermediaries in each Member State



\*This refers to adjusted figures for IT (see Box 1)  
 \*\*The average has been calculated by using total number of contracts for the Member States reporting both new and renewed policies and the total number of intermediaries for these Member States, with adjusted figures for IT (see Box 1).

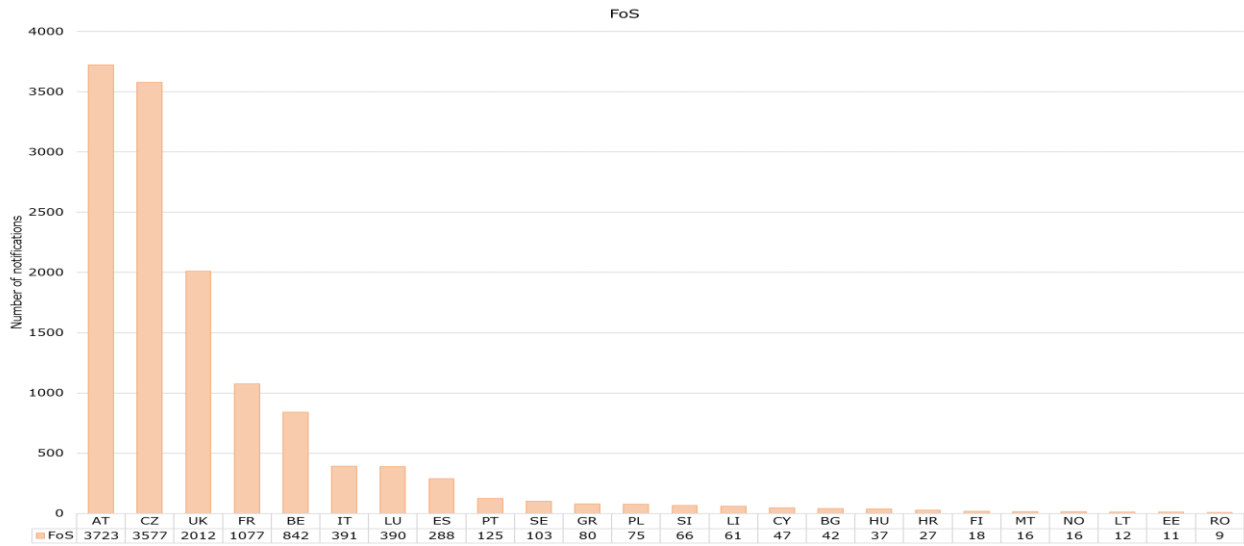
Adjusted figures for CZ, DE, and IT have been used.

Source: EIOPA Committee on Consumer Protection and Financial Innovation, EIOPA Financial Stability Statistics

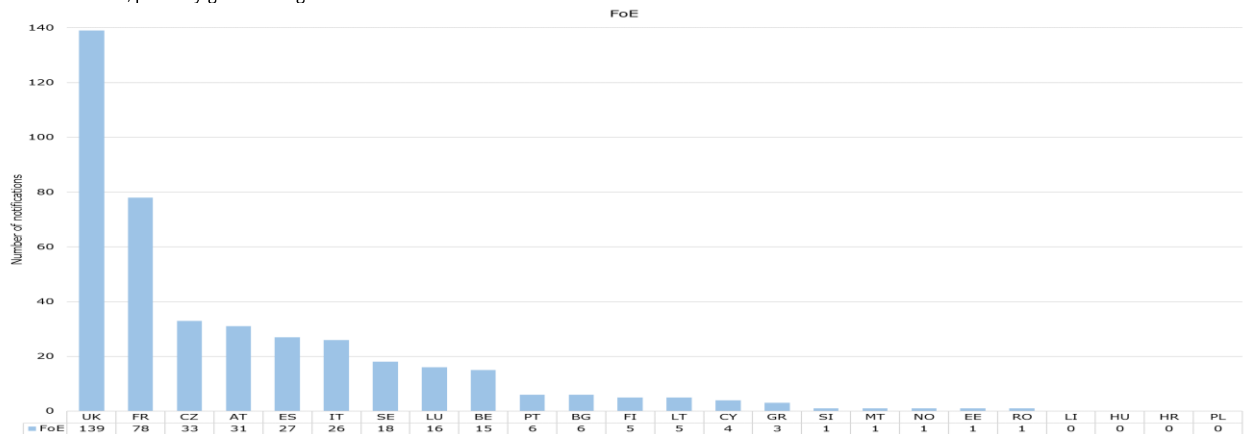
Graph panel 2 below provides an overview of the number of FoE and FoS notifications in different Member States as well as what proportion of intermediaries notifications are done on an FoE or FoS basis in different Member States.

**Graph Panel 2 FoS and FoE passport notifications**

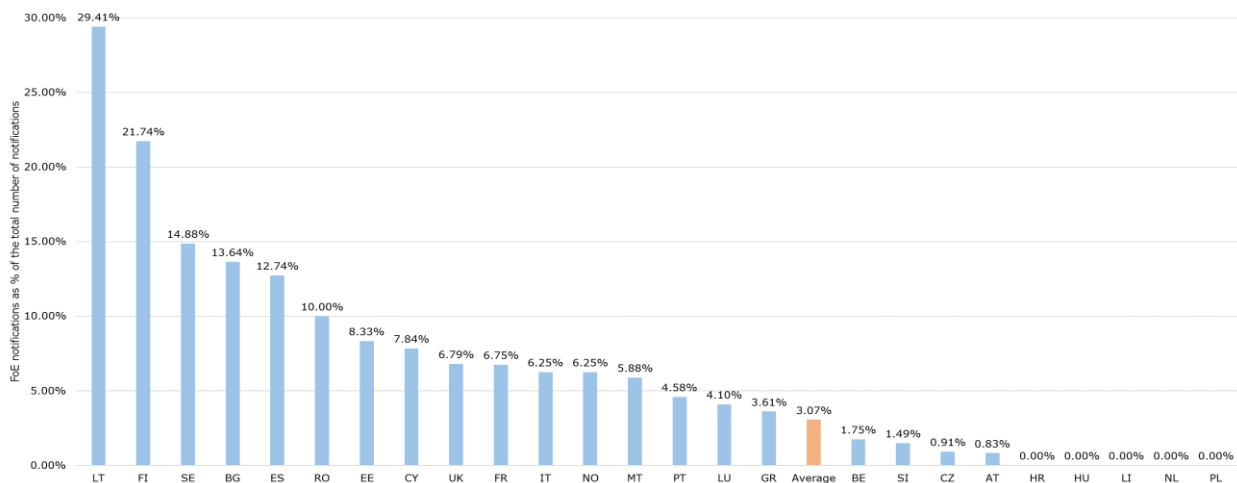
The figure below shows there are significant differences in terms of FoS notification amongst Member States with AT having the highest number of notification in absolute terms, followed by CZ which also has a high number of registered intermediaries and UK which has significant cross-border activities



The figure below shows there are significant differences in terms of FoE notification amongst Member States with the UK having the highest number of notification in absolute terms, probably given the significant cross-border activities.



In some Member States FoE notifications represent a significant portion of the total number of notifications. For example, in LT they are almost 30% of the total number of notifications probably due to the interconnection that exists amongst Baltic insurance markets



Source: EIOPA Committee on Consumer Protection and Financial Innovation

Box 7 below provides an overview of cross-border business of insurance undertakings in terms of Member State-patterns (i.e., Member States with the highest incoming and outgoing percentage of cross-border business) and lines of business.

#### Box 7 Cross-border business of insurance undertakings in the EEA<sup>111</sup>

Insurance undertakings authorised in an EEA country may carry out insurance activities in another EEA country ('host country') via FoE or via FoS. FoE requires the establishment of a branch, while FoS can be done without physical presence in the host country. Cross-border business is an established and material part of European insurance business. Business of insurance groups via a subsidiary established in another country is not classified as cross-border business.

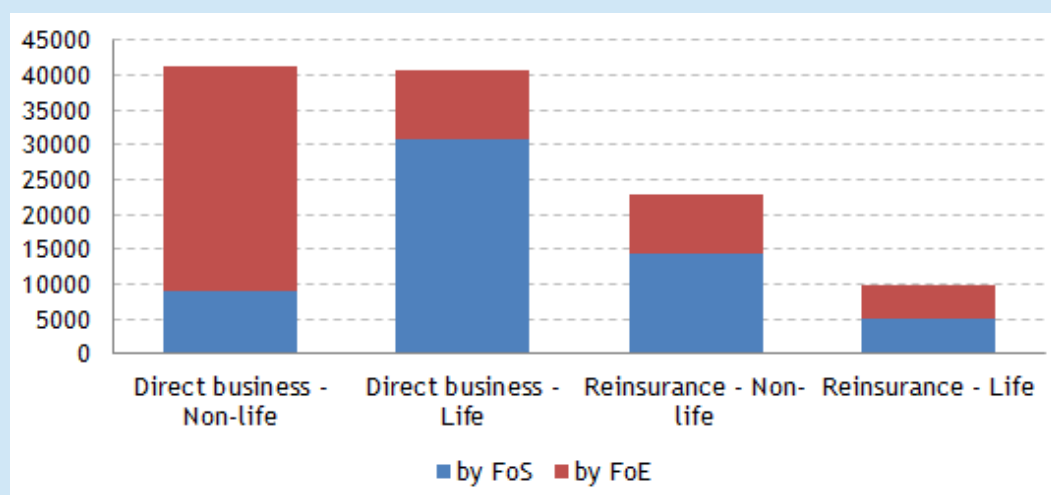
In the EEA, in 2016, EUR 59 bn GWP are reported via FoS and EUR 56 bn via FoE, accounting together for more than 8 % of all GWP in the EEA.<sup>112</sup> The share of the cross-border business to the total EEA insurance market depends on the type of business. For direct business life, the share is 6 %. For direct business non-life and reinsurance the share is 9% and 12% respectively. Out of more than 2800 insurance and reinsurance undertakings under Solvency II, 750 reported cross-border business within the EEA in 2016.

The amount of cross-border business and the interconnectedness between countries depend not only on the line of business, but also on regional specificities. These factors are discussed below.

##### Lines of Business

For direct business, i.e. insurance sold directly to customers, a clear distinction between the life and non-life segments can be seen (Figure 22). While cross-border life business is mainly written via FoS, cross-border non-life business is mainly written via FoE. Customers of non-life business are likely to prefer to have a local branch through which damage claims can be sent and settled. For reinsurance, where both counterparts are professionals, the need for a local branch seems less important (indeed, non-life reinsurance relies more on FoS than FoE most likely due to the relatively higher share of Business-to-Business).

Figure 21 Categories of cross-border insurance business (EUR mn) for 2800 solo insurers at the end of 2016



Unit-linked or index-linked business accounts for more than EUR 25 bn cross-border GWP in EEA, about 25% of the total (Figure 27). In line with the observation above, the vast majority of this life business is written via FoS, while all non-life business is dominated by business written via FoE.

##### Volume by country

The share of cross-border GWP within the top 5 countries (in terms of outgoing share), indicates the main host countries and the top line of business for each country. In 2016, off all written premiums issued by insurance undertakings authorised in LU, 59% reflect cross-border business in other EEA countries (Table 1). The top line of business that LU undertakings write in these countries is unit-linked or index-linked business. The main countries where LU undertakings write business to are FR, IT, and the UK.

<sup>111</sup> EIOPA, *Financial Stability Report*, December 2017.

<sup>112</sup> Note that the data used for this box is based on a reporting template that follows accounting recognition and valuation and that the data might not be fully comparable across companies or countries. In particular, in some countries following IFRS or local GAAP that recognise the difference between insurance and investment contracts, some insurance contracts may be recognised as investment contracts and be accounted as such, i.e. with no premiums reported in this box for those contracts. This issue has been addressed in Commission Implementing Regulation (EU) 2017/2189 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council and for year end 2017 onwards both insurance and investment contracts will be reported.

Table 1 Top 5 outgoing<sup>113</sup> (in percent of GWP of domestic undertakings)

	<b>Outgoing (%)</b>	<b>Top line of business</b>	<b>Top 3 host countries</b>
Luxembourg	59%	Unit-linked or index-linked	France, Italy, United Kingdom
Ireland	54%	Unit-linked or index-linked	Italy, United Kingdom, Germany
Estonia	53%	Unit-linked or index-linked	Lithuania, Latvia
Malta	35%	Miscellaneous financial loss	United Kingdom, France, Spain
Lichtenstein	34%	Unit-linked or index-linked	Italy, Germany, Netherlands

While cross-border business is mainly driven by unit-linked or index-linked business at EEA level, other lines of business can dominate bilateral cross border activity (Table 2). The Baltic Member States (Estonia, Lithuania, Latvia) have a relatively open insurance market with a high share of incoming business. Moreover, the markets have a high level of interconnectedness among themselves relative to their national insurance market, with Estonia in particular exporting to its neighbours (Table 2). While highly relevant for the national markets, the cross-border business between the three Baltic countries accounts for only 0.5% of the total EEA cross-border business.

Table 2 Top 5 incoming (in percent of GWP of domestic undertakings)

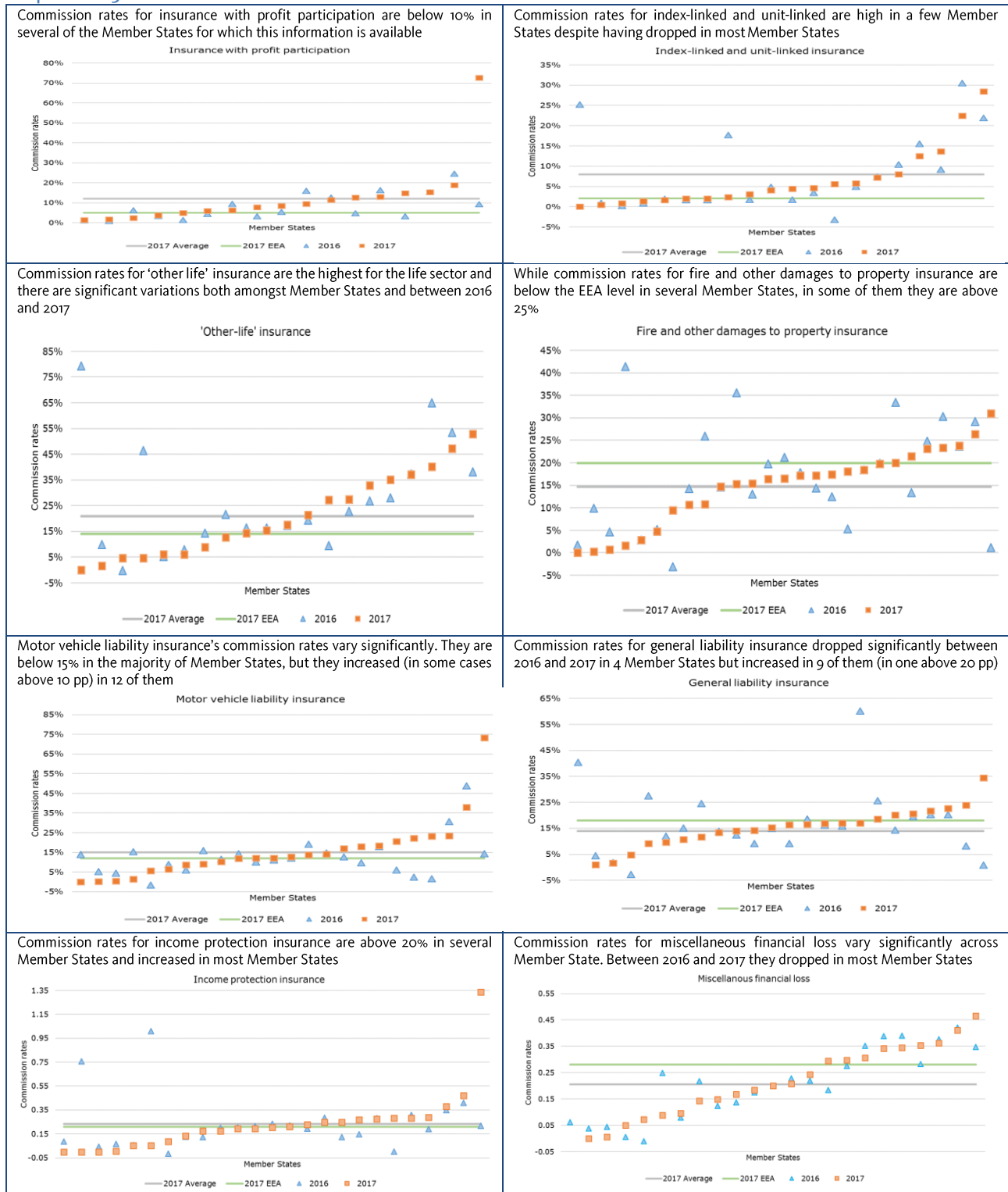
	<b>Incoming (%)</b>	<b>Top line of business</b>	<b>Top 3 home countries</b>
Latvia	52%	Medical expense insurance	Estonia, Lithuania, Germany
Lithuania	46%	Motor vehicle liability insurance	Estonia, Latvia, Malta
Estonia	28%	Other motor insurance	Lithuania, Latvia, Finland
Cyprus	20%	Medical expense insurance	United Kingdom, Ireland, Germany
Norway	18%	Fire and other damage to property insurance	Sweden, Denmark, United Kingdom

<sup>113</sup> Percentage outgoing is defined as: EEA Cross-border GWP by domestic undertakings/Total GWP of domestic undertakings and percentage incoming is defined as: Cross-border GWP by EEA undertakings in the country/(Total GWP of domestic undertakings – EEA Cross- border GWP by domestic undertakings).



Graph Panel 3 provides an overview of commission rates in different Member States in 2016 and 2017 for selected lines of business.

**Graph Panel 3 Commission Rates<sup>114</sup> for selected lines of business and trends across Member States<sup>115</sup>**



Source: EIOPA Solvency II Database

<sup>114</sup> This commission rates have been calculated using S.04.01 QRT information; hence, while they do not cover all undertakings licensed in the EEA, as not all are required to report data on S.04.01, they provide a general overview of commission costs (and not acquisition costs as in Figure 20) for selected lines of business.

<sup>115</sup> Information for all Member State is not available for several reasons, including non-existence of some lines of business in certain Member States (e.g., income protection) or lack of reported data.

Beyond the scope of the Report that is outlined in the introduction, a key issue EIOPA had to consider was **the reference period for analysing the structure of the markets**. It was decided to collect data from NCAs for the preceding five years (2013-2017) to map the evolution of the European and national markets and identify current trends to better understand the structure of different markets. Due to a variation in national reporting dates, for certain indicators, it has not been possible to collect data for 2017; hence, the analysis may refer to the period 2013-2016 or solely to 2016.

For the purpose of this report, EIOPA has used the following different sources:

- **Input from national competent authorities:** EIOPA carried out an in-depth data gathering exercise amongst the national competent authorities composed in its Committee on Consumer Protection and Financial Innovation. It was also decided to collect data from authorities that are not represented on EIOPA's Board of Supervisors (BoS), but competent for the purposes of registering insurance intermediaries and collecting data on insurance intermediaries and other distribution channels. This includes, for example, bespoke local registration authorities such as ORIAS in FR and local chambers of commerce in AT and DE.
- **Input from Stakeholders:** EIOPA consulted the members of its Insurance and Reinsurance Stakeholder Group (IRSG) on several occasions and requested specific written input for this market evaluation. In addition, EIOPA approached a number of external stakeholders, including trade associations such as the European Federation of Insurance Intermediaries (BIPAR) and Insurance Europe. This has allowed to complement data collected from NCAs on a complementary basis.
- **Input from the European Commission:** EIOPA assessed previous Impact Assessments published by the EC on the revision of the Insurance Mediation Directive and Reports published by the EC relating to the channels used to distribute insurance products in the EU.
- **Literature Review:** EIOPA carried out a systematic literature review of existing studies and documents, as well documents identified through stakeholder consultation, collecting information from legislative texts, academic literature, economic studies and research papers/studies. EIOPA has complemented the information received from NCAs and stakeholders, with a series of private and public publications, articles in the media and research papers, which are accordingly referred in the footnotes of the report.

To seek to improve the quality and comparability of data, four specific areas were identified by NCAs for an initial fact-finding survey:

- Numbers of **registered insurance intermediaries** (split by natural and legal persons and by different categories of insurance intermediaries), **categories of insurance intermediaries** and **volume of gross written premiums (GWP)**, and also for direct writers.

The objective of gathering data on natural and legal persons was, in particular, to look at the percentage of insurance intermediaries, which are micro-enterprises, or small and medium enterprises (SMEs). It is worth noting that the report on the application of the Directive to be prepared in 2020 requires EIOPA to examine *inter alia* “the impact of this Directive on insurance intermediaries which are small and medium-sized enterprises”.<sup>116</sup>

- **Data on patterns of cross-border activity of insurance intermediaries** (numbers of incoming and outgoing intermediaries, including Member States to/from which they are passporting to give home/host perspective), with the objective to seek to assess the scope and growth of cross-border activities by insurance intermediaries, in line with the requirement for the 2020 Report.<sup>117</sup> However, it has not been possible to ascertain whether insurance intermediaries, that have notified their intention to carry out cross-border business, are actually exercising those passports in reality. Furthermore, various working definitions on Freedom to Provide Services (FoS) and Freedom of Establishment (FoE),

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<sup>116</sup> Article 41(7)(c), IDD.

<sup>117</sup> Article 41(7)(b), IDD.

domestic/foreign intermediaries have been taken into consideration to facilitate comprehension and common approaches to data gathering.

- Types of **remuneration models used by insurance intermediaries** (including national legislation impacting on the type of remuneration model used) with the objective to look at the types of remuneration received by insurance intermediaries or types of commissions paid by insurance undertakings, if possible, by line of business (life insurance vs. non-life) or by product.
- **'New distribution channels'**, in particular the growth of comparison websites/aggregators, social media platforms, InsurTech start-ups and the competitive pressures these may place on traditional insurance intermediaries.

## Annex III - List of Sources analysed for this Report

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- EIOPA's Sixth Consumer Trends Report, December 2017
- EIOPA's Seventh Consumer Trends Report, Forthcoming
- EIOPA's Financial Stability Report, December 2017
- EIOPA's Financial Stability Report, June 2018
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## Annex IV – Country Analysis

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[See separate Annex]

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