

## HUMAN RESOURCES DEVELOPMENT ON THE ROMANIAN INSURANCE MARKET

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

***Keywords:** CPD, training, consumer protection*

### Introduction

Due to the financial crisis in 2008, the consumers of financial products have requested more and more protection from the part of the intermediaries that were offering products, sometimes tailor-made, specifically for them, without full disclosure of the terms and conditions. Therefore, there were registered significant complaints that all generated a huge requirement to regulate this opening in the legal framework of financial intermediation. Thus was the case also of the insurance industry over the world, and more pregnant in Europe, with the necessity to have an official frame that would bind the insurance companies to take care of the professionalism of its employees and partners.

One step further was the implementation in the year 2002 of the **European Insurance Mediation Directive** (Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation ) that would bring about a reassurance for the customers to have protection from the insurance sellers. The Insurance Mediation Directive („IMD1”) introduced a pre-condition for registration that insurance and reinsurance intermediaries meet „strict professional requirements in relation to their competence, good repute, professional indemnity cover and financial capacity requirement”. In addition, Article 4(1) provided that insurance and reinsurance intermediaries must possess „appropriate knowledge and ability, as determined by the home Member State of the intermediary”.

Unfortunately, IMD1 allowed flexibility for Member States in applying these requirements at national level, IMD1 allowing national markets to „adjust the required conditions with regard to knowledge and ability in line with the activity of insurance or reinsurance mediation and the products distributed”. The national regulators were allowed to „reinforce the requirements [regarding professional requirements in Article 4] or add other requirements for insurance and reinsurance intermediaries registered within their jurisdiction”. This minimum harmonization approach, by its very nature, led to a divergent national implementation with respect to professional requirements for insurance and reinsurance intermediaries.

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

### **Overview of the European Insurance Distribution Directive**

The Insurance Distribution Directive represents a set of guidelines concerning the assurance of consumer protection by offering professionalized products by **personnel that have appropriate knowledge and competencies**. The directive serves the **protection of customers' interests** that individuals \ companies providing insurance or reinsurance mediation are registered in their home EU country (which allows them to do business elsewhere in the EU). The objective can be achieved only by offering clear explanations to customers on a given advice.

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

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

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

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

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

for the costs of training that should be included in the annual budgets of their employers or other concerned companies.

#### **Implication of IDD on the national insurance training programs**

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

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

As a general conclusion, knowledge and ability requirements were generally seen a **combination of academic and professional experience**, but, in some countries such as Norway or The Nederland, academic qualifications could be waived if professional experience was long enough. In many of Members States (BE, BG, CZ, CY, DK, LU, LV, NO, PL, RO and SK), the **requirements for knowledge and ability are more stringent for insurance brokers** than insurance agents. There were some exceptions such as Germany, Greece, Italy, Malta where the requirements for knowledge and ability are more stringent for agents and brokers than for other categories of intermediaries.

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

The national regulations on the area of professional development included also the issue of **life-long learning** or **continuous professional development (CPD)**. Thus, there were some countries such as Bulgaria, Hungary, Island, Malta, Latvia or Lituania where there was no formal requirement for continuous education. In Austria and Cyprus, the introduction of a system was looked upon in 2012 (in 2014 Cyprus implemented a CPD system in the insurance business). In other jurisdictions, continuous education was seen as a formal requirement but the amount of continuous education and the duration was established differently. For example, in Nederland, Poland and Romania (every 3 years); in Slovakia (every 4 years); in Belgium (30 hours for brokers /agents and 20 hours for sub-agents over a period of 3 years); Czech Republic, Greece (approximately every 5 years), Ireland (15 hrs/year), Italy (30 hrs/year); UK (35 hours/year for investment insurance mediation only).

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

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

The Insurance Distribution Directive proposal in 2013 introduced an explicit obligation for insurance and reinsurance intermediaries and members of staff of insurance undertakings carrying out insurance mediation activities to „**update their knowledge and**

**ability through continuing professional development in order to maintain an adequate level of performance**". The general conclusion of national parties concerned with the training of the employees was that e-learning or video-linked programs to reduce costs in order to provide training offered by employers, or an appropriate professional training/educational body, and thus to maintain a sufficiently high level of knowledge and ability. The CPD is effective when undertaken on a periodical basis, regardless if this is through a formal requirement or not.

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

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

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

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

There is also, the issue of mutual recognition of national training. There is very **little experience amongst national competent authorities with receiving applications for mutual recognition of knowledge and ability requirements**. Reliance is often placed on existing EU legislation on professional qualifications and screening of applications may be carried out either directly by supervisors, by national qualification bodies or by professional associations. At European level there is no longer a specific committee to take care of the professional development – as the former Social Relations and Training became Social Relations Committee). The only initiative existing at present in this field of professional development in insurance that offers a certain level of acknowledgment of recognizing the levels of knowledge and abilities of national intermediaries is EFICERT – an international platform of local insurance institutes, supported by national professional associations. The problem with recognizing forms of training in insurance does not lie in the academic program where the system of European Transferable Credits can be used as a benchmark, but the problem lies with the short term types of training that are not so regulated at international level – how to quantify the abilities and knowledge acquired during a three days conference organized the national association of insurance in Austria for an intermediary that intends to prove his CPD in Germany?

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

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

- Thus, Continuous Professional Development systems are already implemented in Germany, Cyprus or Ireland taking into consideration certain number of training hours / CPD points that each intermediate should have in order to maintain his/her validation on the insurance market.
- For CPD systems minimum EQF (European Qualification Framework) for those involved in the distribution of insurance products should be EQF 3, setting thus a common ground of recognition at the European level of academic training.
- The training curricula of IDD (the last version) covers not only professional knowledge (e.g. insurance legislation, anti-money laundering legislation, market, products, assessment of consumer needs), but also ability (e.g. risks perception, underwriting process, claim procedures) and ethics (codes of conduct/ethics).
- The training should be maintained and updated. It is suggested that CPD should be undertaken regularly (for example, as a minimum, a cycle of 3 to 5 years).
- Last, but not the least, the professional training should be appropriately evidenced and that evidence should be retained. The competent authority or professional body should review evidence demonstrating achievement of CPD, on a regular basis.

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

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

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

#### **Study case: Insurance training in Romania**

According to a study in 2011, insurance and pensions sectors in Romania have been described as „small, but growing in importance” and facing important development challenges. (PWC, 2011). In 2014, the insurance penetration degree was of 1.21% of GDP, at

a rather low level comparing to the European average but still one important for the south part of Europe. In terms of average expenditure with insurance, in 2014, a Romanian paid 93 EUR/capita (vs 1900EUR European average).

In 2013, a study made by a local marketing company revealed that Romanian have no trust in the financial institutions, only 29% of the customers of financial products showed any interest in this type of products, based mainly on the level of financial education they have and also on the personal experience with this field. This is the reason for which the national regulator, the Financial Supervisory Authority proposed a series of actions determined to improve the level of financial education of Romanian customers and also continued to monitor the implementation of the IDD requirements for intermediaries.

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

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

The national authority had the role of interpreting the requirements of the IMD1 so that all the insurance intermediaries had the obligation of complying with the curricula proposed at European level. Thus, according to Norm no9/2012, starting with 1<sup>st</sup> of September 2011, persons intending to work as intermediaries of insurance products, have the obligation to have a qualification certificate in order to be employed as a sales personnel by an insurance company or an insurance broker. Moreover, employees working in the sales department must prove each 3 years/ 2 years for the managers of teams/ managers of brokerage companies the completion of a continuous professional development program, approved by the Romanian Financial Supervisory Authority.

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

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

The evidence of a certain level of knowledge and abilities is to be proven by taking an written examination at the **Romanian Institute of Management in Insurance** – founded by the Romanian Regulator – that is in charge of the examinations and also of the national register of the intermediaries in Romania. The lack of the qualification certificate brings about exclusion from the national register and also the interdiction to sell insurance products on the Romanian market.

At this point, there are 12000 employees and approximately 70000 intermediaries that have the obligation of obtaining the compulsory training in insurance. During the period 2011-2013, the focus of all insurance companies was on training the existing sales force, thus the general **effects** of the national legislation were:

- Increased budgets for compulsory training – the lack of the certificate would have brought them out of the market, in the impossibility to sell for new customers.
- Reduction of intermediary contracts – just for those performing, the company provided coverage of costs of the training program, the ones with small results

were let off. The process proved itself a good filter of performance among the existing sales agents/ brokers.

- Reduced training budgets for other types of personnel – the increased amount of budget allocated for the compulsory training generated heavy reductions in the other areas (conferences, team building, specialized training a.s.o).
- Reduction in the quality of professional training – the necessity to prove 50 training hours, plus the passing of an examination held by only one entity became just a „thick on” process for all those involved (sales agents, brokers, human resource manager). The quality of the training was not observed – no efficiency ratios were computed for this type of training.
- Increased number of training entities authorized by the Romanian Financial Supervisory Authority, just for the insurance markets, meaning fees that were paid for the authorization of the programs, of the e-learning platforms, for the authorization of the trainers.

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

- Minimum 20 hours of CPD training, 35 hours for managers – the ways of obtaining these numbers are : in-class training provided by an authorized training entity in insurance, e-learning platforms, online training
- The passing of the examination – the rules are set by the Authority
- Curricula includes legislation, principles, technical elements, ethics, sales techniques, insurance products, consumer protection, money laundry. The CPD training implies a development / an update of the initial training for those working in the industry. There are certain topics that are new at this level concerning ethics and professionalism or money laundry.
- As for managers, the curricula includes beside the topics obligatory for any intermediary certain specific topics that are related to the tasks of managing activities/ persons, such as HR management, financial and technical reports, motor claim settlement

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

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

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

### Conclusions

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

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

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

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

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