

European Commission  
Competition DG  
Directorate D  
Unit D 1 Financial services

Comp-Ins-Inquiry-  
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## **Inquiry into the European business insurance sector pursuant to Article 17 of Regulation 1/2003 – Interim report**

### **Distribution**

The Swedish Insurance Federation has studied the interim report with great interest. We are in agreement with CEA on the opinions put forward in their response to the report. However, we would like to share with you some thoughts regarding the area of distribution, where the Nordic countries have a somewhat different approach than some other European countries.

Insurance brokers have a very important function today, and the Federation is convinced that they will play a vital role also in the future. However, it is of great importance that the services of brokers are offered to the customers in open competition and that compensation to brokers is not unnecessarily high.

In April 2003, the Swedish Insurance Federation issued a non-binding recommendation on compensation to insurance brokers offering non-life insurance. In this recommendation the definition of broker is the same as in the commission's interim report (page 89). They represent the client and work on their behalf. According to the recommendation, insurance companies should neither offer nor sign agreements with a client or an insurance broker on the amount of the broker's compensation. The issue of compensation should be decided exclusively between the broker and the client.

It was also decided that the recommendation would not be put into practice until it was approved by the Swedish Competition Authority. In April 2004, the Competition Authority declared that the recommendation did not violate the Swedish competition law. On the contrary, it allows the customer a good price transparency regarding the services of the broker.

The Authority also stated that the insurance companies compete primarily with attractive premiums and terms. These are not part of the recommendation. The Swedish Brokers' Association appealed to the Swedish Market Court, but the Court upheld the Competition Authority's decision.

### **Reasons for the Swedish Recommendation**

According to Swedish law based on the Insurance Mediation Directive (2002/92/EC), the client has a right to information on the compensation level when the broker is compensated by the insurance company. However, the client seldom has any influence on the settling of the compensation level.

When compensated by the insurance companies, insurance brokers have an incentive to promote insurance with the company offering the highest broker compensation and not to propose the insurance company offering the product most suitable for the client. On the other hand, when compensation is paid directly by the client there is no risk for this kind of biased behaviour.

The initiative taken by the Swedish insurance industry is not founded on any wish to limit the activities of the broker. Instead, the aim is improved transparency in insurance broker services. A good transparency of the price of the insurance broker's services facilitates the client's evaluation of the costs of these services. This is achieved when compensation is decided by the client and the insurance broker. The Federation also believes that the recommendation indirectly enhances the competition between brokers.

### **Entry to the market**

The Federation, as well as the Swedish Competition Authority, considers the market to consist of two markets. One market deals with the insurance product provided by the insurance company (seller). The other market is aimed at the brokerage, which is provided by the broker and who represents the insured (buyer). The Swedish recommendation only deals with the first – the insurance product.

Furthermore, there are no restrictions on the foreign insurers to use brokers for other services, for example claims handling. These services facilitate the entry to the Swedish market. The Swedish recommendation does not cover these services.

As mentioned in the interim report, several of the Nordic countries have, after careful consideration of the EU competition directive, implemented legislation regarding net premiums concerning brokers. In our view, this is a strong argument that the Swedish non-binding recommendation could not be considered distorting competition.

## **Horizontal cooperation and the Insurance Block Exemption**

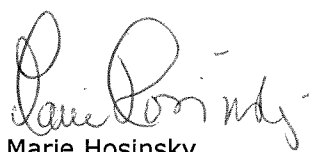
The Federation concurs with the statements made by CEA in this respect. Further, the Federation agrees with and wishes to put forward the same comments as the Federation of Finnish Financial Services in their reply.

The Federation hopes that the Commission will take our views into account when drafting the final report. If you have any further questions, please do not hesitate to contact us for a more in-depth discussion.

SWEDISH INSURANCE FEDERATION



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