

The Impact of European Regulations on Life Insurance Contracts: Protection of Beneficiaries Between the Solvency II and IDD Directives

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Abstract

Life insurance plays a crucial role in ensuring asset protection and economic security, while also representing a cornerstone of both the European financial market and the legal framework for consumer protection. In recent decades, European regulation has undergone significant developments, in particular with the adoption of Directive 2009/138/EC (Solvency II) and the Insurance Distribution Directive (IDD) (2016/97/EU). These instruments aim, on the one hand, to protect the financial stability and solvency of insurers and, on the other hand, to ensure a high level of transparency and fairness in contractual relationships. This article examines the impact of these directives on life insurance contracts, with a particular focus on the protection of the beneficiary as a central third party in the legal relationship. The analysis highlights both the indirect protection mechanisms provided for by Solvency II and the guarantees of transparency and fairness established by the IDD. In addition, it identifies synergies and tensions between the two regulatory frameworks, as well as challenges arising from their heterogeneous implementation in Member States. The conclusions emphasize the need for stronger and more explicit recognition of the legal status of the beneficiary, so that protection is ensured not only through market stability and distribution obligations, but also through direct normative recognition of the beneficiary's rights in the life insurance contract.

Keywords: *life insurance, beneficiary, Solvency II, IDD, European regulations, consumer protection, financial stability, contractual transparency.*

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1. Introduction

European life insurance regulation has undergone a complex transformation process over the past two decades, marked by a shift from a strictly technical approach – focused on insurers’ solvency – to a holistic approach, in which consumer protection, contractual transparency, and intermediary conduct play a central role².

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² Vanessa Hanna, Peter Hieber, and Pierre Devolder, “Mixed Participating and Unit-Linked Life Insurance Contracts: Design, Pricing and Optimal Strategy,” *Scandinavian Actuarial Journal* 2022, no. 5 (2022):

The evolution of insurance law increasingly seeks a balance between market stability and individual protection, and this balance is fragile³.

In this context, two fundamental regulatory instruments govern the European life insurance market: Directive 2009/138/EC (Solvency II), focused on the financial stability of insurers, and Directive 2016/97/EU (IDD), focused on consumer protection and distribution standards. Beyond their stated objectives, these directives create an integrated legal framework that directly influences the contractual relationship in life insurance, and particularly the legal position of the beneficiary – the third party affected by the final financial effects of the contract.

Although the beneficiary does not participate in the formation of the contract, their role in the legal architecture is essential. By giving priority to the protection of the policyholder and the technical stability of the insurer, European legislation sometimes risks treating the beneficiary in an indirect manner. This omission is highlighted in the specialist literature where it is shown that the beneficiary remains the least protected party to the life insurance contract, precisely because their rights are derived and not negotiated⁴.

This article aims to analyze how Solvency II and IDD contribute, directly or indirectly, to the protection of life insurance policyholders. It considers both technical and financial elements, such as capital requirements, risk assessment, and supervisory mechanisms, as well as aspects related to transparency, information, conduct, and advice in the distribution process.

The analysis will highlight several synergies between the two directives, but also certain regulatory tensions, particularly regarding the division of responsibilities between insurers and intermediaries. It will also show that beneficiary protection is more the result of an indirect mechanism built through market stability than of explicit regulatory recognition. The modern insurance regulation is based on the idea of protection through stability, but it does not replace the direct legal protection of the third-party beneficiary⁵.

Finally, the article argues for the need to strengthen the legal status of the beneficiary through clearer regulation of their rights, so that the protection afforded is not merely a consequence of market discipline, but also an expression of a substantive right recognized by law.

By structuring the article into four sections – theoretical research, analysis, critical discussion, and conclusions – we aim to offer a comprehensive and doctrinally grounded perspective on a topic that has not been systematically addressed in Romanian legal literature.

421–46, <https://doi.org/10.1080/03461238.2021.1992001>.

³ Malcolm Clarke, *The Law of Insurance Contracts*, 5th ed. (London: Informa, 2006), 22.

⁴ Vasile Nemes, *Dreptul asigurărilor*, 4th edn., (Bucharest: Hamangiu, 2012), 145.

⁵ John Birds, *Birds' Modern Insurance Law*, 11th ed. (London: Sweet & Maxwell, 2019), 38.

2. The Evolution of European Regulation in the Field of Life Insurance

2.1. Context of European Regulatory Developments

European regulation in the field of life insurance has undergone a complex process, driven by the need to create a stable and competitive market in which consumers are protected.

Therefore, we can observe three important stages:

a) Stage I – Minimal harmonization and creation of a single market (1970s–1990s). The first directives in this area mainly aimed to remove barriers to „freedom of establishment and freedom to provide services” but did not offer consistent guarantees regarding the protection of insured persons or beneficiaries. The first directives of the 1970s and 1990s were designed as instruments of minimal harmonization, leaving consumer protection in the shadows⁶.

b) Stage II – Addressing systemic risk and solvency (after 2000). The development of the single market, the complexity of financial instruments, and, above all, the 2008 Global Financial Crisis accelerated the recognition of the need for a supranational supervisory framework capable of preventing systemic risks and ensuring the soundness of the industry. In this context, Directive 2009/138/EC, known as Solvency II, represents the most ambitious reform of European insurance legislation.

c) Stage III – Professionalization of distribution and consumer protection (after 2016).

Once solvency had been addressed by Solvency II, it became clear that conduct risk and product mis-selling, particularly of complex products (e.g., unit-linked products), required equally rigorous regulation⁷.

This integrated framework ensures that the European insurance market is now not only stable and competitive but also structured to provide a high level of protection for the insured, from the moment of sale (IDD) to the moment of payout (Solvency II).

2.2. Solvency II: Objectives, Principles, and Its Relevance to Life Insurance Contracts

The Solvency II regime is a legislative framework of major importance at European Union level. Its purpose is to restructure and modernize the insurance supervision system.

The Solvency II Directive takes a risk-based approach (Risk-Based Supervision), which means that the risks to which the insurer is exposed are assessed on an ongoing basis. In this way, solvency becomes a continuous process rather than a state.

⁶ Karel Van Hulle, *Solvency II: Solvency Requirements for EU Insurers*, (Cambridge: Intersentia, 2019), 14.

⁷ For some specific details see Nikita Singhal, Almas Sultana, and Shikha Goyal, “Myth or Coverage: Experience and Expectation of Policyholders from Health Insurance during COVID-19 in the NCR Region of India,” *Future Business Journal* 9 (2023): 39, <https://doi.org/10.1186/s43093-023-00209-0>.

The Solvency II framework is based on a three-part structure, consisting of three interconnected pillars:

a) Pillar I – Capital requirements. This pillar ensures an adequate level of financial resources to cover risks. It consists of the SCR (Solvency Capital Requirement) and the MCR (Minimum Capital Requirement). The SCR refers to the capital required to cover significant losses and is also considered the target capital level, while the MCR refers to the minimum capital level below which the authorities are required to intervene.

b) Pillar II – Governance and Supervision. Its role is to establish effective risk management and a robust governance system, so the insurer must carry out an internal assessment of its risks and capital requirements.

c) Pillar III – Reporting and Transparency. This pillar aims to improve communication with supervisors and the public (publication of detailed information, reports, annual statements on solvency, financial condition, etc.).

The prudential logic of Solvency II indirectly aims to protect beneficiaries. Even if it does not create explicit rights for insured people, it does offer structural protection. Therefore, there is an essential precondition for insurers to be able to meet their contractual obligations.

The doctrine emphasizes that the Solvency II regime creates structural protection based on the resilience of the system, not on the subjective rights of beneficiaries⁸. This is one of the normative limits that justify our analysis.

2.3. IDD: Consumer Protection Through Transparency and Conduct

The IDD Directive (2016/97/EU) replaced the old Insurance Mediation Directive (IMD, 2002/92/EC), marking a key transition in consumer protection. The new directive extends its scope and, most importantly, raises the standard of conduct. The objective is no longer just to inform the customer (passive obligation), but to ensure that the product sold is appropriate (active obligation).

The main purpose of this directive is to strengthen consumer protection and establish harmonized standards of conduct in the insurance distribution market. The IDD has three objectives: to increase transparency, ensure fair conduct, and guarantee that products are suitable for customers' needs. The IDD marks the transition from a formalistic regime to one based on behavior, in which the quality of advice and the avoidance of conflicts of interest are essential⁹.

The IDD has reorganized the relationship between distributor and customer, shifting the focus to the distributor's responsibility to ensure that the products they sell are fully suited to the customer's requirements. Key elements of the IDD include:

- Obligation to identify needs (Demands and Needs Test) – the insurance distributor must obtain information about the customer to ensure that the product offered to them meets their needs.

⁸ *Idem*.

⁹ Ray Hodgins, *Insurance Law: Text and Materials*, Taylor & Francis Group, 2016, 265.

- Product Oversight and Governance (POG) – this is a preventive requirement that ensures that any insurance product has a target market and is only distributed to that market.

- Rules on Conflicts of Interest and Transparency of Remuneration – transparency must be ensured for the customer regarding the commission received by the distributor.

- Special requirements for IBIPs (Insurance-Based Investment Products) – insurance products that also have a savings component must be treated with increased attention.

- Standards of Professionalism – insurance distributors undergo mandatory initial and ongoing training.

Compared to Solvency II, which provides structural protection, IDD focuses on consumer protection through rules of conduct (preventive mechanisms).

Essentially, the IDD provides protection that goes beyond traditional information requirements, setting a high standard of duty of care and fairness in favor of the customer, thereby reshaping the contractual relationship prior to the conclusion of the policy.

2.4. The Beneficiary in European and National Law: Legal Position and Doctrinal Debates

The beneficiary of life insurance is the third party in whose favor the insurer is obliged to perform the service when the insured risk occurs. The legal nature of this position has sparked extensive doctrinal controversy, as the beneficiary acquires an autonomous and direct right from the contract, without, however, having the status of a contractual party.

The key issue is that European legislation does not explicitly address the rights of the beneficiary. Solvency II protects them through financial stability; IDD protects them indirectly through transparency and advice given to the policyholder. However, there is no express European rule defining or standardizing the rights of the beneficiary (e.g. the right to prior information, the right to protection against unfair practices, the right to prompt payment).

This regulatory gap supports the need for future legislative intervention aimed at strengthening the legal status of life insurance beneficiaries.

3. The Interaction Between Solvency II and IDD in Beneficiary Protection

3.1. Two Different Paradigms of Protection: Stability vs. Transparency

Solvency II and IDD represent two distinct but complementary regulatory approaches. Solvency II protects the contract – and implicitly the beneficiary – by guaranteeing the financial stability of the insurer. IDD, on the other hand, protects the process of forming and executing the contract, with an emphasis on information, advice, and proper conduct.

Solvency II addresses solvency and market discipline, while IDD regulates behavior at the micro level, in the relationship between professional and consumer¹⁰.

The two directives thus create layered protection, in which the beneficiary is first protected as a third party economically dependent on the insurer, and subsequently as a party interested in the effects of the contract chosen by the policyholder.

However, this protection remains largely indirect. The beneficiary is not covered by the IDD, and Solvency II protects them only to the extent that the insurer's stability is maintained. Therefore, although both directives fall within the scope of consumer protection law, they address different target audiences.

3.2. Indirect Protection of Beneficiaries Through Solvency II: Between Advantage and Limitation

Solvency II is designed to create a framework of systemic stability, which naturally also benefits third parties, such as beneficiaries of life insurance contracts. The stability of an insurer's solvency determines its ability to pay compensation or the insured amount.

The financial strength of the insurer directly influences the payment of the benefit owed to the beneficiary. Adequate technical reserves increase the chances of full payment of compensation, internal governance mechanisms limit conduct contrary to the interests of policyholders, and European-level supervision helps prevent insolvency situations with serious effects on beneficiaries. In this context, Solvency II sets up a system in which the contractual obligation assumed by the insurer is consistently supported from an actuarial and financial perspective.

However, the protection thus established remains impersonal and lacks a relational dimension. It does not create subjective rights for the beneficiary and does not provide procedural guarantees.

Although the insurer may be solvent, the following disputes cannot be resolved through Solvency II: late payment, interpretation of clauses, refusal to accept a particular beneficiary, or unclear documents.

For this reason, we often find the following statement in the specialized literature: Solvency II protects the general interest of the market, but not the individual rights of third-party beneficiaries¹¹.

3.3. Indirect Protection of the Beneficiary Through IDD: The Value of Transparency and Advice

In the field of life insurance, the contractor is responsible for designating the

¹⁰ Karel Van Hulle, *Solvency II: Reasonable Expectations*, In Pierpaolo Marano, Michele Siri, *Insurance Regulation in the European Union. Solvency II and Beyond*, Springer International Publishing, 2017.

¹¹ Aaron Baldacchino, Simon Grima, and Kiran Sood. "The Principle of Proportionality: Unraveling the Practical Application of Proportionality in the EU Regulations and the Solvency II Directive for Insurance Undertakings." *Journal of Risk and Financial Management* 17, no. 6 (2024): 233. <https://doi.org/10.3390/jrfm17060233>.

beneficiary and selecting the appropriate product according to his family and property interests. Providing insufficient or inaccurate information may lead to the selection of an inappropriate product, with direct negative consequences for the beneficiary.

French doctrine emphasizes that the protection of the beneficiary begins with the protection considered by the contractor at the time of choosing the product¹². In this context, the IPID (Insurance Product Information Document) contributes to a clear understanding of the risks insured, the needs analysis facilitates the selection of benefits appropriate to the family configuration, and transparent information on costs prevents unjustified reduction of the insured amount.

The product governance regime (POG) requires insurers to design and distribute products intended for a specific customer segment. In the field of life insurance, this requirement translates into the development of policies compatible with the intended purpose, such as ensuring the financial protection of a loved one, organizing the transfer of assets, or building long-term savings.

In doctrine, it has been stated that POG is a preventive safeguard that reduces the risk of delivering inappropriate products to people who will depend on them – including beneficiaries¹³.

However, the POG framework does not establish direct subjective rights in favor of the beneficiary. If the product proves to be unsuitable, only the contract holder is entitled to claim damages, with the beneficiary remaining outside the legal relationship of liability.

3.4. Tensions and Gray Areas in Beneficiary Protection

Although Solvency II and IDD complement each other, there are also tensions between the two regimes, which indirectly affect the beneficiary.

Solvency II is primarily focused on ensuring the stability of the financial system at the macroeconomic level, while IDD aims to provide legal protection for consumers at the individual level. This difference in approach can lead to situations where a product that is sound from an actuarial and prudential perspective does not meet the family or asset needs of the policyholder or beneficiary, or, conversely, a product that is appropriate to the consumer's interests is limited in its design or distribution by rigidly applied prudential requirements.

The inconsistent transposition and application of instruments such as POG, IPID, or ORSA in different Member States leads to uneven levels of protection for beneficiaries. Legal doctrine has noted that the supposed uniformity of European regulation is, in practice, relative, as Member States implement common mechanisms with varying degrees of strictness and efficiency. This variability has direct effects on beneficiaries, in the sense that a life insurance contract concluded in a Member State

¹² Yvonne Lambert-Faivre, Laurent Leveneur, *Droit des assurances*, 15^e éd (Paris: Dalloz, 2025), 254.

¹³ Pierpaolo Marano, „The Contribution of Product Oversight and Governance (POG) to the Single Market: A Set of Organisational Rules for Business Conduct”, in Pierpaolo Marano, Kyriaki Nougssia (eds.), *Insurance Distribution Directive. A Legal Analysis*, 2020, pp. 55–74, Springer, Cham. https://doi.org/10.1007/978-3-030-52738-9_3.

with rigorous application of the rules may offer substantially higher protection than a similar contract concluded in another Member State, even if both formally comply with the requirements of Solvency II and IDD.

3.5. Summary of the Analysis: The Beneficiary Between Two Regulations That Do Not Directly Address Them

The analysis highlights the fact that the beneficiary of life insurance enjoys a certain level of protection, but this is indirect and discontinuous, not based on subjective rights and conditioned both by the conduct of the policyholder and the financial soundness of the insurer. In this context, the beneficiary occupies a paradoxical legal position, as they are the final recipient of the contractual benefit, without being the direct subject of the protection mechanisms established at European Union level.

The beneficiary is protected because this is the result of the functioning of the system, not because the European legislator has explicitly taken him into account¹⁴. This lack of explicit recognition justifies the need for future legislative intervention aimed at clarifying the rights of beneficiaries in a manner comparable to the protection afforded to consumers in other areas of European Union law.

4. Conclusions

An examination of the European Union's regulatory framework highlights the fact that the protection of beneficiaries in the field of life insurance results from an elaborate legal construct, formed by the interaction of two regulatory regimes based on distinct rationales: Solvency II, focused on financial and prudential stability requirements, and IDD, focused on transparency, conduct of business rules, and consumer protection.

Although neither directive directly targets beneficiary protection, together they create a regulatory environment that decisively influences the beneficiary's legal position.

In this context, Solvency II provides structural protection by ensuring the insurer's ability to meet its contractual obligations. This dimension is essential, given the long duration of life insurance relationships and their considerable financial impact. However, protection is limited: the beneficiary does not acquire subjective rights, and any issues of interpretation, delay, or refusal of payment do not fall within the scope of prudential regulation.

In contrast, the IDD establishes a level of protection limited to the contractual and pre-contractual stages, through rules of conduct, information, transparency, and product governance.

This contributes to a better structuring of the interests of the policyholder and,

¹⁴ Tafadzwanashe Zinyoro and Meshach Jesse Aziakpono, "Performance Determinants of Life Insurers: A Systematic Review of the Literature," *Cogent Economics & Finance* vol. 11, no. 2 (2023), <https://doi.org/10.1080/23322039.2023.2266915>.

implicitly, of the beneficiary, through the selection of appropriate products. However, the protection offered remains indirect, as the policyholder and the intermediary are the main actors in the decision-making process, and the beneficiary is not recognized as a subject regulated by the directive.

The interaction between the two directives leads to a layered but incomplete protection system:

- Solvency requirements ensure, at least in theory, that the funds necessary to pay the beneficiary are available.
- Transparency and advice requirements aim to match the product to the actual interests and needs of the contractor.
- However, the beneficiary's rights are neither uniform nor expressly recognized at the European level.

Another major problem is caused by the uneven application of the two directives in Member States, which leads to differences in protection for beneficiaries depending on national jurisdiction. This situation runs counter to the objective of the European single market and suggests the need for reform to standardize the minimum guarantees granted to beneficiaries.

Following our analysis, we can state that the beneficiary of a life insurance contract occupies an essential position in the legal relationship, without however benefiting from appropriate recognition at the level of European regulation. Their protection is structural, derivative, and dependent on the conduct of other actors (the insurer and the policyholder). As long as there is no regulatory framework that grants them their own autonomous rights, the status of the beneficiary remains fragile, especially in situations where their interests do not fully coincide with those of the contractor. To achieve real and effective protection, the following measures should be adopted at European level:

1. Introducing a rule that explicitly enshrines the rights of the beneficiary, including the right to information and the right to fair treatment by the insurer.
2. Standardizing the terms and procedures for the payment of benefits in life insurance, thus avoiding the current legal fragmentation.
3. Clarifying the relationship between the provisions of Solvency II and those of the IDD about the protection of third parties.
4. Strengthening the role of the beneficiary in product governance, given that they are the ultimate recipient of the insured benefit.

In conclusion, under the current regulatory framework, beneficiary protection does not result from direct and explicit regulation, but from the interaction between financial stability requirements and transparency obligations in the distribution process. From this perspective, legislative intervention that expressly recognizes the legal status of the beneficiary appears necessary to achieve an adequate level of protection in an increasingly sophisticated and integrated life insurance market at the European Union level.

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