The European Federation of Insurance Intermediaries

A case for choice of remuneration systems in relation to investment advice

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800,000 mainly small, local, intermediaries in our sector are offering highly regulated services to consumers for a transparent compensation for work done. Intermediaries in direct contact with the client add value to the process and solution in a highly competitive environment. Consumers have the choice between a fee or commission system. Both systems are highly regulated.

BIPAR calls for a regulatory pause

- There are an estimated 800 000 intermediaries in the EU. Most of them very small operations active at local level.
- Regulatory stability creates trust and legal certainty but also proportionality.
- It is too early to revise -again- the rules in IDD or MIFID II. Both frameworks have illustrated their resilience during covid. In the current challenging and unstable world, regulatory stability is more important than ever.
- ESG related obligations were introduced in August 2022. This is a great flagship for the EU and our sector is challenged but also enthusiast about this European initiative. The intermediaries now need time to concentrate on this and to serve clients rather than -again- adapting to new rules.

Intermediaries nudge consumers to think about their long-term financial security

- The pro-active “nudging” by face-to-face intermediaries is important to, at least, attract the consumers’ attention to the possibilities and their needs.

Investment is not insurance and IBIPs are not pure investments.

- It is important that current and future legislation reflects the difference between insurance and investments. And between IBIPs and investments

Financial education of the consumer is necessary but will take time

- Over the last thirty years BIPAR has been asking that a "risk and solutions" course be included in the curriculum of secondary schools. We appreciate the efforts of our national associations, governments, and consumer organisations to create awareness.

Product oversight and governance is key but not yet mature

- POG, although not yet fully matured, has a positive effect. It helps intermediaries and consumers to rely on the product and product information they receive from product manufacturers.

Investment Products and IBIPs on the market must offer value for money

- Intermediaries start from the assumption that since POG is introduced this concept is implicitly embedded in every product. Intermediaries need to be able to rely upon the product that is on the market. It would not be efficient to require from every intermediary to test the value for money of every product once again if it is embedded in the POG process.

- The supervision system should result in a situation that unreliable financial products are removed from the market or blocked before they come on the market.

Remuneration of the intermediary

Total cost transparency (of all aspects in the chain) is more effective than a ban on commission.

- Thanks to the IDD and MiFID II, consumers have now the transparent choice on how to pay for the advice and services of intermediaries. Both systems are highly regulated. Member states can, if they consider it necessary, introduce bans or limitations. Few member states did until now.

- After years of study and debate between all parties concerned (including consumers, providers, politicians, academics), the MiFID II and IDD introduced the concept of "independent advice" for those consumers who want to (or can afford to) pay a fee for advice.

- **From an economic perspective, overall, there exists no system which is preferable in all circumstances and the co-existence of various remuneration systems, and, in particular, the freedom to decide on a transparent basis about the remuneration systems between the parties, is the best guarantee for competitive, efficient and dynamic markets that work for the client.**

- Thanks to the commission system (strictly regulated) the consumer who wants can continue and shop around to find the product, solution or intermediary or advisor that fits him or her best (because commission is a no cure no pay system).

- The commission system mutualizes the cost and facilitates access to advice for all consumers. Also in a commission system, the rules in IDD and MIFIDII guarantee that conflicts of interest are managed. Those consumers/investors who opt to have advice on a fee basis need to be aware of the fact that they will have to pay a fee even if they decide not to follow the investment advice.

- Both MiFID II and IDD regulate a transparent system of choice. This choice of systems allows also those systems to be in competition with one another. In a pure fee market, the comparison between fee based and commission-based advice becomes impossible and this potentially reduces the competitive (cost) pressure on the products on offer. Also – how to guarantee comparability and a level playing field with direct "sellers" of financial products in a pure fee market? BIPAR is of the opinion that total cost transparency would be more useful for the consumer than a ban on commission.

- In a "pure fee" market there is not only the problem of the advice gap at the time of the initial decision to invest but it is observed that (average investors) do not want to pay a fee for advice in the framework of keeping their investment adapted to their changing situation in the following years.

- For smaller savers, fees are not affordable, and the commission system allows intermediaries to spread the cost of know-how and to put their know-how paid by the "larger" investors "to the service of the "smaller" investors (mutualization of advice and service costs).

- The commission system, in competition with the fee system for more sophisticated investors or for those who already invest, is the best system to nudge potential investors to at least consider transforming their savings into (sustainable) investments.

- Intermediaries or advisors who do not comply with the MiFID II and or IDD rules not only face severe monetary penalties but are also subject to civil (liability) charges of their clients.

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