Irish Financial Services
Regulatory Authority

Review of Remuneration Structures and Transparency

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CONSULTATION PAPER CP9

Review of Remuneration Structures and Transparency

What is this review about?

This paper seeks to review remuneration structures and disclosure requirements in the insurance industry. We need to look at the current disclosure requirements to ensure they are clear and easy to understand. In addition, as the Financial Regulator, we are particularly concerned about certain types of remuneration –or payment for work or services –within this sector.

We are also seeking your views about non-insurance investment products. Following this consultation process it is likely that we will formulate new requirements or propose changes to existing requirements. These will apply to all products that are similar in nature and to all entities distributing those products, as appropriate.

Our mission is to help consumers make informed financial decisions in a safe and fair market. We do this by helping consumers to make informed choices through the provision of information to educate them on their choices and through the development and enforcement of codes of practice, which seek to ensure that financial services providers act in a fair and transparent way. We expect financial services providers to supply consumers with the information they need to make informed decisions about the products being offered. We do not wish to add unnecessarily to the regulatory burden on firms and, indeed, there may be instances where it is difficult to make disclosures in a form which achieves the objective of informing consumers and helping them to get good value for money. Section 3 of this paper sets out the current position in relation to disclosure of information to consumers and seeks your views as to how these requirements can be improved.

What services are included in the scope of this review?

This review focuses on the sale of insurance products as:

- there are certain categories of insurance that consumers are required to have, for example motor and, in most cases, mortgage protection insurance;
- most personal savings, investment and pension products currently on sale in the Irish market are structured as life assurance policies.

Structure of this paper

This paper is divided into four main sections. At the end of each section, we invite your views on a number of issues discussed.

Section 1	Methods of distribution of insurance products
Section 2	Types of remuneration
Section 3	Transparency
Section 4	Other reviews of the insurance market, including the Insurance Mediation Directive
Appendix 1	List of questions raised in this paper
Appendix 2	Summary of requirements under the Life Assurance (Provision of Information) Regulations, 2001.

Section 1: Methods of Distribution of Insurance Products

1. Description of each method of distribution

Insurance products are distributed through a number of different channels, as follows:

- Intermediaries
- Tied agents
- Direct sales
- Group companies
- Wholesale intermediaries

Whichever of these delivery channels the consumer selects, the provider of the insurance service is obliged to act in the consumer's best interests, in accordance with requirements issued by the Financial Regulator. The following is a brief description of each of those channels:

Intermediaries

An insurance intermediary provides a professional service offering advice about insurance products and assisting the client in taking out a policy. Essentially the intermediary 'shops around' for the most suitable product for the client, taking account of the price, benefits, product charges and the quality of service provided by competing insurance companies. The intermediary will assess the client's particular requirements, explain the pros and cons of the various products and make an appropriate recommendation.

Some intermediaries consider the whole market when providing advice but most provide services in relation to the products of a more restricted range of insurance companies. An intermediary may hold letters of appointment from one or more insurance company. Included under this heading are accountants who act as intermediaries.

Tied agents

A tied insurance agent operates exclusively for one insurance company and cannot advise on the insurance products supplied by other companies. In some cases, an intermediary may be tied to one insurer for one form of insurance and tied to another for a different form of insurance.

Direct sales

Direct sales forces are employees of an insurance company. In the case of some insurance companies, business may be conducted through the internet.

Tied agents and direct sales forces only sell the products of one company. They can only advise the client in relation to those products.

Group companies

Some insurance companies distribute their products through another entity in the same group of companies, for example, an affiliated bank or intermediary. Many bank branch networks are tied to an insurance company in the same group.

Wholesale intermediaries

A wholesale intermediary is an intermediary that sells products through other intermediaries. In many cases the wholesale intermediary develops, and sources an underwriter of, certain specialist products or schemes and either distributes them directly to customers who meet the underwriting/selection criteria or through other intermediaries. The wholesale intermediary can provide additional services associated with a particular scheme, e.g., premium collection, claims handling, underwriting assessment, etc., on behalf of an insurance company. However, it is not authorised to underwrite an insurance product and must use the services of an insurance company to underwrite the particular risks.

Wholesale intermediaries are more commonly found in non-life insurance; the concept is relatively rare in life assurance.

2. Why do costs vary between insurance companies and distribution channels?

The cost of similar insurance cover and benefits to the consumer may vary from one company to another or from one distribution channel to another. There are many reasons why product charges and costs vary, as follows:

- Each company may focus its commercial strategy on different areas from time to time, responding to competition, new opportunities and claims experience.
- Companies differ in their policy on profit margins.
- Some companies may operate more efficiently than others.
- Electronic or online transactions can be more cost effective.
- Intermediaries, individually or as a group, may obtain discounts on premiums from some companies for high volumes of sales.
- Some companies offer discounts where a customer has other policies with the same company or with other companies in the same group.
- Price matching may occur where a client obtains a lower quote from another company but the existing company does not wish to lose his/her business. The practice is more common in the non-life insurance market than in the life assurance market.
- Intermediaries may forgo some or all of their commission in order to offer the client a lower quote, to increase their market share or to be more competitive in their pricing.

Section 2: Types of Remuneration

The types of remuneration associated with insurance products can be divided as follows:

- charges and fees in respect of life assurance investment products, and
- commission and fee payments to the distribution channels.

The first part of this section deals with product charges/fees and the second part deals with the different categories of commission and fee payments to the distribution channels.

We are concerned that the charging structures are complex and confusing for the consumer. For example, we have highlighted below some of the different charges which could potentially apply in a savings, investment or pension policy.

Types of product charges and fees

Generally, life assurance savings and investment [including pension] products use investors' money to purchase units in a fund or a number of funds. Charges and fees are built into the product and are usually paid by reducing the number of units allocated to the investor's policy. The total of all the relevant charges should be taken into account when comparing one product with another.

The charges and fees can be divided into three broad categories:

- Initial charges, such as bid/offer spread and reduced allocation rate;
- Ongoing charges, such as fund management charge, monthly policy fee and switching charges;
- Early encashment/termination charges, such as exit penalties.

Initial charges

Initial charges cover the costs associated with the opening of an investment account. They include:

- ### Allocation rate

  This is the percentage of the premium used to purchase units in a fund. In general, allocation rates vary between 95% and 105%. An allocation rate in excess of 100% does not mean that more than the premium paid is invested. An allocation rate is applied after deduction of charges and commission. For example, if €100 is invested, with 5% commission payable, a 100% allocation rate means that €95 is invested whereas with an allocation rate of 105%, €100 is invested. An allocation rate of less than 100% is, in effect, an additional charge whereas an allocation rate in excess of 100% is, in effect, a reduction in charges.

  Some regular premium policies may have an initial 'non-allocation period' during which the premium paid is retained in full by the life company rather than used to buy units. This is also called 'nil allocation'.

- ### Bid/offer spread

  The offer price is the price an investor pays for a unit in a fund. The bid price is the price at which the company cancels or buys back a unit. The difference between the bid price and the offer price is known as the bid/offer spread and is a charge, typically of 3% - 5%.

  The allocation rate and the bid/offer spread amount to the initial charge borne by the consumer. Some life companies do not operate a visible bid/offer spread but appear to operate one unit price only, combined with early encashment charges or penalties.

- ### Entry/set-up charge

  Some companies impose an entry charge where there is only one price for units in a fund and so no bid and offer prices apply. This charge may be a fixed monetary amount or a percentage of the initial investment, for example 2%.

Ongoing charges

Ongoing charges cover the cost of managing the policy. They include:

- ### Monthly policy fee

  A monthly fee may be charged as a fixed amount, for example €3 to €6 per month. This will be taken either from the regular premium before the units are purchased or by encashment of units, reducing the value of the policy to pay the charge.

- ### Fund management charge

  This is a charge typically in the region of 0.75% to 2% per annum of the value of the fund. It is taken before the current value of a single unit is set and the unit price published will be net of this charge. This fund management charge may vary according to sales remuneration, for example, if an intermediary is receiving 0.5% per annum fund-based commission, the fund management charge may be increased by 0.5% per annum. The charge may also vary by the size of the fund and/or the duration of the policy.

- ### Regular unit encashment charge

  Some policies may contain a regular unit encashment charge, in addition to a fund management charge. This charge is met by cancellation of units. For example, if a charge is 1% per annum of the unit holding, the life company will retain 1% of the unit holding from the policy value each year. Using this charge could allow the insurance company to show a higher unit fund growth rate for marketing purposes as fund growth rates are shown after deduction of the fund management charge but do not take account of policy charges such as the regular unit encashment charge.

- ### Switching charge

  Some investments allow a client to switch from one fund to another. In any year, the first switch may be free but a charge in the region of €15 to €60 may be applied to subsequent switches. In some cases, all switches are free.

Early encashment/termination charge

This is a charge to cover the costs associated with the early cancellation of a policy.

- **Exit penalties**

  Exit penalties may be imposed if units are surrendered within a specified period, usually the first five years. The penalty reduces over the five years, for example, from 5% in the first year to 1% in year five.

Differential pricing

The charging structure of a policy is frequently directly linked to the remuneration structure applying to its sale. Life assurance companies may offer a 'menu' of alternative remuneration scales which have a direct € for € impact on the charges applying to that product. Effectively, the same product may be on sale at different prices, depending on the distribution outlet and/or the remuneration scale adopted by that distributor. This is sometimes referred to as 'differential pricing'.

Reduction in Yield

The projected impact of the various charges can be measured by a figure called the Reduction in Yield (RIY). The RIY expresses the impact of the charges in terms of the reduction in the investment return over a particular period compared with the return which would have been provided if the policy carried no charges. The RIY measure is useful as it reduces the impact of all the different charges into a single comparable figure.

Your Views

We welcome your suggestions about simplifying the charging structure for life assurance products, helping the consumer to understand the impact of charges and to easily compare one product with another. Please use the questions below to help structure your suggestions.

We welcome your views on the following:

1. Please suggest ways the charging structure for life assurance products could be simplified and made more transparent.

2. Do you think the consumer understands the charges that are applied to his/her investment? If not, how can these charges be made clearer for the consumer?

3. Is the language used to explain charges in product literature too complex? Should there be standard definitions in plain English for all charges?

4. Do you think it is necessary for the consumer to know all the separate charges in a product? Is it enough to inform the consumer of the total of all charges and the likely effect of those charges on the performance of the product?

5. Do you think the Reduction in Yield is useful to the consumer as a measure of the impact of charges and as a means of comparing one product with another? Do you have any suggestions as to how this measure could be presented in a way that would be easier to understand?

6. Should the consumer be provided with a Reduction in Yield figure for a number of different periods in the life of the policy and not just the maximum term of the policy? What periods would be appropriate?

7. Is there any other method of measuring the impact of charges which would be more useful or more easily understood by the consumer? One example might be the projected break even period, the point at which the projected value of the policy first equals or exceeds the premiums paid to date. Should such methods be used instead of or as well as the Reduction in Yield?

8. Should insurance companies be allowed to operate 'differential pricing' structures for their products, where charges for a particular policy vary by distribution outlet and/or sales remuneration terms? How could the consumer be made aware that the product may be purchased at a lower cost from another distribution channel?

Remuneration of Distribution Channels

The various distribution channels are remunerated by either:

- fees paid by the consumer, or
- commission paid by the insurance company.

Commission payments are the most common means of remuneration in the insurance industry in Ireland. We are concerned that certain types of remuneration may provide an incentive not to act in the best interests of a client. We are also concerned about the related lack of transparency of remuneration structures.

We are considering whether changes should be made to the remuneration structure and are inviting your suggestions. However, in considering any proposed changes we will consider their impact on the market generally. For example, we do not wish to adversely affect competition.

Intermediaries and tied agents

Intermediaries and tied agents may be paid by commission, fees or a combination of both.

a] Commission paid by the insurance company. This is usually a percentage of the premium paid by the client.

b] Fees charged to the client by the intermediary. The level of fees charged may be based on the firm's hourly rates. They may vary depending on a number of factors, including complexity, time spent, urgency, amount of business, type of business, commission payable, position of staff member within the firm, experience, etc. Many firms will negotiate fee levels with their clients. In some circumstances they may waive the fee, for example, where the client only seeks advice and the firm transacts a large volume of other business for that client. The basis on which a firm charges fees should be stated clearly in its terms of business document.

c] A combination of commission and fee. This usually occurs where the intermediary considers the level of commission to be inadequate. This often applies in the case of motor insurance where the level of commission is low. Many intermediaries charge a fee to the client, generally in the region of €20 to €50. The basis on which a firm charges for its services should be stated clearly in its terms of business document.

Group Companies

The remuneration of companies in the same group varies between groups. It can be by way of commission, internal accounting arrangements, or may be calculated taking account of the premium received and operating costs.

The employees of group companies are generally remunerated by a fixed salary, a combination of fixed salary and commission or a combination of fixed salary and a performance-related bonus.

Direct Sales

Direct sales forces are generally remunerated by fixed salary with commission or a performance-related bonus.

Types of Commission

Life Business

The following are the different types of commission paid to distributors in the life assurance market.

Initial commission

This is payable in the first year on new business introduced. It is usually based on a percentage of the first year's premium. Initial commission may also be paid if the level of premium is increased by the policyholder or as the result of an automatic indexation increase.

Ongoing commission

Ongoing commission is paid to the distributor for ongoing services, such as ongoing investment advice or assistance with claims handling. Ongoing commission may be either or both of the following:

i] Fund-based commission/trail commission

This type of commission is paid in respect of single premium business where the investment is fund based. A specified percentage of the fund is payable as commission on an ongoing basis. Companies may fund this commission by a reduction in units in the fund or by an increased fund management charge.

ii] Renewal commission

This relates to regular premium business and is the commission payable in relation to the renewal of business introduced previously. It is payable after the first year in respect of policies which have a life of more than one year and is based on a percentage of the renewal premium.

In some cases, intermediaries can choose from a range of options. The intermediary may choose to take a higher initial commission and a lower ongoing commission or may opt for a lower initial commission and a higher ongoing commission.

Indemnity commission

Usually, initial commission is paid by the insurance company to the intermediary each month for the first year on receipt of each month's premium. Some life assurance companies offer what is known as an indemnity commission. This means most or all of the first year's commission is paid on receipt of the first month's premium. This is sometimes also referred to as 'accelerated' or 'advance' commission payment.

Indemnity commission arrangements can range from 75% to 100% of the first year's commission. These are usually subject to a 'claw back' by the insurance company if the payment of the premiums lapses within the first year.

If the lapse rate on policies sold under indemnity commission arrangements is high it could lead to financial pressure on the intermediary if he/she is unable to repay the amount to be clawed back.

Additional remuneration

i] Override commission

'Override' is an additional commission payment or benefit to the intermediary for meeting agreed targets. It is usually expressed as a % of commission already paid. The target is usually related to new business placed by the intermediary with the life company during a specified period.

Override arrangements present a particular incentive to intermediaries to direct clients to one particular insurance company in order to reach the target. The override commission rate may be scaled so that the more business that is placed with the life company, the higher the rate of override commission.

Many of these agreements are negotiated individually and reviewed annually. The override agreement may relate only to a particular type of business, such as pensions or lump sum investment bonds, so that only sales of that type of business count towards the target. The level of payment varies from 0.5% to 25% of commission already paid.

ii] Inducements/soft commissions/non-cash benefits

A soft commission agreement is any agreement under which a firm receives goods or services to direct business to a particular insurance company.

The Financial Regulator's Code of Conduct requires intermediaries not to enter into a soft commission agreement unless:

- the agreement is in writing, and
- it does not conflict with the best interests of their clients.

The Irish Insurance Federation [IIF] has issued a 'Code of Practice on Intermediary Incentives' to its members. This allows *modest business expenditure* in respect of training programmes, social or sporting functions in Ireland or the UK. This may include travel and accommodation expenses in connection with such functions, computer equipment and promotional gifts. The Code of Practice applies to the provision of supports to insurance brokers and agents by insurance companies. It does not apply to tied agents. Each insurance company must confirm to the IIF every year that it complies with the Code of Practice.

Non-Life Business

Non-life insurance, such as motor, household and liability insurance, differs from life assurance in three important ways:

- Non-life insurance policies are short term, typically of one year's duration. There is a once-off premium paid to buy cover for a specified duration. The policy ends after this period. Policies may be 'renewed' for a further period but each 'renewal' is a new policy.
- Non-life insurance policies are not investment related. They provide cover against a particular risk or risks, for a specified period.
- Non-life insurance policies do not carry explicit charges in the same way that unitised life policies do. The charges (including a margin for sales remuneration) are implicit in the premium charged by the insurance company.

Standard commission

This is the commission for introducing new business to the insurance company or for renewal of existing business. It is usually based on a percentage of the premium paid.

Rates vary by the type of policy, e.g., motor, household, liability, etc. Rates for similar types of business tend to vary between insurance companies more than commission rates for life assurance business. Non-life insurance companies may adopt a more 'individual' approach to the commission rate payable for particular types of business. For example, they may pay higher rates for business placed through electronic data interchange [EDI] than through paper-based systems.

Additional remuneration

i] Override commission

Override arrangements are also a feature of the non-life insurance market. Unlike the life assurance market, they tend to be confined to intermediaries with a proven record of providing larger volumes of new business. The target will usually be related to a specified volume of new business to be produced within a particular period but the level of remuneration may depend on the persistency of the business, its profitability and loss ratios (the ratio of claims to the premium paid).

ii] Inducements/soft commissions/non-cash benefits

Non-life insurance companies also provide non-cash benefits to intermediaries. The IIF Code of Practice on Intermediary Incentives also applies to non-life insurance companies that are members of the IIF.

iii] Volume discount

Insurance companies may offer intermediaries a discount on premiums for a specified type and volume of new business. This is a form of override agreement where the insurance company agrees to pay a specified rate of commission for meeting new business targets. The intermediary may use part of this commission to reduce the policyholder's premium. For example, an insurance company may agree to pay a rate of 9%. The intermediary can then decide to discount the premium by say, 3%, charging the policyholder 97% of the quoted premium and taking 6% commission.

Your Views

We welcome your suggestions about the transparency of remuneration structures and for ensuring that the consumer's best interests are protected. Please use the questions below to help structure your suggestions.

We welcome your views on the following:

9. Should the commission structures be simplified and made more transparent to the consumer? If yes, how would you suggest that this be achieved?

10. Should certain types of remuneration be banned or restricted by the Financial Regulator, for example, override commission, indemnity commission, soft commissions, inducements, non-cash benefits, etc.?

    a] Do you think the provisions contained in the IIF Code of Practice on Intermediary Incentives should be imposed by the Financial Regulator? Should the provisions be strengthened? If so, how?

    b] Do you think indemnity commission should be banned or restricted? Please give your reasons.

    c] Do you think override commission should be banned or restricted? Please give your reasons.

    d] Should initial commission payments continue to be paid on automatic premium indexation increases under life or pension policies? Please give your reasons.

    e] Are there any other types of remuneration that should be banned or restricted? Please provide details and your reasons for this view.

    f] What risks to the consumer do each of the above types of remuneration structures pose? How can these risks be minimised?

    g] Are there any benefits for the consumer in maintaining these types of remuneration structures?

11. Which method of payment (fee, commission or both) do you feel best suits the Irish market and the consumer? Please give your reasons. Does your view vary between life and non-life insurance, between different forms of distribution channels, and between different types of policies?

12. Do you think that the structure of the remuneration system conflicts with the obligations set out in the existing codes of practice? If so, how can this be addressed?

13. Is commission a suitable method of payment or would it be more appropriate for intermediaries to charge a fee for their services instead? If so, what do you think would be the impact of this change, for the consumer, for the intermediary and for the insurance company?

14. Do consumers understand how an intermediary is paid for his/her services and how much in financial terms the intermediary earns from the sale of a policy to a consumer? Is it relevant information for the consumer?

15. Do you think it is necessary for consumers to be informed of all types of remuneration? If so, what is the best way to do this?

16. Do you think disclosure of commission is necessary in respect of all types of insurance business? If not, please specify the types of business where you believe it is not necessary and your reasons for this view.

Section 3: Transparency

What are the current disclosure requirements of the Financial Regulator?

As the Financial Regulator, we have imposed the following requirements on intermediaries:

- *Status disclosure*: firms must disclose their regulatory status on all their stationery, advertisements and other communications.
- *Terms of business*: firms must issue a terms of business document to their clients which includes details about the firm, its status, its services, the appointments it holds, the basis on which it will charge for its services, and summary details in relation to conflicts of interest, complaints and investor compensation.
- *Statement of suitability*: before recommending a transaction to a client, an intermediary must prepare a statement of the reasons why he/she considers the product to be suitable for the client and why he /she considers it to be in the client's best interests. A copy of this statement must be given to the client.

We are in the process of finalising a unified Code of Conduct which will impose similar requirements on all regulated entities.

What legislation regulates disclosure in the insurance industry?

The Insurance Act, 2000 allows the Minister for Finance to introduce regulations to require the disclosure of certain information including commissions. Because of this, insurance intermediaries are not subject to the commission disclosure requirements provided for in Section 37 of the Investment Intermediaries Act, 1995, as amended. Regulations pertaining to the life sector were introduced in 2001 but, to date, no such regulations exist for the non-life sector.

The requirements of the Life Assurance (Provision of Information) Regulations, 2001 must be complied with in respect of all life assurance business covered by the regulations. These apply to insurance companies and intermediaries and specify what information should be given to the consumer.

The regulations require a table of projected benefits and charges and a table of intermediary/sales remuneration. The information provided in the tables must be fair, clear and not misleading. The values in the tables must be specific to the client and their proposed premium. Where it is not practicable to provide client-specific values before a client signs a proposal, a generic table may be provided. The company must then provide tables specific to the client when issuing the policy.

The tables must give projected values for year 1, 2, 3, 4, 5, 10, 15, 20 and year of maturity. If the figures do not change at a steady rate, projected values for all the intervening years must be given.

For more detailed information about the regulations, please see Appendix 2.

Your Views

We are concerned that the information required under the regulations is not presented in a way that is useful to the client. The current format of disclosure may not be suitable to all types of policies covered by the regulations. We are also concerned that certain types of policies are currently excluded from disclosure under the regulations. The regulations have been in force for a number of years and we consider it is timely to review how well they are working. We welcome your suggestions on this and any changes you consider appropriate. Please use the questions below to help structure your suggestions.

We welcome your views on the following:

17. Do you think that consumers find the information included in the current disclosure requirements useful and easy to understand? Should the requirements be changed to include more information or to present the information in a different way?

18. Do the current requirements succeed in providing the customer with enough information to allow them to compare products between different companies?

19. Does the information provided succeed in providing the client with enough information to identify any company or product bias on the part of the intermediary? In particular, are the requirements in relation to override arrangements enough to make the consumer aware of potential product bias arising from such an arrangement?

20. Should there be specific disclosure requirements relating to indemnity or accelerated commission to make the consumer aware of any potential bias by the intermediary?

21. Are consumers provided with too much information, leading to them not reading any of it? If so, what information should and should not be given?

22. How can the information be made clearer for people with reading difficulties?

23. Should the same disclosure requirements apply to all life business or should there be different requirements for different types of products, such as investment, protection, term assurance?

24. Should the disclosure tables show the various types of commission, other remuneration and incentives separately, including indemnity commission, override commission, non-cash benefits, etc.? Would this information benefit the consumer?

25. Should policies issued to the trustees of occupational pension schemes continue to be exempted from the life disclosure regulations? Why? If these policies were no longer exempted from the regulations, what factors should be taken into account?

Non-life insurance

There are no specific legal disclosure requirements for non-life insurance similar to those for life insurance. However, under the Financial Regulator's codes of conduct, insurance companies and intermediaries must make adequate disclosure of relevant material information.

Your Views

We welcome your views on the following:

26. Should we impose specific disclosure requirements for non-life insurance business?

27. What factors should we consider in relation to disclosure requirements for non-life business?

28. What type of disclosure would be suitable to non-life insurance product information and remuneration? In particular, how should override arrangements and non-cash benefits be disclosed to the consumer?

What are the disclosure requirements in respect of non-insurance investment products?

Collective investment schemes

The disclosure requirements relating to collective investment schemes are set out in the following legislation:

- European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 ['the UCITS Regulations'],
- Unit Trusts Act, 1990,
- Part XIII of the Companies Act, 1990 and
- Investment Limited Partnerships Act, 1994.

These are collectively known as *CIS Legislation*. Together with Notices issued by the Financial Regulator, these set out disclosure requirements concerning remuneration paid by the company. This includes payments to its directors, members of the administrative, management and supervisory bodies, to the trustees, or to third parties. Disclosure requirements also relate to charges to be included in annual and semi-annual accounts.

Non-insurance tracker bonds and deposit products

There are as yet no specific disclosure requirements relating to non-insurance tracker bonds and deposit products. If these products are bought through an intermediary, they are covered under the Financial Regulator's Code of Conduct for intermediaries. These issues will be addressed in the proposed Unified Code of Conduct, which is the subject of a separate consultation process at present.

Your Views

We welcome your views on the following:

29. Do you agree that any new requirements or changes to existing requirements relating to insurance products should also be imposed on non-insurance products that are similar in nature? Please outline the reasons for your answer.

30. Are you concerned about the remuneration structures of non-insurance investment products? Are they similar to those relating to insurance products? Please outline your concerns.

Section 4: Other Reviews of the Insurance Market

The operation of the insurance market has been the subject of other reviews in recent months. The Competition Authority and the Houses of the Oireachtas Joint Committee on Enterprise and Small Business have both issued interim reports. These focus mainly on the motor, employers' liability and public liability insurance sectors. These reviews are ongoing. However, you may wish to take the findings and recommendations in these reports into account when responding to this consultation paper.

You should also take into account the requirements contained in the Insurance Mediation Directive and the Distance Marketing Directive.

Appendix 1: List of Questions Raised in this Paper

1. Please suggest ways the charging structure for life assurance products could be simplified and made more transparent.

2. Do you think the consumer understands the charges that are applied to his/her investment? If not, how can these charges be made clearer for the consumer?

3. Is the language used to explain charges in product literature too complex? Should there be standard definitions in plain English for all charges?

4. Do you think it is necessary for the consumer to know all the separate charges in a product? Is it enough to inform the consumer of the total of all charges and the likely effect of those charges on the performance of the product?

5. Do you think the Reduction in Yield is useful to the consumer as a measure of the impact of charges and as a means of comparing one product with another? Do you have any suggestions as to how this measure could be presented in a way that would be easier to understand?

6. Should the consumer be provided with a Reduction in Yield figure for a number of different periods in the life of the policy and not just the maximum term of the policy? What periods would be appropriate?

7. Is there any other method of measuring the impact of charges which would be more useful or more easily understood by the consumer? One example might be the projected break even period, the point at which the projected value of the policy first equals or exceeds the premiums paid to date. Should such methods be used instead of or as well as the Reduction in Yield?

8. Should insurance companies be allowed to operate 'differential pricing' structures for their products, where charges for a particular policy vary by distribution outlet and/or sales remuneration terms? How could the consumer be made aware that the product may be purchased at a lower cost from another distribution channel?

9. Should the commission structures be simplified and made more transparent to the consumer? If yes, how would you suggest that this be achieved?

10. Should certain types of remuneration be banned or restricted by the Financial Regulator, for example, override commission, indemnity commission, soft commissions, inducements, non-cash benefits, etc.?

    a] Do you think the provisions contained in the IIF Code of Practice on Intermediary Incentives should be imposed by the Financial Regulator? Should the provisions be strengthened? If so, how?

    b] Do you think indemnity commission should be banned or restricted? Please give your reasons.

    c] Do you think override commission should be banned or restricted? Please give your reasons.

    d] Should initial commission payments continue to be paid on automatic premium indexation increases under life or pension policies? Please give your reasons.

    e] Are there any other types of remuneration that should be banned or restricted? Please provide details and your reasons for this view.

    f] What risks to the consumer do each of the above types of remuneration structures pose? How can these risks be minimised?

    g] Are there any benefits for the consumer in maintaining these types of remuneration structures?

11. Which method of payment (fee, commission or both) do you feel best suits the Irish market and the consumer? Please give your reasons. Does your view vary between life and non-life insurance, between different forms of distribution channels, and between different types of policies?

12. Do you think that the structure of the remuneration system conflicts with the obligations set out in the existing codes of practice? If so, how can this be addressed?

13. Is commission a suitable method of payment or would it be more appropriate for intermediaries to charge a fee for their services instead? If so, what do you think would be the impact of this change, for the consumer, for the intermediary and for the insurance company?

14. Do consumers understand how an intermediary is paid for his/her services and how much in financial terms the intermediary earns from the sale of a policy to a consumer? Is it relevant information for the consumer?

15. Do you think it is necessary for consumers to be informed of all types of remuneration? If so, what is the best way to do this?

16. Do you think disclosure of commission is necessary in respect of all types of insurance business? If not, please specify the types of business where you believe it is not necessary and your reasons for this view.

17. Do you think that consumers find the information included in the current disclosure requirements useful and easy to understand? Should the requirements be changed to include more information or to present the information in a different way?

18. Do the current requirements succeed in providing the customer with enough information to allow them to compare products between different companies?

19. Does the information provided succeed in providing the client with enough information to identify any company or product bias on the part of the intermediary? In particular, are the requirements in relation to override arrangements enough to make the consumer aware of potential product bias arising from such an arrangement?

20. Should there be specific disclosure requirements relating to indemnity or accelerated commission to make the consumer aware of any potential bias by the intermediary?

21. Are consumers provided with too much information, leading to them not reading any of it? If so, what information should and should not be given?

22. How can the information be made clearer for people with reading difficulties?

23. Should the same disclosure requirements apply to all life business or should there be different requirements for different types of products, such as investment, protection, term assurance?

24. Should the disclosure tables show the various types of commission, other remuneration and incentives separately, including indemnity commission, override commission, non-cash benefits, etc.? Would this information benefit the consumer?

25. Should policies issued to the trustees of occupational pension schemes continue to be exempted from the life disclosure regulations? Why? If these policies were no longer exempted from the regulations, what factors should be taken into account?

26. Should we impose specific disclosure requirements for non-life insurance business?

27. What factors should we consider in relation to disclosure requirements for non-life business?

28. What type of disclosure would be suitable to non-life insurance product information and remuneration? In particular, how should override arrangements and non-cash benefits be disclosed to the consumer?

29. Do you agree that any new requirements or changes to existing requirements relating to insurance products should also be imposed on non-insurance products that are similar in nature? Please outline the reasons for your answer.

30. Are you concerned about the remuneration structures of non-insurance investment products? Are they similar to those relating to insurance products? Please outline your concerns.

Appendix 2: Summary of Requirements Under the Life Assurance (Provision of Information) Regulations, 2001

The following is a summary of the requirements under the Regulations. This is informed by the guidance issued by the Society of Actuaries in Ireland:

A. Information about the policy

1. Make sure the policy meets your needs. This section must state the purpose and intention of the policy, the type and nature of the policy, whether it replaces an existing policy, and a warning in relation to the consequences of replacing an existing policy.

2. What happens if you want to cash in the policy early or stop paying premiums? This section must indicate whether or not the policy acquires a surrender value, the consequences of non-payment of premium, and that early surrender of the policy may result in a return less than the amount of the premiums paid.

3. What are the projected benefits under the policy? Under this section a table must be provided with the following headings:

Table 1: Illustrative Table of Projected Benefits and Charges

	A	B	C	D	E=A+B-C-D
Year	Total amount of premiums paid into the policy to date	Projected investment growth to date	Projected expenses and charges to date	Projected cost of protection benefits to date	Projected policy value

The main objectives of this table are to provide policyholders with illustrations of projected benefits, expenses and charges which:

- are fair, clear and not misleading, and
- allow the client to compare products between different companies.

The Regulations set out specific requirements relating to rates of return used, the provision of second illustrations, projections in relation to pension products, the effect of deductions on the projected investment yield and, for certain products, the sustainability of cover and the impact of claims.

All charges should be included, such as bid/offer spreads, annual fund management charges, policy fees, reduced allocations, and non-investment periods. Where deductions are not known, best estimates of the anticipated deductions should be used in the illustration.

4. What intermediary remuneration or sales remuneration is payable? Under this section a table must be provided with the following headings

Table 2: Illustrative Table of Intermediary Remuneration or Sales Remuneration

Year	Premium payable in that year	Projected total intermediary / sales remuneration / brokerage fee payable in that year

The objectives of this table are:

- to tell the client how much of his/her premium will be paid to the intermediary or sales employee, and
- to give the client enough information to enable him/her to identify any company or product bias on the part of the intermediary, and
- to ensure a 'level playing field' in relation to remuneration of independent intermediaries, other intermediaries and sales employees.

The remuneration to be disclosed should include both cash payments and the cost of benefits (for example, the use of a car, subsidised loans, contributions to pension schemes) and services (for example, office accommodation and equipment, stationery, computer equipment). Amounts disclosed by an intermediary who is a connected person, or a sales employee should be, as far as possible, consistent with the amounts of remuneration that would be disclosed by an independent intermediary. Where the precise rate of payment is not known, for example retrospective volume overrides or bonus payments if certain targets are met, an estimate should be included.

5. Are returns guaranteed and can the premium be reviewed? Where the premium shown is not guaranteed to provide the benefits as illustrated, the client should be given a statement to that effect. The client should also receive statements explaining the effect on benefits of increasing or not increasing the premium.

6. Can the policy be cancelled or amended by the insurer? The insurance company must outline the circumstances in which it may cancel or change a policy. It must also state the consequences of failing to disclose information or providing incorrect information.

7. Information on taxation issues. This section must include information in relation to tax reliefs and the tax payable on the proceeds or benefits.

The information provided in the tables must be fair, clear and not misleading. The values in the tables must be specific to the client and the premium proposed to be paid by the client. Where it is not practicable to provide client-specific values before a client signs a proposal or an application form, a generic table may be provided containing values which apply to a standard policy of the same type and to the premium payable in respect of such a standard policy. The company must provide tables specific to the client when issuing the policy.

The tables must provide values for year 1, 2, 3, 4, 5, 10, 15, 20 and year of maturity. If the figures do not change at a steady rate, values for all the intervening years must be given.

B. Information on service fee

Where a service fee is charged, the monetary amount must be disclosed in writing to the client.

C. Information about the insurer or insurance intermediary or sales employee

The client must be given the name and contact details of the insurer, insurance intermediary or sales employee. The client should also receive information about the location of the head office of the firm, any delegated authority or binding authority granted by the insurer in relation to underwriting or claims, and appointments held by tied agents and insurance agents.

Making Your Submissions

The closing date for submissions is 31 March 2005. We welcome comments from all interested parties. Please make your submissions in writing and, if possible, by e-mail or on disk. You can post them, fax them or e-mail them to us (see details below).

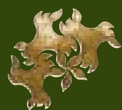
When addressing any issue raised in this paper, please use the headings in this paper to identify the section you are referring to. If you are raising an issue that we have not referred to in this paper, please indicate this in your submission.

We place a high value on the openness of the consultation process. Consequently, we intend to make submissions available on our website after the deadline for receiving submissions has passed. Because of this, please do not include commercially sensitive material in your submission, unless you consider it essential. If you do include such material, please highlight it clearly so that we may take reasonable steps to avoid publishing that material. This may involve publishing submissions with the sensitive material deleted and indicating the deletions.

Despite the approach outlined above, we make no guarantee not to publish any information that you deem confidential. So be aware that, unless you identify any commercially sensitive information, you are making a submission on the basis that you consent to us publishing it in full.

Please clearly mark your submission 'Remuneration Structures and Transparency Submission' and send it to:

Consumer Protection Codes Department
Irish Financial Services Regulatory Authority
PO Box 9138
College Green
Dublin 2
E-mail: transparency@ifsra.ie
Fax: 01 6710659



Irish Financial Services
Regulatory Authority

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