CONSULTATION RESPONSE FROM ALLIANZ PLC, CBI REGISTER NUMBER 143108, TO THE CENTRAL BANK OF IRELAND RE: CONSULTATION PAPER 116 – 'INTERMEDIARY INDUCEMENTS – ENHANCED CONSUMER PROTECTION MEASURES'

Allianz plc representatives are available to discuss this submission with the CBI, should clarification be required.

- The proposals do not appear to differentiate between Life, Investment and Non-Life Insurance sectors. We believe that a differentiated approach is more appropriate recognising that each sector will have different challenges and issues pertaining.
- We have reservations that the proposed measures might have unintended consequences; and might not necessarily be in the consumers' best interests. Some of the proposals could combine to create upward pressure on commission levels and adversely impact consumer premiums.
- We are concerned that these proposals may be informed by the views of Retail consumers alone; in contrast to small commercial consumers.

Allianz plc Responses:

Acceptable Inducements

Question 1 Do you see any reasons why the Code should not be amended as set out above?

- We consider the need for inducement arrangements to 'enhance the quality of the relevant service to the consumer' to be excessive and impractical. To clarify, the intermediaries' business relies on the quality and experience of their staff to ensure that the customer experience is optimal for all. It is reasonable to insist that inducement arrangements must not detract from the quality of the relevant service to the personal consumer; and also that the said inducements must not present a conflict of interest.

Question 2 Do you see any reason why, for example, insurance intermediaries should not be subject to the requirement that inducements must enhance the quality of the service rather than the requirement that an inducement is not detrimental to the quality of the service as is required under the IDD? If so, please set out those reasons.

- Yes. See above.

Question 3 Do you agree with the conditions in schedule 5 of the MiFID Regulations 2017, as set out above, that describe how an inducement enhances the quality of the service? Please explain your answer.

- We consider this requirement to be excessive. If a Non-Life insurance customer is satisfied with the service provided, the recommended product and the price being offered; and the intermediary is transparent in distinguishing between insurer premium and commission/fees; then, provided none of the inducements constitute a conflict of interest; that should suffice.

Question 4 What other examples do you consider would enhance the quality of the service? Please set out those examples in detail.

- See above. Nothing further to add.

Question 5 Do you foresee any practical difficulties arising from the implementation of this proposal? Please set out those difficulties in detail.

- We consider it both impractical and unnecessary to insist that it must be possible to demonstrate that any inducement enhances the quality of the relevant service to the consumer notwithstanding that this will be something that intermediaries (rather than product producers) will need to demonstrate. There is an inherent overhead in running these businesses whilst ensuring that service is provided by capable and competent personnel. On the face of it this proposal creates an overhead for intermediaries; which will not materially benefit the consumer.

Question 6 Do you have any views on what, if any, unintended consequences may arise in implementing this proposal? Please explain your answer.

- Enforcing this requirement would introduce another overhead; the cost of which will ultimately be borne by the consumer.
- Demonstrating that a particular inducement enhances the service to consumers is likely to prove impractical and subjective.

<u>Inducements deemed to be conflicts of interest</u>

Question 7 Do you have any views on the proposal that inducements contingent on achieving targets that do not consider the consumer's best interests, including profit targets, volume targets, and targets linked to business retention, are deemed to be conflicts of interest and must be avoided? Please explain your answer.

- On balance we support the proposal to disallow inducements linked to volume targets, profit targets, retention targets; or any other targets that do not consider the consumer's best interests. We agree that consumer's best interests should be considered and protected at all times.
- However, balanced and proportionate guidelines for determining what inducements constitute a conflict of interests is critical. These guidelines need to take the nuances of different markets (e.g. non-life, life & investment, mortgage, etc.) and consumer segments into account. The proposals as they currently stand are too broad and are consequently open to unintended outcomes.

Question 8 Do you have any views on what, if any, unintended consequences may arise in implementing this proposal? Please explain your answer.

- It's possible that this proposal might limit choice for consumers; as it is likely to render certain intermediary business models unviable. Per our response to Question 7; having a pragmatic basis for determining what constitutes a conflict of interest is key to avoiding unintended outcomes. Where genuine conflicts of interest exist they should be mitigated in ways to ensure personal consumer's best interests are achieved or the activity is ceased..

Question 9 Do you foresee any practical difficulties arising in the implementation of this proposal? Please set out those difficulties in detail.

- Yes. This will involve a root and branch review of all intermediary remuneration structures; and pricing for those relationships which will take considerable time to work through.

<u>Mortgage Loans</u>

Questions 10 – 12

- Not Applicable – Mortgage related.

<u>Soft Commission</u>

Question 13

- Nothing additional to add.

Recommendations where conflict of interests exist

Question 14 Do you have any views on the above proposal? Please explain your answer.

- We don't believe this proposal is necessarily acting in the consumers' best interests. Transparency is key; once an intermediary can explain product differences, outline the basis for his/her advice and recommendation, and once he/she is transparent in highlighting insurer premium separate from intermediary fees/commission, that should be adequate.
- As outlined in the Executive Summary accompanying our responses a number of criteria need to be met before an intermediary places Non-Life insurance business with an insurer. The business must be within risk appetite, meet insurer acceptance criteria and the price must be competitive. We secure business in the intermediated channel despite not paying the highest rate of commission; and therefore we consider this proposal to be excessive in the context of the Non-Life insurance market.

Question 15 Do you have any views on what, if any, unintended consequences may arise in implementing this proposal, including any impact on consumer choice? Please explain your answer.

- Yes. It's possible that this proposal might result in commission levels reverting to the highest common denominator which will likely impact the cost for consumers.

Question 16 Do you foresee any practical difficulties arising in the implementation of this proposal? Please set out those difficulties in detail.

- Nothing in addition to the issues already highlighted. Flexible commission facilities for intermediaries, or indeed net of commission pricing, would potentially be better alternatives for eliminating this conflict of interest. However, as stated above transparency is key to eliminating conflicts of interest.

Conflict of Interest Policy and record-keeping requirement

Question 17 Do you have any views on the proposal that a written conflicts of interest policy should also specify procedures to be followed, and measures to be adopted, by the regulated entity, in order to avoid conflicts of interest relating to inducements? Please explain your answer.

- No issues with the requirement for procedures to be specified in the written conflicts of interest policy.

Question 18 Do you have any views on the proposal that records must be retained to demonstrate how conflicts of interest arising from inducements have been avoided for each transaction?

- Yes, that is a particularly onerous requirement. It seems a disproportionate response. We suggest that annually, at new business or renewal is adequate in this context.
- Additionally the proposed requirements represent a new overhead for intermediaries; and could potentially compromise the broker business model; certainly for some smaller entities

Question 19 Do you foresee any practical difficulties arising from the implementation of this proposal? Please set out those difficulties in detail.

- Yes. See above.

Question 20 Do you have any views on what, if any, unintended consequences may arise in implementing this proposal? Please explain your answer.

- Yes. This proposal could reduce competition in the intermediary space; thereby reducing choice for consumers.

Independence

Question 21 Do you have any views on the proposal that an intermediary may only describe itself or its regulated activities as independent, where it does not accept and retain a third party inducement for the provision of advice, other than a minor non-monetary benefit which is capable of enhancing the service to a consumer? Please explain your answer.

- Essentially it appears to constitute a move to net pricing for all independent intermediaries; which might seem reasonable on the face of it. However, we don't believe that a fee based model only is appropriate for the entire independent Non-Life insurance market. Furthermore we consider prohibiting the payment of any inducements (beyond commission or minor non-monetary benefits) to be excessive in the circumstances.

Question 22 Do you foresee any practical difficulties arising from the implementation of this proposal? Please set out those difficulties in detail.

- This essentially constitutes a move to net of commission pricing; that will require a pricing review for all intermediated products sold by independent providers which will take time to work through. If a product provider trades with a mixture of independent and non independent intermediaries this will create an additional layer of complexity and the associated overhead in managing that. We question whether this might be a disproportionate change to prescribe in a market where there is a high degree of product standardisation; perhaps there are other lower impact ways of addressing this.

Question 23 Do you have any views on what, if any, unintended consequences may arise in implementing this proposal? Please explain your answer.

- No Comment

Transparency of Inducement Arrangements

Question 24 Do you have any views on the proposal to introduce an obligation for intermediaries to publish comprehensive details of inducement arrangements with product producers with which they have an appointment? Please explain your answer.

- We consider this to be reasonable from a consumer perspective

Question 25 Do you think the Central Bank should prescribe the format and content of the inducement arrangements summary document? If so, please provide details of the content you think should be included.

- Yes, for consistency we believe that the CBI should prescribe the format and content of the inducement arrangements summary document.

Question 26 Do you have any views on the proposal that firms must retain records to demonstrate how the inducement arrangements summary document was brought to the attention of the consumer? Please explain your answer.

- We believe that intermediaries should bring the detail of inducement arrangements to the consumer's attention, and the intermediary should be able to demonstrate that this step is part of the process; however what's required of an intermediary to demonstrate this is important. A balanced and proportionate approach is important; to avoid introducing another overhead for intermediaries.

Proposed new definitions

Question 27 Do you have any views on the proposed definitions of '*inducement*'? Please explain your answer.

- The definition is clear; suggest the inclusion of
  - the word 'benefit' i.e. …. 'monetary benefit, fee, commission or non monetary benefit' for the avoidance of any doubt; and
  - that it apply to personal consumers, rather than consumers.

Question 28 Do you have any views on the proposed definition of '*minor non-monetary benefit'*? Please explain your answer.

- The definition is clear and reasonable; however suggest that the inclusion of some example (per MiFID) would be helpful.

Question 29 Do you agree with the above examples of minor non-monetary benefits*?* Please set out your reasons.

- Yes, we agree

Question 30 Are there any additional minor non-monetary benefits that you think should be included? Please explain your answer.

- We suggest the inclusion of reasonable business entertainment – e.g. sporting events, industry dinners, etc. where the host and the business contact are both present.

Question 31 Would you set a monetary limit, as a guide, on a minor non-monetary benefit? If so, what limit would you consider appropriate and why?

- No, we consider it better for this to be considered and documented on a case by case basis taking the size and nature of the business relationship into account.