

ISME Response to Consultation Paper CP 116

Overview:

The primary purpose of the Consultation Paper CP 116 is to ensure that the consumer has enhanced protections, and can be assured that the way Intermediaries are remunerated does not take from the fair analysis of the advice being offered. As the vast majority of intermediaries are SMEs, they too need a voice. While the advice offered is paramount, we must also ensure that the demands placed on those businesses are reasonable and workable. The financial services advisory sector is a major employment sector and must be protected to ensure its survival. The consultation paper examines:

- Acceptable inducements
- Inducements that give rise to conflicts of interest, and would no longer be acceptable
- Clarity about what constitutes 'independence'
- Transparency of remuneration arrangements

We focus on the substance of the key questions raised. We would caution against a broad brush approach. There is a risk that while well-intentioned, some of the proposed recommendations might cause greater confusion in the market place. Will the consumer be able to differentiate between Bancassurers, Tied Agents, Intermediaries and Independent Brokers?

The Enhanced Consumer Protection Measures in CP 116 makes the assumption that advice is correlated with the level of inducement (commission) offered. No recognition is taken of "Fair Analysis" and "Advice Led" business. The potential for bias (driven by inducements) could be controlled by the Central Bank ensuring that the same payment is made by product providers for the same type of business. Similar agreements were applied in the past and they worked very well. Regulation of commissions paid by the insurance companies and service providers would significantly level the playing field and eliminate the potential for bias. If the payment received is the same, then the adviser must differentiate the suitability of one product over another for all the right reasons.

We fully understand the need to separate inducements from advisers who are independent providers of financial services. If as mentioned above, all commissions were the same, the critical difference would be the range of advice available. If the adviser represents all regulated insurance and pension service providers, then it is reasonable to assume they are independent. A radical shift away from the current model (removing commissions) would run the risk of radically reducing the business income stream and as a result, reduce the employment opportunities within the industry. How will this serve the consumer? Many financial brokers currently offer the choice of a fee based service and a commission based structure. Where will they sit in the new regime? Will this lead to an advice gap, as has emerged in European countries where commissions have been banned? We know that fees in the UK are typically higher on investment related business than currently in Ireland. If you remove income streams, do you shift the intermediary size to fewer and larger intermediaries? Will this lead to reduced market competition?

We welcome the greater disclosure of fees, commissions and inducements. Absolute transparency of total fees paid is ultimately more important to the consumer than the structure of those fees. This will be a further positive step that will allow consumers understand the cost of the service or product that they are contemplating. The introduction of PRIPS, MIFID (ii) and KIDs mean that consumers have much to absorb. The need for professional, fair analysis and advice is now greater than ever. All documentation, including that relating to fees and inducements, must be disclosed so that all unintended bias is removed from the advice.

In line with improved governance and good working practice, the Central Bank should insist that each regulated service provider (insurance companies, banking and mortgage institutions) signs up to a code of ethical working practice. This could act as a second layer of defence in ensuring that inducements, soft commissions and other anti-market practices are removed. It is our considered view that if those service providers were signatories to a code of payments, there would be a much clearer line of sight for the Central Bank and ultimately, the consumer.

Lastly, we feel it is ironic that, at a time when the Central Bank has embarked upon this consultation aimed at transparency of fee structures, it has ceased to publish the ['Blue Book'](#) consolidated statistics it produced on the market until 2015. The provision of this sort of information was important in maintaining visibility of costs within the industry, and we believe it should be reintroduced without delay.