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Consumer Protection Policy
Central Bank of Ireland
PO Box 559
Dublin 1

Dear Sirs

Consultation Paper CP116 – Intermediary Inducements: Enhanced Consumer Protection Measures

Premium Credit Limited (PCL) welcomes the opportunity to comment on the Consultation Paper CP116 – Intermediary Inducements: Enhanced Consumer Protection Measures recently issued by the CBI.

By way of background, PCL is a leading insurance premium finance company in the UK and Ireland. Established in 1988, we specialise in providing finance for businesses and individuals allowing them to pay for their insurance by spreading the costs over regular instalments, instead of paying the whole premium upfront. In addition to insurance premiums, we also provide finance to pay annual fees such as professional fees and membership subscriptions. In Ireland, we are authorised by the Central Bank of Ireland as a Moneylender.

General Comments:

Q1: *Do you see any reasons why the Code should not be amended as set out above?*

We agree with the proposed amendments to the Code, but further clarification and information is required in two scenarios:

- (1) where inducements are made and received to/from an entity where there is no recommendation made; and
- (2) where inducements are received by a regulated entity for business conducted outside of their Central Bank authorisation, but connected to Central Bank regulated business. An example occurs within premium finance, where a regulated insurance intermediary offers a non-advised finance facility to a customer to spread the payments required for a regulated product. In such cases, the inducement (commission) paid to the intermediary forms compensation for the work involved in offering and facilitating the finance arrangement for the customer.

Q2: *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 IDD? If so, please set out those reasons.*

We believe that further consideration is required given the varying product types that may be introduced to consumers - for instance, in motor insurance, which is broadly a generic product in the eyes of consumers, an additional requirement to ensure that inducements enhance the quality of the service as opposed to not being

detrimental does not appear to be proportionate, but where a more complex or bespoke product is involved, then this requirement may appear more appropriate.

Q3: Do you agree with the conditions in schedule 5 of the MiFID Regulations 2017, as set out above, that describe how an inducement enhanced the quality of the service? Please explain your answer.

Guidance should be included to set out what is meant by 'enhance the quality of the relevant service'. For instance, in premium finance, finance is typically provided on a non-advised, optional basis to a customer as a service/facility to assist them in funding the primary product (for example, insurance premiums) and in many cases, to aid their affordability of an essential expenditure item. We believe this is an example of an enhanced quality of service, but without appropriate guidance, there is a risk if it is not offered of societal consequences of not holding insurance or using more expensive forms of credit. It is important that the amendment to the proposed MiFID conditions from the IDD continues to acknowledge this arrangement, to avoid any potential unintended consequence that an intermediary may no longer offer financing alongside insurance, which would be to the detriment of the customer.

Q7: 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.

We disagree that such inducement arrangements are in themselves conflicts of interest if the compensating controls and KPIs evidencing good customer outcomes are embedded within a firm (and that there is appropriate oversight and monitoring by product providers). Consideration should be given by the CBI to the nature of the inducement payment in the context of the product and the business of the intermediary, alongside disclosure. For instance, the UK FCA has an approach that differential commission rates or additional payments made based on business volume and profitability, should be offered to brokers' or other intermediaries ... only where these are justified in terms of the relative work involved. We believe that such a provision should be considered by the CBI.

Q10: Do you have any views on the above proposal? Please explain your answer.

We disagree that inducements linked to the size of a loan give rise to a conflict of interest. Typically, a loan amount will be determined by the customer in terms of the property / asset that they wish to finance and not by an intermediary – it would be for the lender to ensure that the loan is appropriate given the property/asset the customer wishes to finance through relevant due diligence by the lender. In such circumstances, this 'conflict' is appropriately managed by the lender. We believe that there is a greater risk that an intermediary is recommending a product provider based on the receipt of a higher level of commission (and potentially a higher interest rate to the end consumer), rather than based on the size of the advance.

Q15: 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.

We assume that this solely relates to where a recommendation is made. We do not agree with the proposal that an intermediary may not recommend a product to a consumer as being the most suitable if there are differing levels of inducement offered – it is important to consider how this differential is managed by the intermediary to assess whether a conflict has arisen (which should be documented within the conflicts policy of the intermediary). For instance, it is possible that an adviser may be provided with a preferred panel of products to recommend the most suitable to a customer without knowing the individual inducement received for each product (and therefore commission bias may not occur). If an intermediary may not offer a product purely due to different levels of commission, there is a risk of inappropriate advice being given (or result in a general increase in commission levels as identified within the Consultation Paper).

Q17: 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.

We agree with this proposal which is consistent with our comments in this letter.

Q18: *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 – we believe that this is an extra step which may cause unintended consequences for the customer. Intermediaries are already required to comply with several regulatory requirements, one of which will be a documented Conflicts policy. It would be more practical to require an intermediary to document when compliance with the policy is hindered or compromised and document in such cases how the customers best interests have been maintained, rather than for each transaction. To require such documenting in all cases may result in an increase in the time involved for each transaction by the intermediary, again potentially leading to an increase in commissions (to compensate) or less consumer choice (through a narrower product base).

If this requirement is introduced, consideration should be given to a different approach between advised and non-advised business.

Q24: *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.*

Yes – we disagree that intermediaries should publish details of inducement arrangements in such a manner for several reasons:

1. The commission arrangements between intermediaries and product providers are confidential commercial terms and publishing them means they will be visible to other intermediaries. This could lead to a general increase in commission payments and 'demands' as one intermediary finds out what another is receiving on the same business.
2. Product providers may target intermediaries to be part of their panel by offering higher commission (and therefore drive up commission rates).

We believe that it would be more beneficial for an intermediary to publish the maximum commission amount that they receive (and this could be broken down into product type) which would therefore aid customer disclosure but also manage commercial sensitivity of arrangements. The intermediary would be required to maintain records to ensure that this maximum quoted is not breached.

Q25: *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 – if the Central Bank decide to introduce a summary document, it should be prescribed to aid customer understanding, using a standard explanation and table format (considering the move towards digitalisation).

Q26: *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.*

There is already a requirement for an intermediary to provide many documents to a customer (and retain records of this) and an additional document may lead to further customer confusion. In line with our response in Q24 above, we believe that this requirement should be captured using standardised wording into an existing document.

Q27: *Do you have any views on the proposed definitions of 'inducement'? Please explain your answer.*

Yes. It is important that the regulations cater for the different ways an 'inducement' may be offered which intermediaries (and product providers) should be required to consider and document as part of their Conflicts Policy.

Q31: *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 do not believe that a monetary limit be set as the appropriate level will differ depending on the nature of the inducement and the circumstances. We believe that each firm should implement processes to ensure that such inducements are not excessive as part of their conflicts policy. We believe that non-exhaustive guidance would provide a more appropriate outcome regarding what would be deemed acceptable/unacceptable. However, notwithstanding this, if a monetary limit is set, then guidance again should be provided as to how this limit is to be interpreted in relation to non-monetary benefits to ensure consistency across the market.

We would welcome the opportunity to discuss this response and our experience.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'Neil Lloyd', written in a cursive style.

Neil Lloyd
Head of Compliance – UK & Ireland