CBI – Payment of Commission to Intermediaries

Allianz reply to Discussion Paper Questions

Overview

1. **In your view, what aspects of how intermediaries are paid commission work well to deliver responsible business conduct, fair treatment of consumers and avoidance of conflicts of interests when consumers are sold financial products?**

   Where rates of commission are largely standardised across product producers, under the CPC framework the intermediary's focus will be on product suitability, the quality of the insurer, product benefits, limitations and price, to inform and support their recommendation to place business with a particular product producer.

   Where the intermediary develops a niche / unique offering then there is a rationale for enhanced commission to recognise that differentiation and added value. Thereafter, depending on the profitability of the product the rate of commission may need to flex to ensure sustainability.

2. **In your view, what aspects of how intermediaries are paid commission do not succeed in delivering responsible business conduct, fair treatment of consumers and avoidance of conflicts of interests when consumers are sold financial products, or present particular risks in this regard?**

   Where rates of commission for a particular product (e.g. private motor insurance) vary significantly across product producers there is a risk a conflict of interest may arise and policy placement decisions could be influenced by the level of remuneration rather than product suitability and competitiveness. That said, where the intermediary has a long established and significant relationship with a product producer then, there is more likely to be a differentiated offering and a more favourable price for the consumer.

3. **In your view, are there any changes needed to commission arrangements in Ireland, regulatory or otherwise, to do more to encourage responsible business conduct, fair treatment of consumers and avoidance of conflicts of interests when consumers are sold financial products?**

   There is a need for proportionality and fairness as higher rates of commission directly impact the price to the consumer. Each product will sustain a certain level of commission beyond which the intermediary needs to demonstrate greater added value to justify a higher reward. Greater use of technology and efficiency gains will in time reduce the overhead for product producers and intermediaries alike. What we should be aspiring to is a proportionate rate of commission that can be sustained; thereby ensuring a fair return for the intermediary and a competitive offering for the consumer.

4. **Are there other features or types of commission arrangements that the Central Bank should take into account in considering this topic?**

   In addition to the payment of standard commission:

   - ✓ **Profit Sharing** – a sharing of the profit when the product performs better than anticipated;
   - ✓ **Overriding Commission** – a percentage of premium linked to policy volume;
   - ✓ **Reward Programme**
     - o An overriding commission payment determined by pre-set key performance indicators (i.e. New Business Gross Written Premium (GWP); Three Year Combined Loss Ratio %; Overall GWP; Account Growth %; Share of Wallet %; Gross Strike Rate %; and a Qualitative Assessment of Partnership Focus on: Quality i.e. broker audit outcomes; and content value of their new business submissions; and Renewals & Business Development;
   - ✓ **Learning Partnership**
     - o Learning modules delivered in a formal setting that are CPD accredited.

5. **Are there practices or features of commission arrangements in other jurisdictions to which you think the Central Bank should have regard to?**

   Net pricing is a feature for certain consumers whereby product producers quote net of commission and the intermediary negotiates a fee (payable by the consumer) for the services provided.

   Net pricing of private car business in the UK leads to a situation whereby the price becomes optimised – which may not always be in the consumer's best interest.

6. **Are there any changes to these practices which you consider necessary or appropriate to better promote responsible business conduct, fair treatment of consumers and avoidance of conflicts of interests when consumers are sold financial products?**

   No, the Allianz view is that the current regulatory framework is sufficient. As noted above, we do not consider the practice of price optimisation to be appropriate or indeed, in the consumer's best interest.

7. **Are there features of the current consumer protection framework that you would highlight as strengths in the context of commissions specifically?**

   The Allianz view is that the current consumer framework adequately and appropriately addresses the context of commission. More specifically, the duty of the intermediary: to act in the consumer's best interests; to avoid and manage conflicts of interest; to ensure a sale is suitable; to ensure that sales staff are fit, proper and competent; and to ensure that a consumers complaint is addressed within the required timeframe.

8. **Are there weaknesses or gaps in the current consumer protection framework in the context of commissions specifically?**

None presently, however, as commercial insurance becomes more commoditised and consumers potentially become more open to purchasing directly then, we feel that commission transparency may need to become elevated in the future.

9. Do you have any other observations on the current domestic framework as it relates to the practice of paying commissions in Ireland?

None presently.

10. Do you have any general views on the potential benefits to consumers of properly designed commission structures outlined in this section?

Insurers need to ensure that they remunerate appropriately, thereby ensuring that the proposition remains sustainable for all stakeholders i.e. insurer; intermediary and consumer. Whether or not a consumer chooses the advice of an intermediary (Fee / No Fee basis) is a personal choice.

11. Are you aware of any additional potential benefits to consumers? If so, please describe them.

None presently.

12. Have you observed any of these potential benefits? If so, please provide examples and describe the kind of benefit that has accrued.

Not applicable.

13. Would you weight any of these potential benefits over others as requiring special consideration or attention, and if so why?

Not applicable.

14. Do you have any suggestions as to how the current regulatory framework could be improved or changed so as to enhance the potential benefits to consumers that arise from the payment of commissions to intermediaries so as to better promote responsible business conduct, fair treatment of consumers and avoidance of conflicts of interest when consumers are sold financial products?

The current regulatory framework in relation to requiring an intermediary to act in the best interests of consumers, to avoid conflicts of interest, use of the terms independent, broker, and fair analysis of the market, and the remuneration rules in CPC 4.57 – 4.61, provide an appropriate and fair framework.

15. **Do you have any general views on the potential risks to consumers of commission structures outlined in this section?**

    Allianz agrees with the potential risks as noted for non-life products, and our view is that these are mitigated by the current regulatory framework.

16. **Do you consider the potential risks to be accurately described? If not, please explain why.**

    Yes

17. **Are you aware of any additional potential risks to consumers? If so, please describe them.**

    No

18. **Have you observed any of these potential risks at play? If so, please provide examples and describe the impact of the risk?**

    Periodically, Allianz has observed 'producer bias' whereby intermediaries are incentivised (via increased commission) to place a volume of business during a set time period.

19. **Would you weight any of these potential risks over others as requiring special consideration or attention, and if so why?**

    No

20. **Do you have any suggestions as to how the current regulatory framework could be improved or changed so as to better manage the potential risks to consumers that arise from the payment of commissions to intermediaries?**

    The current regulatory framework in relation to requiring an intermediary to act in the best interests of consumers, to avoid conflicts of interest, use of the terms independent, broker, and fair analysis of the market, and the remuneration rules in CPC 4.57 – 4.61, provide an appropriate and fair framework.