Insurance Ireland response to the CBI Discussion Paper on the Payment of Commission to Intermediaries

Introduction

Insurance Ireland welcomes the opportunity to participate in this discussion about the payment of commission to intermediaries in the Irish market. In our view, the CBI discussion paper presents a balanced overview of the benefits and risks associated with the payment of commission.

The key objective of this discussion should be how commission can aid the delivery of the best customer outcomes including the availability of good quality financial advice for all customers, irrespective of their financial status, both at policy sale and during the life of the policy.

We believe that a ban on commission would be negative for Irish consumers as it would reduce the availability of advice, reduce levels of insurance and pension coverage, and is likely to increase overall costs to most consumers. We believe the focus should be on establishing if the risks related to commission arise in practice and reducing any risks associated with commission through enhanced transparency.

A well-regulated and transparent commission system has a number of benefits to the consumer:

- It allows all consumers access to the benefits of financial advice.
- It ensures access to the widest possible range of appropriate products.
- It ensures choice for the consumer when selecting an adviser.
- It sustains an appropriate marketplace for advice.

We would highlight that the Level 2 measures under IDD, currently being progressed at EU level, will have an impact on this debate and we would ask the CBI to ensure the outcome of these is sufficiently flexible to accommodate the position which emerges from these discussions. Specifically, the Level 2 measures should not impose requirements around "detrimental impact" which result in a de facto ban on commissions. In addition, the exercise of national discretions under MiFID2 and IDD should be subject to the outcome of the CBI discussions in so far as they relate to insurance investment products.

Insurance Ireland, as a trade association, is very aware of its obligations in relation to competition law. In 1998 the then Competition Authority found that the Irish Insurance Federation's Agreement on Maximum Rates of Remuneration for Life Business was anti-competitive. Insurance Ireland may feel that competition law issues may restrain it from commenting on certain areas of the commissions debate.

High Level Principles

We would propose the following as high level principles to inform discussions on the future of commissions:

- Improved consumer outcomes must be the primary focus.
- Informed choice.
- Greater transparency covering all payments and benefit to intermediaries.
- Remuneration commensurate with the services provided/advice given.
- Encouragement of a high level of professionalism across the sector.

Specific Comments

a) We believe that consumers should have access to lifetime financial advice with the option of having advice paid for through commission or by fee.

b) Advised consumers should do better in the long-term. They are more likely to have pensions, savings and investments than those who don't have access to advice and are likely to be more financially protected as a result of holding more financial products. Independent advisers provide a valuable service and the remuneration structure should support them to ensure the continued provision of their services to consumers.

c) We support the flexibility afforded by the commission model. It allows independent advisers to be remunerated in a manner that fits with their business model and the specific services they provide.

d) If commission payments were prohibited, this will severely impact the ability of many independent advisers to operate. Banning commission would result in a large number of intermediaries exiting the market and this would create a substantial advice gap which would impact on those most in need of advice and lead to a reduction in the supply of advice in the market (as has been seen in the UK market). If supply is limited this will result in higher prices for consumers.

e) We agree with the observations of the report on the benefits of commission and how it encourages participation in the market and gives access to consumers. Consumers may be less willing to receive or seek advice where they must pay for advice upfront.

f) Commission allows access to financial products to a sizeable proportion of the population who may not otherwise afford access financial services. The nature of commissions means that the consumer (who may not be in a position to afford to pay for advice) can have the cost of the advice process funded by the insurer (but recovered over the policy lifetime) thus providing access to important products from a societal/public policy good. There is little doubt that banning commission will reduce insurance and pension coverage and it is difficult to see what benefits to customers could arise through a commission ban.

g) The method in which the intermediary is remunerated is just one aspect of the regulation of the process. Suitability, competency and the other key protections listed in page 12 of the report are also critical. A high level of professionalism across the sector should be encouraged and the CBI has a role to play by ensuring effective supervision of the intermediary sector.

h) We are also of the view that a “one size fits all” approach is not appropriate. Insurance products include risk and protection covers on the one hand and savings and investments (including pensions) on the other and both these should be considered separately. In particular, the stated risks of certain aspects of the current regime should be less of a concern when they do not impact on the price paid by the customer.

i) We fully support the principle of transparency and recognise that it is important to ensure that adequate and clear disclosure is made in order to assist consumers in developing a better understanding of financial products and to make informed decisions concerning financial products. Consumers need to be able to fully understand the service they are receiving and what they are paying for the services received.

j) As the CBI paper points out, disclosure of a commission arrangement may not prevent detriment to that consumer but done properly it can assist a consumer in developing a better understanding of financial products and to make informed decisions. Currently there are detailed disclosure of commissions around life assurance products arising from the Life Assurance Disclosure Regulations. However, these do not apply to all pension products and for non-life products the disclosure is only where the customer requests it. We would be happy to work with the CBI to see if whether a move towards automatic disclosure of commission for all insurance products would result in significant additional consumer benefit. Consideration should also be given to more detailed and comprehensive disclosure of non-commission payments. We would also suggest that the CBI test consumer understanding of disclosure across the board with a view to making further improvements.

k) There should be consistency between how commission, fees and charges are disclosed on Life Assurance products, and how they are disclosed on other products which may fill a similar need (funds, structured products, non-insured forms of pension provision).

l) We note that the domestic framework is about to undergo significant changes specifically with regard to the implementation of PRIIPs Regulations and the Insurance Distribution Directive. These European developments will augment requirements with regard to disclosure and the fair treatment of consumers. The introduction of the PRIIIPs regime is likely to result in a restructuring of the information provided at point of sale to insurance investment customers and provides an opportunity to review whether commission disclosure can be presented in a more user friendly manner than currently. Similarly, the introduction of the standardised Insurance Product Information Document for non-life products under IDD may improve customer understanding of products.

m) The potential Clawback of Commission can ensure that the Intermediary is motivated to make a high quality sale and remove the risk of a clawback. If a fee based model is applied then this fee could not be recovered by the consumer (other than through a legal or complaint process) in the event that the consumer decides that the advice was not appropriate - thus there is an encouragement to pursue higher quality sales/outcomes.

n) In relation to trail commission (which is a concept which relates only to life assurance), we see this as of benefit to the consumer as it provides the intermediary with an income linked to their investment which can be used by the intermediary to provide ongoing administration, advice and support to the consumer in the years after the initial investment. It should ensure a continuing relationship between the intermediary and the consumer and a continuous review of the appropriateness of the product. It also allows the broker to deal with the product in the case of any 'insured event' occurring without the necessity for further charges to arise. However, we believe that there should be a requirement for transparency on the services provided by an intermediary on an ongoing basis and we would be happy to discuss with the CBI methods of ensuring the customer obtains value from any continuing payment to the adviser.

o) In relation to ongoing commission on products such as term insurance products, while there may not be a need to provide ongoing advice, the fact that the commission payments are spread out over time may help to encourage suitable product sales.

p) As an overall comment on the risks of commission, there is little evidence that any of these risks have emerged in practice in Ireland, particularly since the introduction of the Life Assurance Disclosure Regulations. In relation to overselling or misselling, persistency rates on life assurance and pension products are a very good indication that customers are satisfied and this might be an area that the CBI should look at in more detail. In relation to costs, there is no evidence in any market that a commission ban would reduce overall customer costs and our view is that it is more likely to increase costs for a typical customer.

q) In relation to soft commission arrangements, such as loans, holidays, sporting trips and other forms of entertainment, there should be clear guidance from the CBI as to what constitutes reasonable expenditure.

r) Consideration should be given to the VAT implications of fee based advice as this can deter an advisor adopting a hybrid model.

s) The Central Bank also has a part to play with regard to educating consumers about what services they should expect to receive from an intermediary who sells them a financial product. This would lead to transparency in the industry and a level playing field if consumers have a better understanding of what to expect for their money.