Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

Via email to: consumerprotectionpolicy@centralbank.ie

18 October 2016

Re: Discussion Paper on the Payment of Commission to Intermediaries

Dear Sirs,

The payment of commission and non-financial incentives to Intermediaries is something which Aviva Life and Pensions Ireland has previously raised, on 10 December 2015, with the Central Bank with reference to the conflicts of interest which arise between the Intermediary and the consumer. Therefore we welcome the opportunity to contribute to an industry wide discussion. 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 consumers, irrespective of their financial status, both at policy sale and during the life of the policy.

We believe that 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 knew what to expect for their money.

Our response is spilt into themes which we believe are core to the risks and benefits of a commission based advisory and sales environment. The comments contained in this response represent the opinions of Aviva Ireland, which comprises

- Aviva Life and Pensions UK Ltd t/a Aviva Life and Pensions Ireland – Life Assurance and Pension Provider
- Aviva Insurance Ireland Ltd – General Insurance Provider

Reasons for Commission

If commission were replaced by an upfront fee would consumers continue to protect themselves financially by buying financial products? It depends on the level of the upfront fee and ability and willingness of the particular consumer to pay it. Would consumers be shocked to learn that on average the cost per hour for financial advice in the UK post RDR is c. £120. The upfront fee could to run to multiples of this in order to conduct appropriate fact finding and provide a good level of service. There is a level of income the Intermediary needs in order to cover costs to stay in business. As a consumer who has never previously had to pay a cent upfront for financial advice this could cause many to baulk, even if affordability is not an issue. Many consumers may be unwilling or unable to pay such fees which will cause a reduction in the numbers consumers seeking the services of an Intermediary and therefore create an advice gap. There is a general market perception that life assurance products are sold and not bought, therefore if an Intermediary loses the opportunity to engage with a significant cohort of consumers it could result in this cohort being unable to avail of financial products which they need leaving them financially exposed.

Intermediaries are essential to ensure consumers have access to and avail of good quality financial advice. The payment of commission to an Intermediary both upfront and during the lifetime of policies ensures an income for these Intermediaries and therefore contributes to their availability to provide financial advice to consumers. The knock on effect would be the contraction of the Intermediary market, as seen in the UK post RDR, further reducing the availability of financial advice and possibly driving up the price of advice for consumers.

It is difficult to argue, based on the points outlined above that a move away from commission and towards upfront fees is in the best interests of consumers and Aviva Ireland would not support a ban on commission.

Transparency

While disclosure requirements are in place, these do not apply to general insurance and some pension products meaning that consumers are not aware of commission arrangements in all cases, (although the consumer will be provided with the information on request). It is out view that it would be in the best interests of consumers if transparency requirements were standardised across all products meaning that the Intermediary be required to disclose all commission payable in monetary amounts at the point of sale. This disclosure should include all commission payments such as override commission, participation in profit share, preferred partner arrangements, volume or target driven business and partnership agreements. Non commission payments should also be disclosed at point of sale by Intermediaries such as marketing support and donations, an option might be for Intermediaries to make these disclosures on their website.

There is a question about whether consumers understand the service that upfront and/or trail commission entitles them to. A better customer experience could be achieved if Intermediaries were required to explain to consumers at the outset, and demonstrate during the policy lifetime where applicable, the services their commission payments buys and may aid in driving better Intermediary behaviour. As outlined above the Central Bank could also play a part in educating consumers about what services they should expect to receive for commission paid to Intermediaries.

Types of Commission

Intermediaries need to be paid commission at a level commensurate with the provision of good service to consumers, a reasonable rate of initial commission is required to remunerate the Intermediary for the time spent advising the consumer. High commission rates have the potential to create conflicts of interest and encourage bad behaviours for example 140% upfront commission on term business does not guarantee good consumer outcomes. Driving commission rates too low could also drive down the quality of service and advice to consumers as Intermediaries would have to sell more to make the same income. The level of commission payable should not be a factor in deciding on a suitable product, therefore Aviva Ireland would be supportive of a regulatory imposed cap on commission to remove the possible conflict of interest high rates of commission present. Without this conflict the deciding factors on where to place business would be price, product, confidence, security and consistent claims. It is important that any cap on commission would need to be imposed by the Central Bank for the avoidance of any hint of market collusion on pricing.

Aviva Ireland would also support a change in commission structures aimed at encouraging persistency and reduce churning. One option might be a move towards fund based commission which would align customer outcomes with Intermediary remuneration. The Intermediary remuneration is linked to the performance of the recommended fund therefore if the customer does well so does the Intermediary.

We appreciate the opportunity to contribute to the discussion and we look forward to the output.

Yours sincerely,

P.P. Bernie Brennan

Marco Nuvoloni
Chief Risk Officer