



European Federation of Insurance Intermediaries

Retail Investment Strategy and insurance and financial intermediaries

Paul Carty,

Chair of the BIPAR EU Affairs Committee

5th May 2023

Croatian Insurance Days

3-5 May 2023

Opatija, Croatia



bipar

**EUROPEAN FEDERATION OF
INSURANCE INTERMEDIARIES**

Founded in



**47 member associations in
30 countries, the voice of
750,000 intermediaries**

**Sole representative of
insurance and financial
intermediaries with the
EU institutions**

**in Brussels since
1989**



wfi

**A member of the World
Federation of Insurance
Intermediaries**

Retail Investment Strategy (RIS)

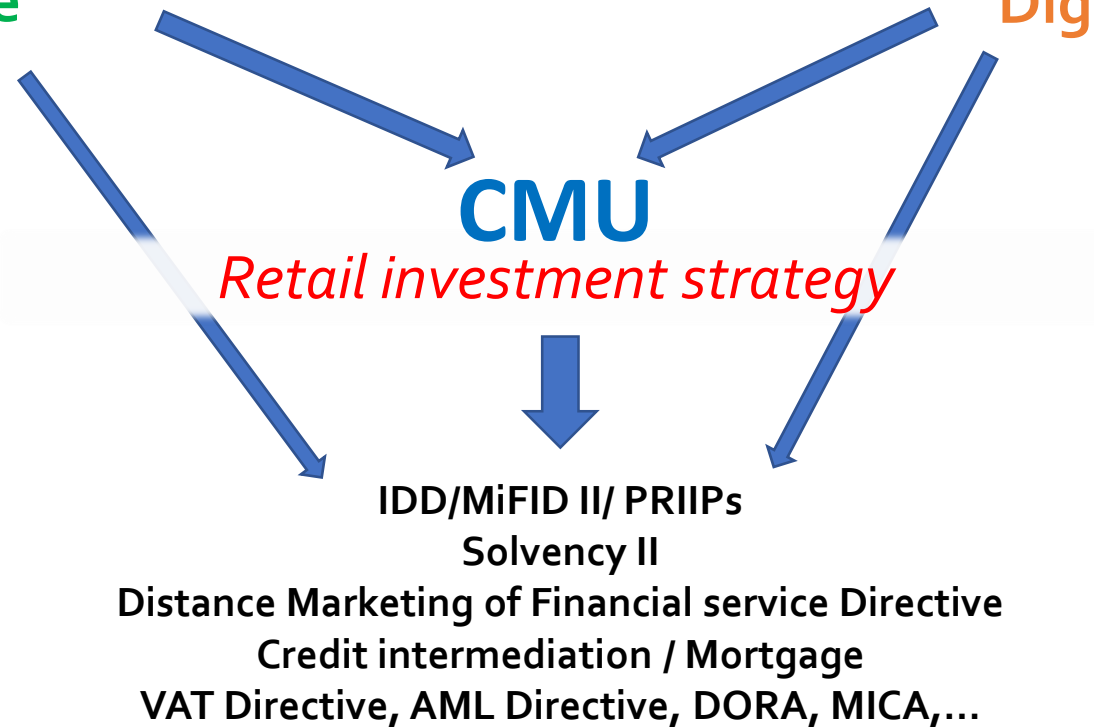
- Expected publication end May 2023
- Format? Likely to be a package of proposals
 1. Changes to the IDD and MiFID II Directives
 2. Changes to the PRIIPs Regulationto improve the current framework



European Commission's (2019-2024) flagship initiatives from financial services perspective

Sustainable

Digital



Capital Markets Union (CMU) – Retail Investment Strategy (RIS)

CMU: Single Market for capital – investing instead of saving

Commission's new CMU Action Plan 24/9/2020 :

16 measures for intermediaries
amongst others:

•Quality of financial advice - bias free

•Pan-EU label for financial advisors ?

Review of rules related to inducements

•Information disclosure

Harmonisation IDD IBIPs – MiFID II ?

“Value for money” - costs proportional to value for investor

Information requirements – PRIIPs

Capital Markets Union (CMU) – Retail Investment Strategy (RIS)

Mairead McGuinness



"(...) my overall aim is to make sure that we have in place a financial system that works for people and for society. We need a clear legal framework that enables competitive and high-quality services, that provides a high level of consumer protection as well as transparency, and empowers (retail) investors to make informed decisions.(...) . I believe that consumers should be placed at the centre of our rule-making.

More specifically, if confirmed, I will assess and address any shortcomings with respect to retail investment, looking to promote greater participation so that consumers are able to save more efficiently for their retirement. Needless to say, greater participation of retail investors will require commensurate levels of protection for those retail investors. Any assessment of possible shortcomings in our regulatory framework must include, among others, a review of disclosure rules and inducements, as well as measures to enhance financial literacy. "

October 2020,
Commissioner Mairead McGuinness, Financial services, financial stability and Capital Markets Union

Until Autumn '22 evolution – not revolution

- Turning point: Autumn 2022
- MiFID II / MiFIR revision (PFOFs – ban PFOF proposed by COM and confirmed by EP – Council wants to allow PFOF at national level. Some S&D MEPs had proposed full ban on inducements which was not adopted in Plenary)
- Value for money concept developed by EIOPA (POG)
- Kantar report published on disclosure, inducements, suitability

Ban on commission considered

Commission(er) rationale

According to the Commission:

- Despite intention, MiFID II didn't bring shift towards independent advice, Inducements-based distribution remains principal model
- Inducement-based model: often more costly products - illustrated by NL/UK, where product costs have fallen. Also better value for money. NL no reduction in retail investment after ban – slight increase
- Low-cost products, like Exchange Traded Funds, are hardly ever recommended. And this impacts the net returns that consumers can expect. And this despite safeguards in MiFID and IDD against conflicts of interest.
- Transparency about the existence of inducements does not work
- Need for access to financial advice, but biased advice doesn't serve consumers either

Ban on commission considered

Commissioner McGuinness

- **But: “It is divisive; there are arguments on both sides.”**
- **“But I think it's good to grasp this nettle and to make change for the better.”**
- **“And I look forward to our discussions.”**
- **“We need to remove the obstacles that stop people investing on capital markets, and also prevents them making the most of their money.”**
- **!!! Speech on 27 April 2023: no full ban on inducement?**

BIPAR answers to Commission's arguments (1)

- **Intermediaries are remunerated for their services via fee or commission system. This remuneration is highly regulated and transparent (in particular by IDD and MiFID II)**
- **Too early to evaluate the positive impact of MiFID II and IDD IBIPs rules**
- **A ban is not in the consumer's interest - Against a ban and in favour of choice**
- **No proven market failure that requires an overall ban on commissions**
- **Markets are still different and a ban will limit MS options when addressing the specificities of their markets.**
- **The right to ban commission by an individual MS exists already in the IDD and MiFID II. A ban in an EU regulation is restricting MS choice in not doing so.**

BIPAR answers to Commission's arguments (2)

- Smaller savers will not have access to advice anymore – creation of society of “haves” and “haves not” in terms of advice
- Commission system creates mutualization effect in terms of advice cost. In the same way that the insurance premium makes it possible to mutualise risks, remuneration based on commissions makes it possible to mutualise services, thus guaranteeing assistance and advice to anyone who is not necessarily able to pay fees.
- Individual issues seem to be identified in some countries. Under the current rules, supervisors can intervene where necessary. This is what happened in the Netherlands around 10 years ago after a structural market failure that lasted some years.

A ban is not in the consumer interest – currently consumers have choice and access to advice – both digitally and with human interaction.

BIPAR policy in relation to RIS

Although positive effects of IDD and MiFID II are not yet fully measurable (late application at national level / COVID) we believe that in order to ensure that more citizens invest in a suitable way, it is necessary:

1. to improve the quality of full, relevant, product costs disclosures of all investment products. Consumers and their advisors and intermediaries should receive from the investment product manufacturer a perfect insight in the total costs which have a potential impact on the return;
 2. to introduce and enforce the concept of “value for money” in the Product Oversight and Governance process by the investment (and IBIPs) product manufacturer;
 3. to use the existing regulatory/supervisory tools to address issues which have been identified and which are problems specific to some markets for some products.
- *to continue and allow intermediaries to work on a commission or fee basis (on a level playing field basis and fully transparent) and to leave choice to consumers between the two systems. The system is highly regulated both by the IDD and MiFID II*

No request for a ban

- In ESMA advice to the European Commission's Advice on the impact of the inducements and costs and charges disclosure requirements under MiFID II (March 2020)
- In EIOPA advice to the European Commission on retail investor protection (April 2022)
- in EIOPA report on IDD application
- In MiCA - EP text: crypto-asset service providers that are authorised to provide advice shall not accept and retain fees, commissions or any monetary or non-monetary benefits paid or provided by an issuer or any third party or a person acting on behalf of a third party in relation to the provision of the service to their clients." – rejected in trilogue (final trilogue Oct 2022)
- In EIOPA/ESMA 2023 cost and past performance reports: very difficult to compare costs of retail investment products across MS/issues regarding costs in unit-linked market remain
- In Kantar study (August 2022)

In preparation of IDD/MiFID II: MEPs' amendments proposing a ban

- **IDD - Sven Giegold (DE Greens)** :*"Insurance undertakings shall offer their products to insurance intermediaries for the net price, this means as net quoted insurance policies. These net quoted insurance products shall not contain any mediation costs."*
- **MiFID II - Corien Wortman Kool (NL EPP)** *" When providing portfolio management, investment advice or another service whereby the client is entitled to rely upon its judgement, the investment firm shall not accept or receive fees, commissions or any monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of the service to clients."*
- **MiFID II - Sven Giegold:** *"Investment advice' means the independent provision of personal recommendations to a client, either upon its request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments not issued by the advisor or an economically dependent issuer, which is unbiased by any fees, commissions, incentives or any benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of the service to clients"*

No ban was adopted - Member States have the right to ban commission

- **IDD - Article 22. 3 Information exemptions and flexibility clause**

Member States may limit or prohibit the acceptance or receipt of fees, commissions or other monetary or non-monetary benefits paid or provided to insurance distributors by any third party, or a person acting on behalf of a third party, in relation to the distribution of insurance products.

- **MIFID II**

Recital 76: *This Directive provides for conditions and procedures for Member States to comply with when planning to impose additional requirements. Such requirements may include prohibiting or further restricting the offer or acceptance of fees, commissions or any monetary or non-monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of service to clients*

Article 13d 3: *Member States may prohibit the acceptance or receipt of fees, commissions or any monetary benefits paid or provided to insurance intermediaries or insurance undertakings, by any third party or a person acting on behalf of a third party in relation to the distribution of insurance-based investment products to customers*

BAN of commission for ALL products

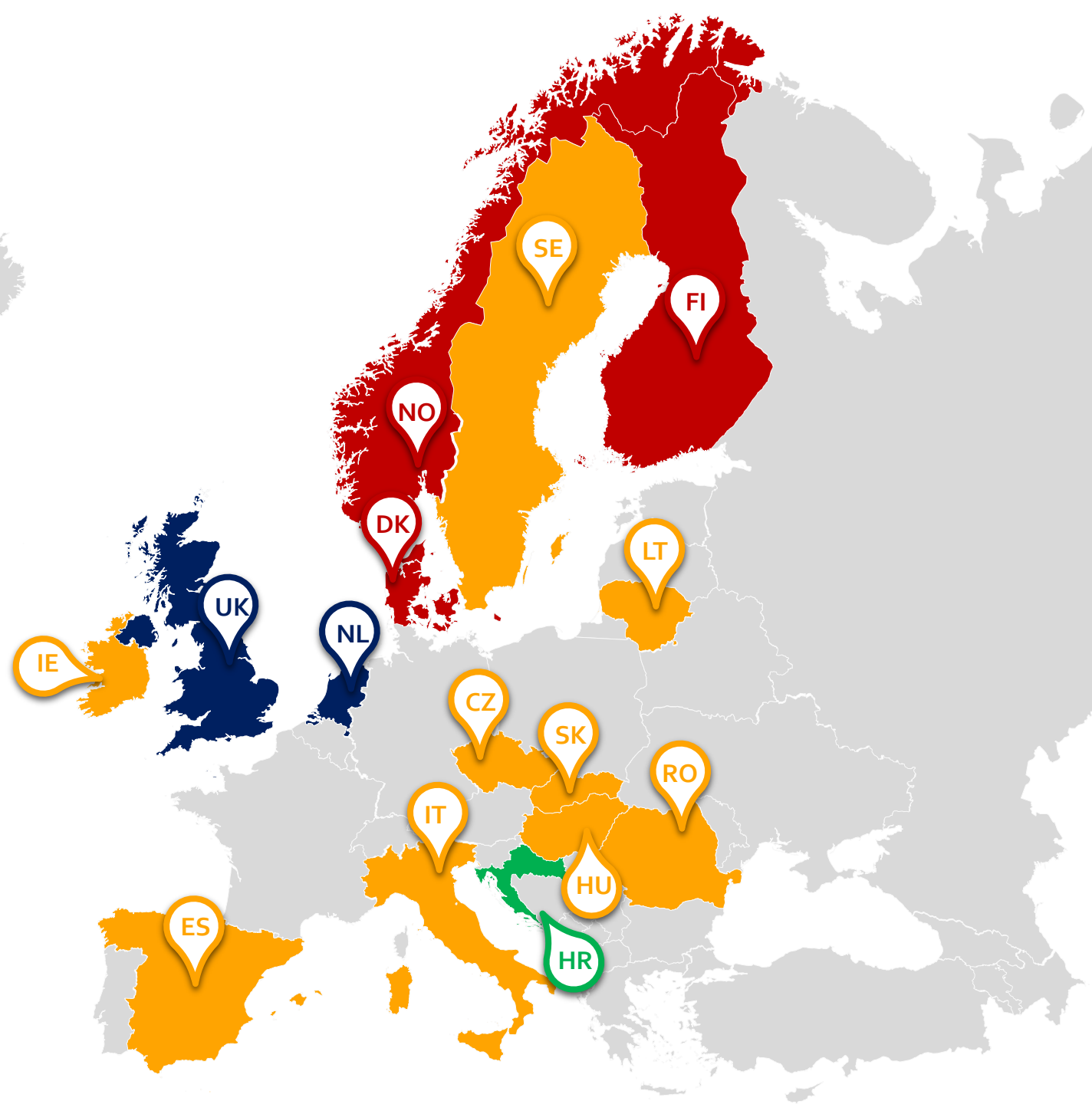
Denmark / Finland / Norway

BAN of commission for IBIPS only

Netherlands / UK

Limitations on remuneration

Czechia / Hungary / Ireland / Italy / Lithuania / Romania
Slovakia / Spain / Sweden



Public national reactions to Commissioner's statements

- **Letter from German Minister of Finance** (Liberal): *"I am strongly concerned that a general ban would inhibit the provision of investment advice in cases where it is mostly needed," and "banning inducements in general would mean a serious setback to efforts to increase retail investment in the capital markets"*
- **Letter from Austrian Minister of Finance:** He expresses "concerns regarding the possible ban of inducements", "Banning inducements and a mandatory shift to fee-based models would be detrimental to the overall aim of increasing retail investors' participation at the capital markets and a high number of retail investors would lose access to investment advice"
- **Interview in the French insurance-sectoral magazine, l'Argus: Martin Landais (Deputy Director of the Insurance Unit at the Treasury)** *"There are temptations from our European partners to ban the commission system. This would not be desirable. We believe in a model that offers different forms of remuneration and authorises, as a matter of principle, commissions. In countries that have generalised fees, advice has often lost quality"*
- **Joint letter by 9 Member States** against ban on inducements and stressing that alternative measures to the most radical option of a ban can be explored (Austria, the Czech Republic, France, Germany, Hungary, Italy, Latvia, Luxembourg and Poland)

No ban on commission ??

Commissioner McGuinness speech 27 April 2023

- ***“even if we do not propose a ban on all inducements now, it does not mean a free pass for the financial sector. “***
- ***“Those of you that are in this sector may have to rethink some of your business models and practices, so that consumers get a fairer deal.”***
- ***“And we will have a strong review clause in the proposed legislation. And that will allow us to bring in a full inducement ban at a later stage if necessary.”***
- ***We're looking at tightening the conditions under which inducements are allowed***
- ***We're also looking at how we can ensure better value for money in investment products.***
- ***There should also be a targeted ban on inducements for execution-only transactions***

It's a long road that has no turn....



- Council and European Parliament readings (expected under Swedish, Spanish, Belgian Hungarian and Polish EU presidencies)
- EP election in June 2024 – New European Commission - Impact on the proposal?
- Trilogue, adoption, implementation

The EU Retail Investment Strategy

Paul Carty,

Chair of the BIPAR EU Affairs Committee

5th May 2023

A background image showing a close-up of a person's hands. One hand is holding a blue pen, poised to sign a document. The other hand is resting on the document. The document has some text on it, but it is out of focus. The overall scene is brightly lit, suggesting an office or meeting environment.

Croatian Insurance Days

3-5 May 2023

Opatija, Croatia

**THANK YOU FOR YOUR
ATTENTION**