

Thierry Breton
European Commissioner for Internal Market
European Commission
Rue de la Loi / Wetstraat 200,
1049 Brussels

Munich, 9 February 2023

Dear Commissioner Breton,

I am writing to you in my capacity as Chair of the Pan-European Insurance Forum (PEIF) with reference to the EU Commission's final work on the Retail Investment Strategy (RIS).

PEIF members welcome the RIS as an opportunity to improve consumer participation in the capital markets, while at the same time enhancing pension adequacy in the EU. In particular, PEIF supports the potential of the RIS to drive necessary amendments to existing regulation – especially with reference to moving to digital-by-default in insurance distribution to take advantage of innovation while leaving no one behind, reflecting the need for personal advice, and reducing the information overload on consumers triggered by disclosure obligations.

I understand that the EU Commission is assessing different policy options to improve retail investor participation in capital markets, *inter alia* curtailing the co-existence of commission and fee-based advice by means of a ban on inducements for retail investment advice. PEIF firmly advises against a ban on inducements, as we strongly believe that it would restrict retail investors' access to financial advice and thereby have negative impact on retail participation in capital markets.

A commission ban would shift the provision of advice towards a fee-based remuneration model, and as a consequence effectively deprive customers with low-to-medium savings of relevant advice. Since the introduction of the ban on commissions in the UK, there has been a gap in advice for small investors,¹ with adverse consequences regarding the support of adequate old-age provision.

In November 2022, the UK Financial Conduct Authority published a consultation on "*Broadening access to financial advice for mainstream investments*", where it acknowledges that "consumer research shows that less wealthy consumers don't tend to access professional support with their finances as often as wealthy consumers, though many want more support to make financial decisions". While the ban inevitably shifted the provision of service from advised services to execution only, PEIF strongly disputes the view that this shift was triggered by a legitimate response to retail investor demand; instead, this was

¹ "FCA evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review" demonstrates that:

- on the demand side, only 8% of the UK adult population had access to regulated financial advice (figure 2.2 p. 10)
- on the supply side, 40% of firms have formal minimum investment limits, starting at £50,000 and around 10% of firms only deal with clients of £1m (figure 2.5, p. 39).

motivated by lack of choice in the market. In fact, the EU Commission “*Disclosure, inducements, and suitability rules for retail investors study*” shows that consumers broadly value financial advice.²

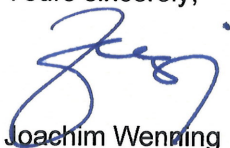
In an advice gap environment, large numbers of retail investors are driven towards inadequate products (e.g. high-risk/-volatility, crypto assets) by influencers or other unregulated advisors. These products may not optimally fit their needs, or they could be discouraged from investing in capital markets entirely.

While PEIF sees the potential of innovation and competition in the rationale underpinning the RIS, including a strong role of robot advice, this would not be sufficient to fill a possible advice gap triggered by a ban on inducements³ – especially in view of the recently introduced important requirements regarding sustainability preferences in the advisory process.

Moreover, PEIF remains concerned about the lack of clear, empirical evidence of any robust independent assessment showing that paying fees for advisory services (explicit fees) would lead to better outcomes for retail investors than fees linked to products (inducements). While noted in the EU Commission study that products on which inducements are paid are – on average – about 35% more expensive than investment products on which no inducements are paid,⁴ PEIF would dispute the accuracy of that assessment. Under a commission remuneration model, the remuneration of advice counts as product cost – subject to the profitability test – in contrast to the fee remuneration model, where it is charged as a separate service to the customer. The proposed comparison undermines the level playing field across the two remuneration models, and PEIF suggests that a level playing field should apply as far as possible.

The insurance industry strives to provide customers with value in their long-term investment needs and relies on high quality advice to achieve that goal. Therefore, we would like to ask you to duly consider relevant aspects as outlined above when finalising the RIS proposal, as this is of key importance for retail investors, the insurance industry, and European capital markets.

Yours sincerely,



Joachim Wenning
Chair of the Pan-European Insurance Forum

PEIF Secretariat: PEIFSecretariat@munichre.com
EU Transparency Register: 03667978021-69

² See EU Commission *Disclosure, inducements, and suitability rules for retail investors study*, p.297. In the consumer survey 42% of respondents stated that they either strongly or slightly agreed that they would pay for financial advice if it was affordable. In particular, people who have savings and are considering investing are the most likely to say they would pay for advice if it was affordable (54%).

³ The FCA consultation *Broadening access to financial advice for mainstream investments* states that:

- If offered a free consultation, only 6% of adults would choose a robo-adviser, whereas 51% would choose to meet face-to-face with an adviser (p.5)
- Whilst the latter can work for some customers' needs, there has been limited take up of robo-advice services. Our research shows that customers tend to prefer human interaction and benefit from a personal recommendation to take investment decisions (p.10)
- Automated advice is, therefore, priced at a level that should make it more accessible to mass-market consumers, but robo-advice-only models have generally not achieved the expected take-up from consumers (p.10)"

⁴ See EU Commission *Disclosure, inducements, and suitability rules for retail investors study*, p.262