BEUC The European Consumer Organisation

The Consumer Voice in Europe

Ref.: L2012_359/MGO/sc 22 October 2012

Dear Member of the European Parliament,

The review of the Markets in Financial Instruments Directive (MiFID) will be voted on in plenary session this Friday October 26th.

We strongly encourage you to support the amendment proposed by Arlene McCarthy MEP which calls for an EU-wide ban on commissions and inducements for financial advisors (not only for independent advisors).

Such a ban would improve the quality of investment products and advice which are of key importance for consumers in Europe.

For example, for the millions of consumers needing to buy a house, children wishing to pursue tertiary level education, the growing European pensioner population all in combination with the fiscal challenges in many Member States, make prudent personal savings and investments imperative.

And so commissions and inducements paid to financial advisors by product providers can lead to misdirected investments by consumers as the advice can be biased by the commission on offer to advisors.

Contrary to the claims of ban opponents, such a measure will not lead to more expensive investment products for consumers – what is often conveniently omitted is that retail investors are already unknowingly paying for advice via charges and annual commissions on products. On top of this, they cannot be sure who the actual product is good for, them or the advisor. Investments are sometimes recommended even in instances where the consumer should first be repaying credits debts or simply keeping a bank deposit.

In response to mis-selling which affected thousands of consumers, the UK is already introducing a ban on commissions and The Netherlands is acting similarly on all complex insurance and credit products. Finland already has banned commissions for retail insurances.

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The consumer will not be left without information or advice. Generic advice (not personalised advice) will develop and this is of better value than a commission driven recommendation. We also refute industry claims that consumers will refrain from paying for advice. When consumers realise that making an investment will not cost more than today, that products carry fewer entry fees and costs and that they can rely on the received advice, the barrier to pay for advice falls.

We sincerely hope that you will consider our concerns and support this crucial amendment.

Yours sincerely,

Monique Goyens
Director General

NB: Please see annex for a more detailed answer to the question why consumers will be willing to pay for investment advice.

ANNEX

Will consumers pay for investment advice?

The total cost of investing money will not increase

Today, even if they are not told the exact amount, consumers pay a lot for the recommendations given by commissions-remunerated advisors.

Let us take the hypothesis of a €10,000 investment for 10 years in a mixed investment fund (50% bonds, 50% shares) with a yearly average return of 5%. The entry cost is 2.5% and the yearly management fee taken by the asset manager[1] is 1.5%. The entry cost is kept by the advisor and – in our example – 50% (usually between 40% and 60%) of the management fee is yearly transferred by the asset manager to the advisor.

After 10 years, the advisor will have earned **€1,382** (€250 entry fee plus €1,132 of retro-cessions on management fees).

In some cases (e.g. so-called funds of funds), the yearly management fee is usually higher than 1.5% and when advisors distribute products of their own asset-manager (so-called home funds) they usually receive more than 50% of this management fee.

This shows that the remuneration of advisors through commissions, directly or not, is significant even for relatively small amounts.

A €1,382 fee would allow for high-quality individualised advice without increasing the total cost of the investment.

Consumers already pay for advice – without knowing

Ban opponents claim that consumers will not want to pay for advice. However, such arguments omit that consumers already pay without knowing and are unaware of how commissions can distort an advisor's recommendation.

Moreover, advice must not necessarily be paid in one go when investing – several methods exist: an hourly fee, a fee in proportion with the invested amount, a yearly fee, etc.

If they were aware of these facts, consumers would accept to pay for advice. It will also be the role of public authorities, consumer organisations and independent advisors to raise consumers' awareness of the current remuneration structure, its negative side-effects and alternative possibilities.

[1] The asset manager designs the product and manages the investment.