

25/07/2014

Financial advice: conflict of interest rules under attack again

The European Consumer Organisation (BEUC) is concerned that the financial services industry is lobbying the EU to reverse even modest progress towards stamping out commissions for sellers of investment products.

BEUC supports the efforts of the European Security and Markets Authority (ESMA) to closely link such commissions to service improvements for people seeking investment advice. ESMA says such quality tests would be failed by companies who rely on the monetary inducements from few providers for delivering its investment services. Such business models which basically tie sellers to a small number of product providers impede them from giving investment advice in the best interests of their clients.

Monique Goyens, BEUC Director General commented:

“It’s discouraging to see the industry pushing for the rolling back of new rules on investment advice meeting consumer expectations. That’s before they have even hit the statute book. Those investment product sellers who rely on commissions from a small number of providers are prone to conflicts of interest. This prevents good investment advice and puts people’s savings at risk.”

Background: *When reviewing the EU’s Markets in Financial Instruments Directive law (MiFID) earlier this year, legislators failed to completely ban commissions for financial advice. Such a ban is essential from the consumer’s point of view. Conflicts of interest in commission-based advice often prompt decisions which lead to loss for consumers. Commissions, sales targets and remuneration schemes can mean advisors or salespersons are looking out for their own financial interests first, to the consumers’ detriment.*

While inducements for “independent advisors” are forbidden or must be passed on to the client, these are still allowed for “other investment services”. However, inducements or commissions must be “designed to enhance the quality of the relevant service to the client” and do not impair honest, fair, professional advice “in accordance with the best interest” of the client. ESMA has been mandated to specify this obligation.

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