

# FACTSHEET

## The case for independent advice

### What is the problem?

Consumers rely on financial advice when taking important financial decisions, such as saving for their retirement, taking out a life insurance policy or when investing money for a rainy day. When taking such decisions, consumers should be able to rely on impartial, competent and trustworthy advice, assisting them in carefully considering the options available.

Unfortunately, today's commission-based advice model, where financial advisers are often remunerated by product manufacturers (such as life insurers, pension funds, or fund managers) puts a conflict of interest at the heart of the client relationship, leading to biased advice.



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**COMMISSIONS HAVE PLAYED A CENTRAL ROLE IN MANY RECENT MIS-SELLING SCANDALS ACROSS FINANCIAL SERVICES IN THE EU.**

### Why does financial advice need to be independent?

The payment of commissions incentivises financial advisers to recommend products that generate the highest commission for themselves, instead of the products that are most suitable for the client. Commissions mean that:

- **Advisers are incentivised to sell products, rather than offer suitable advice.** Commissions have played a central role in many recent mis-selling scandals across financial services in the EU. In 2018, BEUC launched a web-map<sup>1</sup> of the most recent mis-selling scandals to have affected consumers in Europe.
- **Advisers are incentivised to recommend higher-cost investment products to consumers that attract a higher commission for the advisor.** Fees can have a significant impact on returns for investors. A recent ESMA study confirms that investment fund returns are highly impacted by fees, with charges cutting returns by one quarter on average.<sup>2</sup> A study by the UK's Financial Conduct Authority (FCA) into asset management found that "there is no clear relationship between price and performance – the most expensive funds do not appear to perform better than other funds before or after costs."<sup>3</sup>
- **The products recommended by financial advisers are also limited to those that attract a commission.** As a result, low-cost investment products (such as Exchange-Traded Funds or passive investment funds) that do not attract a commission or attract lower commissions for advisers fail to gain market share. In Europe, it is estimated that only 10-15% of Exchange-Traded Funds (ETFs) are held by retail investors.<sup>4</sup> The UK witnessed an increase in the sales of funds with 'passive' investment strategies, as advisers were no longer biased by commissions:

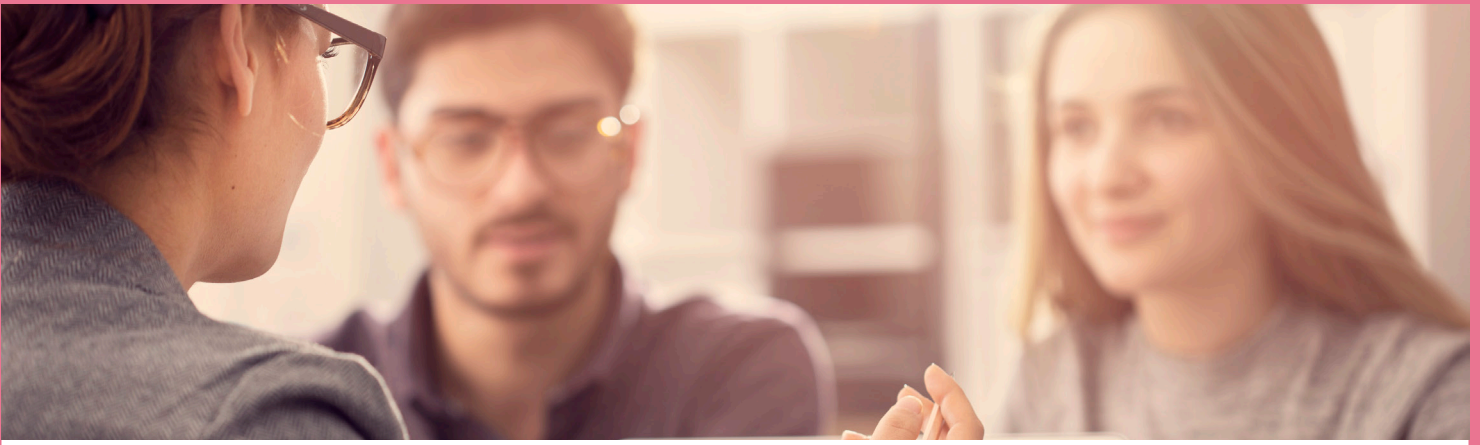
BEUC believes that the EU should ban the payment of commissions on all retail investment and complex investment products. Financial advisers should no longer be permitted to be remunerated by commissions, and instead charge a separate fee for advice to their clients. A ban would reduce conflicts of interests for advisers, improve advice and encourage the distribution of lower-cost investment products to consumers.

<sup>1</sup> See [www.ThePriceofBadAdvice.eu](http://www.ThePriceofBadAdvice.eu).

<sup>2</sup> ESMA, 'ESMA Report finds investment product performance highly impacted by charges', <https://www.esma.europa.eu/press-news/esma-news/esma-report-finds-investment-product-performance-highly-impacted-charges>.

<sup>3</sup> FCA, 'Asset Management Market Study – Interim Report', <https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf>, p. 15-16.

<sup>4</sup> ESMA, 'Performance and costs of retail investment products in the EU', [https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance\\_and\\_costs\\_of\\_retail\\_investment\\_products\\_in\\_the\\_eu.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance_and_costs_of_retail_investment_products_in_the_eu.pdf), p.25



## What can we learn from existing commission bans?

In 2013, the UK and the Netherlands banned commissions for advice on retail investment products. Reviews carried out by the Dutch and UK authorities show that the reforms have had a profound impact in reducing conflicts of interests for advisers. The commission bans have also encouraged the distribution of simpler and lower-cost investment products to Dutch and British consumers.

A study by the UK's FCA found that while as much as **60%** of British fund savings were injected into the most expensive funds prior to the ban, this proportion had fallen to **20%** almost two and half years after the ban came into place.<sup>5</sup>

## Advice gap?

Opponents of a ban argue that it would reduce access to advice. However, government evaluations in the UK and the Netherlands show that the vast majority of consumers continue to seek advice, if they judge it to be worth its price. Allowing commissions in advice can never be an answer to the problem of affordability.

Commissions do not make advice more affordable, but rely on the illusion that advice is free – and how can hiding the true cost of advice ever be in the interest of the consumer? Of course, many low-income consumers received 'advice' in the past, but all too often the products offered were unsuitable or represented poor value for money for consumers. A legacy of mis-selling scandals fuelled by commission-driven sales led to a significant 'trust gap' in the UK, that continues to deter consumers from seeking advice to this day.

### WHAT DOES BEUC RECOMMEND?

**BEUC BELIEVES THAT CONSUMERS WILL RECEIVE BETTER ADVICE IF COMMISSIONS ARE BANNED IN RETAIL INVESTMENT ADVICE.**

A commission ban would reduce conflicts of interest, encourage the distribution of lower-cost investment products, encourage advisers to focus on product quality, and increase transparency for consumers. To improve the quality of financial advice in Europe, the EU should:

- **BAN COMMISSIONS IN FINANCIAL ADVICE** on all retail investment and complex financial products.
- **INVESTIGATE COMPLEMENTARY SERVICES TO FINANCIAL ADVICE**, including independent guidance<sup>6</sup> in order to help consumers make better choices in retail investments.

<sup>5</sup> Europe Economics, 'Retail Distribution Review: Post Implementation Review', p. 73.

<sup>6</sup> BEUC, 'Financial guidance: the missing tool', <https://www.beuc.eu/blog/financial-guidance-the-missing-tool/>.