



INDUCEMENTS: GOOD AND POOR PRACTICES

The ABI's response to CESR's consultation on inducements

Introduction

1. The Association of British Insurers (ABI)¹ is the voice of the insurance and investment industry. Its members constitute over 90 per cent of the insurance market in the UK and 20 per cent across the EU. They control assets equivalent to a quarter of the UK's capital. They are the risk managers of the UK's economy and society. Through the ABI their voice is heard in Government and in public debate on insurance, savings, and investment matters. And through the ABI they come together to improve customers' experience of the industry, to raise standards of corporate governance in British business and to protect the public against crime. The ABI prides itself on thinking for tomorrow, providing solutions to policy challenges based on the industry's analysis and understanding of the risks we all face.
2. The ABI welcomes the opportunity to respond to CESR's consultation paper entitled *Inducements: Good and poor practices*. We support the need to increase transparency in the financial services industry, to ensure all firms are acting in the best interest of their customers. The clarity which has been provided by CESR in the consultation is in line with our understanding of MiFID rules and guidance provided by the Financial Services Authority (FSA). As we are content with the clarity CESR has provided, we have not answered the specific questions. Instead we have outlined some general comments.

Response

3. Since 2006, the FSA has been undertaking a review of the distribution of retail investment policies in the UK. As part of this review, the FSA has committed to ensuring consumers receive good outcomes by building trust in the advice process and ensuring remuneration arrangements allow competitive forces to work in favour of consumers. As our members are major distributors of retail investment products, the ABI has participated in this review since its inception and we believe it is important so all consumers can be sure they will be treated fairly when dealing with the financial services industry.
4. When introducing reforms to improve outcomes for consumers, it is important to ensure investment firms act honestly, fairly and professionally in accordance with the best interests of their customers. An essential part of achieving this is ensuring inducements improve the quality of service consumers receive and discourage firms

¹ The ABI's registration number on the European Commission's Register of Interest Representatives is: 730137075-3.

from acting in a way which would not benefit their customers. One of the changes due to be introduced when FSA reforms come into force in December 2012, will be to ban commission being paid for the sale of retail investment policies. This reform will help ensure that financial advice is in the best interest of consumers, with both product and provider bias removed.

5. Although banning commission payments on retail investment products will tackle the potential for product and provider bias to occur, this can only be successful if other sources of influence do not distort adviser's recommendations. We therefore welcome CESR's consultation which helps firms understand good and poor practices for inducements. For example, the clarity CESR has provided in paragraphs 79-83 around the need to design any inducements to enhance the quality of the service for customers, should help firms comply with an area of MiFID rules CESR has identified as "causing some degree of uncertainty".
6. CESR might also be interested in FSA plans to clarify their own guidance on inducements as part of their reform of the distribution of retail investments.² These changes include clarifying that:
 - any significant non-monetary benefits that product providers offer to advisory firms, such as access to training programs, should be widely available to all advisory firms rather than reward particular firms
 - advisory firms should not accept benefits from product providers which they rely on, such as the provision of important computer software
7. ABI members also offer portfolio management services. The good and the bad practices for inducements outlined by CESR in their consultation also accords with firms' own understanding and interpretation of the MiFID rules. Although, as CESR notes, some portfolio management firms have had to alter their practices with the introduction of MiFID, there now seems to be a widespread understanding of what is required.
8. As the clarity CESR has provided in their consultation is in line with our own understanding of MiFID and guidance provided by the FSA for both the distribution of retail investment and the provision of portfolio management service, we have not answered the specific questions raised. We would however be keen to be kept involved in any further developments in this area.

² Financial Services Authority, *Distribution of retail investments: Delivering the RDR*, Consultation Paper 09/18, June 2009, http://www.fsa.gov.uk/pubs/cp/cp09_18.pdf