Restricting/banning commission-based distribution would translate in an advice gap and have far-reaching consequences on the availability of long-term investment solutions, and ultimately an old-age provision and the real economy.

- The way retail investors rely on intermediaries is both anchored in individual and structural circumstances (e.g., culture, age, local regulation, density of distribution network). As a result, the IDD – the framework governing the distribution of insurance products since 2016 – was deliberately designed as a minimum harmonisation regime, with legislators acknowledging national differences and the inadequacy of a one-size-fits-all approach.
- In most EU Member States, the commission-based model is an integral and indispensable element of the distribution system as it allows for retail investment products to be widely accessible and for the provision of financial advice. Access to financial advice is indeed key for retail investors to participate in financial markets. The 2022 Eurobarometer found out that 45% of respondents make investment decisions based on the advice received from professional advisors.
- The majority of EU member states allow for different distribution models to co-exist. Experience from the UK and the Netherlands – the only two countries having banned commission-based distribution – clearly shows serious drawbacks to this approach:
  - The EC external study on disclosure, inducements and suitability found out that, where commission has been banned or severely restricted, the overall impact has been a shift towards non-advised sales and automated advice. The EC Study on the distribution of retail investment products and the FIOA report on the application of the IDD confirm that retail investors – in particular less wealthy ones – are unwilling to pay for additional advice.
  - In addition, total life premium volumes have drastically decreased in the Netherlands since 2011 (especially life individual premium by -3.1% p.a.)
  - The UK is coping with a serious advice gap, and the FCA is currently investing ways to “strengthen access to financial advice for mainstream investments” setting out proposals for a new core investment advice regime.
- Broad access to financial markets is timely crucial given ageing/demographic trends. Restricting the availability of retail investment products forbidding commission-based sales could seriously challenge national pension policy agendas as well as the post-pandemic Recovery and Resilience Facility (RRF). Indeed, many Member States committed in the context of their national recovery plans to structurally reform their pension systems to improve their long-term sustainability while simultaneously keeping pensions at an adequate level. The development of multi-pillar pension systems and availability of Individual savings and private pension solutions, are key elements to deliver on this commitments. The UK and the Netherlands are to that extent different from...
Remuneration of intermediaries is often criticized as biasing/conflicting the sale process. This is a very restricted view of the commission practice which is not anymore up to date as it does not consider requirements introduced by the IDD regime in a holistic way.

- There are many other safeguards introduced by the IDD preventing conflicts of interest and mis-selling such as:
  - Article 19 prescribes what information distributors have to provide to customers (e.g. their status as an intermediary, any holdings they have in insurance companies, etc.)
  - Article 25 on product oversight and governance introduces processes (product approval or regular reviews) ensuring that products on offer and distribution strategies are/remain consistent with the needs of the identified target market.
  - Articles 27 and 28 require insurance intermediaries and undertakings to take all appropriate steps to identify and remedy conflicts of interest.
  - Article 30 requires the insurance intermediaries to undertake a suitability assessment and demands in need to test meaning that they are required to collect the necessary information to gauge the customer's knowledge and experience in the investment field relevant to the contemplated product or service.

- In addition, IDD being a minimum harmonisation framework, rules laid down by the Directive turn out to be often gold-plated at national and even at company level.

- Evidence/external indicators show that the IDD was successful in increasing the quality of advice and selling methods for Allianz in the past years:
  - The reduced number of complaints and surrender rates demonstrates increased level of customer satisfaction. In the German market for instance, the number of relevant complaints fell from 3,192 in 2016 to 2,744 in 2021.
  - This is also supported by our 2022 Net Promoter Score (NPS) measurement of customer loyalty – in their willingness to not only return for another purchase or service but also make a recommendation to their family, friends or colleagues – scores 74 which is above market standards.
  - The reduced number of sales anomalies reported across most markets shows increased compliance with regulatory and company sales standards therefore confirming that the quality of advice has increased.

Commissioned-products are often depicted as more expensive, this stands true in absolute nominal terms, but requires objective nuances.

- Commissions are not an unnecessary expense as these cover additional services provided to the client, beyond the conclusion of the contract. This can also include assistance provided by the intermediary to the policyholder in the administration and performance of the contract, in particular in the event of a claim, but also access to information (prospectus, pre-contractual and ongoing information) free of charge.
- The commission-based system is also one effective and affordable way of funding the cost of providing the advice to the customer. When commissions are banned, it does not mean that advice would come for free. Advice would be paid for in a different manner (e.g. a specific fee, or subscription model or in instalments over a certain period). Commission-based distribution turns advice more affordable as this is effectively pre-financed by the existing pool of customers.
The KPMG study “commission-based vs. fee-based?” compares the Total Cost of Ownership (TCO) of different distribution systems in different countries. It objectively shows that remuneration models (either commission-based or fee-based) have no impact on costs ultimately born by investors.

The claim that commissioned products are 35% more expensive coming from the recent EC external study on disclosure, inducements and suitability seems inaccurate as the methodology does not appear to consider the additional costs of seeking for alternative advice. It is also unclear to which products this statement relates to. Most importantly, the conclusions and recommendations laid down by this study do not recommend banning commissions.

It is a mistake to assume that cutting off commission-based sales will enable EU citizens to engage directly into capital markets.

- Insurance-Based Investment Products (IBIPs) due to their sophistication (presence of financial guarantees, biometric coverage, underlying asset allocation) often qualify as “complex product”. As a result, non-advised direct sales (execution only regime) is very limited in practice. On the other hand, IBIPs are highly relevant in fostering greater participation of retail investors as they combine the best of both worlds (long-term investment security features) catering for individuals who do not feel comfortable enough to invest. Amending IBIPs distribution rules risks to seriously restrict access to these products which are undermined CMU objectives.

- Investment in general - and especially long-term investment – is a very daunting commitment for the majority of the population who suffers from well-documented behavioural bias e.g. fear of loss, risk aversion, procrastination, herd confirmation. As a result, the distribution of insurance products (other than P&C) still relies to a large extent on face-to-face advised sales in many markets.

- Robot-advice is growing but remains limited in practice and would not make it up for the advice gap triggered by a ban on inducements. Feedback from our customers shows preference for personal recommendation which is fine with the UK FCA recent findings 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”.

Allianz strongly supports the Retail Investment Strategy overarching goals and deeply regrets that the debate is currently very much focused on the remuneration topic while so many other important challenges would deserve as much - if not more - consideration:

- Taking stock of emerging trends in insurance distribution, such as digitalisation, would be relevant to cater for the younger cohorts of the population while ensuring no one is left behind.
- Reducing information overload stemming from the cumulative impact of sectorial disclosure obligations, which can, especially in life insurance business, be particularly overwhelming and burdensome (e.g. Solvency II, PRIIPs, SFDR requirements, distance marketing, GDPR as well national requirements). Synergies should also be built with open finance-related discussions.
- Improving transparency of costs, and especially distribution costs, in a targeted and meaningful way. This does not mean more disclosures but improved disclosures focusing on what is actually relevant to retail investors and putting those costs in perspective with the service provided. Benefit of well-designed disclosures goes beyond information of customers, it also acts as a market regulator as players need to stay competitive in the fee they charge and disclose.
- Fostering financial education to empower retail investors. Allianz is truly committed and has recently launched a campaign “Start Making Cents” featuring Christoph Waltz to enable everyone to have the confidence to invest in their tomorrow, already today.
- Streamlining the suitability assessment targetting specific customers/investments would also enable more investments in line with what is currently considered by the UK FCA.
- Refining the concept of value for money, already embedded in current regulation, to reinforce consumers’ confidence in the products on offer. Value for money should ensure a holistic assessment to reflect subjective and objective factors and not only focus on investment returns.