A ban on inducements for retail investment products
Unpacking the Netherlands' experience

Introduction

Zurich Insurance fully supports the Commission’s ambition to increase retail investor participation in European capital markets and believes that the Retail Investment Strategy offers a great opportunity to empower consumers to make informed investment decisions that optimally serve their needs and contribute to closing EU pension gaps.

Zurich has a long track record promoting financial inclusion and financial protection for all, during working life and in retirement. We have participated in dialogues around protecting workers in a changing world of work, e.g., during our 2015-2021 research cooperation with Oxford University on the income protection gap and the future of work, and through our Membership of the Reshaping Work Dialogue.

Zurich is concerned that an EU ban on inducements, for the distribution of retail investment products, would be contrary to that objective, and in particular affect smaller investors, by excluding them from financial advice and risking market effects that could reduce product choice.

Does the inducement ban in the Netherlands work well?

- The Netherlands introduced a full commission ban for all Life insurance products (but also, e.g., mortgages and funeral insurance) in 2013.

- The ban was evaluated in 2017, with the evaluation report highlighting that:
  - The ban has effectively cut financial ties between intermediaries and manufacturers;
  - There is no evidence of an advice gap. Consumers are unwilling to pay for advice but not financially unable to do so;
  - The ban was well accepted in the market;
  - The quality of advice has improved.

- However, there are indications that the situation may not be as positive as it seems:
  - Ties between intermediaries and manufacturers may have been cut, but the ban has also severely affected the market. In its 2023 Cost and past performance report, EIOPA states that in the Netherlands, no Insurance-based Investment Products (IBIPs) are offered anymore (2021 data).
  - The evaluation report states that consumers are mostly unwilling to pay for advice. This effectively creates an advice gap. Statistical data collected by AFM show an increase in execution-only investments.
  - A chart from the consumer survey (p.37) that was part of the review shows that after consumers are aware of the cost of advice, only half of them continue to consider to take advice by an independent financial advisor, whereas customers considering to take online advice almost double and those considering execution-only triple:
Can the Dutch inducement ban be replicated in other Member States?

- We believe that the Dutch approach cannot be replicated in other Member states as the Netherlands are in a unique situation with regard to retirement provision:
  - The Netherlands have one of the best-functioning and best-provisioned pensions systems in the EU. 1st Pillar coverage is a 100%. 2nd Pillar coverage is said to be around 90-95% of workers (mandatory with some exceptions).
  - 1st and 2nd Pillar combined provide in most cases for a decent retirement income.
  - Therefore, most citizens are not dependent on pillar 3 / private investments to close pension gaps. Also, after paying into pillar 2, citizens earning a lower to medium income do not have a lot of money left to invest privately. As a result, the impact of the commission ban was limited for most households.

- At the same time, the Netherlands have significant pension/protection gaps, affecting, in particular, the self-employed (high number of gig economy workers) and part-time workers (high number of part-time working women). This is a recurring topic of societal debate.

- Most pension systems across EU27 do not offer the same workforce coverage (% of workforce enrolled), nor the same financial cover upon retirement (% of 'last' salary) as in the Netherlands. Therefore, dependency on private savings/investments is higher.

- Below OECD chart comparing net pension replacement rates, shows the Netherlands in the EU top 3, with some other Member states (very) far behind:
Zurich stands ready to engage in in-depth discussions on the Retail Investment Strategy, given the complexity of the topics at hand and their importance to our customers and society.

Contact:
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