	Comments Template on DP-14-IMD Discussion Paper on Conflicts of Interest in direct and intermediated sales of insurance-based investment products (PRIIPs)	**Deadline 22 July 2014 18:00 CET**
Name of Company:	Dutch Investors' Association (VEB)	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. *Please indicate if your comments on this DP should be treated as confidential, by deleting the word* ***Public*** *in the column to the right.*	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to DP-14-IMD@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.**	
Reference	**Comment**	
General Comment	ID Number in Transparency Register: 92447095540-39	
Q1.	*What types of conflicts of interest have you experienced in practice or are aware of? For each type of conflict, please identify in your view the cause of the conflict, who (in general terms) it applied to, and, where possible, provide an assessment of its potential impact for customers.*	

	It would be very difficult, and not operative, to make an exhaustive enumeration of all existing conflicts of interest and draw a "black list" of prohibited or non recommendable business practices. Since business practices continuously evolve throughout time and through the various Member Statess, it is not appropriate to establish a closed list of practices to avoid since these can be circumvented It is much better instead to agree for a list of high level principles that should be the base for the industry's risk assessment for their potential harm to consumers, and most importantly mitigating the risk. We do agree with this compilation exercise of conflicts of interest currently happening in insurance distribution if its objective is merely providing examples to illustrate the kind of practices under concern for its potential detriment generated to consumers, As an organization, we are particularly concerned about the existing conflicts of interest arising in the commercialization of life insurance. One of our biggest members is FAIDER, the federation of life insurance beneficiaries associations in France, counts with 2 million beneficiaries of life insurance policies as their members. Nevertheless, we can mention a few widespread cases of conflicts of interest in the distribution of life insurance products: - The lack of segregation of assets which largely enables the insurance providers to allocate return and performance to the contracts they want to actively promote, and, on the other hand allocate lower performance and returns to contracts no longer actively promoted or even closed to new subscriptions	

	- The allocation of lower performance and returns to contracts subscribed by "captive" clients. In particular, for example in France, life insurance contracts manufactured and sold by the big retail "bancassurance" groups systematically provide much lower returns than those distributed by capitalistically independent distributors. In 2013, with profit policies ("fonds en euros") sold by French bancassurance retuned on average 2.62 % (nominal net of fees) whereas contracts subscribed by independent savers associations returned 3.29 % on average (Source: Better Finance, FAIDER). - With prtofit policies in France tend to invest the equity part in in-house funds and not transferring the "inducements" from those funds to the policy holders. - Unit-linked contracts are the retail investment product with highedt conflicts of interests because there are typically two layers of fees (in the contract level and underlying units level) to remunerate distributors. One striking proof of the extent of conflicts of interests in those life insurance contracts - in France at least – is that funds available in unit-linked policies are never low cost funds such as index ETFs as distributors require high inducements, not only on the contract fees themselves but also on the underlying funds fees. In Poland, it is even worse as unit-linked contracts also charge enormous up-front fees and mix life insurance with death insurance features, making even the longer term net returns of the policies very low and negative in real terms. - Distributor advice to invest in equity funds via unit linked contracts for tax optimization purposes wherehas it is not the interest of the client as lower fees and better tax optimization tools are available.	
Q2.	*What types of conflicts of interest do you believe are most important and why?* We believe the most important conflicts of interest are all those directly linked to the remuneration of the sales force. They cause the highest potential consumer detriment because	

	inducements are the main driver of sales of financial products to consumers, rather than suitability criteria (according to the 64% of respondents of a survey from CFA Institute[1]). A perfectly designed product will be a main source of consumer detriment when mis-sold, so even when the manufacturer has respected all product design rules and addressed possible conflicts of interest arising during the manufacturing process. Therefore it seems quite reasonable to believe that the source of the most sizeable possible consumer detriment is the commercialization of the product itself. We refer to the cases listed above for Q1.	
Q3.	*Are you aware of potential types of conflicts of interest other than those outlined in the discussion above?* See answer to Q1	
Q4.	*More specifically, what conflicts of interest are you aware of that are related to insurance distribution activities undertaken following the conclusion of a contract (that is to say, during the life of the contract or after it ends)? Please identify the type and source of the conflict and include any data available on the incidence and impact of the conflict.* Typically, a distributor will continue to cash in inducements every year as fees on assets without providing any siginificant service to the life insured client. In France at least, it is very difficult to switch to another distributor/broker during the course of the contract.	

[1] http://www.cfainstitute.org/Survey/retail_investment_products_poll.pdf

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Q5.	*Do you agree that specific types of conflicts of interest for insurance distribution should be added to the basic structure contained within Article 21, as outlined in the discussion above? If so, please clarify which types, and how they might be different from the types of conflict already covered by the criteria in Article 21.* <u>Yes, they shall be added but on a purely informative basis, and by no means as a closed, “black list” categorization of prohibited practices.</u>	
Q6.	*Are there any other adjustments that might need to be made to the criteria in Article 21 to clarify their application? Where you believe an adjustment is necessary to clarify the application of the criteria, please explain the adjustment you propose.* <u>N/A</u>	
Q7.	*Do you have any other comments on the assessment of possible criteria for identifying types of conflicts of interest set out above?* <u>N/A</u>	
Q8.	*Do you agree that additional measures might be necessary for clarifying how sole traders and similar entities might manage conflicts of interest, where independence of functions is not feasible? If so, please provide detail on the possible measures, explain why you believe these measures are appropriate, and set out how you believe these measures will effectively manage the conflicts of interest that might arise for sole traders and other similar entities.* <u>N/A</u>	
Q9.	*Do you agree that it is necessary to include a further clarification of how to manage conflicts of interest arising out of third party payments or benefits, commission payments or remuneration?* Conflicts of interests should be managed the same way as other substitutable retail investment	

	products: full and quantified disclosure of inducements prior to the sale or subscription; non impairment of the primary duty of the distributor to serve the interests of the client. *If so, please provide detail on the possible measures and the circumstances in which they might apply, explain why you believe these measures are appropriate, and set out how you believe these measures will effectively manage the conflicts of interest that might arise due to inducements or commission arrangements.* N/A	
Q10.	*Do you have any other comments on the above assessment of the steps to take in relation to each of the following steps:* *• identifying conflicts of interest;* *• preventing conflicts of interest;* *• managing conflicts of interest; and* *• disclosing conflicts of interest?* Whenever there has been identified and managed a conflict of interest the undertaker or Insurance Company should evalate the procedure/proces regarding a conflict of interest, the possible impact on the clients interests (the result) and possible adjustments to improve the conflict of interest procedure.	
Q11.	*Thinking specifically about disclosure, what steps do you think could maximise its effectiveness in ensuring customers understand and are able to use the information provided in their decision-making process?* Dislosure of the amounts of inducements should be made in Euro (or local currency) amounts and as a percentage. Disclosure must be made ex-ante, and in a way that the consumer can compare between the different products offered by the seller.	

	The amount and percentage disclosed must be the total sum of inducements: in particular for unit linked contracts, it must add the commissions to be received by the distributor on the life insurance contract fees plus on the underlying “units” (fund fees). Same applies to any supplementary or side death benefit attached to the policy.	
Q12.	*Are there any additional adjustments to the existing MiFID measures in Articles 22 and 23 that might be necessary to clarify their application to insurance distribution activities?* *If so, please clarify which adjustments you believe necessary, set out why you believe this, and provide evidence to support your view.* See reply to Q11 above. Also, insurers who invest policy holders money in their own funds (funds managed by their asset management affiliate) must disclose where the full amount of fund fees go (typicall a third party distributor would get about 50 % of those).	
Q13.	*Do you agree that the existing MiFID measures in Articles 24-25 related to investment research should be applied to insurance distribution activities, following a redrafting to take into account the legal framework applying to insurance undertakings and insurance intermediaries? Please provide details of the aspects of insurance distribution activities to which you believe these measures might apply.* N/A	
Q14.	*Are there other problem drivers that you believe should be considered?* N/A	
Q15.	*Are there other entities or stakeholders who have not been identified here who could be impacted by changes? Please identify them and the nature and reasons for the possible impact, including is*	

	potential scale for them if possible. N/A	
Q16.	*Are there other drivers of costs or benefits that have not been identified? Please identify these drivers, and outline how their scale might be estimated, and which stakeholders they might impact.* N/A	
Q17.	Considering the differential impacts of changes for different stakeholders, are there other determinants for differential impacts that you would like to highlight? N/A	
Q18.	*How do you think effective estimates of costs and benefits for the different stakeholders impacted might be developed? Please consider in particular the challenges with estimating potential benefits for customers and for the industry on an ex ante basis. Please highlight any data sources you are aware of that might be used for developing such estimates.* One quite interesting estimate would be to compute the fee difference between an index fund actually used in unit-linked policies and the comparable (same index) ETF (which are never included in retail unit linked contracts as mentioned above): this, multiplied by the AuM would give a good estimate of the consumer detriment caused by conflicts of interests in unit linked life insurance distribution.	