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A modest proposal from Fecif for the 'Kingdom of Freelunch'

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Once upon a time, in the Kingdom of Freelunch, there was a highly qualified financial advisory company that was generously rewarded for its good services on a salary basis by a non-profit organisation, that in turn was funded by the taxpayer to advise other consumers on a free-of-charge basis.

The Kingdom of Freelunch was so-called because it was comprised of member fiefdoms, with names like France and Belgium, in which as many as one in 10 of the people were employed by the state, and as many as one in seven lived on social benefits. Kingdom-wide, an average of 45% of wealth went to pay taxes.

"We are asking that advisers become actively involved in the regulatory process of both pieces of legislation, through the drafting of a set of industry codes of conduct, to replace prescriptive legislation."
Vincent J Derruder
FECIF Chairman

Our story begins as Britain's Financial Services Authority (FSA) announced plans to ban commission sales from 2012. This prompted the European Commission to ask itself whether it ought to follow the same path.

Meantime, all across Europe, (mainly in the "social democrat" model countries such as France, Belgium and Germany), many bureaucrats dreamed of such an opportunity, as they saw it, to get rid of half a million independent operators…

What of the other incentives?

Nobody can deny that commissions can skew impartiality. But what about incentives paid to the "to-big-to-fail" banks or the post office employees? Should these not also be eliminated? In any event, the impartiality argument is a mostly false one anyway, as an intermediary would gain a similar commission regardless of the client's choice of product.

In addition, free financial advice is incorporated in the cost paid for by commission. Once commissions are banned, consumers will be forced to pay for all the advice they receive. They certainly will not – and therefore, the choice of product will be restricted: which is, some observers believe, the hidden agenda of some EU Member states' regulators.

Meantime, such a move would probably cause the loss of 300,000 to 500,000 jobs across Europe for no benefit whatsoever to the consumers, who will end up with a limited choice of product available exclusively through the internet or at the counters of the large "too-big-to-fail" banks or post office branches.

It would also be the end for networks, which do not operate on salaries but on a commission basis. Such groupings of intermediaries had been a real opportunity for the industry and consumers alike.

Yet another reason that forcing Europe's intermediaries to move to a fee-based remuneration model would threaten the entire industry is the VAT implication: even if a consumer were ready to pay for advice, would he or she be prepared to pay an extra 20% tax on top of the stated fees?

A recent Association of International Life Offices survey found half of all intermediaries still rely on upfront indemnity commission, 35% on ongoing and recurring sources of income, and only 15% on explicit and invoices fees.

Hidden charges 'not acceptable'

Of course, hidden charges are not acceptable.

Information about costs must be made more explicit to consumers. It is a matter of fairness.

Our industry must accept the fact that if we do not get our act together, we will end up, sooner rather than later, with more regulatory development detrimental to independent intermediaries and SME firms, as only big players can afford to bear the costs of extra regulation.

So, in response to the consultations being organised by the European Commission with respect to the proposed Packaged Retail Investment Products (Prips) directive and revisions to the Insurance Mediation directive, FECIF is making a modest proposal to all those who represent the European advisory industry.

We are asking that they become actively involved in the regulatory process of both pieces of legislation, through the drafting of a set of industry codes of conduct, to replace prescriptive legislation. We see this as an innovative suggestion.

Michel Barnier, the single market commissioner, keeps saying: "I am against self regulation but I am not in favour of over regulation". Alleluia! But what about co-regulation?

Would it not be a fair balance of power, when split between bureaucrats who understand nothing about an industry and the operators who, in the eyes of the bureaucrats, know it too well?

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