IFSRA Review of Remuneration Structures and Transparency

Submission by the Society of Actuaries in Ireland

March 2005

Introduction

The Society of Actuaries in Ireland welcomes the opportunity to make this submission in relation to the Financial Regulator's consultation on remuneration structures and transparency. We are responding to this consultation in the context of the profession's mission to serve the public interest in areas where our input can be of benefit. The Society has worked closely with the relevant regulatory bodies over the past four years in relation to the disclosure regime for life assurance and has built up significant experience in this area. We would be happy to put our experience at the disposal of the Financial Regulator in relation to the review and further development of the disclosure regime.

We have responded below to each of the individual questions raised in the consultation document. The consultation document deals with both product disclosure (including information about the projected benefits and charges under the policy) and the disclosure of intermediary remuneration. The purpose of product disclosure is to enable the customer to understand the impact of charges on the value of his or her policy over time so that he or she can make an informed decision as to the suitability of the product and compare it with alternative products, whereas the purpose of intermediary remuneration disclosure is to enable the customer to understand how the intermediary is remunerated for the sale of a particular product and identify any potential bias on the part of the intermediary. While both types of disclosure are important, there are different considerations to take into account for each of them, and this is addressed in our responses to the individual questions.

We would also like to draw particular attention to the following points:

- We are strongly of the view that the same disclosure requirements should be imposed on all investment products, whether or not an insurance policy is involved.

- We believe that the existing disclosure regime for life assurance is generally working well and provides an effective model for informing consumers of all types of remuneration. However, there is scope to reduce the amount of further information given to customers, while ensuring that customers are provided with the necessary information to enable them to understand the fundamental features of their policies. The Society would be happy to work with the Financial Regulator to identify ways to improve the documents.

- We believe that the payment of commission on non-life insurance products should be disclosed on a basis similar to the disclosure regime for life assurance.

- Certain types of commission, such as contingent commissions, can present conflicts of interest of a nature where disclosure alone may not be enough to provide a satisfactory control. In these cases, we believe it would be in the best interests of consumers that these types of remuneration should be restricted or prohibited by the Financial Regulator.

- Advertising and promotion practices may have a significant influence on consumers' perceptions of particular products. It is our view, therefore, that appropriate regulation of such practices is a necessary support to effective disclosure.

Question 1 Please suggest ways the charging structure for life assurance products could be simplified and made more transparent.

An example of a simplified charging structure, introduced through legislation, is the regime for Personal Retirement Savings Accounts (PRSAs).

However, we note that, following the introduction of disclosure in 2001, charging structures for life assurance products have become simpler. For example, nil allocation charges have in many cases been replaced by level charges, while initial unit type products have become very rare.

We do not believe, therefore, that any direct regulatory intervention is required in relation to charging structures. Provided that the impact and timing of charges is disclosed to customers in an understandable way, they can make informed decisions. Ultimately, if a single measure representing the totality of charges is disclosed (for example, Reduction in Yield), the underlying charging structure should be largely irrelevant. In addition, the policy surrender values shown in the disclosure documentation demonstrate the impact of the timing of charges. We believe that an increased focus on the tables of values in the disclosure documentation would be beneficial.

We note that regulatory intervention in relation to product design could be counter to the EU Life Framework Directive and could perhaps also be considered anti-competitive.

Finally, as noted in response to question 3 below, our view is that it would be appropriate for the Financial Regulator to specify the way in which particular types of charges must be explained, with a view to ensuring that the effect of such charges is clear to customers. For example, there could be a requirement to describe bid/offer spreads as entry charges and to state the combined effect of bid/offer spreads and allocation rates.

Question 2 Do you think the consumer understands the charges that are applied to his/her investment? If not, how can these charges be made clearer for the consumer?

We believe that some consumers may not fully understand the charges applied to their investments. In order to address this, a continuing focus on customer education will be required, regardless of the extent to which charges are simplified and /or disclosed.

Our view is that the continued use of the Reduction in Yield concept represents the best way to show the effect of charges in investment products. In regular savings plans, the breakeven point may be a clearer measure for the less financially sophisticated. However, it does not show the effect of charges over the full contract term and may in some cases mislead customers as to the relative value for money offered by different products.

Question 3 Is the language used to explain charges in product literature too complex? Should there be standard definitions in plain English for all charges?

The language used to explain charges in product literature may, at times, be unnecessarily complex, and the degree to which plain English is used can vary substantially. We would support the introduction of standard definitions. We also believe that product providers should be required to disclose the net impact of initial charges on products; for example, customers may not understand that a bonus allocation of 3% combined with a surrender penalty of 8% has the same impact as a 5% "bid-offer" spread.

Question 4 Do you think it is necessary for the consumer to know all the separate charges in a product? Is it enough to inform the consumer of the total of all charges and the likely effect of those charges on the performance of the product?

Legally, the product terms and conditions must specify all the separate charges. In our view, however, it is most important that the customer should understand the aggregate effect of the charging structure and this is, correctly, the focus of the disclosure regime.

Question 5 Do you think the Reduction in Yield is useful to the consumer as a measure of the impact of charges and as a means of comparing one product with another? Do you have any suggestions as to how this measure could be presented in a way that would be easier to understand?

Yes, we believe that the Reduction in Yield is a useful measure. If it were shown for a number of different periods in the life of the product, this would significantly enhance its usefulness.

The disclosure information should include a clear, "plain English", explanation of what the Reduction in Yield means. It may also be useful to make some reference to Reduction in Yield in product brochures.

Question 6 Should the consumer be provided with a Reduction in Yield figure for a number of different periods in the life of the policy and not just the maximum term of the policy? What periods would be appropriate?

We believe that the provision of Reduction in Yield figures for different periods would be useful. This would help to highlight the effect of front-end charges on early surrender values. This does need to be balanced, however, against the potential for information overload. We suggest, therefore, that this additional information should only be provided if other less useful information is removed from the current disclosure documentation.

The simplest approach would be to use the same periods for all product types. However, a strong case can be made for varying the periods depending on whether the investment is predominantly short to medium term (for example, a regular savings plan) or long term (for example, a pension plan) in nature. We suggest that Reduction in Yield figures be provided for both three and five year periods, as well as for the full product term (if applicable).

Question 7 **Is there any other method of measuring the impact of charges which would be more useful or more easily understood by the consumer? One example might be the projected break even period, the point at which the projected value of the policy first equals or exceeds the premiums paid to date. Should such methods be used instead of or as well as the Reduction in Yield?**

It is difficult to find a method of measuring the impact of charges which would improve upon the combination of the Reduction in Yield measure and the current prescribed table of charges, particularly if the Reduction in Yield is shown for different periods. The projected breakeven period could be used in conjunction with the Reduction in Yield measure, but at the risk of providing too much information.

A case can be made for only showing Reduction in Yield for pension and single premium investment products, and showing the projected breakeven period for regular premium savings plans. However, there is a need to ensure that customers are aware that a shorter breakeven period may not necessarily equate to better value for money over the longer term.

Question 8 **Should insurance companies be allowed to operate 'differential pricing' structures for their products, where charges for a particular policy vary by distribution outlet and/or sales remuneration terms? How could the consumer be made aware that the product may be purchased at a lower cost from another distribution channel?**

Our view is that differential pricing should be permitted in view of the varying costs of distribution for different channels and the level of service provided in each.

Customers will choose a channel (whether independent intermediary, tied agent or direct) for a variety of reasons, including convenience, local access, trust, quality of service, etc. Different channels also provide consumers with the choice of engaging an intermediary to source a product for them and paying for that service, or shopping around and buying the product direct themselves.

Where a customer employs an intermediary, the intermediary is properly required to advise on the product best suited to the customer's needs, (bearing in mind any restrictions imposed on the giving of advice by the intermediary based on his or her regulatory status). This need not necessarily be the cheapest; for example, for general insurance, issues such as scope of cover, terms and conditions and claims payment record can have a significant bearing.

If differential pricing structures were not permitted, some channels might no longer be viable. This could increase the level of under-insurance in certain customer segments that tend to be serviced by those channels.

Specifically, we note that, for pension policies, "differential pricing" structures are the only means by which intermediaries can rebate commissions to customers, due to restrictions imposed by the Revenue Commissioners.

We suggest that the Financial Regulator consider undertaking a consumer education initiative with a view to raising awareness that the price of a product may vary depending on the channel through which it is purchased.

Question 9 **Should the commission structures be simplified and made more transparent to the consumer? If yes, how would you suggest that this be achieved?**

We believe that basic commission structures are generally reasonably straightforward. Typically, companies set a commission scale for each product which may vary by distribution channel and/or for specific distributors. For life assurance, all commission payments are already subject to disclosure and we believe that similar disclosure requirements should apply for general insurance and non-insurance products.

However, there are commission payments whose allocation to specific contracts is not straightforward. Their elimination would make commission structures more transparent to the consumer, and would also greatly simplify the implementation of commission disclosure. Examples of such payments are contingent commissions and non-cash payments, where the amount of such payments attributable to an individual contract cannot be precisely determined at the time of the sale.

Commission structures could be significantly simplified by requiring that commission be payable only in respect of specified events (such as the payment of a premium or the contract being in force) at rates of payment specified at the commencement of the contract.

Question 10 **Should certain types of remuneration be banned or restricted by the Financial Regulator, for example, override commission, indemnity commission, soft commissions, inducements, non-cash benefits, etc.?**

Where commissions are contingent on business volumes, or have other features that significantly increase the capacity for conflict of interest, we believe the Financial Regulator should restrict or prohibit such commissions where it believes that disclosure alone is not enough to provide a satisfactory control.

In this regard, it is worth noting that the current life assurance commission disclosure requirement in relation to volume overrides is the least effective aspect of life assurance commission disclosure ("volume override" payments are disclosed on an average basis, which does not highlight to the customer the very strong incentive that the intermediary may have to promote specific products when its sales volumes are close to the level at which higher commission payments will kick in).

Question 10a Do you think the provisions contained in the IIF Code of Practice on Intermediary Incentives should be imposed by the Financial Regulator? Should the provisions be strengthened? If so, how?

In general, we believe that statutory codes issued by the Financial Regulator would be more effective than industry codes in this area. As a matter of principle, we believe that professional services should be remunerated on a cash basis and, therefore, we do not favour non-cash payments. As a practical matter, moreover, the existence of non-cash payments makes the implementation of disclosure more difficult.

Question 10b Do you think indemnity commission should be banned or restricted? Please give your reasons.

Indemnity commissions constitute loans from insurance companies to intermediaries which are repayable in certain events, such as contract lapse. On the one hand, the existence of such loan facilities can be an important part of the financing of an intermediary's business, particularly a newly established intermediary, and can have the impact of increasing the number of intermediaries in business. On the other hand, the existence of such loan arrangements can create situations of conflict of interest for intermediaries, which the Financial Regulator will need to control. We do not think there is a clear-cut affirmative or negative response to this question.

Question 10c Do you think override commission should be banned or restricted? Please give your reasons.

Yes, we believe that contingent commissions (i.e. commission structures where the rate of commission payable is contingent on the volume or profitability of business placed by the intermediary with the insurer) should be prohibited, as we believe that contingent commissions significantly increase the capacity for conflict of interest and the construction of an effective disclosure regime in this area is extremely difficult. As already noted, we consider that the current life assurance commission disclosure requirement in relation to volume overrides has been the least effective aspect of life assurance commission disclosure.

We note that in some cases extra commissions from insurers may be designed to encourage intermediaries to do extra work, such as establish electronic data interchange capability. This may enhance the profitability of the business without creating any conflict of interest and such arrangements need not be prohibited. On the other hand, commission structures that reward the intermediary for a lower underwriting loss or higher persistency can create a conflict of interest and should be prohibited where the Financial Regulator considers that disclosure alone is not enough to provide a satisfactory control.

Question 10d Should initial commission payments continue to be paid on automatic premium indexation increases under life or pension policies? Please give your reasons.

On the one hand, it can be argued that if initial commission was not payable on indexation, higher rates of commission would likely be payable on the initial premium and there would be no incentive for intermediaries to encourage customers to opt for indexation and thereby maintain their savings in real terms. On the other hand, initial commission payments should arguably be linked to the provision of advice by the intermediary and therefore, as automatic premium increases do not require any involvement by the intermediary, initial commission should not be payable. We do not think there is a clear-cut affirmative or negative response to this question.

Question 10e Are there any other types of remuneration that should be banned or restricted? Please provide details and your reasons for this view.

As noted in our response to 10(a) above, we do not favour non-cash payments but rather believe that professional services should be remunerated on a cash basis.

Question 10f What risks to the consumer do each of the above types of remuneration structures pose? How can these risks be minimised?

We have commented on the risks associated with the various types of remuneration in our responses to the previous questions.

Question 10g Are there any benefits for the consumer in maintaining these types of remuneration structures?

We have commented on the benefits for the consumer associated with the various types of remuneration in our responses to the previous questions.

Question 11 Which method of payment (fee, commission or both) do you feel best suits the Irish market and the consumer? Please give your reasons. Does your view vary between life and non-life insurance, between different forms of distribution channels, and between different types of policies?

As outlined in response to question 13, we believe that the appropriate method of payment will depend on the individual and that both systems should be allowed. However, we believe that full disclosure of commission is required to mitigate the potential conflicts of interest inherent in the payment of commission by the product producer to the customer’s agent.

We do not believe that different regulatory approaches are required for different markets, although different mixes between fee-based business and commission-based business may emerge in different markets.

We note that there may be tax advantages to a consumer of the commission route. For example, fees are subject to VAT, while commission is not. For investment policies, a fee to an intermediary is not allowable for the purposes of determining the chargeable gain on the policy, while the cost of commission is. For pension products, the part of premiums representing the cost of commission is effectively given relief against income tax, while there is no such benefit for fees. The existence of these tax benefits mean that an intermediary operating on a fee basis would currently do so most effectively by accepting commission and offsetting it against fees due.

We note also that the payment of commission calculated as a percentage of premium on investment products results in an element of cross-subsidy from customers who have higher sums to invest to those with small amounts to invest. This is arguably a social good. On the other hand, on protection products, there is an element of cross-subsidy from higher-risk customers to lower-risk customers (e.g. for term assurance, from older to younger customers and for motor insurance, from younger to older customers).

For general insurance commercial business, current commission structures arguably provide a good "fit", as the size of premiums, and therefore commission, is generally in proportion to the magnitude and complexity of risk, and consequently, the effort required from the intermediary to administer the business. However, fee-based systems may work equally well and are in fact used for many of the larger risks.

Question 12 Do you think that the structure of the remuneration system conflicts with the obligations set out in the existing codes of practice? If so, how can this be addressed?

In the context of this question, the key obligations in the existing codes of practice are:

- the obligation on an intermediary, in entering into a transaction on behalf of a customer, to act to the best advantage of the customer, and
- the obligation on an intermediary to seek to avoid conflicts of interest and, where they cannot be avoided, the obligation to fully disclose the potential conflict of interest and ensure that customers are treated fairly.

The receipt by an intermediary, when acting as the agent of the customer, of commission from the product provider can clearly create situations of conflict of interest in the context of the first obligation.

In the case of basic commission, we believe that it is reasonable to argue, in the context of the current market structure, that this conflict of interest cannot be avoided. However, at a minimum in this situation, full disclosure to the customer of all payments received by the intermediary from the product provider relating to the transaction is required. This is to ensure that the customer has full information in relation to the financial interest of his or her agent in the transaction.

Certain types of commission, such as contingent commissions, can present much greater conflicts of interest than basic commissions and it seems to us to be difficult to argue that such conflicts cannot be avoided. On this basis, it would appear that acceptance of such payments conflicts with the obligations set out in the codes of conduct for insurance intermediaries. It is a matter for the Financial Regulator to determine whether this is the case, and whether guidance clarifying the relevant requirements of the codes should be provided. In any event, it is our view that, in the case of some types of commission, disclosure alone is not enough to provide a satisfactory control, and that, in these cases, it would be in the best interests of consumers that such types of commission be restricted or prohibited by the Financial Regulator.

Question 13 **Is commission a suitable method of payment or would it be more appropriate for intermediaries to charge a fee for their services instead? If so, what do you think would be the impact of this change, for the consumer, for the intermediary and for the insurance company?**

The normal client-agent relationship is one where only the client remunerates the agent in relation to a transaction. If insurance followed this approach, then intermediaries would charge only a fee for their services. However, insurance has developed in a different way, and the predominant method of payment of intermediaries is by commission.

A fee-based approach has the enormous advantage of eliminating the risk of product or company bias, and provides absolute clarity as to the relationships between customer, intermediary and product provider. For investment and pension products, however, many customers may find the upfront costs associated with a fee-based approach unattractive, and may prefer the effective spreading of the cost of financial advice that arises from the payment of commission by the product provider to the intermediary and its subsequent recovery through the product pricing structure.

Provided that the customer is fully informed of the amount of commission paid to the intermediary, and provided the types of commission payment do not generate an undue level of conflict of interest for the intermediary, we believe that such arrangements should be allowed. We take this view on the basis that the availability of such arrangements will result in the provision of financial advice to people to whom financial advice would not be available in an exclusively fee-based environment. We note also that insurance companies with tied sales forces generally reward them on a commission basis, so that if independent intermediaries were required to operate on a fee basis this might discourage consumers from seeking independent financial advice.

We believe that the existence of commission disclosure will, of itself, change the market mix of fee-based business and commission-based business. The introduction of commission disclosure for life assurance in 2001 would appear to have led to an increase in the number of intermediaries in this sector operating on a fee basis.

We believe that an exclusively fee-based market would result in a reduction in the number of independent intermediaries. On the other hand, for insurance companies, there would be less capital strain in writing new business through intermediaries, as there would be no upfront commission payments that are subsequently recovered from premium payments.

Question 14 Do consumers understand how an intermediary is paid for his/her services and how much in financial terms the intermediary earns from the sale of a policy to a consumer? Is it relevant information for the consumer?

We believe that customers will, in general, understand that, where the intermediary is not operating on a fee basis, the intermediary is being remunerated by commission from the product provider. However, for products other than life assurance products, where commission disclosure is not currently required, the consumer may not be aware of the level of remuneration involved. We believe it is essential that the customer be provided with full information on all payments received by the intermediary from the product provider.

Question 15 Do you think it is necessary for consumers to be informed of all types of remuneration? If so, what is the best way to do this?

Yes. We take this view from two perspectives. Firstly, as a matter of principle, where the intermediary is the agent of the customer, we believe the customer should be provided with full information on all payments received by the intermediary in relation to the transaction being effected on behalf of the customer. Secondly, as a practical observation, we believe that, if any type of commission is exempt from disclosure, there will be a market drift to that type of commission.

We believe, with one caveat, that the existing disclosure regime for life assurance is working well and provides a very effective model for informing consumers of all types of remuneration. The caveat is that we believe that the provisions relating to the disclosure of contingent commission arrangements cannot be fully effective in highlighting the potential impact of these payments.

Question 16 Do you think disclosure of commission is necessary in respect of all types of insurance business? If not, please specify the types of business where you believe it is not necessary and your reasons for this view.

Yes. We believe the customer should be provided with full information on all payments received by the intermediary in relation to the transaction being effected on behalf of the customer.

Where multiple insurance products are "bundled" (for example, motor insurance with added cover for legal expenses, or house insurance with added payment protection cover), disclosure should apply separately to each product as different levels of commission may apply to different components of the product "bundle".

Question 17 Do you think that consumers find the information included in the current disclosure requirements useful and easy to understand? Should the requirements be changed to include more information or to present the information in a different way?

We believe that the introduction of life assurance disclosure was a watershed in terms of consumer protection. In our view, the key information that consumers should be provided with includes contract charges, benefits and insurance cover, and the commission payable to the intermediary. We believe that there is scope to reduce the amount of further information given to customers, while ensuring that customers are provided with the necessary information to enable them to understand the fundamental features of their policies. The Society would be happy to work with the Financial Regulator to identify ways to improve the documents in light of our experience of using them over the last four years.

Question 18 Do the current requirements succeed in providing the customer with enough information to allow them to compare products between different companies?

We believe that the current disclosure regime for life assurance provides the customer with enough information to allow them to compare the different products available. A similar regime should be introduced for other investment products and for non-life insurance.

Question 19 Does the information provided succeed in providing the client with enough information to identify any company or product bias on the part of the intermediary? In particular, are the requirements in relation to override arrangements enough to make the consumer aware of potential product bias arising from such an arrangement?

The current disclosure regime for life assurance ensures that the client is informed as to the total remuneration payable to the intermediary. Comparisons with quotations for other products and/or from other product producers will help to identify any potential conflict of interest for the intermediary.

In relation to volume overrides, the disclosure document may not identify the amount payable in respect of a particular sale, as the regulations permit some averaging. Hence, the client may not be sufficiently aware of the potential for bias on the part of the intermediary. We have real doubts as to whether a disclosure regime for volume overrides can be constructed that does fully inform the client of the potential for bias. If the requirement was for disclosure based on the highest rate of commission that could be paid to the intermediary, this might in practice discourage override arrangements but it would still not be sufficient to highlight to the customer the very strong incentive that the intermediary may have to promote specific products when its sales volumes are close to the level at which higher commission payments will kick in.

Question 20 Should there be specific disclosure requirements relating to indemnity or accelerated commission to make the consumer aware of any potential bias by the intermediary?

We do not believe that it would be practicable to illustrate the timing of indemnity commission payments, as this would require the provision of monthly, rather than annual values, which would greatly complicate the disclosure document. If commission is paid on an indemnity basis, the disclosure document should perhaps explain this, and, if the product provider does not apply clawback, also disclose this. However, as noted below, there is a need to avoid over-complicating the disclosure document.

Question 21 Are consumers provided with too much information, leading to them not reading any of it? If so, what information should and should not be given?

We believe that the key information consumers should be provided includes contract charges, benefits and insurance cover, and the commission payable to the customer's intermediary. We believe that the additional information supplied to customers needs to strike a balance between providing the customer with further useful information and ensuring that the size of the document is not so large that customers are discouraged from reading it.

Depending on the complexity of the product, a life assurance disclosure document may currently run to 15 pages. We believe that there is scope to reduce the amount of information given to customers, while ensuring that customers are provided with the necessary information to enable them to understand the fundamental features of their policies. The Society would be happy to work with the Financial Regulator to identify ways to improve the documents in light of experience of using them over the last four years.

Question 22 How can the information be made clearer for people with reading difficulties?

In drafting disclosure documentation, there should be an emphasis on "plain English", with a view to conveying the information more clearly. Intermediaries and insurers could consider applying the NALA (National Adult Literacy Agency) guidelines for people with literacy difficulties.

Question 23 Should the same disclosure requirements apply to all life business or should there be different requirements for different types of products, such as investment, protection, term assurance?

We believe that the same commission disclosure arrangements should apply for all products, on the basis that the customer should have full information on the financial interest of his or her agent in the transaction.

We believe that there are merits to distinguishing between the types of products listed in the question in relation to product disclosure. In particular, we believe that disclosure for investment products should place increased emphasis on the table of values, while disclosure for protection products should place more emphasis on product price and on the cover provided. We also believe that the table of values for pure term assurance does not provide any useful information and should be removed. We would be happy to assist the Financial Regulator in developing alternative regimes for these products.

Question 24 Should the disclosure tables show the various types of commission, other remuneration and incentives separately, including indemnity commission, override commission, non-cash benefits, etc.? Would this information benefit the consumer?

Where there is no contingent element, we believe that, in practice, the key information for consumers is the total amount of the remuneration payable to the intermediary (to all intermediaries throughout the intermediary "chain"). Given the need to strike a balance between providing the customer with further information that may be useful and ensuring that the size of the document is not so large that customers are discouraged from reading it, we do not think that it would be beneficial to require the provision of a breakdown of the various forms of remuneration.

If override commissions are potentially payable, this should be explained in the disclosure documentation. However, as noted in response to question 19, we have real doubts as to whether a meaningful disclosure regime for volume overrides can be constructed.

As noted in response to question 20, if commission is paid on an indemnity basis, it may also be appropriate to explain this in the disclosure document.

Question 25 **Should policies issued to the trustees of occupational pension schemes continue to be exempted from the life disclosure regulations? Why? If these policies were no longer exempted from the regulations, what factors should be taken into account?**

We believe that the disclosure requirements should apply in the case of customers to be covered by the Consumer Protection Code as set out in CP10, that is people or firms who do not meet the definition of a professional customer as defined in EU law. Consequently, we believe that policies issued to the trustees of occupational pension schemes should not be exempt from the regulations in all cases.

Comparable disclosure requirements should apply, not only to the trustees, but also to the individual members of defined contribution schemes and AVC arrangements (we do not believe that such disclosure is generally necessary for members of defined benefit schemes, as the member's connection to the investment vehicle is remote) We believe that the most practical approach to this may be to require the provision of generic information relating to the terms of the scheme to be provided to each member when they join the scheme. This might, for example, take the form of an illustration for a typical member of the scheme. In practice, it is likely that responsibility for such disclosure would have to rest with the trustees and, therefore, the involvement of the Pensions Board would be required.

Question 26 **Should we impose specific disclosure requirements for non-life insurance business?**

We believe that the same commission disclosure arrangements should apply for all products. With regard to product disclosure, the disclosure approach for non-life insurance should focus on product price and the cover provided.

Question 27 **What factors should we consider in relation to disclosure requirements for non-life business?**

Disclosure for non-life insurance products should apply on the same basis as for life assurance protection products. As noted in response to question 16, disclosure requirements should apply separately to each element of "bundled" products, for example motor insurance with added legal expenses cover, or household insurance with added payment protection cover.

Higher rates of commission may be paid by insurers to encourage intermediaries to do extra work, such as establish electronic data interchange capability. Such arrangements can help to increase efficiency and may therefore be in the interests of customers. As noted by the Competition Authority, however, this is not a reason to avoid disclosure of such additional payments; if commissions are higher because additional services are provided, then intermediaries should be able to justify additional fees by the levels of service they provide.

Question 28 **What type of disclosure would be suitable to non-life insurance product information and remuneration? In particular, how should override arrangements and non-cash benefits be disclosed to the consumer?**

We believe that the same disclosure arrangements should apply for all products.

If the Financial Regulator allows non-cash benefits, the approach currently followed for life assurance remuneration would be an appropriate method of disclosure. We have real doubts as to whether a satisfactory disclosure regime for override arrangements i.e. contingent commissions can be constructed.

Question 29 **Do you agree that any new requirements or changes to existing requirements relating to insurance products should also be imposed on non-insurance products that are similar in nature? Please outline the reasons for your answer.**

Yes. The same fundamental arguments that we have outlined elsewhere in this response relating to commission disclosure and product disclosure apply equally to all forms of financial products.

We believe that the same disclosure requirements should be imposed on all investment products, whether or not an insurance policy is involved. This will ensure that a customer offered competing products can compare these properly and will also be aware of any possible product bias arising from the nature of the intermediary's remuneration.

We note, also, our view that advertising and promotion practices may have a significant influence on consumers' perceptions of particular products; hence, appropriate regulation of advertising and promotion practices is a necessary support to effective disclosure.

Question 30 **Are you concerned about the remuneration structures of non-insurance investment products? Are they similar to those relating to insurance products? Please outline your concerns.**

Our views in relation to the remuneration structures for insurance products apply equally to non-insurance investment products.