

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:	Nordic Financial Unions	
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Reference	Comment	
General Comment	Nordic Financial Unions (NFU) is the voice of the employees in the Nordic financial sectors. We are an organisation for co-operation between trade unions in the banking, finance and insurance sectors of the Nordic countries. Through our eight affiliated unions in Denmark, Sweden, Norway, Finland and Iceland we represent 150 000 members – a vast majority of the employees in the Nordic financial sectors.	

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<p>Q1.</p>	<p>It is important to look at the causes for conflicts of interest and what drives the occurrence of conflicts. Standards of ethics in the distribution system are particularly important for financial institutions to fulfil their role, be taken seriously and maintain a good reputation. Everyone working in the industry should have a high level of awareness of his or her particular contribution to the industry's credibility.</p> <p>Performance measurement systems/merit rating systems for employees are counterproductive to customer protection and qualified advice, and they must be avoided in the financial sectors. As the employee feels pressured to reach his/her targets it is likely that what is sold to customers may not be based on objective and sound advice from the employee. It is important to acknowledge the different types of systems that create sales pressure on employees. There are both the commissions based incentives or performance measurements systems, as well as non-monetary performance measurement systems that instead affect the salary or position of the employee. Both systems can create equal sales pressure on employees which in turn can have a negative impact on customer protection. See more under Q2-Q5.</p> <p>NFU recognises the obstacles regarding commissions and conflicts of interest but wants to stress that it is up to the social partners to negotiate and regulate all forms of remuneration.</p>	
<p>Q2.</p>	<p>NFU considers that the most important types of conflicts of interest are the ones connected to sales pressure of employees, such as for example commissions and performance measurement systems. It is important to acknowledge both monetary and non-monetary performance measurements and/or incentive systems. Different types of measurements of sales can create incentives for employees to sell more and be a positive drive for them. However it can also create a negative spiral for the employees with higher sales pressure,</p>	

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	<p>stress and worsened climate at the workplace. This increasing pressure on employees to sell products can in turn harm the customers.</p>	
<p>Q3.</p>	<p>What should be added as a cause for conflicts of interest is the role of performance measurement systems because of its potential impacts on employees and customers. The systems are based on individual sales target for employees and are becoming a widespread phenomenon. The measurement of employees does not have to be directly connected to a financial gain, such as commissions for selling a specific product, but can instead have an impact on future salary negotiations and the employee's position at the company.</p> <p>Personal goals on commissions-based products can create high pressure selling and increase the risk of breaking standards of ethics in the distribution system. The sales pressure at a company can also lead to a bad company climate/culture where the sales results between colleagues are made public and focus is placed solely on reaching sales targets. Extensive monitoring of employees also risks creating distrust between employers and employees. Instead employees should be measured by the quality of their work, overall results and customer relations.</p> <p>The performance measurement systems are effective as a short-term method to increase sales but do not take the customer's interest into consideration. The systems can lead to employees selling products to customers that they don't really need simply so the employee can reach its sale targets.</p>	
<p>Q4.</p>		
<p>Q5.</p>	<p>The performance measurements systems described under Q3 should be added to the basic structure within Article 21. What differs from for example Art 21 (a) is that</p>	

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	<p>performance measurement systems do not have to be directly linked to a financial gain of the employee in terms of commissions or variable pay. Instead the results of the measurements can have an impact on the employee's position at the company and the future salary negotiations. Performance measurements can increase the sales pressure and the stress levels of the employees. With personal sales goals for the employees they can feel pressured to sell more products that are not in the best interest of the customers.</p>	
Q6.		
Q7.		
Q8.		
Q9.	<p>To begin with, it is essential that worker remuneration should consist primarily of fixed income. This is particularly important at income levels where most of the salary pays for living costs such as rent and everyday expenses.</p> <p>Variable income (such as commissions) can have a positive effect on sales and also motivate employees but it must be recognized that it may also lead to inappropriate incentives, in particular related to assessment of risk involved in transactions. The effects have been widely described and debated.</p> <p>However, in several of the Nordic countries, commissions are negotiated in local collective agreements. It is therefore essential that it is left to the social partners to negotiate and regulate all forms of remuneration, including commissions. Free collective bargaining is a cornerstone of the Nordic model. The European Union secures this right as set down in article 153.5 of the Treaty (TFEU). It is also found that companies with collective</p>	

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	<p>agreements ensure that employees' salaries are not foremost based on variable pay and also have guarantees for employees against lowered sales.</p>	
<p>Q10.</p>	<p>If conflicts of interest between sales pressure and sound advice are not avoided, the objectivity of employees stands the risk of being questioned, which will have adverse effects on the reliability and trust of the sectors.</p> <p>NFU strives for financial sectors where employees have enough time to convey proper advice to consumers in their daily work, and where employees continuously receive sufficient and in-depth training on the advantages and disadvantages of products. To continuously educate employees in ethics and possible conflicts of interest may also prevent conflicts of interest to appear. In this regard it is important to take the higher burden of documentation into account. The demands on documentation have increased but employees have in general not been given more time to each customer. There has to be a balance between sales, advice and time needed for documentation.</p> <p>One way to prevent possible conflicts of interest is to introduce authorisation schemes or certifications of financial advisors. Such a framework would help to ensure that financial products are only sold by staff that are properly trained and have a thorough understanding of both ethics and the products on offer, including their long-term implications for customers. From the perspective of both finance employees and customers, the rules and conditions surrounding the provision of establishing and maintaining sound sales practices has not received the attention that it deserves. A framework for certification of financial advisors would enhance the working conditions for the employees while at the same time contributing to better sales practices.</p> <p>In the Nordic countries there are already certification procedures for financial advisors in</p>	

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	<p>place, albeit somewhat varying in scope, nature and content.</p> <p>The financial crisis has highlighted the key importance of maintaining sound and balanced sales practices in the financial sector. The crisis has had a clear negative impact on consumers' trust in the finance sector. A framework for certification could help to restore consumer confidence in the financial markets and finance employees, as it will prove that the industry is taking consumer concerns seriously. A trusting relationship between consumers and employees in the finance sectors is vital for the well-being of the employees as well as for the European internal market and the Member States' national economies.</p>	
Q11.	<p>Transparency for the customers is key. However, the systems for transparency must not breach the protection of employees' identities. The customers should be given information on whether the products are connected to commissions or variable pay for employees, but should not access detailed information on the individual sales person's salary or identity.</p> <p>Providing the customer with the exact amount of the variable remuneration received by the employee does not contribute to consumer protection, instead it risks having a confusing and obscuring effect and divert the customer's attention away from what should be the real focus in sales situation: the price and content of the product. The employees' privacy must not be violated: how an employee is paid, by fixed or variable pay, is an issue for the employer, the employee and his/her trade union. Also, for countries where pay is regulated through collective agreements, this risks undermining the legitimacy of collective bargaining. Conflicts of interest are best mitigated by addressing the issue of excessive sales targets and sales pressure, not by breaching the personal integrity of individual</p>	

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	insurance employees with regard to the pay that they receive.	
Q12.		
Q13.		
Q14.		
Q15.		
Q16.	As mentioned under Q10, the burden of documentation should be assessed. Financial regulation must minimize the documentation and administration burden on employees, who must be given time and resources to provide sound financial advice. Rules on selling practices should not increase the administrative burden of individual employees. Further administrative requirements risk decreasing the quality of advice and service given to customers.	
Q17.		
Q18.		