Institut für Finanz- und Aktuarwissenschaften

Commission Ban and Retail Investment Strategy

Plea for the coexistence of commission-based and fee-based advice for retirement products

- *English convenience translation of the original German study "Provisionsverbot und Kleinanlegerstrategie – Plädoyer für eine Koexistenz von Provision und Honorar bei Altersvorsorgeprodukten"*

- *Jochen Ruß, Alexander Kling und Andreas Seyboth*

- *April 2023*

Authors

Prof. Dr. Jochen Ruß

Jochen Ruß is a managing director of the Gesellschaft für Finanz- und Aktuarwissenschaften mbH, professor of Actuarial Sciences at the Institute of Insurance Science (Institut für Versicherungswissenschaften) of Ulm University, lecturer at the LMU Munich (Ludwig-Maximilians-Universität München) and advisor to the Munich Risk and Insurance Center.

Prof. Dr. Alexander Kling

Alexander Kling is a partner of the Gesellschaft für Finanz- und Aktuarwissenschaften mbH, professor of Actuarial Sciences at the Institute of Insurance Science (Institut für Versicherungswissenschaften) of Ulm University, lecturer at the LMU Munich (Ludwig-Maximilians-Universität München) and lecturer for the German Association of Actuaries (DAV). He is member of the German Association of Actuaries (DAV).

Dr. Andreas Seyboth
Andreas Seyboth is a managing director of the Gesellschaft für Finanz- und Aktuarwissenschaften mbH. He is member of the German Association of Actuaries (DAV).

Gesellschaft für Finanz- und Aktuarwissenschaften mbH
Lise-Meitner-Str. 14
89081 Ulm

Headquarters and Registry Court Ulm, HRB 3014 | VAT Id No. DE161390148
Managing directors: Dr. Andreas Reuß, Prof. Dr. Jochen Ruß, Dr. Andreas Seyboth
Chairman of the Kuratoriums: Prof. Dr. Hans-Joachim Zwiesler

http://www.ifa-ulm.de

Initiator

We would like to thank the Bundesverband Deutscher Vermögensberater e.V., (BDV; German Association of Investment Advisors) for which we prepared this study.

Copyright

This study is copyright-protected. Any reprint or reproduction, even as an extract, is only permitted with the express written permission of the Gesellschaft für Finanz- und Aktuarwissenschaften mbH.

Note: Gender

In this study, the generic masculine form is used exclusively for reasons of better readability. This refers to the masculine, the feminine and other gender identities, which are all explicitly implied if required by the statements.

Disclaimer

The information used in this study was carefully researched. The Gesellschaft für Finanz- und Aktuarwissenschaften mbH does not assume any warranty for the accuracy and completeness of the contents or for changes made in the meantime.

This document is a convenience translation of the original German study „Provisionsverbot und Kleinanlegerstrategie – Plädoyer für eine Koexistenz von Provision und Honorar bei Altersvorsorgeprodukten“. In case of discrepancies please consider the original German version.

Information status: April 2023

Table of Contents

1 Executive Summary

Background

The question whether commission-based advice for investment products should be more tightly regulated or even be banned has repeatedly been the subject of controversial debate – currently at the level of the European Union in the course of the implementation of the EU retail investment strategy. Particularly, in this regard, Mairead McGuinness, the EU commissioner in charge, would like to introduce an EU-wide commission ban. **The demand for a ban is repeatedly justified with the results of the so-called Kantar study and exclusively based on cost arguments.** This is problematic in two respects.

The first problem is that arguments against a commission ban apart from a pure cost consideration are completely ignored. For example, it should be noted that fee-based advice as well as commission-based advice in principle both offer the possibility of wrong incentives and conflicts of interest. Moreover, a commission-based system causes desirable macroeconomic redistribution effects, since larger contracts are more heavily loaded with costs than small-volume contracts and thus larger contracts subsidise part of the advice provided to less affluent consumers. Furthermore, in countries with a commission ban, it is observed that those consumers who need the advice most urgently are not prepared or not in a position to pay alternative advice compensations such as fees.

The second problem is that the cost arguments frequently addressed in the public discussion cannot be derived from the Kantar study but are rather based on a misinterpretation of this study.

Misinterpretation of the Kantar study

The Kantar study does not provide a quantitative contribution to the question of whether a form of advice not financed by a commission would be more suitable for consumers who desire advice when making investment decisions. The study only shows that selected funds in which distribution costs are factored into the price are more expensive than selected funds for which this is not the case. This statement is trivial – it was wrongly understood, however, to be a disadvantage of commission-based advice and also was transferred erroneously to insurance products.

In fact, the Kantar study has not made any statement with respect to commissions for insurance products nor performed any analyses at all in this regard. The comparison in the study includes only funds and explicitly excludes insurance products. It makes no statement on long-term products, which like insurance/retirement products typically need more comprehensive advice that is associated with costs. **In particular, no comparison has been undertaken to analyse whether the costs of commission-based advice are higher or lower than for other forms of advice.**

Additionally to the fact that the results of the study were interpreted incorrectly, the Kantar study has several methodological weaknesses, inconsistencies, etc. which also limit the significance of the study-results.

Arguments for coexistence of commission-based and fee-based advice

Even if one argues exclusively with costs of the advice and ignores all other arguments, based on the facts one must conclude that the coexistence of commission-based and fee-based advice is desirable.

Commissions are usually proportional to the contract volume. In the case of fees, the following models are predominant:

1. One-off (and potentially additional regular) fee according to time required
2. One-off (and potentially additional regular) flat-rate fee
3. Volume-dependent fee per year

Already from the different structures of the compensation, one can qualitatively deduce that, compared to the first two fee-based models mentioned above (which predominate in the case of typical retirement contracts), the commission-based model is less expensive for rather small contracts. The fee-based model, on the other hand, is less expensive for larger contracts.

In particular consumers who are less well off, who typically make smaller provisions for their retirement and who should primarily be protected by the EU retail investment strategy, benefit from the existence of the commission system, which in the current retail investment strategy is supposed to be banned.

If one compares the third fee-based model, which usually comes to the fore when larger amounts are invested, with the commission-based model, then one can deduce from the structure of the compensation that, in this case, the commission-based model is less expensive for longer terms; the fee-based model, on the other hand, is less expensive for shorter terms.

It is already apparent without mathematical calculations that in some cases fee-based advice is less expensive for consumers; in other cases, commission-based advice is less expensive. Neither of the two models can always be less expensive, which already makes a compelling argument for coexistence.

Quantitative results

In order to derive an indication of what form of advice compensation is less expensive for which types of consumers, we carried out quantitative analyses using typical examples of the different compensation models. **Here the result was that commission-based models are usually less expensive than fee-based models for consumers who regularly save rather small amounts (and who should receive special consideration in the context of the EU retail investment strategy).**

For our analysis we use on the one hand as an example the costs of the commission-based advice of the largest German life insurer. We calculate these costs as the difference between the costs of its standard tariff (which pays commissions) and the costs of its tariff for fee-based advice (which pays no commissions). On the other hand, we use a fee-based model with typical hourly rates for fee-based advice in the German market and the typical time required for a complete, legally compliant and high-quality retirement advice and ongoing support. **In this case, for example, for a contract term of 20 (or 30) years, the commission-based model is less expensive provided the monthly contribution invested in the retirement product is less than € 186 (or € 129).**

A variation of the hourly rate (higher or lower) and the amount of ongoing support (more frequent or none at all) does not change the fact that the contribution, below which the commission-based model is less expensive, is always of a scale that should be relevant for many consumers with rather small financial resources.

An investigation of fee models with flat-rate fees showed, on the one hand, that it is not at all easy to get hold of schedules of flat-rate fees for fee-based advisors. On the other hand, the offered models even within the schedule of fees of a certain provider allow for both inexpensive and (in part, very) high-priced models. Applying these flat-rate fee models confirms the statement that the level of contribution, below which the commission-based model is less expensive, is relevant for many consumers.

Typical scales for volume-dependent fees per year always lead to a higher yield reduction than the costs of commission-based advice for terms typical of those in retirement provision.

Overall, our quantitative results emphasize impressively that the coexistence of commission-based and fee-based models is worth striving for.

2 Background of the current discussion and motivation of our study

Performance transparency and cost transparency in retirement provision: Despite progress, still worth improving

Demographic change represents a major challenge for retirement provision in Germany. With the increasing challenges that the statutory pension insurance is facing in Germany,[1] the importance of funded (occupational and private) retirement provision increases accordingly. It is essential to ensure that consumers can purchase products meeting their needs at a fair price. Numerous regulatory initiatives in past years were characterised by the idea of contributing through increased transparency: So, for example, product information sheets were supposed to increase transparency by providing a quick overview of the most important product features. In addition, there were numerous regulations to improve performance transparency, in particular the disclosure of so-called risk classes or risk/return classes. They are supposed to make it possible to select return potential and risks of a product such that they are consistent with the needs of the consumer, in particular the consumer's risk aversion and risk bearing capacity. Also cost transparency was increased, particularly by the obligation to disclose so-called total expense ratios or effective costs. This is supposed to contribute to the ability of the consumer to easily determine the costs of a product and to purchase only products that have a fair price.

All of these regulations make sense in general, but still have a considerable potential for improvement, since, in particular, the presentations in the different types of product information sheets are only to some degree comparable.[2]

Debate on the regulation of commissions in Germany

In our view, there is a wide-ranging consensus that high transparency with respect to possible performance and costs make sense in general and that there is still potential for improvement in this respect. On the other hand, the question whether type and amount of permissible costs should be regulated is clearly the subject of controversial discussions. In this context, repeated discussions take place about commissions (meaning a distribution compensation paid directly by the manufacturer). In particular, the question whether the "system" of advice compensation by means of commissions per se

1 We presented this in detail in an easy to understand fashion in Ruß et al. (2022).

2 The different types include in Germany for insurance-based products, for example, a product information sheet for certified (state subsidised) products in accordance with the retirement provision product information sheet regulation (AltyPIBV) or the EU-wide compulsory key information document in accordance with the PRIIP regulation (PRIIP-KID) for insurance-based investment products. We explained the lack of comparability in chapter 3 of Ruß et al. (2018) and concluded: "The number of (in the best case to some degree comparable) statements on the costs of products presumably creates not only transparency, but in many cases also confusion."

is “too expensive”, arose repeatedly in various facets of the political discussion in recent years.

In Germany, the statutory introduction of a general commission cap for life insurance was discussed several years ago. There had already been a draft bill in this regard by the Federal Ministry of Finance.[3] However, this was not implemented after intensive discussion. Instead, on 1 July 2022 a commission cap for residual debt insurance entered into force.[4] Announcements by the German regulator BaFin of the intention to introduce a so-called “commission reference value”[5] led at the end of October 2022, after sharp criticism of this initiative, to public consultation on a draft of an “information sheet on the supervisory aspects of good conduct for endowment life insurance products”[6]. This document no longer includes explicit commission regulation but attempts to define criteria for the anticipated yields after costs that products must at least provide in order to offer consumers appropriate value for money.

According to our current knowledge, in Germany there is no intent to introduce an explicit regulation or even a ban of commissions.

Debate on the regulation of commissions in the EU and the “Kantar study”

At the European level, on the other hand, the implementation of the EU retail investment strategy[7] is currently being prepared. Mairead McGuinness, in particular, the EU commissioner in charge, would like to introduce an EU-wide commission ban in this context. This is being subject to extremely controversial discussions. Proponents of a commission ban base their argumentation repeatedly on the results of a current study prepared on behalf of the European Commission by Kantar Public in cooperation with Milieu and CEPS (hereafter named as the Kantar study).[8] This argumentation, however, is based on an apparent misinterpretation of the study results: The study in fact only shows that selected funds in which distribution costs are factored into the price, are more expensive than selected funds in which that is not the case. This statement is trivial. The study does not provide any quantitative contribution to the question whether advice not

3 See “Entwurf eines Gesetzes zur Deckelung der Abschlussprovision von Lebensversicherungen und von Restschuldversicherungen”; available in its editing status of 18 April 2019 at: https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_VII/19_Legislaturperiode/2019-04-18-Provisionsdeckelung/1-Referentenentwurf.pdf?__blob=publicationFile&v=3. Retrieved on 24.3.2023.

4 See the new § 50a VAG, which was introduced by Art. 19 of the Schwarmfinanzierung-Begleitgesetz.

5 See e.g. the statement by Frank Grund at the annual press conference of the German Financial Supervisory Authority (BaFin) on 3 May 2022 – In the video clip of the event at: https://www.bafin.de/SharedDocs/Videos/DE/video_jpk2022.html at c. 1:04:00. Retrieved on 24.3.2023.

6 See https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Konsultation/2022/kon_08_22_Konsultation_wohlverhaltensaufsichliche_Aspekte_lv_produkte.html Retrieved on 30.3.2023.

7 German: Strategie zur Förderung der Investitionen von Kleinanlegerinnen und Kleinanlegern; English: Retail Investment Strategy (RIS).

8 See European Commission et al. (2023).

financed by a commission would be more suitable for consumers who desire advice when making investment decisions. If the study is used to justify a commission ban for insurance products, then from the knowledge that some funds, where distribution costs are factored into the price, are more expensive than other funds, where this is not the case, one draws the invalid conclusion that commission-based advice in insurance is disadvantageous to other forms of advice. This question, however, was not even analysed in the Kantar study.

Content and structure of this study

We limit our qualitative and quantitative analyses in our study to typical insurance-based retirement products. Since in the current discussions on a commission ban, only cost arguments are taken from the Kantar study, the following three aspects are the focus of our study:

1. We will explain in section 3 why it is a misinterpretation of the results of the Kantar study, when from the cost analyses conducted in the Kantar study it is deduced that commission-based advice is too expensive. Moreover, in this section we will explain that the quantitative analyses which the Kantar study conducted for funds have several methodological weaknesses, inconsistencies, etc. which also limit the significance of the results apart from the misinterpretation of results.
2. We will explain in section 4, using qualitative arguments, that the coexistence of various compensation models for advice is desirable, in particular, the coexistence of commission-based and fee-based advice. We will explain in particular that, because of the different structure of the compensation models, no model can in general be more cost-effective than the other for all consumers.
3. In section 5, using typical examples of various compensation models, we will derive a quantitative indication of which form of advice compensation is less expensive for which types of consumers. We will show in particular that commission-based models are usually more cost-effective than fee-based models for consumers who regularly save rather small amounts (and who also must receive special consideration as part of the EU retail investment strategy).

Besides the arguments presented in our study, there are numerous additional reasons that argue against a regulation or even a ban of commissions, which we will not go into detail here. At this point, in addition to the remark that it would make more sense first to eliminate the above-mentioned weaknesses of the "milder" measures of the transparency regulations, before contemplating the sharper sword of a ban, we would like to briefly mention only three selected points. For further aspects and further details, we refer to our still current study "Regulierung von Provisionen: Ziele, Risiken und Nebenwirkungen provisionsbegrenzender Regulierung in der Lebensversicherung in Deutschland (Regulation of Commissions: Goals, Risks and Side-Effects of Commission-Limiting Regulation in Life Insurance in Germany)" from 2018.[9]

- **Conflicts of interest:** Each compensation system basically offers the possibility of wrong incentives and conflicts of interest. This applies to commission-based advice as well as to fee-based advice. The problem that results from conflicts of interest must be reduced by regulation, and misconduct must be sanctioned instead of banning one system and overlooking the fact that other systems in principle may have similar problems.
- **Redistribution effect:** A principle immanent in the commission-based system is the volume dependency. It contains a too little regarded social component which leads to desirable macroeconomic redistribution effects: Larger contracts, which are usually concluded by more affluent customers, are more heavily loaded with costs in terms of absolute amounts than small-volume contracts, and thus subsidise part of the advice provided to less affluent customers.[10]
- **Acceptance and advice gap:** In the case of fee-based advice, macroeconomically too few customers are advised. This is fundamentally due to the fact that fee payments deter precisely the customers with a low willingness to pay (or ability to pay), while in the commission-based model there is no financial barrier against using advice. This is referred to as "advice gap", which represents an essential risk of fee-based advice. This can actually be observed in countries with a commission ban: Those consumers, who need advice most urgently (they are consumers who have a rather low income and assets and who tend to have less of a financial education), are not prepared or in a position to pay for alternative advice compensation such as fees.[11]

[9] See Ruβ et al. (2018), particularly, paragraphs 4.2.2, 4.2.3 or 4.2.6 in conjunction with 6.3 on the three points referred to below. The texts in the following three points are in part verbatim quotes from Ruβ et al. (2018).

[10] See Stoughton et al. (2011), p. 950.

[11] Besides the sources mentioned in Ruβ et al. (2018) on this topic, we refer to a current representative study, which was conducted on behalf of Quirin Privatbank in Germany, which specialises in fee-based advice (see Puls, 2023). Only 33% of the persons interviewed there are prepared to pay a typical fee for advice, while 39% indicate that after a commission ban they no longer wish to use advice (28% do not know how they would act).

3 Misinterpretations and methodological weaknesses of the Kantar study

3.1 Understanding the Kantar study

Study contents

The Kantar study set up on behalf of the European Commission is a very comprehensive international study, which was documented on 357 pages plus attachments in a "Final Report". The starting point for this study is the postulate that financial markets are too complex, resulting in problems for retail investors. Because of the complexity of the financial markets, it is presumed in particular that decisions by customers serve their own interests less than those of product manufacturers and intermediaries.[12]

With this in mind, the study considers the regulatory framework conditions for the entire decision-making process of retail investors from the search for information to the advice received. The investigations are subdivided into three topic areas:

- Disclosure: This includes, for example, the regulations on product information sheets (KID/KIID).
- Inducements and investment advice: This topic field discusses, among others, the question of how a meaningful consumer protection regulation (e.g. regarding the information on dependent/independent advice) should be designed in order to control the information asymmetries between adviser and customer.
- Suitability assessment, demands and needs test: Here in particular the relevant regulations from IDD and MIFID II are the object of the consideration, which are supposed to lead to retail investors being offered only appropriate and suitable products.

The situation in a number of EU countries is being researched for all three topic areas.

- The study attempts to grasp the significance of the respective topic area ("relevance").
- The study discusses the coherence of the existing regulatory requirements ("coherence"), their effectiveness ("effectiveness") and cost/benefit ratio ("efficiency"); and
- examines the question of the extent to which measures taken at the EU level have already made a positive contribution to alleviating the problems perceived ("EU added value").

[12] See European Commission et al. (2023), p. 8.

The largest portion of the Kantar study, therefore, has nothing to do with the results, which are cited by proponents of a commission ban. In fact, the cost comparison, which is supposed to support the demand for a commission ban, is only one (rather minor) point among many, with which the study deals.[13]

Kantar evaluation of the efficiency of regulations governing the inducement system of the distribution of investment products

The cost comparison undertaken in the Kantar study considers only selected funds and has numerous weaknesses, as we explain in section 3.2 below, and the study authors are apparently aware of some of these weaknesses. Nevertheless, the study as part of its observations on the inducement system of the distribution states very generally that distribution compensations which are financed from indirect distribution costs of investment products lead to higher product costs being charged to the customers, and that this suggests that customers in this process are not necessarily purchasing the optimal products in terms of the costs charged to them.[14] We will subsequently see that – even if this statement were correct – it would represent a massive misinterpretation of this statement if conclusions are drawn about commissions, in particular, commissions for typical insurance products.

3.2 Cost comparison undertaken in the Kantar study

The figures in the public discussion

The (corrected version of the) Kantar study mentions in its Executive Summary on p. 25 that investment products (in the Kantar study the terms "products" or "investment products" are used) where the manufacturer finances distribution compensations from the products ("induce¬ments") are on average more expensive by 24-26% than their counterparts without such compensation.[15] As a consequence, the study authors note that the rules implemented under MIFID II (still) have not led to customers receiving better value for money because of lower commission.[16] It is obvious that this statement is misunderstood in the discussion as a disadvantage of commission-based advice – even in the insurance sector. **Upon close examination, the study, however, did not make any statement with regard to commissions for insurance products nor did it conduct any analyses at all in this regard.** Since misinterpretations based on wordings chosen by the study authors were to be expected, the study authors should certainly be blamed for not making the effort to achieve a more differentiated and

13 The relevant information is found for the most part on pp. 170-182 of the study.

14 See European Commission et al. (2023), p. 20.

15 An earlier version of the study mentioned a value of 35% based on an error not specified in greater detail in the correction, see below.

16 See European Commission et al. (2023), p. 25. The detailed results then are noted on p. 180 et seq. Some of the information and texts are found again then on p. 276 et seq.

clearer presentation. Especially given the fact that the study for its part criticises a lack of transparency of manufacturers and distributors.

No transferability of the results to insurance products possible

Commission payments from insurance products were not analysed as part of the Kantar study.[17] Instead, the cost comparison includes only a **comparison of the costs of selected funds** (UCITS and AIF), which have indirect distribution costs, with the costs of selected funds without indirect distribution costs.

Indirect distribution costs are those distribution costs that are paid by the manufacturer to the distributor, and which must be financed from the product costs accordingly. We understand that this includes commission payments for the sale of insurance products and so-called kickback payments of funds.

By direct distribution costs the study means such costs which the distributors charge to the customers themselves without regard to the manufacturer. The study mentions explicitly transaction costs and "fund entry fees".[18] Which costs are included is not precisely identifiable from the study text; but this plays no role in the following argumentation.

What can we deduce from the cost comparison?

The comparison only shows that, taking <u>all countries together</u>, the funds with indirect distribution costs that were <u>selected</u> for the purpose of the study showed an <u>overall higher cost level</u> for the customers than selected funds without indirect distribution costs.

- The comparison only includes funds and explicitly excludes insurance products.
- The comparison thus makes no statement about long-term products which – such as insurance/retirement products –typically need more comprehensive advice that is associated with costs.
- The comparison is purely cost-based. The question whether products with higher costs could possibly benefit from higher performance opportunities is not examined (see the discussion of the justification of actively managed funds in comparison to ETFs with a lower cost level).
- In particular, no comparison is undertaken as to whether the costs of commission-based advice are higher or lower than for other forms of advice. **Thus, in particular, it cannot be derived from the study results whether commission-based advice is more or less expensive than alternative forms of advice.**

[17] See European Commission et al. (2023), p. 181.

[18] See European Commission et al. (2023), p. 173.

Such limitations are naturally not apparent from the brief statement in the Executive Summary of the Kantar study.

Important limitations for the interpretation of the cost comparisons for funds

Regardless of the risk of misinterpretations mentioned, the underlying quantitative analyses which the Kantar study conducted for funds have some **methodological weaknesses, inconsistencies, etc.**, which **limit the significance even more**. The study itself also provides numerous explanatory notes in this regard.

Country results for Germany and Luxembourg

Besides the "international" result that funds which incur indirect distribution costs are 24-26% more expensive on average than their counterparts without such costs, the study also mentions figures among others for Germany and Luxembourg, which should be especially relevant for the German fund market.[19] A glance at both of these country results in the cost comparison already makes clear that the results of the Kantar study are not at all suitable for the discussion of commission-based vs. fee-based advice. **While most of the other countries considered in the Kantar study show an advantage for the funds without indirect distribution costs (thus without commissions/kickbacks), the funds with commissions/kick-backs in the case of Germany are 25% less expensive and in the case of Luxembourg are almost 60% less expensive!** These figures seem implausible and have not been commented on in the study. They may be due to the (non-representative) fund selection or a misinterpretation of the data obtained or simply a calculation error. If one follows the logic with which the figures of the Kantar study are interpreted in the current discussion as an argument for a commission ban, then one would analogously have to demand the elimination of the fee-based advice for Germany and Luxembourg. Of course, this can just as little be derived from the analyses as the figures of the Kantar study can be used in the discussion as an argument in favour of a commission-ban.

Difficulties during the cost survey and interpretation

The study repeatedly indicates the difficulty of surveying the parameters for a cost comparison.[20] Even the funds which served as the basis for the cost comparison did often only provide maximally possible costs (and not actually currently incurred costs) or did even provide no information on the amount of distribution costs at all. **Only for just over 50% of the investment funds was the exact amount of indirect distribution costs available.**[21] **The possible consequences for the significance of the results are not made a topic in the study.**

[19] See European Commission et al. (2023), p. 180.

[20] See e.g. European Commission et al. (2023), p. 170 or p. 181.

[21] See European Commission et al. (2023), p. 178.

The difficulties during the cost survey and interpretation of the costs are evident among others in the fact that it was indicated in the first version of the Kantar-study that among the funds considered, those with indirect distribution costs have 35% higher costs than those without indirect distribution costs. This turned out to be an error and had to be corrected to 24-26%.[22]

Small sample size

Since the Kantar study was intentionally **not** designed as a "representative survey", the basis for the evaluation is also relatively small. Therefore, the figures shown are not "average" or "typical" results. The above-mentioned cost comparison of funds is based, for example, on only 176 funds. For Germany only 5 funds without indirect distribution costs and 8 funds with such costs were included in the comparison.[23] Thus, in view of the large number of products actually available on the market, only a very small sample was considered. **With such a small sample, a correct result could at best be produced coincidentally.**

No representative product selection

The Kantar study explicitly refers to the fact that the selection of the analysed products was "purposeful" and not representative.[24] Accordingly, the in¬terpretation of precise figures must be handled carefully. In the cost comparison of the funds, ETFs and inexpensive money market funds are over-represented in the group of products without indirect distribution costs. Part of the difference in costs (in an unknown and not commented upon amount) is therefore already explained by the product selection and not by the fact that a product provides for indirect distribution costs or not.[25] **Solely because of this effect, the figure of 24-26%, which had already been adjusted downward, must be further reduced.**

Changing composition of the compared products

Great caution is also required when interpreting the study results because of the changing composition of the compared products. As exemplary clarification: Table 5-21 shows the average costs for each product category (shares, bonds, UCITS, AIF, IBIP and personal/individual pension products). In Table.5-22 directly below, the costs for each country are then shown. Only on closer inspection does one determine that in the first table 452 products and in the second table 334 (other) products were included in the comparison, since the country comparison is based on a "product basket" consisting by way of example of selected 5 shares, 5 bonds, 8 UCITS and 5 AIFs.[26] In Table 5-26

[22] See European Commission et al. (2023), p. 3

[23] See European Commission et al. (2023), p. 179 et seq.

[24] See European Commission et al. (2023), p. 180.

[25] See European Commission et al. (2023), p. 180.

[26] See European Commission et al. (2023), p. 176.

finally, which is the basis for the cost comparison of products with and without indirect distribution costs, only figures of in total 176 UCITS and AIFs are found. **Insurance products are contained in neither of the two cross-country comparisons. Such a presentation of information invites misinterpretation.**

Further limitations during the interpretation of international studies

Experience shows that insurance markets in individual EU states can differ greatly. Different fiscal conditions, product features and local language terms make cross-country comparisons beyond all language barriers extremely difficult. Without strong local expertise from each single country under consideration, in our experience it is almost impossible to make reliable statements. One should always be aware of this when one makes decisions on the basis of international comparative studies. Limitations and disclaimers – as they are also contained in the Kantar study at numerous points and as shown above – are often overlooked.

As an example, we would like to refer to two other points, which could be wrongfully taken from the study with reference to Germany if read without calling them into question:

- Figure 4-14 of the study claims that German insurance companies offer hardly any "insurance-based investment products" (so-called IBIPs).[27] However, the fact is that the majority of life insurance products in Germany are IBIPs.
- From Table 6-3, the reader may incorrectly conclude that independent advice in Germany is offered only by 1,700 fee-based advisers, and a market of (also independent) brokers does not even exist.[28]

According to our experience with international comparisons, it is very likely that in many further parts of the study which we have not considered in detail, because they have nothing to do with the focus points of our study, one will encounter comparable inconsistencies.

27 See European Commission et al. (2023), p. 81.

28 See European Commission et al. (2023), p. 234. In addition to the fact that in Germany evidently only fee-based advisors are considered "independent" in the context of the Kantar study, the statement of the study is interesting that the lower market shares of the independent advisors, according to the statement of the local supervisory authorities and consumer protection organisations, are explained by the fact that customers do not recognise the (separate) value of paid advice (see p. 234).

3.3 Illustration of the misinterpretation using an example

If one disregards all of the points mentioned in the previous section, which already forbid the use of the results of the cost comparison in the Kantar study as an argument against commission-based advice, then a critical look remains at the study's finding on the lack of efficiency of the inducement system: the general statement of the study authors that "inducements" (this includes commissions) should lead to customers not buying the optimal (i.e. the most cost-effective) products.

Indirect distribution costs included in the product price make a contribution to the financing of the advice. If the advisor receives no such compensation, he has to finance this in another way or can provide no advice. The Kantar study does not take this into account, for it only compares the costs of selected products, which contain a special form of distribution compensation, with the costs of products that do not contain this special form of distribution compensation – without discussing the costs of alternative forms of distribution compensation at all.

For consumers with an adequate financial education, this may be a proper comparison. The customer exchanges product costs for self-invested research time. For consumers, who rely on advice, such a comparison is apparently not proper. These consumers cannot do anything with a "naked" product without advice. Although the starting point of the Kantar study, as mentioned at the beginning of this section, is the complexity of the financial markets, the study with its generalised statement implicitly assumes that advice - i.e., the active help to overcome this complexity – does not cost anything.

That this is not correct is actually a completely trivial aspect. With reference to investment products it is apparently often not understood. We would therefore like to illustrate this in the following section using a visual comparison.

An example outside the financial sector

To explain why it is meaningless to use a simple cost comparison of products with and without a commission as an argument for a commission ban, we would like to use an example that has nothing to do with investment products:

Example to explain the misinterpretation

Imagine that a furniture store offers furniture at a price that already includes the service of setting up the furniture at the home of the consumer. A consumer who is a talented craftsman and can set up the furniture himself is basically able to buy a piece of furniture without this service. He can invest his own time in setting up the furniture to save money and can presumably also estimate quite well whether the "setting up himself" variant is better for him. The situation is quite different for a consumer who is not a talented craftsman. He only has the choice of buying a piece of furniture including the set-up or a piece of furniture without the set-up. In the latter case, he has to buy the set-up service elsewhere. Nobody would be surprised that a study that analyses the prices of furniture discovers that furniture whose prices already include the set-up are more *expensive than furniture sold without the set-up. No one would ever think of concluding on the basis of these results that the acquisition of the piece of furniture including the set-up is always disadvantageous for the consumer and that one would have to prohibit furniture stores from offering furniture at a price including the set-up.*

Back to investment products: Many manufacturers offer their products at a price that already contains the advisory service (products with commissions). A consumer who is financially well educated and can do the research himself on needs-based investment products is basically able to buy investment products without the advice. He can invest his own time in the search for needs-based products to save money and can presumably also estimate quite well whether the "do the research himself" variant is better for him. The situation is quite different for a consumer who has a lower financial education. He only has the choice of buying a commissioned investment product including the advisory service or a non-commissioned investment product and then buying the advice elsewhere. No one would ever be surprised that a study that analyses the prices of investment products discovers that investment products, whose prices already include the advice, are more expensive than investment products whose prices contain no advice. No one should ever think of concluding on the basis of these results that commission-financed advice is always disadvantageous for a consumer and that one would have to prohibit the manufacturers of investment products from offering commissioned investment products.

The separate purchase of the advisory service is naturally not systematically less expensive in all cases nor of a better quality, as we will qualitatively explain or quantitatively document in the following two chapters.

3.4 Digression: Comments on a (different) current study

Shortly before the completion of our study, a study by the University of Regensburg was published, which claims to prove that consumers in countries where a commission ban prevails achieve a 1.7% greater yield per year on average than in countries without a commission ban.[29] Even if we cannot express a detailed opinion on this study because of the short-term nature, nevertheless we comment as follows, since said study is a prime example of a seemingly scientific analysis, which is driven exclusively by a political agenda and not by facts:

The study, in plain words, attempts to allocate the (with its own calculations approximated) yield of the assets of private households in a country to selected explanatory factors with a simple linear regression model. These factors are very high level macroeconomic variables (e.g. the percentage of the population that is employed, or the proportion of women in the population), and a variable that describes whether a commission ban prevailed in the respective country in the respective year or not.

[29] See Sebastian et al. (2023).

Common sense should tell you that considering the development of high level macroeconomic variables between 1997 and 2020 and attributing the differences in one variable (yield of the assets of private households) to the existence of a commission ban (introduced between 2005 and 2019 and in some countries only partially[30]) is problematic.

Common sense should also tell you that the yield of all assets of private households naturally is driven primarily by the money already invested for quite a long time and not by the money invested only after the commission ban. When there is no possibility of separating the yield of the money invested after the commission ban entered into force from the money invested beforehand, the issue is to be assessed at best with the methods selected[31] when the commission ban under consideration is sufficiently far in the past such that the money invested beforehand influences the total yield of the assets of private households only to a very limited degree. These arguments should have discouraged the authors from their project before beginning their analyses.

The significance of analyses which attempt to answer microeconomic questions with macroeconomic data is basically low, putting it mildly. In this case, furthermore, the macroeconomic factors are so high-level that they can probably explain only a very small part of the yield achieved, so that almost any additional variable will explain part of the yield. A different selection of the macroeconomic factors would lead to the fact that the "commission ban"-variable is ascribed a substantially greater, substantially lesser or even a negative part of the yield achieved.

[30] In Denmark, the commission ban applies solely to the former 210 brokers; in Australia it has been in force as from 2019.

[31] That the selected methods per se are problematic in this case result, for example, from Imai and Kim (2021) or De Chaisemartin and d'Haultfoeuille (2020).

4 Commission-based vs. fee-based models: qualitative statements based on structural differences

4.1 The commission model[32]

Commission is characterised by key principles, which in Germany are also set forth in the German Commercial Code (HGB):[33]

- Contingency (§§ 87 para. 1 HGB, 87a para. 1 HGB, 92 para. 3 HGB): claim to a commission exists only if a contract has been concluded.
- Fate sharing (§ 87a para. 1 HGB, § 92 para. 4 HGB): The claim to a commission depends on the payment of the premium by the policyholder.
- Orientation on standard market rates (§ 87b para. 1 HGB), if there is no express commission agreement.
- Revenue dependency (§ 87b para. 2 HGB): Basis of the commission is the insurance premium, so the amount of commission relates to the volume of the contract.

Commission is paid to the intermediary by the insurance company and not by the policyholder. The insurer finances the commission then through the cost loadings of the contract.

Commission typically is comprised of the elements "acquisition commission", which is due immediately when the contract is concluded, as well as the "portfolio commission" which is regularly paid throughout the entire term.[34] Acquisition commission should pay primarily for the advisory expense in connection with the contract conclusion and, in the event of an early contract cancellation, has to be paid back at least in part. Portfolio commission should compensate for the expense of the ongoing support of the policyholder.[35]

---

[32] Sections 4.1 and 4.2 are guided by sections 4.1.1 and 4.1.2 in Ruβ et al. (2018).

[33] See Beenken and Radtke (2013), p. 34. We note that in Germany historically the term "courtage" was introduced for the compensation of the broker and the term "commission" for the compensation of the tied agent, see Umhau (2003), pp. 9-14. The term "commission" today is also used as the umbrella term for both kinds of intermediary compensation. Therefore, we exclusively use the term "commission" subsequently.

[34] See Beenken and Radtke (2013), p. 34.

[35] See Beenken and Schiller (2015), p. 530.

4.2 Fee-based models

In contrast to the commission, the fee is typically paid directly by the policyholder to the advisor. Furthermore, the criterion of fate-sharing is omitted, since the fee is due in addition to the premiums, which are incorporated into the retirement provision contracts. Thus, a (partial) reimbursement of the fee is usually not provided for in the event of cancellation.[36]

In the public discussion, furthermore, there is often no differentiation between fee-based advice and the fee-based brokerage.[37] In the case of fee-based advice, the fee is understood as compensation for the advisory service. The customer owes the fee-based advisor the advisory fee regardless of whether a contract is concluded in the course of the advice. In the case of the fee-based brokerage, on the other hand, the fee is owed only if a contract is concluded in the course of the advice. The fee-based brokerage model is thus clearly closer economically to the commission-based model than the fee-based advisory model, since in the latter case the contingency criterion is omitted.

The fee in principle may be agreed to be a fee according to time required (for example an hourly rate) or a flat-rate fee. Here there is also no revenue dependency. Particularly in case of the fee-based brokerage, an annual fee based on investment volume is also conceivable.[38] In such a case, the fee-based brokerage is very close to a commission-based model. In particular, fee-based models may also be encountered for investments in securities, which provide for an annual fee dependent on the respective total current value of the corresponding investments (volume-dependent fee per year).

4.3 Structural statements on the price difference between commission-based and fee-based models

We consider (qualitatively in this section and quantitatively in section 5) three different fee-based models, which we compare with the commission-based model:

1. one-off (and potentially additional regular) fee according to time required (number of hours multiplied by an hourly rate)
2. one-off (and potentially additional regular) flat-rate fee (various flat-rate euro amounts for different advisory situations)
3. volume-dependent fee per year (annual compensation of the advisor in the form of a percentage of the value of assets at the respective time)

36 See Beenken and Schiller (2015), p. 533.

37 The German terms in question are "Honorarberatung" (fee-based advice) and "Honorarvermittlung" (fee-based brokerage). See Beenken and Radtke (2013), p. 46 et seq. or Beenken and Wende (2016), p. 5.

38 See Beenken and Radtke (2013), p. 47 et seq.

We compare each of these three models with a commission-based model, where (as is customary with insurance products with a savings component in Germany) at the beginning of the contract a certain percentage of the total contributions (i.e. for a typical insurance product the sum of premiums payable), and, if applicable, additional ongoing compensation are paid as commission.

Even without carrying out mathematical calculations, it can be deduced solely from the structure of the respective fee-based model for which type of contract (short or long term, low or high volume) a fee-based model is more or less expensive than the commission-based model. In particular, it can be deduced that the assumption that the fee-based model is always less expensive is simply false.

4.3.1 Commission vs. fee according to time required

In Germany, the acquisition commission of an insurance contract is typically determined as a percentage of the total contributions. Ongoing portfolio commissions are often determined as a percentage of each contribution or the accumulated savings. Commissions are therefore higher the higher the contributions are. For regular premium contracts (which dominate the retail business[39]) the amount of commission furthermore is higher the longer the contract term is. Since the time required for complete and legally compliant advice, on the contrary, is usually not contingent on the contribution volume and the scheduled term, the fee determined according to the time required is largely independent of these variables. **The commission-based model thus is less expensive if the contribution is rather low. Conversely, a fee-based model compensated according to the time required is less expensive if the contribution is rather high.** The contribution below which the commission-based model is less expensive is higher for short terms than for long terms.

The precise limits, above which the fee-based model is more expensive, depend on the concrete form of the considered compensation-models and the actual time required. We will calculate this specifically in section 5 for selected examples. Without further calculations, however, it is already apparent that neither of the two models can always be less expensive than the other.[40]

4.3.2 Commission vs. flat-rate fee

An agreed flat-rate fee is apparently independent of the contribution volume and of the scheduled term. Therefore, what is said in section 4.3.1 also applies to a flat-rate fee accordingly.

---

[39] We recall that the commission ban is being discussed in the context of the EU retail investment strategy.

[40] One may argue that a fee calculated according to the actual hours incurred is "fairer" than a commission dependent on the contribution volume. This argumentation, however, overlooks the fact that the redistribution effect desirable from a macroeconomic perspective as mentioned in section 2 is lost and the risk of the advisory gap also mentioned in section 2 results.

4.3.3 Commission vs. volume-dependent fee per year

In particular with higher volume investments (thus not for typical retirement contracts with rather low monthly savings rates) and particularly at banks, another fee-based model may be encountered with the amount of the fee being determined as an annual percentage of the total invested assets.[41] Here one can understand which model is the less expensive in which situations, if one considers the yield reduction that results from the compensation of the advice:[42] A commission as a percentage of the total contributions causes a lower yield reduction the longer the term of the contract is (irrespectively of the chosen amount of contributions). If every year the same percentage of the invested assets is taken as a fee, then the yield is approximately reduced[43] by this percentage (regardless of chosen term and amount of contributions). **So here c.p. the commission-based model is apparently less expensive for long terms and the fee-based model for short terms.**

The concrete threshold below (above) which the fee-based model is less expensive (more expensive) is again dependent on the concrete design of the compensation-based model. **Without additional calculations, however, it is apparent that neither of the two models can always be less expensive than the other.**

[41] This often is accompanied by a minimum fee per year, which makes this fee-based model for smaller sums unattractive from the start, see also footnote 54.

[42] With the models in sections 4.3.1 and 4.3.2, both the fee and the commission are largely due at the beginning of the contract. In such situations euro amounts can simply be compared with one another. In section 4.3.3, however, we compare a commission at the beginning of a contract with a fee which occurs each year. In such cases, when payments do not occur at the same time, comparisons of euro amounts are not meaningful.

[43] The deviation depends in particular on the time and the frequency at which the fee is taken (beginning or end of the period; the whole percentage annually or 1/12 of the agreed percentage monthly, etc.).

5 Quantitative illustration using selected examples

To illustrate the arguments qualitatively derived in section 4 using concrete numerical values, in this section we will consider selected concrete models for commission-based and fee-based compensation and derive indications of which model is less expensive for which types of consumers.

5.1 Commission vs. fee according to time required

Assumptions on hourly rates for fee-based advice

The usual hourly rates of fee-based advisors are not available transparently. An hourly rate of € 150 plus the statutory VAT is often called "usual", but it is not always clear how current such statements are, and they are not based on official surveys.[44] Furthermore, the Verbund Deutscher Honorarberater (Association of German Fee-based Advisors) in response to our enquiry informed us verbally that a survey of its member companies resulted in an average hourly rate of € 183 plus statutory VAT.[45]

To illustrate the range of the values encountered in practice, in this section we will use an hourly fee of € 150 as the basic scenario and, in addition, consider how the results change for a lower (€ 100) or higher hourly rate (€ 200, each plus the statutory VAT).[46]

Assumptions on time required for fee-based advice

Also the question as to what time is required for complete, legally compliant and high-quality retirement provision advice cannot be definitely answered. Information provided by the Bundesverband Deutscher Vermögensberater e.V. (BDV; German Association of Investment Advisors) that commissioned this study, from a survey sent to its members about their activities and typical time requirements in the context of an advisory process

---

44 Beenken and Heuser (2021), p. 66, speak (without documenting this with a source) of "customary hourly rates of around 100 to 150 euros". As examples, we mention the following results of an Internet search: https://unabhaengiger-finanzberater.de/honorarberatung-unserer-verguetungsmodell/ It is stated here: "The costs here are around € 120 - 250 /hr plus the statutory VAT as an industry average. Our hourly rate is € 150 plus the statutory VAT." At https://gafib.de/content/74/63/Honorberatung-verguetung you will find the statement: "The hourly rates for the fee-based advice are €150 per hour plus VAT with the usual fluctuation range of € 120-180 per hour as an industry average." At https://depotstudent.de/so-viel-kostet-honorarberatung-beim-finanzberater/ "The hourly rates of fee-based advisers are usually between € 100 and € 250 (incl. VAT). Frequently, it is around € 180 per hour (plus VAT)." At https://www.maiwerk-finanzpartner.de/blog/faq-items/was-kostet-eine- honorberatung /: "On average the hourly rate of a fee-based adviser is € 150 C plus 19% tax – but if an advisor assesses € 250 per hour, it may well be justified if the quality is consistent."

45 This number is also found in some press articles, see e.g. https://www.pfefferminzia.de/cdu-finanzex-perte-brodesser-im-gespraech-wird-ein-provisionsverbot-kommen-letzten-endes-nein/-experte-brodesser-im-gespraech-wird-ein-provisionsverbot -kommen-letzten-endes-nein/. Retrieved on 6.4.2023.

46 Lower hourly rates for advice are offered at consumer advice centres ("Verbraucherzentralen"), see Beenken and Heuser (2021), p. 34 et seq. Since, however, to our knowledge, no contract conclusion is possible there and the lower hourly rates are possible only with the support of public funds (and thus also no unlimited scalability exists), we will not discuss this further.

indicate a required time of roughly 7.5 hours for complete retirement provision advice.[47] The Verbund Deutscher Honorarberater (Association of German Fee-based Advisors) mentioned a typical value of 6-8, but no more than 10 hours. Estimates from England are based on 9 hours[48] and thus are also of a comparable magnitude. Therefore, in this section we use a time requirement of 7.5 hours as the basic scenario.

For long-term contracts, as typical for retirement provision, it is moreover important that consumers receive ongoing support. Therefore, in the basic scenario we assume an additional regular advisory requirement of 2 hours every 5 years and, in addition, consider how the results change without ongoing support or with ongoing support at double the frequency (2 hours every 2.5 years).

Assumptions on the costs of commission-based advice

The costs that arise for consumers for a commission-based advice for insurance-based retirement products in Germany, can be quantified the easiest way by taking into account the cost difference between a standard tariff (retirement product where commissions are included in the price) and the corresponding tariff for fee-based advice (the otherwise identical retirement product offered for fee-based advice). From this cost difference the insurer must finance both the acquisition commission and also the ongoing so-called portfolio commission (if applicable) as compensation for the ongoing support of the customers.

We asked two German life insurers to share with us these cost differences and received values from both insurers. Furthermore, we researched the corresponding cost differences for various additional life insurers. We subsequently have used the values of Allianz Lebensversicherung-AG (hereafter: Allianz), one of the two insurers that shared values with us, since it is by far the largest German life insurer and since here the amount of the relevant cost difference is in the midrange of the insurers under consideration.

Calculation procedure

We saw in section 4.3.1 that in a comparison of a commission-based model with a fee-based model according to the time required, c.p. the fee-based model is less expensive for high contributions, the commission-based model, on the other hand, is less expensive for low contributions. We now calculate the so-called "neutral contribution", for which both compensation models are equally expensive from the customers' point of view. Hence, below the neutral contribution the commission-based model is less expensive, and above the neutral contribution the fee-based model is less expensive.

---

47 We have also taken these figures in Ruβ et al. (2018) as a basis. More information can be found there in section 4.3.1.

48 See HM Treasury, 2016, p. 21.

To determine the neutral contribution, we use the yield reduction, which is caused by the paid fee respectively the costs of the commission-based advice. For this purpose, for the commission-based model we convert the just explained cost difference between a standard tariff and a tariff for fee-based advice into a yield reduction. This is the yield reduction which the consumer suffers because of the distribution compensation in the commission-based model. Analogously, we convert the costs for the fee-based model derived above (estimated number of hours multiplied by a typical hourly rate both for the advice at the beginning and for the regular support expense) into a yield reduction. Now, for each contract term under consideration, the neutral contribution can be calculated as the contribution for which both yield reductions are identical. For this contribution, the commission-based and fee-based advice are equally expensive. Below the neutral contribution the commission-based model is less expensive; on the other hand, above the neutral contribution the fee-based model is less expensive.

Results for regular contributions

Figure 1 shows the neutral contribution for a comparison of the Allianz commission-based model with different fee-based models depending on the term of the product. The solid blue line describes the basic scenario (one-off advice 7.5 hr at the time of contract conclusion and ongoing advice amounting to 2 hr every 5 years at an hourly rate of € 150 plus the statutory VAT).

In the case of contract terms up to 18 years, the neutral contribution, below which the commission-based model is less expensive, exceeds € 200 per month. In the case of a term of 20 respectively 30 years, the amount of the neutral contribution is € 186 respectively € 129. With an increasing term, the neutral contribution declines. However, even in the case of very long terms, it is still over € 100 per month (only at a term of 40 years, it declines to € 98).

Therefore, it should be assumed that the retirement contracts of numerous consumers have a volume for which commission-based advice is less expensive than fee-based advice. This may well concern particularly the consumers who are less well off financially, who typically make rather small contributions for retirement and who are actually supposed to be especially protected by the EU retail investment strategy. That the commission system should now be banned in the course of this retail investment strategy is not comprehensible.

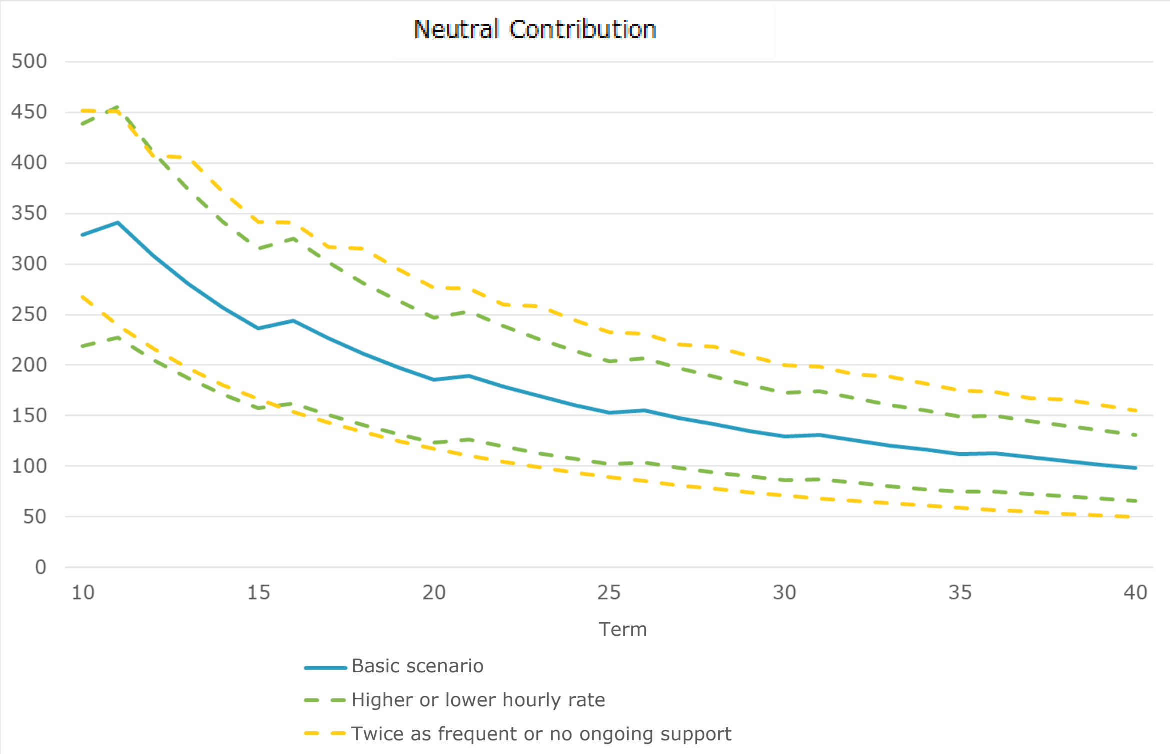

Figure 1 Neutral monthly contribution for a comparison of the Allianz commission-based model with different fee-based models according to hourly rate depending on the term of the product[49]

We have also carried out our calculations for further fee-based models in addition to the basic scenario: The two dashed green lines show the results for a changed hourly rate of € 200 respectively € 100 (each plus the statutory VAT). As expected, the neutral contribution, up to which the commission-based model is less expensive, turns out to be higher or lower accordingly. It is remarkable that even with a low hourly rate the neutral contribution is still so high that, for numerous consumers the commission-based system represents the less expensive alternative: Up to a term of 26 years the neutral contribution exceeds € 100. Even with a term of 35 years it still amounts to € 75.

The two dashed yellow lines show the results, given that the consumer uses ongoing advice twice as frequently as in the basic scenario, respectively does not use ongoing advice at all. The results are similar to those that result from an increased or reduced hourly rate.

Overall, the quantitative results underscore impressively that coexistence of commission-based and fee-based models is worth striving for.

[49] The "zags" in the lines result from the assumption that every 5 (or in the upper yellow line, every 2.5) years ongoing support takes place resulting in a fee. The lower yellow line describes the scenario in which the ongoing support is waived. Therefore, this line has no zags.

Results for one-off contribution

Figure 2 shows the same result as Figure 1 for a consumer who invests a larger one-off sum (one-off contribution). The solid blue line once again describes the basic scenario (one-off advice amounting to 7.5 hr at the time of contract conclusion and ongoing advice amounting to 2 hr every 5 years at an hourly rate of € 150 plus the statutory VAT).

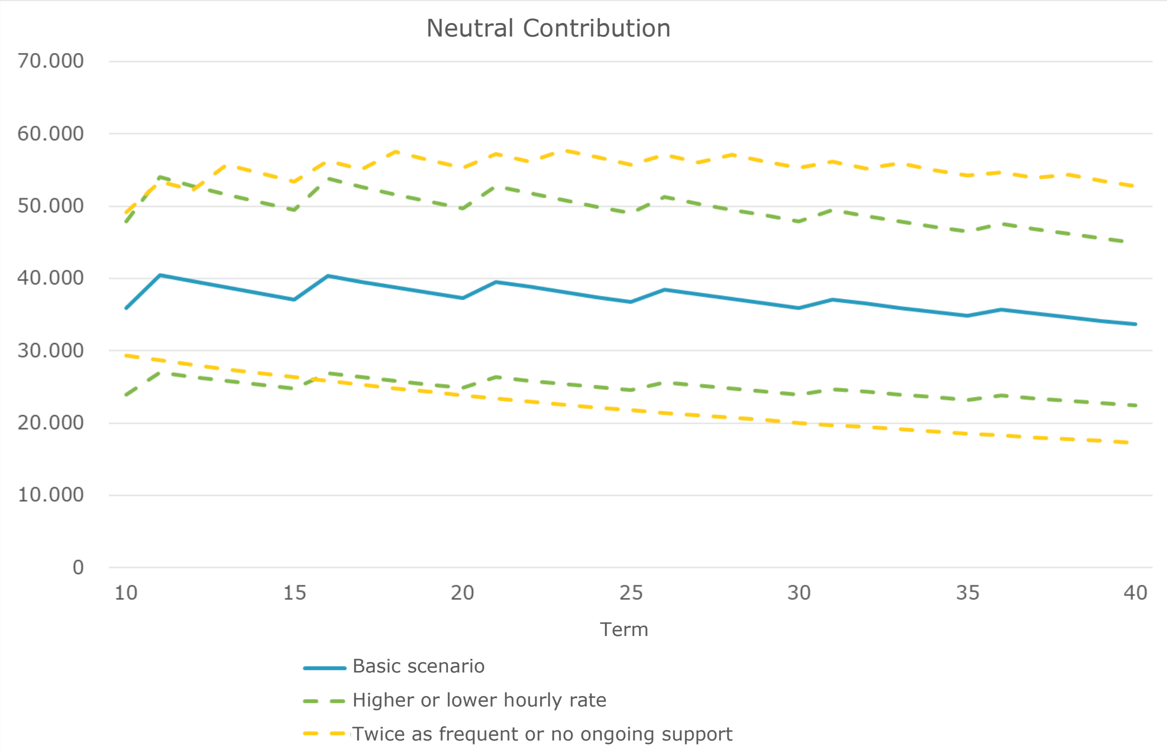

Figure 2 Neutral one-off contribution for a comparison of the Allianz commission-based model with different fee-based models according to hourly rate depending on the term of the product

The neutral contribution, below which the commission-based model is less expensive, is usually between € 35,000 and € 40,000.

If the fee-based model with the higher hourly rate or with more frequent ongoing support is assumed, then the neutral contribution is around or even above € 50,000. Assuming the lower hourly rate, then the neutral contribution is in the range of € 25,000. Assuming that the consumer does not use any ongoing advice, it falls just short of € 30,000 for shorter terms and € 20,000 for longer terms.

These results also show the added value of the commission-based model for retail investors and underscore the fact that coexistence of commission-based and fee-based models is worth striving for.

5.2 Commission vs. flat-rate fee

Flat-rate models seem to occur more frequently in practice in Germany than hourly rates.[50] The concretely determined flat-rate fee rates and the advisory elements contained in a flat-rate vary from provider to provider. Transparent and comprehensible pricelists, however, are scarcely available. An internet search produced only two specific, understandable schedules of flat-rate fees. The one comes from the Bundesverband unabhängiger Honorarberater gemeinnütziger e.V., which, however, is listed by the Stiftung Warentest (the probably best-known consumer organization in Germany) on the "Investment Warning List" under the heading "Dubious Advice, in particular, financial advice"[51] The other, which we take as a basis in this section, comes from maiwerk Finanzpartner GmbH & Co. KG.[52]

Assumptions on the amount of fee-based advice compensated at a flat-rate

The price/services schedule of maiwerk Finanzpartner shows under the heading "Retirement provision advice" the services "Status quo analysis", "Strategy advice", "Product suggestions", "Brokering (per contract)" and "Retirement provision UPDATE". Under the heading "Retirement provision support" there are the services "Service portal" and "Service portal PLUS".

Apparently, these services can be combined as needed. Our in¬terpretation is that the leanest suitable solution consists of a combination of the packages Status quo analysis, Product suggestions and Conclusion as well as ongoing support in the form of the Service portal. This generates total costs of 2* € 595 + € 200 (incl. VAT) at the beginning and € 14.90 per month. We call this "Model A" below.

In addition, we considered a "Model B" with the consumer booking additionally the Strategy advice and preferring the ongoing support in the form of the Service portal PLUS. This generates total costs of 3* € 595 + €200 (incl. VAT) at the beginning and € 39.90 per month.

Although - particularly for consumers with low financial education – it is presumably not suitable to waive ongoing support completely for long-term savings processes, we consider, in addition, another "Model C", which waives the ongoing support but otherwise follows Model A.

---

[50] According to https://gafib.de/content/74/63/honorberatung-verguetung: "Usually, however, flat-rate agreements are made depending on the scope of the order and the complexity in order to make the calculability of the costs easier for agents."

[51] See https://www.test.de/Warnliste-Geldanlage-Unserioese-Firmen-und-Finanzprodukte-1131965-0/. The backgrounds for the warning are explained here and in other press articles: https://www.test.de/Finanzberatung-Dubioser-Verband-von-Honorarberatern-5907492-0/ and, just recently, in research worth reading https://www.fondsprofessionell.de/news/vertrieb/headline/re-cherche-ominoeser-berater-verband-bringt-die-branche-gegen-sich-auf-223565/. Each retrieved on 12.4.2023.

[52] See https://www.maiwerk-finanzpartner.de/preise/. Retrieved on 3.4.2023.

Assumptions on the costs of commission-based advice and calculation procedure

We use the same assumptions on the costs of commission-based advice and the same calculation procedure as in section 5.1.

Results for regular contributions

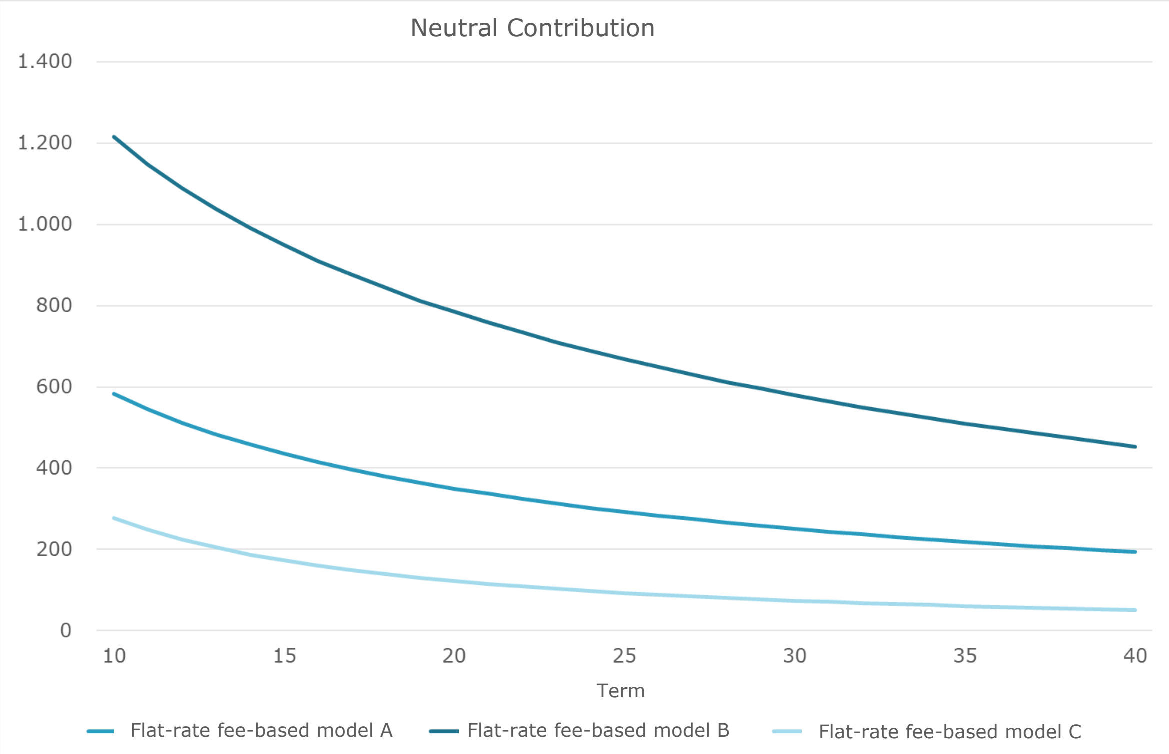

Figure 3 Neutral monthly contribution for a comparison of the Allianz commission-based model with different flat-rate fee-based models depending on the term of the product

Figure 3 shows the neutral contribution for a comparison of the Allianz commission-based model with the three explained flat-rate fee-based models of the maiwerk Company, depending on the term of the product. At first glance, it is evident that the three models considered lead to extremely different results. Under the same price/services schedule there is, on the one hand, a relatively affordable fee model (Model C, whose appropriateness particularly for the long-term retirement provision must be taken into question, however, as it is based on the complete waiver of ongoing support). On the other hand, rather high-priced fee-based models (Models A and B) are also possible. Moreover, it is worth noting that for contract terms up to 30 years, Model A is less expensive than the commission-based model only with monthly (!) contributions of over

€ 500. Moreover, under this schedule, inexpensive advice seems to be possible only if regular support is waived.

Results for the one-off contribution

Figure 4 shows the same result as Figure 3 for a one-off contribution. Based on the findings from the analysis of contracts with regular contributions, it is not surprising that Models A and B also produce very high one-off contributions below which the commission-based model is less expensive. In the case of Model A, the corresponding value always exceeds € 60,000; in the case of Model B it even always exceeds € 120,000. Only in Model C, where the ongoing support is waived, more moderate amounts ranging from € 20.000 - € 30.000 are produced.

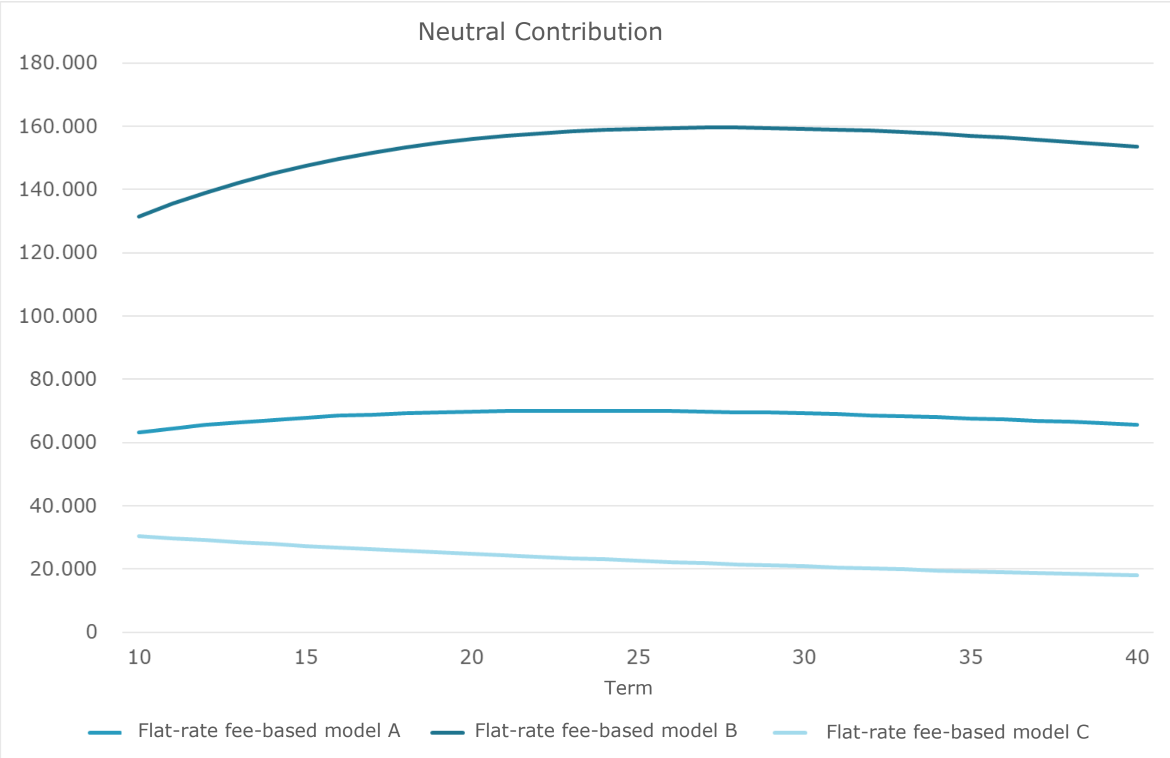

Figure 4 Neutral one-off contribution for a comparison of the Allianz commission-based model the with different flat-rate fee-based models depending on the term of the product

5.3 Commission vs. volume-dependent fee per year

Typical range of a volume-dependent fee per year

As already explained, a volume-dependent fee per year usually comes into play with higher-volume investments. It is therefore not relevant for typical retirement provision contracts with smaller monthly savings rates, so we will only deal with this fee-model briefly. The fee billed to the consumer is determined as a percentage per year of the assets available at the respective point in time.

Maiwerk, the company already referred to, uses, for example, a rate of 1% per year for an investment volume up to € 500,000, 0.75% per year up to € 2,500,000 and, beyond this amount, 0.5% per year. The choice of these limits shows that we are not speaking of typical retail investors here.

Quirin Privatbank says on its Internet page that the compensation is "dependent on the volume, the complexity and the individual requirements of your investment. You can obtain further information from our advisors at all locations." In this context, it mentions, as an example, specific values of 1.68% per year and 1.28% per year, which thus presumably describes the range of the fees which are applied to typical customers.[53]

It is also difficult to gain an even approximate market overview of the volume-dependent fee-based models based on public available information. Both examples mentioned, however, appear to lie in the usual range according to discussions with market participants.[54]

Overall, one can assume that a typical volume-dependent fee per year for very large investment amounts is on the order of 0.5% per year. With more moderate volumes it may exceed 1% per year. As already explained in section 4.3.3, this percentage essentially corresponds to the yield reduction caused by the fee.

Comparison of the costs of commission-based advice with a volume-dependent fee per year

Figure 5 shows the yield reduction which is triggered by the costs of a commission-based advice for the one-off investment of a larger amount (one-off contribution) in the case of the Allianz rates (blue line). As a further comparison, in addition, we indicate the analogous yield reduction that a consumer must bear if he invests a larger one-off amount in funds outside of an insurance contract and pays a typical front-end fee of

---

53 See https://www.quirinprivatbank.de/pricemodel-exklusiv. Retrieved on 11.4.2023

54 Also at https://de.bergfuerst.com/ratgeber/honorarberatung it says, for example: "The costs can also be made dependent on the size of the assets. In this case 0.5-2% is customary." Even in the Kantar study it is mentioned that in the Netherlands, after the introduction of the commission ban, banks were demanding between 0.6% per year and 1.5% per year of the available assets in conjunction with minimum fees, see European Commission et al. (2023), p. 294. The authors appear to have difficulties similar to ours obtaining any information at all on the amount of the fees of fee-based advice. On page 298, they write that in the Netherlands, it was difficult for the study authors to access volume-dependent information since this is only made available to existing customers.

5%, which then finances the commission of the advisor (green line). This yield reduction should then be compared with the above-mentioned volume-dependent fee rates per year, which trigger a yield reduction of just this amount.

The yield reductions that result from the costs of the commission are all between 0.1% and 0.5%. For terms of 20 years and up, which are typical for retirement provision, they are always below 0.3%.

Particularly with smaller volumes (with "small", as we have seen above, often referring to amounts up to € 500,000), a volume-dependent fee per year at more than 1% causes a clearly higher yield reduction than that presented in the graphic resulting from the costs of commission-based advice (only 0.1% to 0.5% depending on the term). Such a fee-based model, therefore, can only be advantageous in the case of very short terms (not depicted in the graphic), which is hardly relevant for retirement provision.

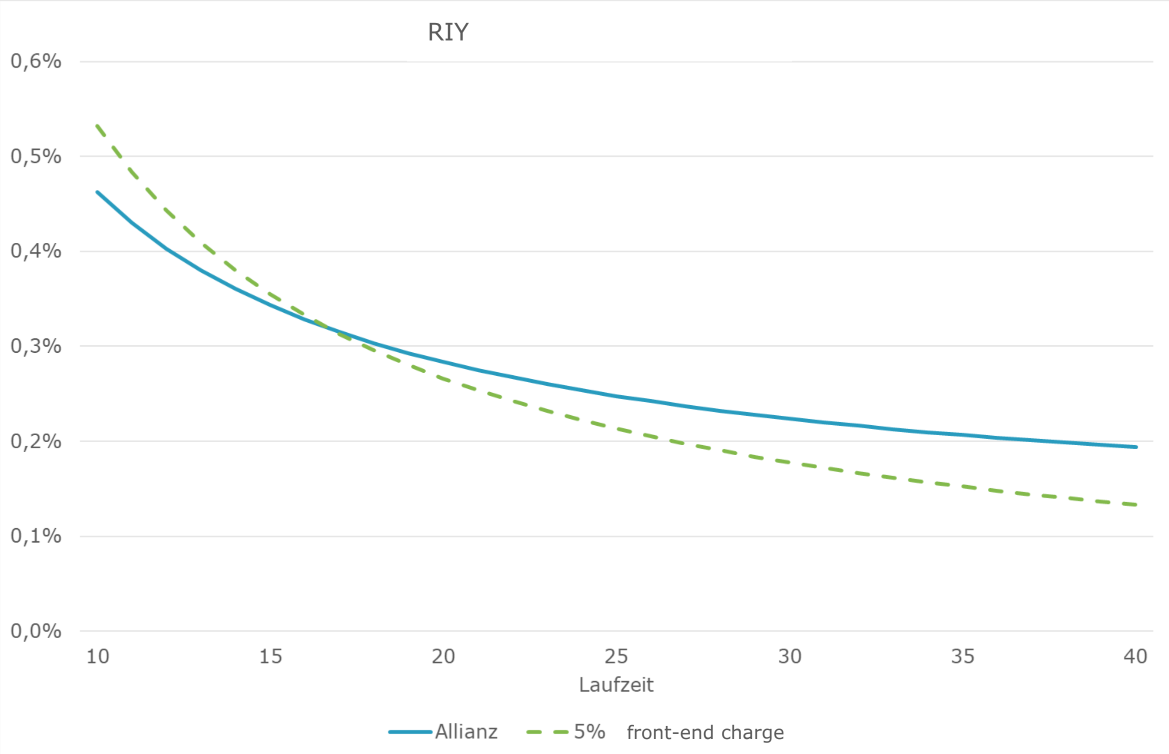

Figure 5 Yield reduction, which is triggered by the costs of commission-based advice in the Allianz commission-based model (blue line), and yield reduction, which is triggered by the costs of a front-end charge of a flat-rate fee of 5% of the invested amount (green line) depending on the term of the product

In this context it is often pointed out that consumers, who decided on a volume-dependent fee per year, in many cases receive reimbursement of parts of the fund management fees from the underlying investment funds. However, it should be noted that, also in the context of fund-linked insurance products, in Germany at least 50% of those parts of the fund management fees which the fund company reimburses to the insurer, must be directed to the surplus sharing of the customers (and meanwhile, for more and more insurers, are actually passed on at 100%). Reimbursements of fund management costs in the usual amount can therefore not compensate for the price difference between the typical costs of fee-based advice with volume-dependent compensation per year and the costs of the traditional commission-based model, if the same funds are used in both models.

6 Conclusion

Commission is the established form of compensation for the distribution of insurance products in Germany. That the commission-based model led to wrong incentives and excessive compensation in the past is known. Conversely, our research in the context of this study has shown that also fee-based models are not always transparent and do not always have to be inexpensive. Therefore, avoiding undesirable effects is and remains an extremely important goal of regulation. This holds true, regardless of the way the advice is compensated. **In any case, serious market inefficiencies in commission-based advice for life insurance and retirement products, which could justify the drastic action of a commission ban, cannot be observed in Germany.**

In the debate on the regulation of commissions we observe a development which not only should be assessed critically from a scientific point of view, but which also can lead to massive negative effects for consumers: **Study results, which are deliberately expressed in a generalised and abbreviated form to pursue a desired political agenda are used as the basis for decision making.** The Kantar study is a classic example of this. Hardly anyone involved in the decision process will actually read the whole study, so only abbreviated quotes are remembered, which will be considered scientifically well founded at some point. That, however, is not true:

- The study itself makes no claim to being scientific. The selection of the objects of the comparison is "purposeful" and not representative.
- The repeatedly cited cost comparison of the study to the cost disadvantage of a commission-based model is based only on the cost structure of selected (!) funds (!). The study makes no statement with reference to commissions for insurance products and also contains no analyses in this regard.
- Arguments beyond a pure cost consideration, which argue against a commission ban, are completely ignored.
- **The Kantar study above all provides no quantitative contribution to the issue actually relevant to the decision, of whether a form of advice not financed with commissions would be more suitable for consumers who want advice when making financial decisions.**

In our present study, we compared commission-based and fee-based models qualitatively and quantitatively with one another, using life insurance products in Germany as the example.

If one looks simply at financial advantageousness, then both models have a reason for their existence. It has clearly been shown that for consumers who regularly save rather small sums (who also, as part of the EU retail investment strategy, are supposed to receive special consideration), commission-based models are usually less expensive than fee-based models. For the investment of larger sums, on the other hand, fee-based models are usually less expensive. So, even if one argues exclusively with costs of advice and all other valid arguments are disregarded, **one must conclude with proper professional consideration that the co-existence of commission-based and fee-based models is desirable**. The claim that one model is always superior to the other model simply does not make sense.

Besides the purely costs-based arguments, there are numerous other reasons that argue for the coexistence of commission and fee. We discussed this in great detail in an earlier study.

Our quantitative results with regard to the extent of the advantageousness of one of the models, of course, depend on the assumptions made (e.g., commission rate and amount of the advisory fees). While the concrete figures, particularly the contribution below which the commission-based model is less expensive for consumers, naturally depend on the specific assumptions, the structure of the results is robust. Up to a certain contribution threshold, the commission-based model has advantages in terms of costs and, above this threshold, the fee-based model is less expensive. **Thus, the commission-based model ensures that even consumers with small volumes can be meaningfully advised and, in particular, counteracts the advice gap observed in practice.** This denotes the fact that, in countries with a commission ban, consumers, who are less well off financially but would like to invest small sums, do not receive any more advice or are not prepared to pay the costs incurred.

Ill-considered regulations always create risks. In this case, this may lead to the consumers who are most in need of the advice not receiving it or not being able to finance it any longer, which could harm those consumers who are actually supposed to be protected by the regulations. This would run counter to the goal of an appropriate retirement provision level of the population and appropriate retail investor protection.

Bibliography

Beenken, M. and Heuser M (2021): Provisions- oder Honorarberatung - Was erwarten die Kunden? Volume 1 of the Schriftenreihe des Deutschen Instituts für Vermögensbildung und Alterssicherung (DIVA), Marburg.

Beenken, M. and Radtke, M. (2013): Betriebswirtschaftliche Konsequenzen eines Systemwechsels in der Vergütung von Versicherungsvermittlern. Studie für den Bundesverband Deutscher Versicherungskaufleute e.V. (BVK) (Version: 16.10.2013).

Beenken, M. and Schiller, J. (2015): Die Angemessenheit selbständiger Vergütungsvereinbarungen in der Lebensversicherung. recht und schaden, 42(11), 529-537.

Beenken, M. and Wende, S. (2016): Nettotarifangebot deutscher Versicherungsunternehmen. Mitteilungen, Universität zu Köln, Institut für Versicherungswissenschaft, 1/2016.

De Chaisemartin, C. and d’Haultfoeuille, X. (2020). Two-way fixed effects estimators with heterogeneous treatment effects. American Economic Review, 110(9), 2964-2996.

European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Uličná, D., Vincze, M., Mosoreanu, M. (2023). *Disclosure, inducements, and suitability rules for retail investors study: final report*, Publications Office of the European Union. https://data.europa.eu/doi/10.2874/459190

HM Treasury (2016): FAMR Financial Advice Market Review – Final Report. March 2016.

Imai, K. and Kim, I. (2021). On the Use of Two-Way Fixed Effects Regression Models for Causal Inference with Panel Data. *Political Analysis, 29*(3), 405-415. doi:10.1017/pan.2020.33

Puls (2023): Das Beratungs-Bezahl-Paradoxon deutscher Bankkunden. Ergebnisse einer repräsentativen Studie zu den Themen Provisionen, Honorare und Bezahlung von Bankberatung von puls Marktforschung GmbH im Auftrag der Quirin Privatbank. https://www.quirinprivatbank.de/system/images/6179/original/2023_03_16_Quirin_Privatbank_Studie_Provisionsberatung_2023.pdf. Retrieved on 30.3.2023.

Ruß, J., Kling, A. and Seyboth, A. (2022): Thesen zur Zukunft der Altersvorsorge in Deutschland. https://www.ifa-ulm.de/Zukunft-Altersvorsorge.pdf. Retrieved on 23.3.2023.

Ruß, J., Schiller, J. and Seyboth, A. (2018): Regulierung von Provisionen: Ziele, Risiken und Nebenwirkungen provisionsbegrenzender Regulierung in der Lebensversicherung in Deutschland. https://www.ifa-ulm.de/Studie-Provisionen.pdf. Retrieved on 30.3.2023.

Sebastian, S., Noth, L. and Grafe, A.: The Effect of Commission Bans on Household Wealth: Evidence from OECD Countries. https://epub.uni-regensburg.de/54035/1/Sebastian-Noth-Grafe_Commission-Ban.pdf. Retrieved on 12.4.2023.

Stoughton, N. M., Wu, Y. and Zechner, J. (2011): Intermediated investment management. Journal of Finance, 66(3), 947-980.

Umhau, Gerd: Vergütungssysteme für die Versicherungsvermittlung im Wandel. Karlsruhe 2003. ISBN 3-89952-029-7.