



Berlin, 10 October 2012

Position Paper

Re: Revision of the EU Markets in Financial Instruments Directive (MiFID)

Why is it that commission-based financial advice is so important?

- **Commission-based financial advice benefits all parts of the population**

Fee-based financial advice is an option only for a small group of bank customers, i.e. well-off investors. This has been proved by recent examples from banks providing such services. The hourly fee charged by the credit institution currently leading the German fee-based financial advice market is in the area of 150 euros. Transaction costs need to be added to this figure. According to the institution itself, this business model begins to be profitable from a deposit upwards of 50,000 euros. It becomes obvious from this that fee-based advice is a service for the upmarket individual customer and private banking segment only. The volume of deposits of 80 per cent of savings bank customers is below 50,000 euros. The average deposit size of a common savings bank private customer is about 10,000 euros. This means that under a fee-based financial advice system, ordinary savings bank customers would be “marginalised” and left grappling with the important issue of assets structuring on their own. To put it plainly, customers holding the larger deposits ensure that advice can continue to be provided also for the less well-off customers.

- **The commission-based model enables financial advice on the spot**

Worse still, fee-based financial advice is not available “on the spot” – i.e. close to the customer. But it is this very on-the-spot advice that we consider indispensable, also in view of the political importance of asset building.

- **Fee-based financial advice is not desired and not accepted by the majority of customers**

Customers appreciate being counselled without having to pay an extra fee for the service. This can be seen from a representative survey of DSGVO Vermögensbarometer (Wealth Barometer of the German Savings Banks Association) where 82 per cent of the 2,000 consumers sampled stated that they considered advice fees neither reasonable nor socially just.

- **Different market structure and development in Great Britain**

The market structure in Great Britain, which seeks to ban commission-based financial advice, is completely different from Germany's, which is why it is not suitable as a frame of reference. While in Great Britain 85 per cent of investment fund units are distributed through private

brokers, customers in Germany acquire 70 per cent of theirs from credit institutions. With a view to the prohibition of commission-based financial advice, British banks now often cease advice within the common private customer business, focusing on well-off clients instead.

- **Form of remuneration no indicator of the quality of advice**

It is generally accepted that the form of “remuneration” is no criterion for the quality of advice. A free-lance fee-based adviser is just as well in a position to generate “a plus” in terms of yield through the structure of the remuneration, and, e.g., through the number and duration of advice sessions. Moreover, the very term “independent” in relation to fee-based financial advice is inapplicable as the dependence involved here is one on the fee.

- **Conflicts of interests also in fee-based financial advice**

Fee-based financial advice is not free from conflicts of interest either and may be prone to problematic incentives from the investor’s point of view, e.g. in the context of particularly complex – and therefore advice intensive - portfolio structures.

- **Hundreds of thousands of advisers in the credit industry**

Last but not least: Up to 300 000 staff members are estimated to provide securities services in Germany; up to 130 000 of them in the Savings Banks Financial Group alone. Even though securities only account for a part of the banking business, the pertinent fees – which flow to the institutes rather than to the advisers – help to secure jobs.

- **Transparency**

Commission-based financial advice on securities in Germany is transparent. The charges involved are disclosed at every session in a manner already going beyond the current MiFID targets. Thought could be given to further enhancing transparency to the customer in the MiFID area, too, by introducing a similar advice practice.

- **Billions of losses sustained by investors?**

Reports of billions of losses sustained by investors as a result of commission-based financial advice are mere allegations, devoid of any evidence. Thus, the 49 to 98 billion euros cited by the consumer association of Baden-Wuerttemberg are without any empirical basis. In that case a loss of between one and two per cent of financial assets was simply assumed on the basis of an “estimate”. Another figure – between 20 and 30 billion euros (named by Evers & Jung) has no empirical basis either and, moreover, does not relate to the securities business. Losses as a result of incorrect advice can never be excluded. However, in the final analysis, this is true of all forms of advice as concluded in a scientific study: “Both in commission and in fee based financial advice errors may occur on account of the complexity of the given investment decision and due to the divergent interests of investors and advisers.”