Consumer Federation of America

Three Facts about the United Kingdom's Ban on Commissions That Financial Firms Don't Want You to Know

1. **Since the United Kingdom's ban on commissions for investment advice went into effect, the quality of advice has improved.[1]**
2. **The "advice gap" that industry lobbyists claim resulted from the commission ban simply doesn't exist.[2]**
3. **And, while there is evidence that the cost of investment advice has increased, it has been offset by a drop in the cost of investment products.[3]**

In their efforts to convince members of Congress that financial firms' opposition to the DOL fiduciary rule is driven by their concern over its potential impact on small savers, rather than preservation of their excess profits, industry lobbyists frequently point to what they paint as the dire consequences of the United Kingdom's move to ban advisers from earning commissions for their investment recommendations. If the Department of Labor moves forward with its fiduciary rule, they warn, small savers in the United States are likely to suffer similar harm.

We should be so lucky. After all, the conclusions from the independent regulatory reviews conducted by outside consultants for the U.K. Financial Conduct Authority have been overwhelmingly positive. The following among their key findings:

- Eliminating commissions has reduced investment bias, and that has contributed to an improvement in the quality of advice, according to an analysis Europe Economics.
- Advisers whose pay is no longer dependent on product producers have been "exerting more competitive pressure on providers" and negotiating "lower product costs."
- Product prices have fallen by at least the amounts paid in commissions before the ban, and prices on some products appear to have fallen even further.
- Far from having an "advice gap," there is excess capacity of about 5,000 advisers in the U.K. market today, according to an analysis by Towers Watson.
- There is no evidence that consumers have been forced to go without advice as the result of the regulation, though some have chosen to do so when the cost of the advice was made fully transparent, according to a survey report by NMG.[4]

The DOL rule proposal is more modest than the U.K. regulation. Instead of banning commissions, it focuses on minimizing the conflicts associated with those payments and requiring advisers to put their customers' interests first. That's not a lot to ask when it comes to protecting the hard-earned savings of American workers and retirees.

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[1] Financial Conduct Authority, United Kingdom, Post-implementation review of the Retail Distribution Review – Phase 1, Dec. 2014, http://bit.ly/1jdUM1H.
[2] Towers Watson, Advice Gap Analysis: Report to FCA, December 5, 2014, http://bit.ly/1MKMFWJ.
[3] FCA post-implementation review.
[4] David Burns and Georgina Clarke, Impact of the Retail Distribution Review on consumer interaction with the retail investments market, NMG Consulting, September 2014, http://bit.ly/1iyctsb.