



**Financial Services in Europe  
FECIF YEARBOOK 2007  
Part 1  
The Market**

**September 2007**

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*European Federation of Financial Advisers & Financial Intermediaries (FECIF) is the unique grouping of national trade associations in Europe, representing approximately 300,000 intermediaries across Europe.*

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## 1 INTRODUCTION

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The **Fédération Européenne des Conseillers et Intermédiaires Européens** (FECIF), was chartered in 1999 for the purpose to defend and promote the role of financial advisers and intermediaries in Europe; this was at the initiative of three distribution networks and three trade associations from France, Luxembourg and the UK.

FECIF is today the only trade body representing European financial advisers and intermediaries in Europe.

The European financial adviser and intermediary community includes approximately

- more than 600,000 private individuals exercise this profession as a main occupation (representing approximately 26,000 legal entities),
- about 300,000 are members of national professional associations (56 at today's count).

In addition, we estimate at 430,000 the number of other professionals (accountants, lawyers, tax advisors, etc.) who may offer financial services time to time to their existing clients.

The industry counts also 750,000 tied agents and 2,500,000 front and back office employees.

The number of consumers who are using the service of advisers or intermediaries is estimated at 90,000,000 throughout Europe.

The professional activities of advice and mediation are today penalised by

- extremely constraining regulations,
- the soaring cost of compliance procedures.

The formulation of **European Union** (EU) legislation for financial services, whilst being done for the protection of consumer's interests must be applicable without pointless restraints for practitioners.

It remains a hard task in view of the paltry enthusiasm of national bureaucrats!

The EU is made of 27 Member States speaking 23 official national languages, and the financial services industry is regulated and controlled by 62 different authorities employing 15,000 bureaucrats. The compliance cost ranges from 3% of the General & Administrative expenses budget for a large institution up to 35% for a small intermediary firm... Incidentally, about 45% of all unnecessary costs are caused by the Anti-Money Laundering regulation which has been described as "totally useless" by anti-terrorist specialists in the US!

Few more examples: 70% of IT development are caused by regulation, 30% only are market driven for the benefit of consumers!

The implementation of the **Markets in Financial Instruments Directive** (MiFID) is estimated to cost to the industry over 1 billion € that will be passed one way or another on to the consumer.

The requirement of data storage only to comply with MiFID alone will increase by 400% and MiFID could reduce earnings of the industry by 7%.

Regarding the **Insurance Mediation Directive** (IMD), only 65% of the EU member states have fully transposed the Directive which was due for transposition on 15<sup>th</sup> January 2005 and as far as MiFID is concerned, today only five member states may be in a position to meet the deadline set by the EC (November 2007).

## 1.1 FECIF'S OBJECTIVES

FECIF shows its determination in the representation of the fundamental interests of its members by advocating the principle of **co-regulation** (or joint-regulation) of the profession in an environment that too often tends to be excessively regulated - to the detriment not only of consumers' interests, but also those of the economic actors.

“Politics, protectionism and cultural clashes could dash Europe's dream of a single market” was the title of a recent article published in the *Financial Times*.

As a perfect illustration, eventually, the EU Council of Ministers has failed to agree on a text for the long debated EU Savings Tax Directive as it was scheduled at Feira summit.

The Swiss are not the only one showing a certain degree of stubbornness, EU politicians were irresponsible in trying to reach at any cost a compromise which could be very detrimental to the EU Financial Services industry. Only a global arrangement negotiated at the OECD level would make some sense, the US having already said no to the EU plan.

There is probably no future for banking secrecy in the politically correct EU – but in the meantime the EC under pressure of the consumers' groups is working hard to improve the level of data protection against all sort of possible breach of confidentiality.

EU citizens will need also to be protected against the zealous enthusiasm of magistrates mainly politically driven by their own local ambitious in their home countries such as Belgium, France or Italy.

EU citizens should have the right to freely use wealth accumulated throughout a lifetime to meet their family needs at the time of retirement, bearing in mind that taxes have already been paid on salary income, consumption spending, property, etc. throughout a lifetime...

It must be a basic right for EU citizens to select the right investment within taxed environment despite the unlimited appetite of politicians for state overspending. Europeans should not have to finance the cost of the 35-hours rule implemented by

the French socialists or the closure of the car racetrack of Spa-Francorchamps decided by the Belgian Greens!

To avoid excessive taxation in order to maximise return on investment is a logical objective for any individual and the lack of consideration for some very basic democratic principles has been the cause for most of the slowdown in the EU legislative process. Anyone who tries one day to open a business branch in Belgium, the Netherlands or Portugal will understand what it means!

Respect for fair competition is one of these very basic principles and our dear politicians should not turn the EU from a tax heaven, which is not – to a tax evil!

In spite of significant advances in the legislative process towards the completion of the **Financial Services Action Plan (FSAP)**, there are still some serious limitations to the free movement of Goods and services within the EU and transparency goes only fair competition.

A non-profit association, FECIF is an independent organisation at the exclusive service of its members from the 27 EU member states, the British Isles, Norway and Switzerland.

In order to make some of the changes acceptable to both the consumer and the industry, a fair split of responsibility is needed between the consumer, the intermediary, the provider and the state – a basic concept of democracy.

## **1.2 MISSION STATEMENT**

FECIF has set itself the objective of supporting the development of the concept of independent financial advice and intermediation in the EU, while seeking to serve the interests of the consumer:

- to unite and co-ordinate the operations of the various EU professional associations representing the financial advice and mediation sector, without any distinction,
- to represent its members in the context of negotiations with the various bodies of the EU in order to protect their moral, professional and economic interests, and to play an active role in the development of proposals relating to the organisation and regulation of the professional activities of its members within the EU,
- to encourage the exchange of information between members and to facilitate the circulation of the recommendations and/or rules adopted by the competent regulatory bodies,
- to define, by basing itself on certain self-monitoring mechanisms, the necessary vocational training, the means of evaluating skills and the essential rules for guaranteeing the protection of the interests of this sector and its image with the public.

The financial services industry is changing across the EU and financial advisers who are not tied to any product provider like a bank or an insurance company, have a busy – and potentially rosy – path ahead.

It is a matter of time before retail investors in most EU members states turn away from the banks where they have traditionally bought their financial products, and toward the independence and greater product ranges offered by independent intermediaries.

The intermediary has two functions, to advice on generic products, and to take client's needs and buy the products he requires.

In the changing EU financial services industry, intermediaries are on the move, hoping to draw customers away from more established channels such as banks or from expanding routes such as on-line services where no advice is offered.

Intermediaries say they generally offer customers access to a High selection of providers and banking and insurance products, as well as the guidance that should be an essential part of investing.

There are very different levels of consumer protection from country to country. Countries like Germany do not have any legislation on intermediaries when in some EU member states intermediaries may be required to sell appropriate products to consumers.

As some EU governments grapple with strained state budget and the prospect of pension forms, their citizens are starting to think about providing for their own retirements. In addition, low interest rates and tax regimes favour certain asset.

In the past decade, the growth in demand for intermediary services to help people select products has varied across Europe. In the U.K in 1998, where buying financial products through a third party is considered the norm, more than 60% of sales of financial vehicles like mutual funds were conducted through advisers, more than double the amount sold through intermediaries in 1992, according to the country's trade association.

But last year in Sweden, 30% of such vehicles were sold through intermediaries, and in Germany the number was 24%, according to the association. In countries like France and Austria, intermediaries have market shares less than 10%.

Consumer groups anticipate that the use of intermediaries will develop in line with the proliferation in products.

FECIF has negotiated a Professional Indemnity Insurance cover designed for its members and ensures the circulation of information intended for EU financial advisers and intermediaries and their customers.

FECIF advocates the principle of co-regulation (or joint-regulation). What is it in essence?

The representative of the industry will manage (or co-manage) the registrar of intermediaries who do not handle consumer's funds, divided in three categories (to

comply with distinct Directives): (a) Mortgage (b) Insurance/Life and Pension (c) Investment.

The local associations will be responsible to monitor their membership to ensure that it follows the guidelines as transposed into law under the IMD and/or MiFID.

This model has been in operation in Italy for many years, it has been implemented in France and in Austria.

The EC is certainly not opposed to any of the above, nor the “Grand fathering” from the regulators on to a local association(s) register.

The EU legislation says that regulatory authorities shall be either public authorities or bodies recognised by national law or by public authorities expressly empowered for that purpose by national law.

EU member states shall designate the competent authorities empowered to ensure implementation of EU directives.

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## 2 OVERVIEW

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The role and importance of European independent financial intermediaries (styled in English as “IFA”) firms in the distribution process of financial products and services expanded dramatically over the coming years.

There has been a 10% rise in IFA firms in the UK since depolarization, according to IFA Promotion (IFAP). The research confirms provider predictions that depolarization would see a sharp contraction in the IFA sector were well wide of the mark. IFAP says the research shows the IFA community is more robust than ever. The research also shows that 63% of IFAs have their own website while 96% are now contactable through email.

IFAP chief executive David Elms says: “Over the last few years, the advice industry has rapidly changed. Regulatory changes coupled with a more informed customer, have led to IFA firms re-evaluating their business models. The client is king and IFAs are responding to consumer demand – but there is still more that they can do.”

The European consumer gradually becomes more used to the idea of independent advice and the accessibility of new products and this trend is complemented by the slow political movement to a Single European Market in Financial Services.

The professional advice and mediation are today penalised by extremely constraining regulations, the soaring cost of compliance procedures, too often unreliable new technologies, and the demands of a generally distressed and ill- informed clientele.

We expect that this situation will change in a very near future under the pressure of the industry and of the consumers’ groups, enhanced by due industry consultation. We wish to see the European Commission (EC) to adopt a flexible and targeted approach to European Union (EU) initiatives and legislation, to use non-legislative measures where possible (i.e. self or co-regulation, codes of conduct, ombudsman, etc.), to resort to legislation only when necessary, to make existing legislation more coherent and simple where possible.

We wish to see the promotion of fair, competitive, transparent, efficient and integrated financial markets. Definitions of Financial Services often differ from country to country and it is challenging to find common notions across all EU Member States, definitions that are consistent and coherent with economic requirements.

We express a serious concern about the cost of implementing the detailed policies and procedures concerning inter alia: the reporting to clients, the best execution obligations and the pre and post trade transparency. Most large players in the market are starting to increase their minimum transaction costs on the purchase or sale of negotiable securities. The consequence of such a move, **excludes the retail investor** from direct ownership of securities and in long run we do not believe that this is a positive trend. Our calculations show that a retail investor wishing to invest €50,000 in the shares of 20 European companies for minimum diversification, with a 25% rate of turnover (i.e. shares are held for an average of 4 years) will incur an additional charge of ½% (one half of one percent) of his portfolio per annum.

The principle of precaution which justifies the “nanny state” ambient philosophy may unfortunately push tens of thousands of people out of business... It is essential the EC seeks to create a real single market by eliminating unnecessary host country rules and options that act as barriers to cross-border business.

## **2.1 THE CONSUMERS**

The end customer of the average intermediary is middle class business- and professional consumer who do not manage its own money but is below the levels required for private banking services. Typically it invests between €30,000 and €100,000 as a lump sum to commence a personal pension or a life policy. Often it will have to reinvest the proceeds of a tax-driven investment that has matured.

It often wishes to make additional savings provisions in a tax efficient manner, often wishing to place funds with an international rather than local organisation.

We estimate that there is 90,000,000 such type of clients or potential clients in Europe. A large proportion of them mistrust the ability of their government to provide them with a decent retirement.

## **2.2 THE SUPPLIERS**

Over the last 25 years, an increasing number of financial institutions have come to accept the growing importance of cross-border sales activity in Europe.

For some life companies, fund groups or banking institutions, this evolution has led to activities in just one or two target countries (Clerical Medical, Prudential, Skandia, Friends Provident, etc.).

For others, this trend has been more diversified. In recent years, some institutions have gone so far as to establish separate subsidiary companies that have been specifically created to promote and trade Financial Services related products on an international basis (JP Morgan Flemings, La Mondiale, Aspecta, etc.).

Others have made strategic investments in operations that appear to offer a developing distribution base (Lombard, HSBC).

The EU is an important growth market with high potential. The EU is politically stable with more than 450 million citizens. With a median age of 39 it is the world’s highest average age. Pension and health care systems are not well prepared for the continuous changes to come. Millions of people will need additional private pension provisions.

Allianz estimate that the European pension market will double within the next 10 years, providing a growth of 7.5% per year.

However, compliance issues and operating (marketing) restrictions across continental Europe which vary from country to country are a serious deterrent to any significant expansion of the cross-border activities.

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### **3 THE INTERMEDIARIES**

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Comparatively few European intermediary firms (49 so far) operate internationally. A handful of Anglo-Saxon IFA groups are working to set up new agent outlets in more than one European country but these tend to be focused on expatriate clientele; the German network OVB (listed on the Frankfurt Stock Exchange) is a notable exception with Nucleus Euro-Advisers (NEA) operating out of Luxembourg.

Within the EU, there is today 49 intermediary networks employing approximately 8,300 people for their front and back office – and grouping more or less 68,000 individual intermediaries.

Intermediary firms have been the targets of large international groups acquiring IFA firms for cash at a multiple estimated to be closed to five times EBT.

The EC has launched consultations to seek the views of the industry and other interested parties on the future regulation of financial conglomerates (i.e. single financial entities that offer a range of financial services such as banking, insurance, fund management and security brokerage together). In the opinion of the EC, the objective of one wholesale financial market and open and secure retail markets cannot be achieved without state-of-the-art prudential rules and supervision.

The phenomenon of financial conglomerates has grown fast and although specific prudential issues are being discussed separately in the banking and insurance sectors, the continuing trend towards closer corporate links between financial institutions across sectors and across borders gives rise to new concerns that require new legislation.

The review of Article 82 on the abuse of dominant position is also keeping EC Directorate General (DG) Competition busy. Comments to its Discussion Paper have shown that there is general agreement that the anti-competitive foreclosure is the main competition concern of discriminatory abuses. Stakeholders recommend an effects-based approach should be applied. Comments though diverge as to whether to create categories of conduct which generally cannot be classified as abuse; how to apply the “as efficient competitor test” in practice; and how to take efficiencies into account.

There is also a general consensus that there should be more emphasis on effective competitive constraints and less on market share. One of the areas of debate amongst stakeholders is whether or not to set special rules for legal monopolies. The EC will prepare draft guidelines on the issues included in the discussion paper by mid-2007, which will be subject to a consultation before adopting the final guidelines in 2008.

How to prevent excess of consolidation leading to monopolistic trends which will in turn generate more protectionism?

#### **3.1 EUROPEAN COMPLIANCE ISSUES**

The formulation of EU legislation for financial services, whilst being done for the protection of consumer’s interests should be applicable without pointless restraints for practitioners.

Sufficient attention also should be paid in ensuring a high level of consistency between the implementation of the IMD and MiFID standards for instance when in most member states investment advice is exercised concurrently with insurance mediation.

It remains a hard task for the EC in view of the paltry enthusiasm of national civil servants (based mostly on the national legal frames) for anything that might represent the slightest change in their little practices or privileges...

As an example, red tape burden is estimated costing Britain's business alone £100bn a year, pushing the cost of compliance to 4% of operating expenses for large entities, up to 30% for Small and Medium Size Enterprises.

In addition, the divergent interpretation of basic EU principles by the national regulators causes a total lack of harmonisation in the application of EU rules at national level.

Across all countries and industry sectors, expanding regulations, overlapping mandates and tighter enforcement have elevated the cost of compliance and increased the consequences of non-compliance. An uncoordinated and defensive approach to compliance will not work anymore. Instead financial institutions need to adopt a unified, proactive approach to compliance, rolling out processes to monitor and document risks and implement training and controls throughout the organization.

The "time bomb", which in the very short term is constituted by the pensions problem, reinforces the political need to attack the prospective problems sooner than later, even if the politicians are showing a certain reluctance for EU legislation, leaning towards a more liberal direction, and be more genuinely concerned with consumer interests, than certain national administrations might wish.

The possible failure of the state pension systems will open unprecedented prospects for European financial advisers and intermediaries called upon to assist the anxious consumer in the right choice of options and alternatives for the sound management of retirement or inheritance assets.

In the meantime, politicians who may be willing to privatise health insurance or pension still insist for compulsory taxation on savings which makes the transfer politically impossible.

EU legislation is broadly designed to create a "level playing field" throughout the financial services arena. In reality, however, many "local" hurdles continue to exist and this often frustrates the operating activities of foreign product suppliers – despite the fact that national (basic) product requirements are consistent throughout the EU.

Local expertise and advice are essential in the monitoring of local legislation, the identification of opportunities and any subsequent distribution of products to promoters and distributors.

The lack of training and organisation of certain financial advisers and intermediaries can create problems and the industry must tackle the provision of quality training

courses and ensure assistance for adviser and intermediary integration, in close co-operation with its national member associations.

The EU proposal for a comprehensive legislation is a critical issue, as the EU wants, (and the action plan requires it), to elaborate a “consumer-focused” legislation.

The regulatory authorities shall be either public authorities or bodies recognised by national law or by public authorisation expressly empowered for that purpose by national law. Member states shall designate the competent authorities empowered to ensure implementation of the Directives, therefore if the political willingness exists, joint-regulation could be the option selected.

The drafting of detailed rules, which lead to counterproductive over-regulation, must be avoided. Most of the issues should be left up to the market players to agree on, leaving more room for self-regulation in the industry.

### **3.2 EU PENSION AND INVESTMENT MARKET**

The ageing trend of the EU population will create unprecedented and tough social and business strain. The enterprise sector in general will face the impact of the ongoing ageing of the labour force and the life insurance companies, pension funds and pay-as-you-go schemes with the consequences of the increase in life expectancy.

It is up to the individual corporation to elaborate its own strategy with reference to the socio-economic circumstances. However, many issues are common to all market players and the formulation of strategies may be greatly assisted by an exchange of views, a common consideration of scenarios and assessment of the degree of uncertainty of projections.

The EU pensions and personal investment market is undergoing a period of rapid change. The financial pressures of an ageing population combined with governments’ needs to cut spiralling welfare budgets are the chief driving forces fuelling the trend towards greater private pension provision.

However, national markets remain fragmented. Cross-border competition is limited by a variety of market entry barriers, reducing consumer choice and hindering flexible business operation and innovation. The volume of cross-border retail business under Freedom of Services (FOS) is still negligible, mainly because of the abusive use of “general good practice” rules by local regulators.

***The EU asset management industry manages over € 10 trillion of assets, roughly the size of EU-15 GDP!***

***Insurance premium represents almost 9% of EU GDP and assets managed by insurers and occupational pension funds are equivalent to over 75% of EU GDP.***

The current value of private Pension Funds in Europe is thought to be € 2.82 trillion (Source: *Mercer/FT*), the bulk of which is concentrated in the two largest markets – the UK and the Netherlands. Over the next decade these funds are anticipated to grow dramatically as governments reduce their dependence upon state “pay-as-you-go” schemes, which rely on the social security contributions of the employed to pay the pensions of the retired.

The economic impact of private Pension Funds cannot be overstated. In several European countries, including Ireland and the Netherlands, the value of domestic Pension Funds exceeds stock market capitalisation. Moreover, in the Netherlands and Switzerland these assets represent over 100% of gross domestic product.

Global demand for pensions will spark growth for investment managers and financial advisers.

Country	Population in millions	Value of pension assets (€bn)	Pension assets as a % of GDP	Pension assets per capita (€000's)
Belgium	10,2	24	11%	2
Czech Republic	10,3	5	5%	1
Denmark	5,3	145	84%	27
Finland	5,1	39	35%	8
France	58.0	93	7%	2
Germany	82.0	303	14%	4
Italy	57,4	89	7%	2
Netherlands	15,6	490	127%	31
Norway	4,4	34	233%	8
Portugal	9,9	10	9%	1
Spain	39,3	21	4%	1
Sweden	8,9	110	66%	16
Switzerland	7,1	282	117%	40
UK	59.0	991	77%	17

A figure of € 237 bn has been put on the size of the third-party mutual fund market in France, Germany, Italy and Switzerland alone. In a poll of 800 senior investment executives, sector analysis found that France has the largest fund market in these four countries but is the smallest user of externally managed funds.

Growth in demand for third-party funds is likely to be highest in France and Italy, although previously the highest demand has been in Germany. Assets in external funds are forecast to grow by 20% in these two markets.

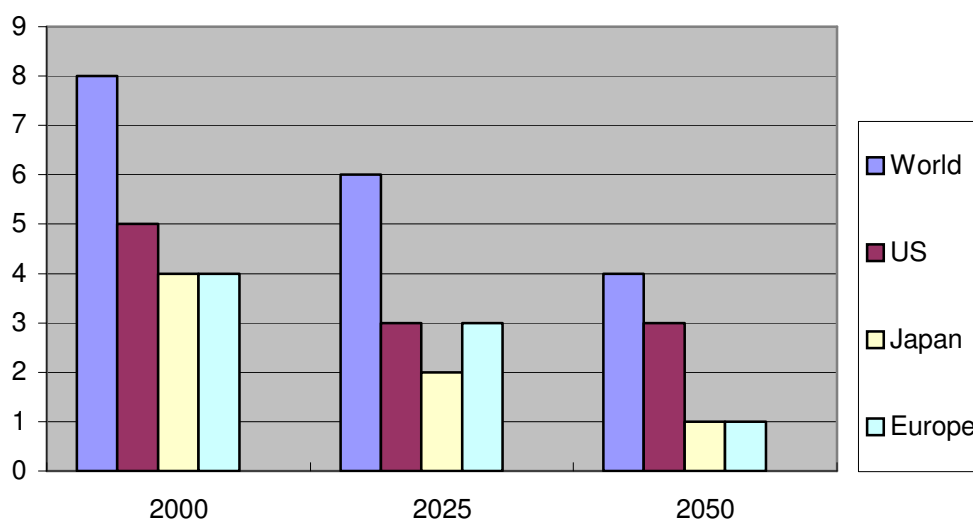
The latest *Annual World Wealth Report* produced by Merrill Lynch shows the global asset management industry for private investors – the famed High Net Worth Individuals (HNWI) – is in good shape and facing a rosy future in terms of growing capital inflows.

The total wealth of the world HNWI is € 17.4 trillion, up from € 7.2 trillion ten years ago. The market serving rich people grew by 5% and by the turn of the century, it is estimated to reach € 23 trillion, with annual growth at 10%.

Europeans are not only wealthier than ever before but are also living longer, according to a report from Eurostat, the statistical office of the EC. A better standard of living is increasing life expectancy across Europe.

The biggest increase in pensioners is expected in the Netherlands, with the number of over-sixties increasing by 64% compared with 28% in Portugal.

*Number of "workers" 65+ year olds (Source: US Dept. of Commerce)*



### **The EU Monetary Union.**

Post Euro-phoria, the consensus among government experts' bankers is that there will be a massive shift out of US-dollar-denominated securities. JP Morgan Flemings expects that within five years private investors in non-European countries will have switched €750 bn to €1 trillion out of dollar securities into Euro-based financial instruments.

### **Developments in Pension Funds.**

There is no coherent pension "market" as such in Europe. The three Pillar system of pension provision is widely used, but each country has a different balance between state and private provision. This means that the threat of the demographic time bomb – the impact of any depopulation on state welfare systems – varies considerably from country to country.

The greatest problems arise in countries such as France and Italy which have very generous state pension retirement scheme and underdeveloped private pension markets.

Germany also has a serious pension problem with the state scheme being in deficit. In several central and Eastern European countries, the switch from under funded state schemes to private funding plans has been swift and dramatic. (Source: *Financial Times: "The Future for European Pensions"*)

There are some signs of demand from multinationals for a Pan-European pension scheme. However, despite the single market's achievements in terms of free movement of persons, goods, services and capital throughout the Union, pension schemes have continued to operate mainly on a domestic basis.

There are attempts to bring forward the possibility of fully portable EU pensions. The first development has been the Directive on supplementary pensions which technically came into effect on 25 July 2001.

The market is keenly aware of the sales potential of pan-European pensions. Luxembourg announced that it is establishing two new vehicles, which will be virtually tax-free and have a totally flexible structure.

### **Austria**

Austria's pension system is thought to be one of the world's leaders in terms of pension expenditure, not because of its demographic structure but because of the generosity of the system. Contributors can obtain an average of 80% of their 15 best years of income as a pension.

Therefore, pension expenditures absorb 15% of GDP and contribution rates are among the highest in Europe.

The Intermediary's market is growing in importance (35,000 individuals) and a form of co-regulation is in place.

### **Belgium**

Belgian Pension Funds are expected to benefit from an overhaul of the country's pension laws. These changes are likely to result in the relaxation of the legal obligations and bring state pension provision in line with EU legislation.

There are currently approximately 8,000 intermediaries operating in Belgium: 60% are distributing insurance and banking products, they control 60% of the general insurance market and 75% of the investment market.

Belgium is a rich country with 1,4 millions people having net assets between € 50,000 and of € 300,000, and 160,000 in excess of € 300,000. (Source: *De Morgen* - 2006)

### **Czech Republic**

The ageing Czech population will be one of the most obvious in whole Europe in the coming decades. Public pension expenditures are expected to increase by a half from current 8 % of GDP to more than 12 % by 2050. The public PAYG system has therefore to be reform urgently. However, only parametric changes are being gradually implemented. The Czech Republic is thus one of the last new EU member states that are still missing a fundamental pension system reform.

There are presently about 50,000 intermediaries registered in the Czech Republic, we estimate that approximately 60% of them (30,000 individuals) are dedicated to their job on a full time basis.

### **France**

The French state pension scheme faces major challenges in a country with a growing retired population (1/3 of the total population is over 50... controlling 60% of tangible assets) and public commitments in respect of civil servants pension schemes in excess of € 850bn... It is a highly sensitive political issue that may not be solved for some time and this is leading many individuals to make their own independent pension arrangements.

There are presently only a few intermediaries that are properly operating in France. The intermediary community is growing slowly with around 1,300 really active professionals in a total of 4,000 officially registered intermediaries. Few of these appear willing to embrace “foreign” products.

France, it is also 500 asset management firms, 5 of them ranking amongst the 25 biggest management companies worldwide. There is 8,000 UCITS funds and 3,500 non-UCITS funds registered in France managing € 1,5bn. (Source: *Association Française de la Gestion Financière*)

### **Germany**

Whilst Germany may be a world leader in many areas, its over-stretched pension system is badly in need of a serious overhaul. It has become clear that high unemployment and unfavourable demographics make change to the existing pay-as-you-go system necessary.

Intermediaries in Germany are still broadly unregulated. Estimates of the numbers of Intermediaries vary from as few as 10,000 to as many as 900,000.... Only around 70,000 are dedicated to the business on a full time basis and these offer real distribution potential.

### **Italy**

Public pension expenditure in Italy grew from about 5% of GDP to over 15% in the early 1990's, outpacing all other categories of primary government expenditure and making Italy one of the biggest spenders on pensions in Europe. This has led to a move away from the state system towards private pensions.

Intermediaries (around 20,000 active out of the 35,000 officially registered) are becoming more relevant in the distribution process. There is an increasing need for advice and of a serious pension fund strategy to fill the social security gap.

### **Netherlands**

The national savings and pension's law of 1953 shifted part of the burden of pensions away from the state system onto voluntary privately financed schemes. Over 90% of the workforce now belongs to a private supplementary scheme and it is common for retiring employees to enjoy a pension of 70% of their final salary. Dutch investors are perceived to be conservative as 29% of funds invested in shares in comparison to 77% in the UK.

The Netherlands boasts a well-structured and large IFA sector. Requirements for foreign products (excluding institutional fund management) are limited, however, given the quality and diversity of local product suppliers.

### **Spain**

Spain is increasingly moving away from the state pension system. A politically strong association serves the intermediary market of (approximately) 20,000 largely under-trained and unsophisticated.

## Switzerland

A strong fund management culture exists throughout the Swiss intermediary market and three associations promote the interest of their (total) membership of around 2,500 firms representing approximately a work force of 10,000 individuals. They manage 10% of the total assets managed in Switzerland i.e. approximately CHF 400bn.

## UK

With its well-developed pension system and high level of regulation the UK market is probably the most advanced in Europe.

The market for inheritance tax (IHT) planning products in the UK is growing fast. IHT is currently charged at 40% on estates in excess of £263,000 including the value of property. The amount of inheritance tax collected by the Inland Revenue has almost doubled over the last 10 years, to over £2.5bn in 2003-4 from over £1.3bn in 1993-4. The Consumers Association suggested that the number of people affected by IHT has risen by 55% over the past 5 years.

Recent research suggests that in less than 10 years' time, one in eight Britons will retire abroad, and by 2020, this figure will be one out of five. At the same time there is a growing trend for people to work abroad. At present, just 250,000 Britons leave the UK to work, but this figure is set to treble by 2012 and top two million by 2020.

Insurance companies will be targeting employers who wish to "top-up" the pension arrangements of key employees, but are unable due to restrictions such as the salary cap.

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## 4 CONCLUSION

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Generally, intermediaries tend to be good at selling but would benefit from assistance in the areas of marketing, administration and business management.

Selecting and understanding unfamiliar international products to offer to their clientele and building up a "value added" relationship with specific product providers are two of the major issues Intermediaries are facing together with creating a residual value for a business built up over the years, very often from scratch.

Based on a small steady number of clients today, it is fairly clear that most intermediaries could increase their portfolio of clients reasonably easily through a better marketing approach and with the help of some supportive technical (administrative, legal and financial) assistance.

- For consumers who wish to use an Intermediary, the first thing to establish is that the Intermediary is, in fact, independent,
- The Euro may encourage consumers to look across borders for their financial-services products.

The consumers need advice that they do not find when buying over the Internet and a broader product mix than they would find in their local bank branch. Without the intermediary, the consumer is "thrown into the hands of large providers".