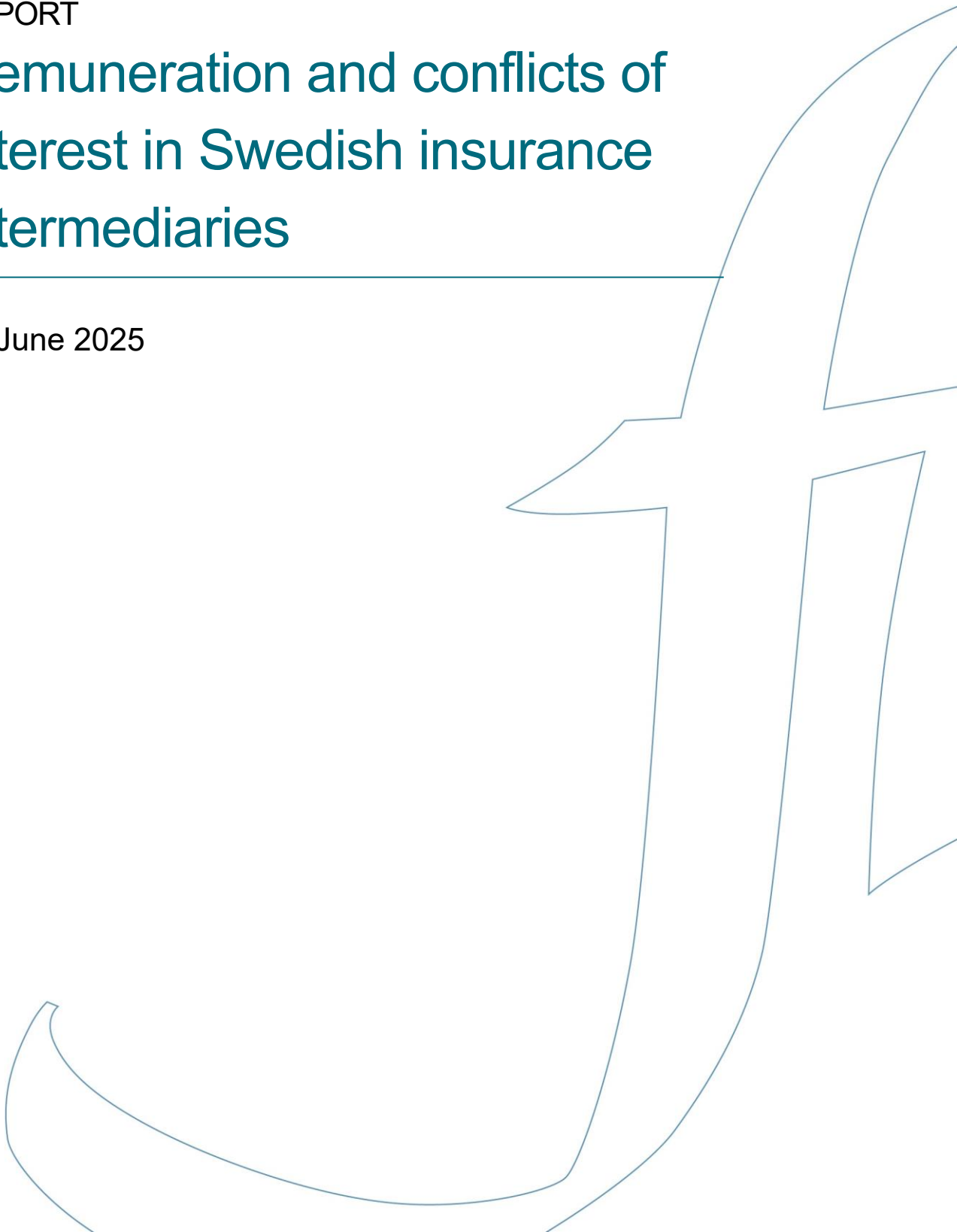




REPORT

Remuneration and conflicts of interest in Swedish insurance intermediaries

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Summary

Finansinspektionen (FI) has conducted an in-depth analysis of remuneration and conflicts of interest at insurance intermediaries that distribute life insurance and savings insurance. The objective of the in-depth analysis has been to gain more in-depth knowledge about the insurance intermediary market's remuneration structure, how commissions and other remuneration are received, and the conflicts of interest that could arise.

The analysis shows that some insurance intermediary firms receive third-party remuneration without having provided any advice and that some third-party remuneration cannot be linked to a customer. Often, insurance intermediaries use only a few insurance providers when choosing an insurance provider, particularly when transferring insurance. In addition, the analysis shows that transfer remuneration represents a high share of the insurance intermediary firms' earnings and that some of the one-off remuneration payments to insurance intermediary firms are high. More than half of the employed advisors hold options or ownership in the insurance intermediary firms, and in some cases other remuneration to advisors is higher than the fixed salary.

FI would also like to emphasise through this report the importance of insurance intermediary firms having procedures for identifying and managing conflicts of interest that could arise within their operations.

About the survey

FI has conducted an in-depth analysis of remuneration and conflicts of interest at insurance intermediaries¹ that distribute life insurance and savings insurance². The analysis included insurance intermediary firms with Swedish authorisation for insurance distribution with a focus on life insurance in at least Class Ia Life insurance (direct), Chapter 2, section 12 of the Insurance Business Act (2010:2043), as the primary authorisation category and that have been active during the years 2021–2023, and securities companies with authorisation for insurance distribution and that have been active during the same period.³ The in-depth analysis includes in total 278 insurance intermediary firms (hereafter *intermediary firms*) and their employed insurance intermediaries (hereafter *advisors*).

Objective and methodology

The objective of this analysis has been to deepen the authority's understanding of how the intermediary market's remuneration is structured, how commissions and other remuneration are received, and any conflicts of interest that could arise from the remuneration models. To do this, FI conducted a survey to gather the following information from the 278 intermediary firms included in the analysis:

- in which situations insurance intermediaries receive remuneration for insurance distribution and the type of remuneration⁴ received,
- the distribution between various insurance and product companies regarding third-part remuneration to insurance intermediaries,
- a description of the remuneration systems for the employed insurance intermediaries,
- instances of remuneration identified by the intermediary firms and how the intermediary firms have handled them.

For a few intermediary firms authorised to distribute life insurance that have a complex ownership structure or are part of a group with unit-linked or product companies, we also gathered policy documents for conflicts of interest and remuneration systems to understand identified conflicts of interest and how they are handled and how employee remuneration systems are structured.

¹ An insurance intermediary, pursuant to Chapter 1, section 9, point 11 of the Insurance Distribution Act (2018:1219), is a natural or legal person except for insurance providers or their employees, who conduct insurance distribution in exchange for remuneration.

² Does not refer to so-called person risk products that include life insurance, for example mortality insurance.

³ Firms that, during the period in question, have not conducted the business to which the analysis refers are not included in this in-depth analysis.

⁴ All remuneration refers to either third-party remuneration from insurance or product companies or remuneration paid to intermediary firms directly by the customer.

Results of the survey

All results presented in this report are based on the 278 firms that responded⁵.

More customers per advisor

The survey responses show that the number of customers per advisor has increased by around 20 per cent over two years, from an average of 755 in 2021 to 910 in 2023. The responses also show that the annual average earnings per customer is between SEK 5,000 and SEK 10,000.

The survey also shows that it is most common for the intermediary firms to have a few employed insurance intermediaries and that the number of employed insurance intermediaries per intermediary firm has been relatively unchanged during the period 2021–2023.

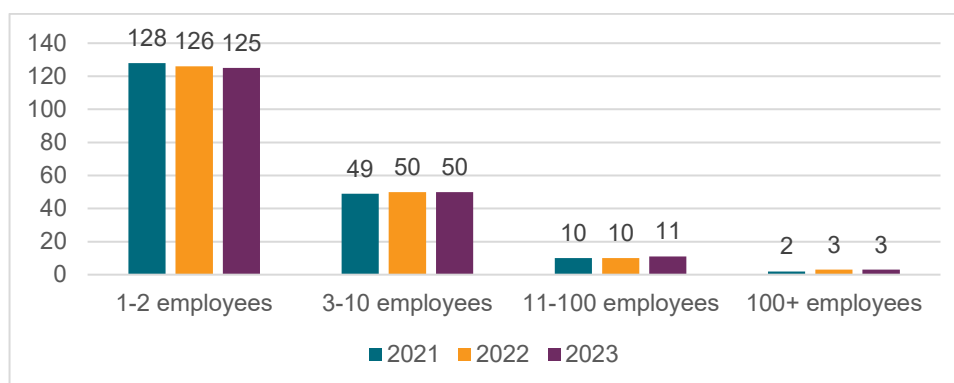


Diagram 1: Distribution of employed intermediaries in the firms that responded⁶

Remuneration without advice

Intermediary firms' remuneration is divided between company-owned insurance (around 80 per cent) and privately owned insurance (around 20 per cent). A large share of the remuneration was received without the provision of any advice. For all insurance included in the analysis, around 50 per cent of the remuneration paid to the intermediary firms is attributable to insurance agreements where no advice was provided during the year in question. Around 8 per cent of the reported remuneration is paid for privately owned insurance where no advice has been provided to customers during the year in question. Furthermore, around 80

⁵ Validation of gathered data has shown that some of the data varies in quality; therefore, some prudence should be observed when drawing conclusions.

⁶ Two intermediary firms have answered a survey as a representative for legal persons within a group. The analysis thereby presents 189 responses to the surveys, with two surveys together representing the responses from 89 legal persons with individual authorisation. It is therefore probable that a number of these legal persons have a smaller share of employed intermediaries than what is shown in Diagram 1.

intermediary firms (42 per cent) per year say that they have received third-party remuneration that they cannot link to a specific customer.

Concentration of transfer remuneration from insurance providers

The survey shows that approximately 20 per cent of the third-party remunerations the intermediary firms received from insurance providers consist of one-off remuneration for transfer of pension insurance, and around 8 per cent is primarily from transferred or newly signed capital insurance.

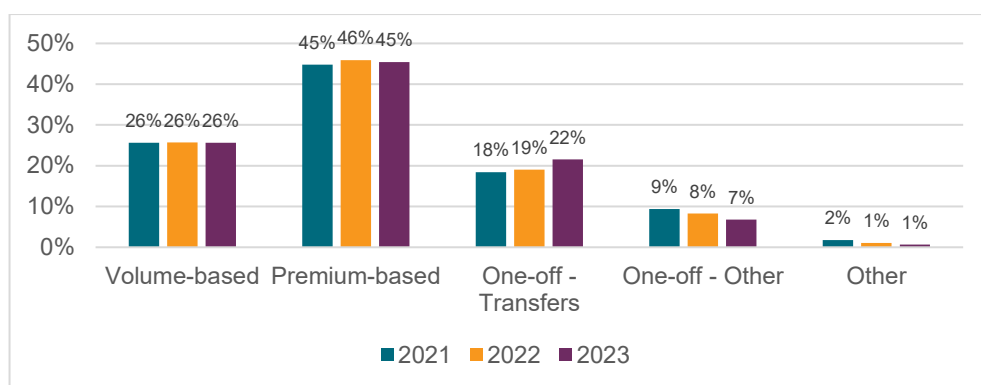


Diagram 2: Distribution by type of remuneration from insurance providers.

The data also shows that most intermediary firms receive volume-based third-party remuneration from seven insurance providers. In most cases, the intermediary firms receive premium-based third-party remuneration from a smaller number of insurance providers (1–5). For the intermediary firms that transfer pension insurance, in 40 per cent of the cases third-party remuneration is concentrated to one (1) insurance provider per year. The insurance provider to which the concentration refers varies by intermediary firm and year.

Ownership interests in the intermediary firm

The survey shows that 57 per cent of the advisors hold some form of options or ownership in the intermediary firm or the group where they work. For intermediary firms with more than 100 employed insurance intermediaries, this figure is 62 per cent. Furthermore, the survey shows that 17 per cent of the advisors received other remuneration that is higher than the fixed salary and that 1 per cent of the advisors received higher variable remuneration than the fixed salary.

High one-off remuneration correlates with the choice of insurance provider

The analysis shows that, during the years referred to in the analysis, 45–47 per cent of the firms that responded received one-off remuneration of more than SEK 50,000 and that 21–30 per cent received one-off remuneration of more than SEK 100,000. The highest one-off remuneration payments reported by the intermediary firms for a signed policy amount to SEK 400,000–600,000, with a single instance of paid remuneration of more than SEK 1 million. The survey also shows that there is some correlation between high one-off remuneration and the insurance providers to which intermediary firms transfer their customers. The two insurance providers that were most frequently the recipient of a transfer are also those that paid high one-off remuneration.

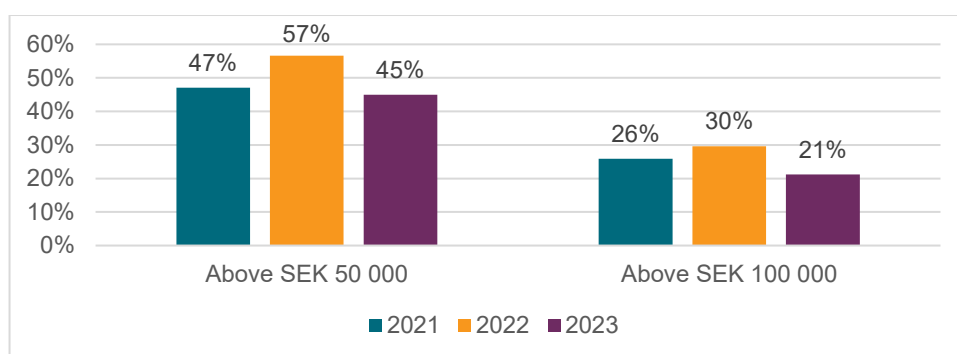


Diagram 3: Share of firms responding to the survey that received remuneration of more than SEK 50,000 and SEK 100,000, respectively.

2021	2022	2023
1 350 805	645 125	597 594
662 249	548 579	585 000
445 078	500 000	543 379
420 000	480 811	469 140
400 000	465 048	445 352
400 000	455 000	445 352
400 000	454 769	445 352
400 000	400 000	425 801
400 000	400 000	400 118
392 316	400 000	392 534

Table 1: The ten highest one-off remuneration payments per year according to the firms that responded to the survey.

Conflicts of interest in larger intermediary firms or organisations

FI reviewed a sample of the current policy documents from intermediary firms on the handling of both conflicts of interest and remuneration to employed insurance intermediaries.

All the intermediary firms included in this limited portion of the analysis have policy documents governing conflicts of interest and remuneration systems. The review showed that these policy documents contained information about the risks identified by the intermediary firm, how decisions about the policy documents were made, and how the information is made available to the consumer.

Conclusions

The Swedish insurance intermediary market has undergone consolidation over the past 10–15 years. The number of independent intermediaries has decreased sharply at the same time as larger actors, often backed by venture capital, have advanced to an increasingly stronger position. This development has changed the dynamics of the industry, in part through a high risk of increased demand for short-term gains. At the same time, the number of customers at intermediary firms increased, which could be related to the consolidation previously mentioned and potentially higher sales pressure on advisors. Furthermore, remuneration linked to the transfer of customers' capital, particularly following the expanded transfer rights resulting from various regulatory amendments in recent years, has become a significant part of intermediary firms' earnings.

One trait found among the larger actors on the intermediary market is that around 60 per cent of the employed advisors hold some form of ownership or options in the group. This means that remuneration to an increasing extent is linked to the group's profit and the intermediary firm's overarching financial targets rather than to individual customer relationships and advice quality. This change in incentive structure could impact how advice is provided and the products that are recommended. There is a risk here that the customer's long-term needs will be subordinate to short-term business goals.

As this development has progressed, there is now a risk of new types of conflicts of interest. One clear example of such a risk is the transfer of capital, where high third-party remuneration risks impacting the advice advisors provide on which insurance provider the customer should choose. The risk is that the transfer is carried out to generate higher remuneration rather than to fulfil the customer's needs. This risk is enhanced by a high share of advisors consistently choosing to move all their customers' pension capital to the same insurance providers, a concentration that raises questions about the objectivity of the advice and thus the incentive structure that steers this advice.

FI's analysis also shows that some remuneration is paid without the provision of any advice or a link to a specific customer. This creates a risk that intermediary firms' regular remuneration, for example premium payments or volume-based remuneration, does not correspond to the value of a provided service, which the regulations require. This risk increases if one or several intermediary firms are market leaders since their large customer volumes mean that the business models have a broad impact on consumers.

Finally, this enhances the risk of conflicts of interest arising due to asymmetric information between advisors and customers. When the customer cannot fully evaluate the product's features or the advisor's motives, there is a higher risk that

the recommended products are motivated by advisor benefits and not customer benefits. This risk is further enhanced when the intermediary firm has links to intra-group product companies, which could create strong incentives to steer customers towards in-house solutions even when objectively better alternatives are available on the market.

FI's measures resulting from the in-depth analysis

As made clear in the observations we present above, it is important for insurance intermediaries to prepare and apply suitable procedures for identifying at an early stage, analysing and primarily avoiding conflicts of interest that could arise as part of the intermediary business, and thereafter manage them. Firms conducting insurance distribution business must be able to demonstrate that they are managing the risk of conflicts of interest and how. They must also be able to demonstrate that their procedures related to their management of conflicts of interests ensure that the customer's interest are always their top priority and that impartiality and factuality in the advice are not impacted by commercial incentives or other factors.

This analysis indicates that there are strong grounds on which to continue to follow the market carefully and that matters related to conflicts of interest and remuneration models continue to be a priority in FI's consumer protection work. Therefore, FI may follow up either as part of its ongoing supervision or through special investigations on how individual firms conducting insurance distribution business manage conflicts of interest.