FINANSINSPEKTIONEN

Consumer protection on the financial market

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CONTENTS

Summary

In this report, Finansinspektionen (FI) describes the most prioritised areas in which consumer protection on the financial market needs strengthening. Such areas include tightened rules for advice on financial products, better pension information and measures against closet index funds.

FI regularly conducts analyses of the financial market in order to gauge the greatest risks and problems, both for stability and consumers. The report Consumer protection on the financial market is published once a year and highlights the most prioritised areas in which FI finds that consumer protection should be strengthened.[1]

One such area is financial advice. Consumers on the financial market face many difficult decisions, and need factual and objective financial advice or guidance so that they may make a well-founded choice. In its supervision, FI has seen major deficiencies in how firms manage the conflicts of interest that arise when financial advice is largely financed by commissions. FI therefore finds that current rules do not suffice to provide consumers with sufficiently sound protection, and is of the opinion that a ban on commissions should be introduced. Such a ban should cover all financial advice, irrespective of the type of firm providing the advice.

Another priority area is pension information. Relevant, comprehensible information is essential when comparing different products in order to make carefully considered decisions based on individual circumstances. FI has seen deficiencies in how firms inform of pension products and has therefore sought to promote an industry agreement so that consumers may obtain clearer, more comparable information when transferring their pension investments.

Finally, consumers must also be able to rely on the products they purchase. This mainly requires product descriptions to be accurate and not misleading. For example, FI has seen examples of funds whose objective is to outperform a certain benchmark index, but for which the management has not been granted the conditions for realising that objective. These are known as closet index funds. FI has urged fund management companies to take measures to address the deficiencies.

■ **Annual consumer report**

FI works continuously with empowering consumers on the financial market and will, on an annual basis, report its view of consumer protection on the financial market and how the authority works to alleviate risks and problems.

1 The report is limited to the conduct and information matters that directly affect consumers. "Consumers" in this context refers to individuals that use financial products and services for private use. FI also publishes a report twice a year regarding stability in the financial system, as well as yearly reports from FI's other operational sections – Bank, Insurance and Markets – regarding matters and activities in each respective area. The annual Mortgage report is also published.

FI and consumer protection

All consumers on the financial market need to make important and difficult decisions to some extent. At the same time, consumers often end up at a disadvantage to the firms. In particular, consumers often have poorer access to and understanding of the information about the products.

CONSUMERS NEED PROTECTING

The financial market plays a crucial role for individuals and the economy at large – taking out a mortgage to finance a home, insurance policies (personal, family or property), paying bills or saving for future consumption. In the past few decades, a growing amount of responsibility has been placed on consumers, who must make many decisions that affect their own finances today. One example is pension investments, with occupational pension – large parts of which are selectable – gaining increasing financial importance to final pension.

At the same time, financial markets have evolved with a constantly growing offering of products and services. Hence, consumers can themselves choose how their money is to be managed, or when they can consume it. This also requires sound consumer protection.

A condition for protecting consumers is that financial firms are stable and can honour their obligations. For this reason, FI requires, for example, that firms hold sufficient capital and liquidity. They must also be able to manage risks in their operations, and require sufficient knowledge about the products they offer.

FI's work in the consumer protection area is therefore largely about laying down frameworks for the firms in the form of rules. Authorisation assessment enables FI to ensure that the owners and management of financial firms meet the basic requirements for conducting financial operations that are subject to authorisation. Entities that are not expected to do so can, through this process, be prevented from entering the market.

FI also monitors firms that conduct financial operations in order to ensure that they fulfil the rules and can intervene against firms that fail to meet the requirements.

Another condition for sound consumer protection is the ability of consumers to make carefully considered decisions based on their individual financial situation. In order to make carefully considered decisions, consumers need knowledge about financial products. A problem in this context is that many financial products are complex and difficult to understand, while at the same time they may be crucial to consumers' financial situation throughout their entire lives. One example is pension investments. Here, many people have poor insight into their investments because of, for instance, deficient information. It can therefore be difficult for the consumer, even with hindsight, to determine whether the investment choice was good or bad.

Because financial decisions are difficult to make, many consumers feel a need for financial guidance or advice to make an appropriate choice. Given that many consumers have simple saving needs, an advisor with the consumer's best interests at heart should suggest an inexpensive product rather than an expensive one, if both can be deemed appropriate.

However, this requires firms to cope with addressing their conflicts of interest, and to have the best interests of the consumer at heart. Yet, conflicts of interest are aggravated by the fact that consumers often have poorer access to and understanding of information than the firms.

There are also products that can sometimes be directly harmful. One such example is instant loans, which are granted to people who have no ability to repay them, or expensive and complex products that carry high risks and obscure return possibilities, which can hardly be appropriate for anyone.

One way for FI to help households to make carefully considered decisions is by imposing demands on the information provided by firms. In this way, FI can improve consumers' possibilities of understanding and assessing financial products and services.

FI can also contribute to better decision-making among consumers by increasing their knowledge, and has thus been commissioned by the Government to empower consumers by educating them in financial matters. Most of the work with educational programmes in personal finances is conducted in close cooperation with other authorities, firms and organisations. The aim is to improve consumers' awareness and knowledge of personal finances so that they may assimilate the information provided. In order to reach a broad target group, FI focuses on training Certified Personal Finance Instructors. The educational initiatives also target specific groups, such as high school pupils, new arrivals and unemployed youths.

Deficient financial knowledge

The need for education in financial matters was confirmed in a study published by FI in May 2015.[2] In phone interviews with approximately 800 people aged 25–75, questions were asked about interest on savings, effects of inflation, and financial risk and risk diversification. Only around half of those queried responded correctly to all three questions.

The results imply that deficient knowledge about basic financial terms and contexts is a significant problem among Swedish consumers. The study also brought to light major differences between different groups of consumers, with poorer arithmetical financial capabilities among the older generation, people with a low education level, low income, women and people born abroad. The results of the study are in line with observations in comparable countries.

Even in cases where relevant information is available, research in behavioural economics shows that consumers often find it difficult to make rational decisions and are affected to a great extent by emotions and past experience. This can lead to decisions that are not in line with the consumer's long-term interest.[3] In certain situations, it might therefore be motivated to take measures that go beyond requiring more information, and which affect freedom of choice to a certain extent. For example, the consumer can be "nudged" into making a sound decision.[4]

2 See the memorandum Arithmetic ability and financial capability 2015, Johan Almenberg et al.

3 See Kahneman, Daniel Thinking Fast and Slow

4 See Thaler, Richard H. and Sunstein, Cass R. Nudge: Improving Decisions About Health, Wealth and Happiness.

The state-managed Seventh AP Fund is an example of a case in which anyone who does not make an active choice for their premium pension nevertheless gets their money managed.

Today, FI shares responsibility for consumer protection on the financial market with other authorities and organisations. Duties differ, however. For example, FI does not have a duty to intervene in the dealings of individual consumers with individual firms, while this is an important assignment for both the Swedish National Board for Consumer Complaints and the Swedish Consumer Agency. [5]

SEVERAL STEPS TO STRENGTHEN CONSUMER PROTECTION

Since last year's consumer protection report was published in May 2014, several important steps have been taken to strengthen consumer protection on the financial market.

FI has conducted a number of investigations linked to fund management companies. For example, FI conducted a survey to find out whether the funds' assets are correctly valued. Focus has been on the control measures and procedures of the companies in terms of valuation, and how they ensure equal treatment of unit-holders in this respect. Also, an investigation was carried out of the key investor information documents of the funds, in particular how the fund companies describe risk. Finally, an investigation was also conducted that focused on the fund companies' wording of the funds' objectives and investment policies in key investor information documents.

In order to improve conditions for a more well-functioning mortgage market, FI decided on new regulations to make the cost of early redemption of fixed mortgages more balanced (FFFS 2014:11). This is expected to make it easier for consumers to switch banks and hence stimulate competition on the banking market. The new rules entered into force in July 2014. In February 2015, FI decided on new rules for how banks are to present their average mortgage rates (FFFS 2015:1). The new rules are expected to improve the possibilities of making an informed mortgage decision and comparing different offers. Finally, in April 2015, Strengthened consumer protection on the mortgage market (SOU 2015:40) was presented. The inquiry proposes increased transparency and information for customers through a key information document, and also a period of reflection for customers prior to becoming bound by the mortgage agreement. Furthermore, the inquiry proposes that FI's proposal regarding greater clarity with respect to the mortgage transaction be implemented in law, as well as several extended mandates for FI.

In order to tackle the risks on the advisory market, in June 2014 Strengthened consumer protection in insurance mediation (Ds 2014:22) was presented. Therein, a more extensive suitability assessment of insurance intermediaries is proposed. It is also proposed that an insurance intermediary may not accept and keep commissions or other similar remuneration from any party other than the customer, if such remuneration might counteract the intermediary safeguarding the customer's interests. Also, in the summer and autumn of 2014, FI conducted an exten-

5 Other authorities and organisations responsible for consumer protection are the Swedish Pensions Agency and the Swedish Competition Authority. The Swedish Consumers' Banking and Finance Bureau, the Swedish Consumers' Insurance Bureau, the municipal budget and debt advisors and consumer counsellors guide and inform consumers.

sive survey among the firms providing financial advice. The survey covered the commission income of the firms and the products to which commissions pertained. In 2015 FI is conducting a review of the advisory business of a number of major banks, focusing on e.g. system support.

Finally, in January 2015 the securities market inquiry presented its proposal The securities market, MiFID II and MiFIR, (SOU 2015:2) in which it is proposed that FI be given a mandate to regulate commissions that have a negative effect on customers.

In order to reduce the risks associated with consumer credit, since 1 July 2014 new rules apply for all financial firms that provide consumer credits (FFFS 2014:8), which must also be authorised and come under FI's supervision (the Certain Consumer Credit-related Operations Act 2014:275). Supervisory responsibility is shared with the Swedish Consumer Agency. This means that more stringent demands can be imposed on the firms and FI can monitor market developments.

Since how the firms manage consumer complaints is an important component of consumer protection, in the autumn of 2014 FI conducted an investigation of the four major banks to identify how the firms define and manage complaints.

In order to simplify the information received by consumers when transferring pensions, in 2014 and 2015 FI has monitored and submitted an interim report regarding the work carried out by Insurance Sweden and the insurance industry with the ambition to increase transparency in terms of fees and other information in the transfer of pension investments.

Finally, in March 2015 the Swedish Consumer Agency launched the national consumer information service "Hallå konsument" (Attention consumers), in which FI participates as the authority responsible for information in its area.

Advice

Today, consumers face many and often difficult decisions on the financial market, and many thus may have a need for advice or guidance in order to make appropriate investment choices. Yet, in order for financial advice to be beneficial, it must have the best interests of the consumer at heart. However, this is made difficult when commissions make up the primary source of income for the firms that provide financial advice.

COMMISSION-DRIVEN ADVICE

Financial advice is mainly provided by banks, investment firms and insurance intermediaries, although insurance companies and fund management companies may also provide financial advice regarding their own products.

The basic purpose of the advice is that it shall help consumers to make well-founded investment decisions. However, in order for advice to be beneficial for the consumer, the advice must always have the best interests of the consumer at heart, and the advice given to consumers must be adapted to their circumstances. Yet, this is made difficult by the fact that almost all financial advice is financed by commissions today. This is a problem that FI has highlighted on several occasions.

Commissions give rise to conflicts of interest that are difficult for firms to manage. Because the size of the commissions paid often varies between different products, they create financial incentives for firms to recommend the products that pay the most rather than those that are best for the consumer. This applies both to upfront and trailing commissions. Upfront commissions are particularly problematic because they also incentivise firms to recommend that consumers frequently switch investments, with the sole purpose of generating fresh commission income for the firm.

The rules that currently apply to financial advice indeed encompass extensive requirements for firms to inform of the commissions they receive. Hence, consumers are given the possibility to understand the underlying incentives that may affect the advice. There are also requirements in place for firms to manage the conflicts of interest to which commissions give rise. However, FI sees major shortcomings in how firms follow these rules. The shortcomings are often a case of the firms failing to inform consumers of the commissions they receive from the product providers, or that the information provided is deficient and difficult to understand. Firms are also deficient in managing the conflicts of interest created by the commissions, posing a great risk of consumers being recommended the products that generate the highest revenues for the advisor.

The deficiencies have emerged mainly among insurance intermediaries and investment firms, but also banks, which are currently the largest individual distributors of savings products.

Commissions survey

In 2014 FI conducted a survey of commission income on the advisory market, covering around 200 insurance intermediaries, and firms authorised to conduct securities business. The survey showed that commissions from firms that have devised a product is a very common form of remuneration for insurance mediation, financial advice and other investment services. With a few exceptions, the results showed that close to 99 per cent of the income of insurance intermediaries for mediation and advice comes from commissions. The investment services of investment firms are also largely financed by commissions. Among both insurance intermediaries and investment firms, it is very common to have commissions that are paid out in direct connection with the customer purchasing the product, known as upfront commissions.

Ban on commissions

For a long time, FI has been advocating the introduction of a ban on commissions. In recent years, two inquiries have proposed that FI be given the possibility of regulating commissions in advice and the mediation of financial instruments and products.[6] In both the inquiries, it is proposed that FI be entitled to ban commissions that can have an adverse effect on the customer's interests. In FI's experience, the commission models present on the market today give rise to conflicts of interest and hence risk having a negative impact on customers' best interests. In FI's opinion, a statutory ban on commissions, applying equally to all advice, is what is needed for the emergence of an independent advisory market that focuses on consumers' best interests.

Commissions ban in the Netherlands and UK

In both the Netherlands and the UK, it has been prohibited for financial advisors to receive commissions for some time. Hence, advisors must instead charge customers directly. Both in the Netherlands and in the UK, the ban covers all advisors. The purpose of the rules is to reduce the conflict of interests that arises when the interests of the advisor differ from those of the customer.

It is too early yet to gain a comprehensive evaluation of the bans, but the analyses performed to date in the UK show that they have had a favourable effect on the advisory market. Today, advisors are more qualified than before the ban, and there are signs that the quality of advice has improved. In addition, sales of the products that used to give the highest commissions have decreased since the introduction of the ban. Product prices have also dropped by at least the amount that previously consisted of commissions. For certain products, the price has dropped even further.[7]

A comprehensive ban on commissions will have major repercussions on today's advisory market. [8] However, FI finds that the changes to which a commissions ban will lead on the market are both necessary and desira-

6 Strengthened consumer protection in insurance mediation (Ds 2014:22) and The securities market, MiFID II and MiFIR (SOU 2015:2).

7 See FCA Post-implementation review of the Retail Distribution Review, http://www.fca.org.uk/news/post-implementation-review-of-the-rdr

8 See more in FI's consultation response SOU 2015:2, FI Ref. 15-2488

ble for strengthening consumer protection. FI would expect such a ban to lead to firms switching to invoicing consumers for the advice. This would eliminate many of the conflicts of interest arising when advice is commission-driven, which should ultimately lead to consumers being given appropriate advice to a greater extent. It should also make it clearer to consumers what financial advice actually costs. Consumers already pay for the advice they receive today; the difference is that payment is currently charged through more or less hidden fees on the products purchased by consumers.

ADVICE ABOUT A FIRM'S OWN PRODUCTS

Several banks and investment firms currently provide advice about their own products, i.e. financial products devised by the firms themselves. Even though no commissions are paid out in these cases, the same conflicts of interest arise as in commission-based advice. Instead, here it is a case of the firms having strong incentives to recommend products with the widest margin, and which hence generate the greatest earnings for the firms. This conflict of interest is more difficult to tackle, because a commission ban does not cover this type of advice. However, the fact that a ban on commissions does not cover a firm's own products is not sufficient grounds for not introducing one. Instead, further steps are needed to address conflicts of interest in advice about own products.

Several steps towards better advice

MiFID 2 introduces requirements for investment firms and banks that devise financial products to have a product oversight and governance process.[9] The process shall ensure that the products developed by the firms are devised to meet the needs of a predetermined target market. The firms must also ensure that the product is only sold to the intended target market, and regularly evaluate the product to ensure it is still suitable for the target market. The requirements apply irrespective of whether the firms sell the products themselves, or use an external distributor.

According to the new rules, firms must – as early as when products are being developed – ensure that they are devised to benefit the customers of the firm. This also requires the firms' management and control functions to be active in the work to develop and monitor products. In FI's opinion, it is important that the firms attach great importance to devising the product oversight and governance process so that they may lay the foundation for sound suitability assessment at an early stage. In order to ensure that firms comply with the more stringent rules, FI will intensify focus on this in its supervision.

The rules regarding product oversight and governance under MiFID 2 apply to financial instruments and structured deposits. Work is also in progress at both the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) to develop guidelines that also cover other types of products.

Another important step in improving how firms manage conflicts of interest is that their reward systems are devised so as not to incentivise advisors to promote their own interests or those of the firm in a way that could be harmful to the customer. Already in 2013, the European Securi-

9 See the amended Directive on Markets in Financial Instruments (2014/65/EU) and ESMA's technical advice to the Commission regarding MiFID 2 and MiFIR (ESMA 2014/1569).

ties and Markets Authority (ESMA) issued guidelines to ensure uniform application of the rules regarding conflicts of interest and conduct in connection with remuneration.[10] This is now being strengthened by parts of the EMSA guidelines becoming binding for firms through MiFID 2.

It is also made clear that firms may not have reward systems that incentivise staff to recommend a certain product to a consumer when the firm could offer a different product that better meets the consumer's needs. The reward systems of firms shall thus be product-neutral. This will also be a major focus area for FI in its supervision ahead.

At both EBA and EIOPA, work is under way to devise remuneration rules in the banking and insurance areas.

10 ESMA/2013/606

Information

In order to make appropriate choices about a financial product, consumers must have access to relevant, comprehensible information. It is not necessarily a case of more information, but rather clear information that can be used to compare different products and make an appropriate decision based on individual circumstances. In the past year, FI has particularly highlighted deficiencies in information, for instance when transferring pension capital and signing for a mortgage.

INFORMATION DEFICIENCIES ABOUT PENSIONS

Many people today do not have much interest in engaging in their pension, despite it being crucial to providing for them in their senior years. One of the reasons is that many people perceive their pension to be in the distant future and that they have more pressing matters to attend to. At the same time, great responsibility is currently placed on consumers in terms of choosing how their pension capital is to be managed. On the whole, this is a risk that can put a major dent in the wallets of future pensioners. For this reason, it is particularly important that pension information is clear and easy to understand.

FI's regulations and general guidelines regarding information about insurance and occupational pension, which also cover private pension insurance policies[11], set out how and what to disclose in terms of historical return, fees and tax. Yet, FI has come across examples of information regarding private pension products being deficient in their description of return after fees and tax. Because of this, consumers risk being given a distorted picture of how the product has performed over time, and it is difficult to compare two products with each other.

In addition, FI has seen examples of both key investor information documents and information about return after fees and tax being absent in several cases for traditionally managed occupational pension products. Although these do not formally come under the regulations and general guidelines, the products are in practice the same as on the private market, and consumers often face a similar choice.

Clearer information

Through the new rules regarding key investor information documents for packaged retail and insurance-based investment products (PRIIPS)[12], most pension products will be subject to clearer requirements about how information must be devised. Also, the information will be uniform and it will hence be easier for consumers to compare products, bolstering consumer protection in the long term. The new rules will start to apply as of 31 December 2016. Work is currently in progress at EU level to establish how pricing and risk shall be presented.

DEFICIENT INFORMATION IN THE TRANSFER OF PENSION CAPITAL

The right to transfer pension capital is currently limited, and the Life Insurance Inquiry[13] has investigated whether this should be extended to

11 FFFS 2011:39, updated with FFFS 2013:5

12 2014/1286/EU

13 See Enhanced Policyholder Protection, SOU 2012:64

apply to all pensions, including occupational pensions. In FI's opinion, one of the cornerstones of sound consumer protection is the ability to "vote with one's feet", which in turn promotes competition and puts pressure on firms to improve at looking out for the interests of their existing customers. However, in order for the right of transfer to work in practice, information must be clearer and simpler so that consumers can better understand and compare products, while at the same time financial advice needs tightening and the possibilities to transfer capital in a traditional insurance policy need improving.

Better information ahead of transferring pension capital

FI has now taken an initial step through its task of working towards an industry agreement regarding standards for greater transparency and better information in the transfer of private pension insurance and individual occupational pension. For example, at the time of transfer, the consumer shall receive clear, standardised information about transferable amount[14], policy characteristics and fees. Essentially, the information must be comprehensible and adapted to the customer, without reams of general information. For example, information from the issuing and receiving firm shall be uniformly presented so that the customer can easily compare. In addition, costs, to the greatest extent possible, shall be stated in SEK rather than per cent and all difficult terms shall be explained. Standardised information shall be provided to customers wishing to make a transfer starting in 2016.

Change in private pension savings

Today, many Swedes have private pension savings, both through individual pension savings (IPS) and private pension insurance with life and unit-linked insurance undertakings. On 1 January 2015, the tax break threshold for pension contributions or premiums for private pension saving was cut from SEK 12,000 to SEK 1,800 per year. In 2016, the tax break will probably be abolished. Instead, other types of saving are expected to emerge to replace this, such as saving directly in mutual funds or through a tax-wrapper account ("investeringssparkonto" – ISK). However, this marks a substantial difference from previous forms of saving since capital is not locked in for retirement; there are no survivor benefits in the form of a predetermined, agreed amount; there is no possibility of premium waiver insurance for saving in the event of long-term illness; and the amount paid out may, in certain cases, be entirely dependent on the asset classes in which the saver chose to invest. This is also expected to lead to a heightened need for financial advice.

In light of these changes, the firms in question have a duty to inform their customers who save for their pensions on a private basis. FI has therefore queried the firms authorised to manage private pension savings in order to review whether the firms in question have an action plan to inform consume-

14 Policyholders transfer an amount, not their agreement. There are several ways of determining this amount, known as the transferable amount. The most common method in Sweden has been to use the transferable amount, which is the actual insurance capital saved up according to the account statement, which the customer may transfer less deductions and transfer fees and any adjustments due to low market values. Because of this, in a low interest rate environment, the amount transferred by the policyholder may not necessarily suffice to obtain the equivalent guaranteed benefit from another insurance provider, if the same type of benefit is even offered. In recent years, products with lower guaranteed content than previously have become increasingly common.

rs in connection with the changed tax break threshold. The responses showed that all firms had duly informed their customers in a satisfactory manner. The products to which the firms have advised their customers to switch new saving were mainly endowment insurance, ISK tax wrapper accounts and salary sacrifice arrangements. FI will continue to review how the firms inform of various savings alternatives for individual pension saving.

DEFICIENT INFORMATION ABOUT MORTGAGES

A large proportion of Sweden's adult population borrows money to purchase a home. For many households, the mortgage is their greatest financial undertaking, and mortgage rates therefore have a major bearing on household finances. At the same time, information about the actual interest rate level for mortgages is limited, which makes it difficult for consumers to make conscious choices in terms of mortgages. Today, there is information about the market's average mortgage rate, but not about the actual mortgage rates of individual banks. Several banks, including the seven largest firms offering housing credit, indeed publish "list rates" on their websites. The list rate is the marketed interest rate for a certain fixed interest term. However, this rate often differs from that which customers actually pay on average.

Also, consumers' insight into and understanding of how the mortgage rate is determined are currently limited. The mortgage rate ultimately granted to the customer is governed by factors such as the value of the home, the extent of the loan and the borrower's income and other business with the bank. In the mortgage transaction, many banks offer other products and services at the same time, such as different types of saving, credit cards and insurance. Certain banks grant a further discount if potential customers purchase an entire package and transfer all their banking business to the bank. This is sometimes known as becoming a "full-service customer", "gold customer" or "key customer".

While the products and services besides the mortgage indeed give a lower mortgage rate, they also carry fees which the customer must consider. Many consumers may feel drawn to reducing their mortgage rate by signing up for more products with the bank, without considering the cost and risk of such products. There is a risk of the consumer being granted a mortgage with a slightly lower interest rate, but gaining instead expensive insurance solutions and savings products. The aggregate effect might be higher costs on the whole for the consumer.

New requirements regarding mortgage rate information

On 16 February 2015, FI decided on new rules[15] obliging firms that offer mortgages to inform of the average interest rate for each fixed interest term offered by the firm in its marketing. The average interest rate shall be disclosed for the previous month, together with historical data for the past 12 months. The firm must also inform of the circumstances that affect setting interest rates. The firm should provide the information on its website. The new rules shall start to apply as of 1 June 2015.

The Mortgage Credit Directive and regulatory amendments

The Mortgage Credit Directive[16] was adopted in February 2014 and is a minimum directive in most respects, meaning that Member States can introduce national rules that go beyond the stipulations of the directive. The directive has a focus on empowering consumers, as expressed in the

15 FFFS 2015:1

16 2014/17/EU

fact that consumers shall have the right to a period of reflection of at least seven days when signing for a mortgage, and that it shall not be permitted to condition a mortgage upon the customer also purchasing several other products from the bank (known as "tying"). However, offering other products when signing for a mortgage ("bundling") will continue to be permitted. In addition, the information sheets given when mortgages are signed for shall be standardised with the purpose of making them clearer and easier to compare.

In April 2015, the Mortgage Inquiry submitted its final report[17] to the Government. Therein, further steps were proposed towards more stringent requirements regarding the information and clarifications given by the firms during the meeting with the customer. FI submitted proposals to this effect in a report to the Government as early as in September 2013. Therein, it was proposed that the information at the customer meeting shall comprise the average interest rate, factors affecting the setting of interest rates and the funding cost of mortgages. If the firm offers a consumer products and services besides mortgages, the costs thereof shall also be clarified and distinguished from the discount to the mortgage rate. FI came to the conclusion that a regulatory amendment was needed to introduce these requirements, and proposed this to the Government.

The Mortgage Inquiry also proposed several extended mandates for FI. It is a case of FI devising new rules regarding knowledge requirements for mortgage providers, and establishing the rules that shall apply when valuing the home. The proposals are expected to be implemented in law no later than 21 March 2016.

In addition, EBA is working on developing both guidelines and opinions on how the directive shall be applied in creditworthiness assessment and in arrears and foreclosure.

Senior loans

Loans targeting older people who own a home that is mortgaged only a little or not at all are often referred to as "senior loans". Unlike ordinary mortgages, senior loans are often used to supplement pensions, either through monthly or lump-sum payments. The loan can also be invested in an insurance product that gives regular payouts. Another factor that distinguishes such loans from other mortgages is that the interest expense is paid for with the borrowed money rather than income. This occurs on an ongoing basis or when the loan matures.

If the senior loan is invested in an insurance product consisting of unit-linked insurance, consumers risk having the value of their fund units decrease, or even drop below the invested amount. The monthly payment from such an insurance policy can also be less than expected, because the return must cover both the interest expense on the loan, and supplement the pension.

There is also a risk of borrowers having to sell their homes when the loan matures in order to repay it and any interest expense. Only two out of six firms that offer senior loans today guarantee that the borrower can extend the loan when it has matured, thus avoiding having to sell their home. The six firms consist of the five major banks and a consumer credit institution, although two of the firms recently announced that the product is closed for new subscription.

17 Strengthened consumer protection on the mortgage market, SOU 2015:40

Products

Consumers must be able to rely on the products they purchase. However, FI has seen examples of this not always being the case. An example is closet index funds, i.e. funds that are described as being actively managed and for which consumers have paid for an active manager, but which follow an index in practice. Another example is life insurance undertakings which, in certain cases, do not distribute surpluses fairly. There are also products which can be problematic in themselves, such as instant loans and certain complex products.

CLOSET INDEX FUNDS

Saving in funds is one of the most common saving methods in Sweden today. This is largely because of saving in pension and insurance solutions. The absolute majority of the fund market consists of actively managed funds, i.e. funds for which the manager makes active decisions, although saving in index funds is on the rise. The aim of index funds is to reflect their benchmark indexes and as a rule they have a lower management fee than actively managed funds, since they do not require such extensive management efforts.

An important source of information for consumers who save in funds is the key investor information document of a fund, the layout of which is governed by the EU key investor information regulation[18]. The regulation sets out that consumers must have access to a key investor information document of no more than two pages with relevant information about the fund prior to investment. The key investor information document has been devised to ensure that consumers receive consistent, comparable information about different fund alternatives, and contains brief information about the fund's objective, investment policy, risk, past performance and fees.

In order to investigate whether the key investor information documents of the funds provide accurate, clear and not-misleading information about the objective and investment policy of a fund, FI analysed a number of actively managed funds in an investigation. The provision of information was also studied based on how such funds invest in relation to their benchmark indexes. Furthermore, the investigation encompassed how the boards of the fund management companies work on monitoring and control of the fund's general investment policy and investment strategies.

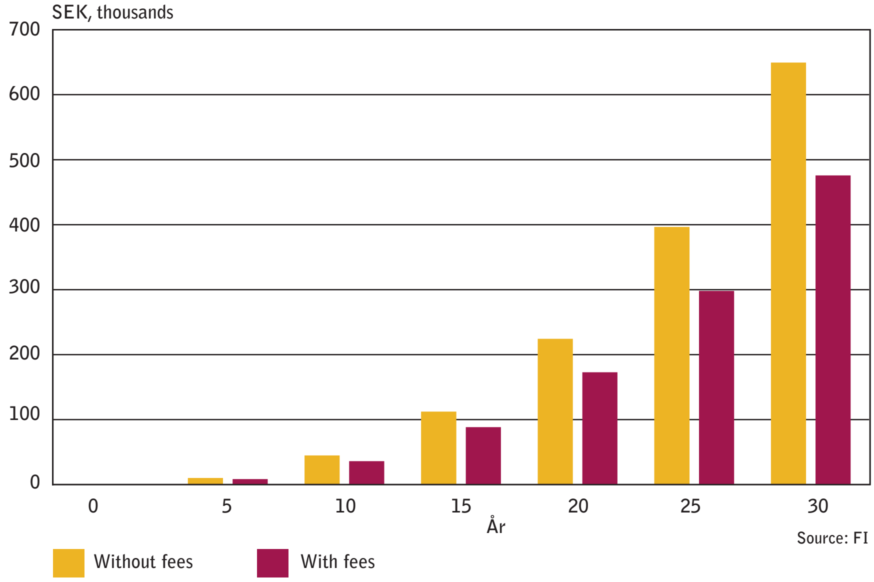
The investigation brought to light deficiencies in how the companies describe the objectives and investment policy of the funds. For example, there were cases of companies having internal objectives of very low tracking error, while at the same time the fund has been described as active to consumers. Low tracking error refers to limiting deviations in the value growth of the fund in relation to the performance of the fund's benchmark index, which does not square with an actively managed fund. There are also deficiencies in how the boards of several companies monitored the funds' management and strategy.

On the whole, this risks leading to consumers not getting what they pay for. The difference in price between an actively managed Sweden fund

18 2010/583/EU

and an index fund is around one percentage point. While this difference might seem negligible, with the interest-on-interest effect, the difference will be substantial in long-term saving.

DIAGRAM 1. Fund return with and without fees, 30 years.



Note. Assuming saving of SEK 1,000 per month, with a return of 6 per cent and a fund fee of 1 per cent.

As shown in diagram 1, the fund without a fee will generate almost SEK 175,000 more in return than the fund with a 1 per cent fee.

Fund investigation

FI's fund investigation showed that, in a number of key investor information documents, companies chose to highlight in particular the fund's management activity by describing the fund's active investment strategy and analysis of individual companies. Some funds also have explicit targets to outperform benchmark indexes or the Stockholm stock exchange average. The historical investments of the funds imply in many cases that they have been relatively close to the index, and that such descriptions thus do not give a fair presentation and give rise to unrealistic expectations. Several companies consider that their investment process is not passive, and that the fund can thus be described as active. FI's opinion, however, is that it ought to be possible to describe the activity of the funds in a more toned-down and accurate manner based on how the management is devised and how the fund usually correlates with the benchmark index.

FI has also noted that several companies have internal management targets that are not communicated to consumers. The objectives aim to limit the fund's tracking error by setting limits to how much the fund's performance may deviate from that of the benchmark index.

Consumers who choose an actively managed fund pay an extra fee for the manager to take a certain degree of tracking error in excess of the benchmark index. Hence, they pay for the possibility of higher return, with the risk of a poorer return. When companies, in their internal management targets, choose to limit the fund's tracking error, the fund's possibility of attaining excess return in relation to the market on which the fund invests is also limited. In many cases, such deviation targets are set so tightly that, over time, it must be considered that the fund clearly features indexed management. In such cases, the objectives are not consistent with the description of the fund's activity and return target in the key investor information document, which describes active management with in-depth analysis of individual companies and a high total return that overshoots that of the market.

During the course of the investigation, FI also noted that the boards of several companies monitor the funds at a very aggregated level, and mainly as regards the funds' results performance. According to FI's regulations[19], it is the responsibility of the board, for each individual fund, to verify that fund assets are invested in accordance with the fund rules. Aggregated and more general monitoring can therefore not be considered appropriate.

More accurate information about funds

Because the regulations regarding information about funds are governed by an EU regulation, it is not currently possible for FI to introduce rules that deviate from that. FI will therefore participate in the work that ESMA intends to conduct in this area. FI is also part of a commission of inquiry appointed by the Government to review fund regulations. This inquiry will review how the fund management companies can become clearer in the matter of active management.

Because it is paramount for confidence in the financial market that consumers can rely on and understand the products purchased, FI has had clear communication with the industry regarding taking measures to that end. It has resulted in a number of proposals that, for example, are about clarifying fund performance by, as appropriate, showing its performance in relation to a benchmark index. If the consumer can compare the fund's performance with an index it will be made clear what the additional cost of active management of the fund provides. The fund companies should also improve transparency regarding how active the management is, by e.g. presenting the fund's active share in the annual report. The Swedish Investment Fund Association has responded positively and intends to provide its members with clear recommendations to this effect. On top of that, substantial responsibility rests with the boards of fund management companies to monitor and take measures if fund management does not meet the fund's objective.

Finally, the matter of closet index funds and fees is also intertwined with the matter of commission-driven advice. In order to create an incentive for advisors to recommend the funds of a fund management company, a relatively high management fee, which the fund management company can share with the advisor, is required. This risks counteracting advice regarding cheaper alternatives.

DEFICIENCIES IN SURPLUS DISTRIBUTION

An important part of traditional life insurance is that customers finance the venture capital, and thus receive participations in any surplus generated by the management. Customers thus receive more money than the guaranteed amount. A surplus is created when return on assets exceeds the guaranteed interest, or when costs turn out to be lower than expected. In addition, insurance undertakings make assumptions about e.g. life span, which affect the size of pension payouts.

On several occasions, however, FI has seen deficiencies in how life insurance undertakings treat their customers in terms of surplus distribution, such as bonus capital or bonus disbursement. Hence, customers do not

19 FFFS 2013:9

receive the money to which they are entitled, and are forced to refrain from receiving surpluses which instead go to enticing offers to new customers. At the same time, it is difficult for customers to know whether they have received their dues both during the contribution and disbursement period.

The risk of customers not getting their dues can become most palpable in tougher financial times for the undertaking. When the undertaking finds it more difficult to make money suffice, there is an increased risk of favouring certain groups (such as certain age groups or those who have chosen a specific product) at the expense of others. The undertaking can also reach a point at which disbursed additional amounts, arising from bonuses realised at an earlier stage, must be reduced or even ceased in order to cope with the committed insurance amounts for future pensioners.

Requirement for greater clarity

In last year's report on consumer protection on the financial market, FI called for an extended mandate to regulate the management of surpluses and bonuses for customers. It is currently the case that policyholders are entitled to the surplus to which the policy has contributed, known as the contribution principle. However, there is great scope for interpretation in this rule of the law. FI will impose requirements on firms in terms of disclosing how they apply the rule. Based on this, FI will perform follow-up and request explanations from firms as to how they intend to meet the statutory requirement. FI may also specify its view on the contribution principle.

FI also called for clearer information from the undertakings as regards how surpluses arise and are distributed between the different savers throughout the entire duration of the insurance policy. The information should describe how transpired deficits are to be funded, and the situations in which adjustments to the value of the policy may be needed. This has also been highlighted in other contexts, such as in FI's consultation response[20] to the inquiry for the introduction of Solvency 2[21]. However, since no progress has been noted to date, the proposal remains in place regarding an extended mandate and urging undertakings to provide better information.

DEPOSITS NOT COVERED BY THE DEPOSIT GUARANTEE

Because of prevailing low interest rates, alternatives to the savings accounts of banks may seem attractive to many consumers. One such type of saving is that offered by deposit companies. These companies traditionally offer higher interest rates than the banks. However, consumer protection is not the same. Even though deposit companies must clearly inform of the fact that deposits are not covered by the state deposit guarantee scheme, consumers risk being misled into believing that the companies' registration with FI means that they are under supervision.

The requirements imposed on deposit companies in terms of financial strength are not the same as those imposed on the banks either. Requirements in terms of the amount of equity deposit companies must hold are not related to the risks inherent in the operations of such companies. Because deposit companies are not under supervision, FI does not have

20 FI Ref. 11-11457

21 SOU 2011:68

the mandate to monitor or intervene against financially dubious operations. Saving with a deposit company should thus be seen as a relatively risky investment.

Bankruptcy of Fundior Finans och Försäkring AB

Fundior Finans och Försäkring AB marketed itself as a firm that offered highly advantageous deposit rates, often of around 10 per cent. During the period June 2011 to November 2012, the firm was registered for deposit business in accordance with the Deposit Business Act (2004:299). Hence, Fundior was not covered by the deposit guarantee and could receive maximum deposits of SEK 50,000 per consumer. The money deposited by consumers was largely used for real estate investments.

Fundior deregistered itself at its own request as a deposit company on 26 November 2012 and had just over 1,900 deposit customers at the time. The firm became insolvent and reconstruction commenced, with the hope of being able to sell off property in order to repay at least half of depositors' money. However, the District Court suspended the reconstruction because debts continued to grow, while at the same time selling the property proved difficult. The firm appealed the decision of the District Court, but the Svea Court of Appeal has ruled not to assume the case.

The firm is bankrupt today, and it is unclear what savers might be able to recoup of their deposited capital.

Deposit companies should come under supervision

In a written communication[22] to the Government in 2011, FI proposed that only firms authorised as a bank or credit market company should be able to accept deposits from consumers. This need was further emphasised by the bankruptcy of Fundior Finans och Försäkring. FI is therefore of the opinion that, for products that resemble traditional banking products such as savings accounts, consumers ought to be able to expect the same protection from all providers. This would entail tightened requirements for capital, reporting and supervision for firms that accept deposits. The deposits of consumers would hence be protected by the state deposit guarantee.

Crowdfunding

Crowdfunding is a relatively new phenomenon on the Swedish market. It can be conducted in many different ways, with equity and debt crowdfunding being the most common. In both types of crowdfunding, a corporation approaches the general public through a platform, in the form of a website, to collect money for a specific project.

Equity crowdfunding has, in the past few years, emerged as an alternative financing source for small and medium-sized corporations. This may occur by the general public being offered the opportunity to invest in a share. There is currently no specific regulation of equity crowdfunding in Sweden or the EU.

Crowdfunding can be a relevant alternative for small, non-established corporations to gain access to capital. At the same time, consumers may be enticed by investments with the possibility of higher return. Crowdfunding carries a

22 See FI's supervision report 2011, lessons learned from supervision and regulatory development

series of risks, however, such as investment fraud, incomplete information for consumers, and operational risks related to the platform. The latter can, for example, be a matter of the risk of the platform ceasing to function due to technical problems. It is also important to remember that there is often no collateral for the investment, and that the return offered to consumers can thus completely fail to transpire.

In debt crowdfunding, money is collected in the form of a loan. This is often known as peer-to-peer lending, and can target both consumers and corporations. Consumers can thus lend money to other consumers or corporations, often at a high interest rate. In peer-to-peer lending, FI has assessed that if the firm behind the platform accepts funds for forwarding the loan, authorisation from FI is required for the provision of payment services. If only mediation to consumers occurs, without funds being accepted, authorisation as a consumer credit institution is required instead.

In the autumn of 2014, both ESMA and EBA identified which currently prevailing EU legislation could be relevant to apply to crowdfunding platforms. Depending on how crowdfunding operations are run, different laws and requirements may be applied. Furthermore, EBA has judged that the risks posed by the operations are not addressed in the framework of existing regulations. There are not yet any crowdfunding platforms in Sweden that have been authorised by FI and which are hence under supervision.

COMPLEX PRODUCTS

A wide range of complex savings products is available today. These products carry numerous types of risk that are difficult to understand and assess. In the most risky products, the probability of loss can be

substantial – in certain cases 50–75 per cent. Complex products are also associated with a complicated fee structure which, together with remuneration for the advisor, makes it difficult for the consumer to understand what the product costs.

In addition, complex products may encompass derivatives and be difficult to value. They can also entail substantial risks because guarantees or capital protection may disappear. Consumers may also sustain additional fees if the complex product is redeemed early. Examples of complex products are asset-backed securities, convertibles or subordinate securities, certificates, CFD contracts, credit-linked bonds, unlisted securities or structured products.

Contingent convertibles – "cocos"

Contingent convertibles, or "cocos", are a type of complex product with risks that can be very difficult to understand. They are fundamentally bonds which, in certain predetermined events, can be impaired, i.e. they can lose all or part of their value, or be converted into shares.

There are indications that the range of cocos and marketing thereof to consumers will rise. One of the reasons for this is the new capital adequacy rules, which require banks to have a certain volume and type of capital. Cocos constitute a type of "capital" which, according to the rules, can cover losses. One purpose of the rules is for private investors to contribute capital to banks in difficult times, which is positive. Consequently, however, the risk for investors also increases. In addition, this type of product can appear attractive when interest rates are low.

In the UK, the financial supervisory authority, the FCA, has limited the distribution of cocos to consumers, because it found that it can be very difficult to assess the risks and pricing of the product, and that it is thus not appropriate for ordinary savers.[23] However, it is still permitted to distribute cocos to professional investors and high net worth consumers.

In July 2014 ESMA issued a statement to clarify and call the attention of firms to the risks in cocos. The reason was that cocos pose particular risks to consumers, who can have difficulty in fully understanding and assessing the risks.[24]

In FI's opinion, it must be ensured that consumers have the requisite knowledge and experience to invest in financial instruments. In light of this, it is difficult to envisage that cocos can be an appropriate product for any consumer.

Key information documents for packaged retail and insurance-based investment products

In December 2014 the new EU regulation on key information documents for packaged retail and insurance-based investment products was published.[25] It encompasses structured products, derivatives, alternative investment funds for retail investors, private pension products and certain life insurance policies. Funds will also be included in a few years' time.

These products shall now have a common key information document of a maximum of three pages containing a description of the product's cost and risk level. Hence, costs shall be presented uniformly both as a percentage and in the national currency, while the risks are described similarly. It is hence expected that consumers will find it easier to compare different types of product.

The regulation will start to apply as of 31 December 2016. Work is currently in progress at EU level to establish how costs and risk shall be presented.

Also, the work in progress at EBA, ESMA and EIOPA on devising new regulations for the product approval process of firms is expected to result in dubious products failing to reach the market.

INSTANT LOANS CREATE THE RISK OF A DEBT TRAP

Instant loans are often taken out by households with comparatively weak finances that have no other way of getting themselves out of their financial difficulty. Yet, taking out an instant loan is often a short-sighted solution that can prove very costly indeed if the consumer is unable to repay the loan, and it can result in the debt ending up with the Swedish Enforcement Authority. This can lead to a vicious circle, forcing the consumer to take out new loans to pay off the old one, which in turn creates a risk of over-indebtedness.

For the individual, this can lead to consequences that are difficult to foresee because impaired credit history can be checked in e.g. hiring for employment, mortgage applications or signing a rental contract. The

23 The limitation was introduced on 1 October 2014 and will apply until 1 October 2015 when the FCA will issue updated rules on this. For more information, see: http://www.fca.org.uk/news/fca-restricts-distribution-of-cocos-to-retail-investors

24 2014/944/EU, JC/2014/062

25 2014/1286/EU

individual, who at the time might not understand the consequences of borrowing, risks falling into a debt trap that can be hard to get out of.

Over the past few years, a growing number of consumers have ended up with the Enforcement Agency. According to the latest statistics, the number of applications regarding unpaid instant loans amounted to 49,192 in 2013 and 56,641 in 2014 – a 15 per cent increase. This is the highest figure since the launch of instant loans in Sweden in 2006.[26]

Instant loans are often relatively low amounts. Hence, the firm that granted the credit has a relatively high probability of recovering the lent amount by means of debt recovery measures through the Enforcement Agency. Some firms also earn money on the fees charged in connection with extending credit that cannot be paid on time.

New rules for instant loan firms

As of July 2014, new rules apply for firms that grant and mediate consumer credit.[27] According to the rules, firms must apply to FI for authorisation, and will hence be under supervision. FI can therefore place demands on the firms. The Swedish Consumer Agency supervises the credit assessments of firms and, since 1 April 2014, is able to impose a sanction fee or suspend credit granting for firms if they do not comply with the credit assessment rules.

Through the new rules, firms shall, once a quarter, report information to FI regarding matters such as the total outstanding credit volume and how much was granted and mediated. Firms shall also report the number of non-performing loans, the number of applications for payment injunctions with the Enforcement Agency, and loan losses.

This information will enable FI to monitor developments on the instant loan market. Firms had until the end of the year to apply to FI for authorisation. In April 2015, 13 firms had been authorised, six of which do not issue loans themselves but only act as intermediaries.[28]

The government has appointed a state inquiry to review how the consumer credit market can become more responsible. The purpose is to strengthen consumer protection and reduce the risk of consumer credits leading to over-indebtedness. The inquiry will look at the possibilities of introducing an interest rate cap and an expense cap. The possibilities of extending loans will also be reviewed, and whether a requirement should be introduced for credit agreements to be in writing upon entry. Findings will be presented by 30 September 2016 at the latest.

26 http://kronofogden.se/download/18.73c55da914b3fa1855a163e/1423493128606/snabblan_rapport_helar_150209.pdf

27 The Certain Consumer Credit-related Operations Act (2014:275) and Finansinspektionen's regulations and general guidelines (FFFS 2014:8) on certain consumer-credit related operations.

28 In April 2015, 96 applications for authorisation had been received.

Glossary

Pension-related terms for consumers have been used as far as possible as a basis for the glossary.

Active share A measure of how the fund's holdings diverge from the benchmark index. If the active share is 0, the fund has the exact same holdings and portfolio weights as the index, and if the active share is 100, the fund has no holdings that are in the index.

Benchmark index Shows the aggregate value growth for the holdings included in an index. The purpose is to provide a representative presentation of the performance of a certain market or industry.

Bond Interest-bearing security which can be issued by governments, municipalities, credit market companies, mortgage institutions and large corporations. Bonds have a maturity of at least one year and the nominal amount is repaid upon maturity. Until then, holders receive payments mainly in the form of interest. Bonds issued by corporations are called corporate bonds and are an alternative to funding through e.g. bank loans.

Bonus capital The (positive) difference between the fair value of an insurance policy and the guaranteed value. Bonus capital is venture capital in the insurance company because it can be reclaimed in the event of low return on assets.

Certificate Listed security linked to an underlying asset such as a share, an equity index, a commodity, a commodity index or a currency cross.

CFD contract A contract to exchange the price difference between the opening and closing price in an underlying instrument on the date of concluding the contract.

Cocos (**Contingent convertibles)** Bonds which, in certain predetermined events, can be impaired, i.e. they can lose all or part of their value, or be converted into shares.

Contribution principle Principle of law that sets out that the distribution of bonuses shall, to the greatest possible extent, be based on the contribution of the individual policyholder to the company's total surplus.

Corporate bond Security issued by a corporation with a view to borrowing money. The maturity is one year minimum.

Credit-linked bonds Have credit-dependent protection/risk linked to broad indexes containing reference companies that issue high-yield corporate bonds.

Crowdfunding A method for financing projects or ideas by approaching a large number of, often small-scale, investors.

Derivative instruments Financial contracts that are linked to events or conditions at a specific future point in time or period of time. The value of a derivative instrument is linked to the value of the underlying asset. Derivatives redistribute risk and can thus be used both to increase and reduce investors' risk exposure. Examples of derivative instruments are options, futures and swaps.

Equity-linked bond One of the most common forms of structured products. The product consists of a zero coupon bond and a derivative component. The derivative component is one or several options whose value is linked to one or more underlying assets, such as equities. The duration is often 3–5 years, after which time the investor receives the nominal amount of the bond and any return generated by the options.

European Banking Authority (EBA) The authority responsible for regulating banks in the EU.

European Insurance and Occupational Pensions Authority (EIOPA) The authority responsible for regulating insurance in the EU.

European Securities and Markets Authority (ESMA) The authority responsible for the regulation of the securities market in the EU.

Financial markets An umbrella term for markets on which financial instruments are traded. The four most important markets are the foreign exchange market, the fixed income market, the equity market and the derivative market.

Finansinspektionen's general guidelines and regulations (FFFS) Regulations which supplement the laws and regulations that fundamentally govern financial operations. Regulations are binding while general guidelines serve as guidance.

Fixed interest term The period during which the interest rate on a loan is fixed. For treasury bills and most government bonds, the fixed interest term is equal to the remaining time to maturity of the loan.

Index management Also known as passive management. Portfolio management in which the firm's own portfolio has the same composition as a selected index with the purpose of attaining the same return as the index.

List rate The lending rate marketed by credit institutions.

Loan-to-value ratio A percentage that describes the portion of the market value of a home that is mortgaged. If the market value of the home decreases, the loan-to-value ratio increases, given that the loan is held constant.

Maturity The amount of time remaining until the payment of a liability or until a bond falls due.

MiFID 2 (Markets in Financial Instruments Directive 2) Revised EU Directive regarding markets in financial instruments. Contains provisions regarding the operations of investment firms and trading venues.

Mortgage cap The mortgage cap came into effect on 1 October 2010 through FI's general guidelines FFFS 2010:2. These guidelines state that a loan collateralised by a home may not exceed 85 per cent of the market value of the home.

Premium The amount paid into an insurance policy. The premium can be broken down into savings and various types of insurance protection.

Premium waiver insurance A supplement to an insurance policy whereby the insurance company pays the premiums in the event of long-term absence due to illness.

Priips Package Retail and Insurance-based Investment Products.

Repayment period The timeframe within which the customer must have repaid a loan. The actual repayment period for a bottom loan is often longer than for a top loan or unsecured loan. A borrower also often has the option of not amortising a bottom loan.

Solvency Entails insurance companies having a financial buffer in the form of sufficient capital to meet outgoing payments. The size of the buffer is governed by laws and rules.

Structured deposit Fixed-term deposits whose return often consists of a fixed interest rate and any supplemental interest rate. The supplemental interest rate is paid out, if the predetermined underlying asset performed favourably during the term of the deposit. The underlying asset can be e.g. listed shares.

Structured product Financial instrument whose return is completely or partially dependent on the performance of several other financial instruments or assets. Often consists of a bond combined with a derivative, for example an option. Examples of structured products include equity-linked bonds or commodity bonds.

Survivor benefits An umbrella term for different types of protection that provide financial benefits to survivors following a death. If survivor benefits are purchased, retirement pension will be lower in most cases.

Tracking error Standard deviation for the difference between the fund's return and that of the benchmark index.

Trading venue Market for trading in financial instruments, for example investment firms which organise trading, stock exchanges or MTFs. Also called marketplace.

Trailing commission A recurring commission that is often calculated as a percentage of contributed premiums or capital under management.

Unsecured loan A loan granted without any collateral or guarantee. The banks often charge a higher interest rate for unsecured loans than collateralised loans such as top and bottom loans.

Upfront commission The firm providing advice receives remuneration for the entire duration directly when the consumer purchases the product, irrespective of how long the consumer actually chooses to keep the product.

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