



# Competition through Commissions and Kickbacks

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## Article Information

### Abstract

In markets for retail financial products and health services, consumers often rely on the advice of intermediaries to decide which specialized offering best fits their needs. Product providers, in turn, compete to influence the intermediaries' advice through hidden kickbacks or disclosed commissions. Motivated by the controversial role of these widespread practices, we formulate a model to analyze competition through commissions from a positive and normative standpoint. The model highlights the role of commissions in making the advisor responsive to supply-side incentives. We characterize situations when commonly adopted policies such as mandatory disclosure and caps on commissions have unintended welfare consequences. (JEL D21, D82, D83, G21, L15, L25)

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## Additional Materials

Online Appendix (143.51 KB)

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### JEL Classification

**D21** Firm Behavior: Theory

**D82** Asymmetric and Private Information

**D83** Search; Learning; Information and Knowledge; Communication; Belief

**G21** Banks; Other Depository Institutions; Micro Finance Institutions; Mortgages

**L15** Information and Product Quality; Standardization and Compatibility

**L25** Firm Performance: Size, Diversification, and Scope

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