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Let asset managers provide targeted services to retail clients

Currently European asset managers were managing total assets of 23 trn EUR out of which over 70 % invested in equities and corporate bonds. These numbers clearly show the importance of asset management for the financing of the economy.

7 trn EUR are managed for retail clients directly. Another 12 trn EUR are managed for pensions funds and life insurance. These numbers have to be compared with 4,7 trn EUR of corporate loans issued by European banks.

It is a general flaw in various European regulations to adapt the concept of one single group of retail investors. We see clients that want to delegate the investment decision, clients that run a monthly savings plan, mainly in one financial instrument, and retail clients doing a significant amount of transactions each year in a very self-guided manner.

The clients with a monthly savings plan will get lots of information around financial markets and various types of financial instruments. Most of it irrelevant but scarring for the investor.

The client delegating the investment decision does so knowing that managing assets is a very specialized discipline. It requires significant know how in financial markets and instruments as well as a complex infrastructure. For this client it does not make any sense to educate him – he wants to receive a service.

Finally, for the self-guided retail investor the current requirements also don't fit. The required information especially pre-trade is an obstacle for him not providing any value for his order execution.

The EU has recognized this with the quick-fix to exempt professional clients and eligible counterparties from requirements like pre-trade cost transparency. However this needs to go further. We very much support the idea of a non-professional Qualified Investor as proposed by the CMU HLF.

Four levers will further increase the contribution by investment funds to finance the European economy. The first is to develop the investment culture. Investing in capital markets needs to become an integral part to cover retail clients long term financial needs. Pension schemes will play an important role in this. However, reporting or auto-enrolment will not help. There must be private pension schemes supported by the state through tax benefits or contributions. They must have rules and risk implications that are manageable for providers in the low interest rate environment.

Secondly, the role of investment advice and investment funds needs to be strengthened. Questioning inducements repeatedly which are the basis to finance investment advice or providing clients with comparison tools go the wrong direction. If there is a perceived issue with the quality of advice, we need to address it. But we must not deteriorate the fundament it is based on. In addition, I am worried by the intensity in which retail clients are pushed into single stock investments or ETF. Both products have no active risk management component – as we have experienced again in the turmoil in March this year.

The third point – the need to increase the flexibility of the regulatory requirements has been touched upon already. Asset management in the EU is already embedded in a sound legal framework, including the UCITS Directive and AIFMD, for the benefit of market participants and investors. We support the EU in taking an ambitious approach to improve the framework but not to add even more requirements.

Lastly, we need to provide a standardized framework to promote ESG investments. Asset managers need clear standards and harmonization of rules that will support the growth of sustainable finance. ●