



ANTE ŽIGMAN

President,
Croatian Financial Services
Supervisory Agency (HANFA-
CFSSA)

Are we failing retail investors?

One of the cornerstones of the new CMU is to increase retail participation in capital markets. The consensus on the how to deliver these objectives has historically been the following: a) increase transparency (more information), b) increase the quality (better information), c) streamline and simplify the information (more accessible information for the average retail investor). While we have come a long way on transparency and quality, work still needs to be done on the simplicity front.

Thanks to regulatory efforts, the retail investor has now easy access to an abundance of information under various sectoral rules (MiFID, UCITS KID, PRIIPs, IDD), but the way this information is presented is often anything but simple and understandable to the average person. The combined effect of high volumes of cryptic information is likely to produce one of two possible reactions of average retail investor: 1) treat the information document as an annoying and verbose user agreement, scroll down and click “agree”, or 2) try to read it, give up and opt-out of the capital market entirely.

Both supervisors and legislators are stuck between on the one hand needing the informed consent of the retail investor with regards to the full extent of the risks and rewards involved, and on the other hand keeping the information simple enough for it to be digestible by non-professionals. In some cases, this balancing act is just not achievable, and we risk turning the information presented to retail investors to protect them into a liability shield for the benefit of financial service providers. However, opting for simple may get us back to misleading, which then prompts us to incessantly review and improve the information at investors disposal. So far, this has historically led to the scope of the information requirements becoming progressively larger, which in turn, may well be one of reasons the average investor or SME still turns to the banking system, because of the comforting simplicity of a banking loan.

Increasing financial literacy, especially for citizens of less established capital markets, will play a major part, but this still does not mean that the average person will be interested or has the time to go through pages of complex information. Furthermore, information on some products simply cannot be simplified enough for retail clients without it being misleading in some way, not without someone sitting in

the retail investor’s corner and filling in the financial knowledge gaps, having at heart the interest of the client, not distributor or manufacturer. This is where a network of financial advisors can play a vital part. Promoting independent advised sales could go a long way to secure a buy-in from the retail market. Instead of trying to educate everyone, why not provide those that need it with additional support?

How the actions from the CMU action plan will be implemented remains to be seen, but key will be to ensure consistency between the different legislative proposals, requiring close coordination both within the Commission and within the co-legislators, which has sometimes been difficult to achieve. However, it should be clear that transparent and simple does not mean risk free, and that capital markets will always have their ups and downs.