

RETAIL INVESTMENT STRATEGY



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Retail participation in capital markets: a somehow critical perspective

Everybody says that we need more retail investors in EU capital markets, and I agree. In Spain the weight of direct retail participation in equity markets has been historically 25% larger than the rest of the Euro area. However, from that perspective, and given that the general mood is inclined towards the benefits and strengths of increasing retail participation, I will put the focus here towards the risks attached to that process, just to balance the views.

First, we should keep an eye on the rising risks in certain investment choices. In the non-MiFID world, like forex, commodities or cryptocurrencies, controls are simply non-existent. Financial scams are rising, especially around cryptos, due to how easy it is to reach (and apparently to fool) retail investors through social media and the internet. Here, the Fear of Missing Out (FOMO) effect is already taking a heavy

toll in the EU in terms of financial losses and financial scams, that we need to tackle collectively. From CNMV we are sponsoring a coordinated response by authorities to financial scams in Spain.

We often speak about the importance of financial literacy to improve the tools with which retail investors access capital markets. Financial literacy is essential, especially to avoid scams and to do financial planning, but it is not a silver bullet for all investment strategies. We can convey to the wider population the difference between the risks in a bond and a share, but it would be naïve to believe that financial education programmes can give an average retail investor all the capabilities to do in-depth research on SME stocks and to pick which one has greater growth prospects.

As some say, most EU retail investors, maybe with the exception of the youngest, do not want a DIY approach, spending hours deciding which stocks are best to buy and when they should be sold. Most citizens do not want to invest time and resources to become financial experts. For them, we simply need a well regulated industry subject to proper supervision.

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One topic that we need to clarify is what we mean by increasing retail participation in EU capital markets. If we mean direct investment and single-stock picking, there are benefits, but also risks. Collective investment comes at a cost (fees) but brings two benefits: professional research and diversification. Investing and trading on individual SME (and even blue chip) stocks is a legitimate activity and of course everyone should be allowed to do it, but if we want to stimulate long term investment as a complement to national pension plans, we absolutely need to embed the ideas of adequate research and sufficient diversification.

We have observed how the engagement of retail customers has changed in recent years, in a number of dimensions. Retail investors are more interconnected than

ever, have immediate access to markets through their phones and receive supposedly low-cost offers. Each of those elements needs regulatory attention.

Connectedness, acting together through social media, can create a false sense of security within the group. And can also give higher leverage to wrongdoing by some if followed by many. Similarly, the “low-cost revolution” comes at a hidden price, which is normally best execution and the preservation of the interest of the investor above the firm’s. ESMA has rightly warned about payment for order flow as a significant source of risk. Likewise, regulators are keeping an eye on gamification, which trivializes the risks of investing by presenting it like a game or a contest. All three phenomena are related and linked with a fourth one: some sectors of young citizens started investing in the crypto world and are now turning their eyes to the equity world, ignoring that it is a highly regulated one, also in conduct rules like market abuse and short selling.

To finish on a positive note, we have to recognize that we have a remarkable level of protection in the EU towards retail investors when they invest in MiFID products. Anyone that has examined (let alone supervised or enforced) obligations of informing retail clients and evaluating their knowledge and experience before they can invest, can ascertain that the check points, the controls, the information requirements are incredibly demanding. Apart from drugs and guns, I know very few industries where so many checks are performed before allowing a citizen to buy something.

We also have an increasingly eco-conscious investor base, which is helping in the transition to a carbon-free economy, and an increasingly social-conscious one too. This trend has brought a great drive to the asset management industry too and will be essential to provide the capital base needed to finance the massive investments attached to the transformation of our economy towards a carbon-neutral one.



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An EU strategy for retail investment

The 2020 CMU Action Plan announced the Commission's intention to come forward with a strategy for retail investments in the EU aimed at helping retail investors to reap the benefits of the opportunities that capital markets can offer.

The EU has one of the highest individual savings rates in the world, yet levels of participation in higher yielding retail investment markets are low by international standards. That is a concern for policy makers for two important reasons:

- 1) because capital markets have an important role to play in providing non-bank funding: it is a particularly important consideration in the context of the need to fund the economic recovery post pandemic, and;
- 2) because we need to ensure a framework that caters efficiently for citizens' long term financial needs.

How can the EU help boost retail investments?

There are many reasons that might explain the comparatively low participation rates

in Europe: low financial literacy, lack of an investment culture, the regulatory environment, absence of trust in the market and financial service providers, to name but a few. The Commission is currently gathering more evidence to help it assess which issues might need to be tackled and what would be the best way to achieve our goals. In the CMU Action Plan, we have described a number of important principles that should underpin the retail investor protection framework:

- (i) adequate protection rules tailored to their profile or risk appetite;
- (ii) bias-free advice and fair treatment;
- (iii) open markets with a variety of competitive and cost-efficient financial services and products, and
- (iv) transparent, comparable and understandable product information, available in a digitalised form.

The strategy will aim to ensure that the rules work for and empower retail investors.

What will be the approach in the retail investment strategy?

Investor protection rules are currently set out in a number of sector specific legislative instruments, including the MiFID II, PRIIPs, UCITS and the Insurance Distribution Directive. By way of example, the rules covering disclosures, payment of inducements to financial intermediaries, or the assessment of whether investment products may be suitable or appropriate for certain investors, can differ from one instrument to another. That means that investors may be afforded different levels of protection depending on their choice of product, and the patchwork of rules may not be conducive to helping them make sound investment decisions that correspond to their needs.

The Commission is currently in an evidence-gathering phase, which will allow us to carefully consider what should be the important next steps.

We have commissioned an extensive study to help us understand how rules on disclosures, advice, inducements and suitability work for retail investors; we have launched a detailed public consultation covering a broad array of issues that are relevant in the context of retail investments; and, at the end of July, we sent three calls for advice to ESMA,

EIOPA and the Joint Committee of the European Supervisory Authorities.

At the core of the Commission's thinking is that we need to make sure that retail investors are placed firmly at the heart of the investor protection framework so as to make sure that the EU rules are well conceived and coherent. Our approach is broad ranging: we are considering issues right across the different phases of the "retail investor journey" (awareness, pre-contractual, contractual, post contractual) in order to better understand retail investors' needs and to address any identified shortcomings.

The strategy will aim to ensure that the rules work for retail investors in ways that empower them to take the right financial decisions, providing a framework of trust because they feel sufficiently protected.

Key Milestones

- August-September 2021: end of public consultation and analysis of response
- October 2021: results of the retail investment study
- April 2022: ESAs' advice to be delivered to the Commission
- Q4 2022: retail investment initiative (exact form and content still to be decided)



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EU retail investments strategy: from “Investor Protection” to Value for Money

On 20 April 2021, the European Commission published its consultation on a «Retail Investment Strategy for Europe», recalling the Capital Markets Union (CMU) objective of “*bias-free advice*”, and purposefully also specifying “*improved market outcomes*”, empowering retail investors and enhancing “*their participation in the capital markets*”.

Achieving “*a CMU that works for people*” has been a priority for BETTER FINANCE since its inception in 2015. For the CMU to succeed, European citizens as individual investors and savers, should be at the heart of the project. It goes without saying that inviting EU citizens - the main providers of funding for the EU economy - to participate more directly in capital markets comes with a certain responsibility and the need to amend a number of related EU regulations.

The retail investor protection framework currently in place falls short of achieving these priorities set by the Eu-

ropean Commission. Individual investors still have very little access to direct investments in capital markets such as low-cost plain vanilla index funds (ETFs in particular), listed equities and bonds, due primarily to the fact that most EU retail investment intermediaries do not get compensated for informing, promoting, and distributing these products which are on average closer to the funding of the real economy, more cost efficient and more performing over the mid and long term.

In other words, these simpler investment products do not generate recurring sales commissions (“inducements” in the EU jargon), contrary to the more “packaged”, complex and fee-laden ones. The scarcity of “*bias-free advice*” is indeed the primary reason for the too often poor value for money of retail investment products and services. For example, European plain vanilla European equity index funds (“ETFs”) are on average about 10 times less expensive than European equity “units” sold via life insurance in France (less than 0,30% versus close to 3% of assets per annum). However, unlike the latter, they are almost never promoted and offered to “retail” investors.

It is crucial that the EU indeed achieves its goal of providing “bias-free advice” to pension savers.

And retail investment distributors are the primary providers of investor education for EU adults. In the US, another very powerful and much less biased tool of investor education is provided by employee share ownership (ESO) and corporate savings plans. In particular, ESO is 100 times more developed in US SMEs than in EU ones.

Also, different legal and supervision standards of investor protection across sectors and product categories, combined with the extreme difficulty of obtaining redress for individual investors, leave individual investors vulnerable to malpractice and mis-selling.

This problem is further exacerbated by the inadequate disclosure of key investor information in the non-intelligible, not comparable, and often misleading “Key Information Document” or KID, leaving individual investors in the dark or, once again, dependent on biased advice. This KID does not even disclose the actual full cost and actual returns of investment products.

If the CMU is to stand any chance of succeeding, it will be essential to restore retail investor trust through increased transparency and disclosure of information, coupled with better investment advice. The “*Retail Investment Strategy for the EU*” constitutes the ideal opportunity to do so.

Let’s not squander the opportunity to attract EU Households back into capital markets and provide them with the right products and protection. Yet, it is better to prevent than to cure. Whereas ensuring adequate investor protection is essential, it will be a futile exercise if the Retail Investments Strategy does not ensure “value for money” for EU long term and pension savers. It simply means that those should get back at the very least what they saved year after year after all fees paid and in “real” terms - i.e. after inflation: the purchasing power of these lifetime savings.

And this is where we come full circle: it is crucial that the EU indeed achieves its goal of providing “bias-free advice” to pension savers, to ensure they get value for money from their lifetime savings.

The High Level Forum on the CMU, the European Securities and Markets Authority’s (ESMA) Stakeholder Group, as well as BETTER FINANCE, recommend as an effective and urgent step forward to:

- extend the existing ban on “inducements” for “independent advice” and for “portfolio management” services to all retail investment products (not only the minority of those covered by MiFID),
- and extend it as well to all “execution only” transactions, which - by definition - do not include any “advice” from intermediaries.



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How to make increased retail investor participation a sustainable trend?

While the COVID-19 pandemic has been a dramatic event with impact on all our lives, it has also, like every crisis, made room for some positive developments. In the financial sector, the observed increased participation of retail investors to equity markets is one of those possible positive externalities. COVID-19 might have played a major role in helping to achieve the objective expressed by the European Commission via the CMU initiative.

In Belgium, both the number of active investors and the number of new investors have been increasing since the beginning of 2020. The number of unique Belgian traders buying and selling BEL20 stocks doubled in 2021 Q1 compared to 2019 Q1. After an enormous increase of new investors finding their way to the market during the first COVID-lockdown (March 2020), an increasing amount of new investors are at the end of 2020 and beginning of 2021 trading on the Belgian equity market.

These figures are promising, as it is in the interest of consumers to diversify

their assets, and to take advantage of the higher returns provided by capital markets compared to savings accounts. This also helps channeling funding to the real economy, and by decreasing the reliance on the banking sector, could potentially mitigate some sources of systemic risks – even though other less well-known sources of risk might also appear at the same time. The latter needs to be carefully assessed.

However positive those developments are, it is of utmost importance to make sure that this trend remains sustainable. How to ensure that retail investors do see capital markets as investments, and that they are not using them for pure speculative short-term trading (e.g., as an alternative to gambling)? How to make sure that they understand the risks they are taking, that they can sustain temporary losses? In short, what must be done so that new retail investors stay in the capital markets for the long term?

Renewed efforts in improving the level of financial education is a first key factor. Finance is a complicated field, and some financial instruments will always be too complex for retail investors. Still, some simple rules are a first step to understand the basics of finance: you cannot achieve a high level of return without at the same time taking any form of risk; you should not put all your eggs in the same basket.

An investor armed with those principles, and who has some knowledge of the current level of interest rates, is less likely to fall prey to fraudsters promising 7% guaranteed return. Financial education efforts in Belgium through the Wikifin program launched and managed by the FSMA, the Belgian financial supervisor, are continuously evolving and reached a new milestone with the launch of the Wikifin LAB, a unique interactive digital experience center on financial education, in September 2020.

COVID-19 crisis might have led to a sustainable increased retail investor participation.

The recent increased retail investor participation has also been made possible by the development of new trading platforms that make it easy to trade online, sometimes at zero-commission. While we can only favor sane competition in this area, still we must ensure that all types of retail brokers act in the best interest of their clients. Traditional conduct supervision work is thus key in promoting a safe

market for retail trading. Depending on the service that they receive, clients might be subject to a suitability or appropriateness test, and the necessary warnings should be issued before they proceed to transactions.

Brokers must provide all the information to clients so that they understand the decisions they take. However, studies have shown that information per se is no panacea and that too much information could be overwhelming and even detrimental to investor protection. [1] It is thus important to find a right balance, and to ensure that information is standardized as much as possible across different financial areas (banking, insurance, pensions).

The academic literature shows as well that too frequent trading can hurt clients' returns, so clients should not be tempted to fall into a trading frenzy. While it is indeed convenient to be able to trade stocks on a smartphone with a simple swipe, it is also important to avoid that unexperienced traders perceive trading as a game. Promises of « free trading » may appear as a good bargain for retail clients, but it is important they understand that there is no free lunch, and that zero-commission trading probably hides other forms of costs. [2]

During the COVID-19 crisis, retail investors seem to have displayed a welcome new form of risk appetite. Regulators and supervisors should now make sure that this would not result in any form of indigestion.

[1] See for instance, ASIC-AFM, 2019, REP 632 « Disclosure : Why it shouldn't be the default »

[2] See also the recent ESMA statement on this matter : [esma35-43-2749_esma_public_statement_pfof_and_zero-commission_brokers.pdf](https://www.esma.europa.eu/press-news/esma-public-statements/esma35-43-2749-esma-public-statement-pfof-and-zero-commission-brokers.pdf) (europa.eu)



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Transparency, accountability & dialogue: the trust recipe for retail investment

Promoting retail investment in EU capital markets is in many aspects a symbol of the ambitious endeavor of the EU single market: reaping the benefits of one of the largest common markets in the world, with almost 500 million consumers, while respecting that the drivers behind investment decisions are strongly rooted in national habits.

The success of the forthcoming retail investment strategy will rely on its ability to knit together common European economic imperatives - unlocking new funding for SMEs and corporates, for the green and the digital transition - and incentives of the level of each consumer. This will not require a one-size-fits-all with full harmonisation of the retail landscape, but a step-by-step approach with a more horizontal approach when needed.

The previous financial and economic crisis has severely damaged citizens' trust that the financial ecosystem can deliver for society as a whole.

Numerous episodes of local, national and international mis-selling scandals have eroded consumers' trust that financial intermediaries are acting in their interest. Now is the time to rebuild the two sides of this trust equation, based on transparency, accountability and dialogue.

1. Transparency

Meaningful transparency is needed more than ever. Consumers should have access to information on financial products in which they intend to invest, free of charge. Such information should be tailored to their needs and their understanding of financial markets, and therefore adaptable to each consumer.

Digitalisation would help in this regard, provided that it does not lead to the exclusion of consumers with limited access to digital solutions. The EU would act as a world-pioneer in proposing interactive digital KIDs, integrating all aspects of risks, costs, performance, sustainability and consumer rights in a user-friendly format.

Such an approach would require a significant overhaul of the PRIIPs Regulation. In the short term, we should focus on finally making the Regulation applicable across the whole investment landscape, after ten years of debate.

**The EU would act as
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digital KIDs.**

In the medium term, we can update significantly the PRIIPs framework, without going back on its original ambition: PRIIPs 2.0 will cover all financial products and providers. Now and in the future, PRIIPs will continue to focus the attention of distributors and providers on the value provided to end consumers, rather than the value they could derive from selling products.

2. Accountability

Consumers should be confident that financial intermediaries and advisors are acting with the sole interest of the consumer in mind. The principle of alignment of interests across the value chain already features in the distribution rulebook enshrined in both MiFID and IDD frameworks.

However, discrepancies at regulatory and supervisory levels are seemingly leading to divergences in the application

of this principle, increasing the risk of arbitrage, where a provider could choose to "change hats" to apply less stringent governance processes for the same product.

A horizontal overhaul of the rules on distribution and product governance would tackle this risk: further harmonisation on the building blocks of the interaction between consumer, distributor and provider is the way forward. Such harmonisation should not do away with the specifics of each distribution landscape, rooted in national particularities.

The increased use of mystery shopping, now an explicit competence of the ESAs, is a powerful tool to detect anomalies and increase accountability at all levels of the distribution chain. From CEO to financial advisor, all actors in the chain should focus on servicing the end-investor.

3. Dialogue

This is the silver bullet to make transparency meaningful and accountability felt. Regular discussions need to happen between consumers and financial intermediaries, in good and bad times.

The financial industry has a key role to play in this change of culture, also ensuring that consumers see them as partners. They can help consumers build saving strategies tailored to their needs, without solely relying on offering ready-made packaged solutions. They should be on the lookout for all products suitable to their clients, not limiting themselves to in-house products.

Financial education at schools and universities can help in this regard. Increasing awareness in the importance of saving and investing is also a life-long learning project. Employers, trade unions, civil society organisations can all contribute to tackling financial literacy in the EU.

Such a dialogue will also address some of the key drivers of retail investment, such as the shape of pension systems and tax incentives. On these topics, the EU can act as a catalyst for potential reforms, but should refrain from overstepping on such sensitive national debates.



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Retail investment strategy: it's time to get investment moving

The biggest risk facing European savers today is not taking risk at all.

A vast majority of European households still do not invest and continue to have high levels of savings in cash. Many households may also be tied to products potentially not best suited to their financial needs. The huge cost of missed investment gains is building rapidly.

According to a recent report by EFAMA, a ten-year investment of €10K in a mixed UCITS portfolio generated a total net performance of 61%, whereas the value of €10K left in a bank account in 2010-2019, after adjusted for inflation, fell by 10%. European citizens have a lot to gain by taking responsibly managed long-term capital markets risk, in turn fulfilling Europe's investment needs and helping to fuel the European economy.

J.P. Morgan supports EU policymakers' work to foster greater retail investment through the Retail Investment Strategy. There is a strong correlation between a healthy retail market and deeper, more liquid capital markets. Helping citizens

make the jump from savers to investors will go a long way towards building a successful Capital Markets Union in the region.

The Sustainable Finance agenda is complementary - ESG offers a great catalyst for getting more savers into capital markets. Surveying shows that many Europeans feel investing in companies that were contributing to sustainability increases their confidence. The investment management sector, with its fiduciary compass, coupled with stewardship efforts in support of ESG, is a natural partner for both the savings landscape but also the green economy.

Many people think investment is a high-risk endeavor, or they simply do not know where or how to access investment products. And yet, we have seen greater investment in riskier, less regulated spaces like cryptocurrencies or single stocks.

Gaining a better understanding of investing builds confidence. Addressing a lack of knowledge remains a crucial step in increasing accessibility and engagement, especially for first-time investors. We applaud the Commission for emphasizing the importance of building greater financial literacy.

It's time to, once and for all, empower citizens to become more confident investors.

The past years have seen a cumulative decrease in ongoing charges of UCITS. Measures for enhanced cost disclosure under UCITS and MiFID have helped boost competition and reduce costs. Policymakers have played an instrumental role here. That said, they should also recognize that too much attention on cost can be a disincentive to citizens seeking investment funds.

We must also recognize that there will be different costs associated with different levels of service. Just as passengers should be able to count on a flight to land safely in their destination, retail investors should get an adequate level of service from an investment e.g. a professional CIO view across distribution channels. But some airline passengers may choose to pay more for a ticket that has more legroom or even a first-class ticket. Equally, some investors are prepared to pay a premium in terms of ongoing commissions for receiving ongoing advice, which will evaluate whether a fund's portfolio continues to best meet their specific long-term needs.

A renewed focus on inducements is concerning. Abolishing inducements could incentivize sales of products that produce revenue by other means, like low-yielding bank certificates, structured products, or insurance-based products. This risks reducing investor choice and competition across funds. It also potentially leaves investors with worse growth prospects and works against the goal of the CMU to channel more investment into capital markets. This is concerning given advice is one of the most crucial conditions for spurring broader participation of savers in the capital markets. Policy needs to promote financial advice, investor choice and transparency.

We welcome the work towards improving product disclosure regimes like PRIIPs and enabling greater digital disclosure. Digital delivery is crucial if we are to engage with younger investors, but we must also provide content that the average investor can consume - practical, usable data that has real relevance to the consumer is an imperative.

In essence, we need an ambitious Retail Investment Strategy with a clear, positive vision. If we want broader retail investment to build momentum, we need to focus on empowering citizens. We need to look at each policy measure and ask ourselves whether it contributes to building an investment culture or is detracting from this goal. Policymakers have a duty to emphasize not just what investors stand to lose, but how much they may gain through responsibly managed risk taking.

The biggest problem facing Europe's retail market is not cost, conflict of interest or consumer protection. It is inertia. Albert Einstein put it well when he said: "nothing starts until something moves". It's time to, once and for all, empower citizens to become more confident investors. It's time to get investment moving.



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Putting the retail investor at the heart of EU policy making

The EU's Retail Investment Strategy represents a once in a generation opportunity to put the retail investor at the heart of EU policy making. The EU has already established robust foundations for retail investment in Europe with the world's best in class investment product (UCITS), innovative long-term savings products (ELTIF), and a strong framework that focuses on investor protection (conduct, disclosure and transparency). But continued high levels of precautionary savings indicate that the existing investor protection framework is still not delivering for citizens. Increased investor engagement is also key to European citizen involvement in the strategic projects of Capital Markets Union, post-COVID recovery plans and the transition to a sustainable economy.

Putting the needs of the retail investor at the heart of policy initiatives can create truly impactful and positive outcomes for investors and more broadly for the long-term funding of the EU economy. To realise this potential we recommend prioritising three areas of policy actions:

1. Increase empowerment through financial capability and financial health

checks; 2. Address the lack of trust and confidence in the advice process by delivering consistent outcomes whatever the sales channel and 3. Increase focus on digital enablement to both simplify and engage more effectively with investors.

1. To empower investors we need to build the infrastructure to support increased levels of financial capability. As much as we prioritise people's individual physical and environmental health, we also need to realise that financial health is for everyone: Every EU citizen needs the tools to manage their financial health and wellbeing just as they need to manage their physical and mental health.

Financial health checks contribute by filling the gap between generic financial education and the existing regulated advisory and sales process. They aim to empower consumers to develop a lifetime plan to support financial health and resilience. Health is always about maintaining a balance and it is no different when it comes to financial health with a balance between short, medium- and long-term goals.

Every EU citizen needs the tools to manage their financial health and wellbeing.

While financial education remains a national competence, the Commission can contribute to increasing consumer empowerment with a focus on best practises in the design of financial health checks and scaling up Europe's digital infrastructure to boost investors' resilience and capability. This would ensure that every country can offer their citizens access to regular financial health checks throughout their life to set them on the right financial path with actionable recommendations on how to improve their financial resilience, as circumstances change.

A framework which encourages people to regularly review their finances and builds up confidence in how finance works for them needs both the public and financial service sectors to work together with other core stakeholders such as the social partners. In many member states the workplace would be an ideal venue for delivering health checks, especially if supplemented by workplace access to advice on the benefits of savings and pensions.

2. More can be done to build trust in financial advice by ensuring consistent and transparent outcomes when it comes to incentives and suitability at the point of distribution. Inconsistent outcomes are often the result of the application of different standards by type of product and intermediary. Actions such as certification of advisor training and aligning the incentive regime between different sectoral directives (MiFID and IDD) will give retail investors a clearer picture of what to expect from the financial sector.

Further steps such as encouraging distributors to look at the overall outcome a consumer is trying to achieve will also help the sector connect more effectively with consumers and tackle underlying issues of lack of trust.

3. The use of digital tools is a key part of the broader process of empowerment. Policy actions in this area range from developing more interactive digital disclosure standards and moving away from static disclosure such as the KID (tackling the shortcoming of the current PRIIPs regime) to simplifying client onboarding and providing access to digital dashboards allowing consumers to have easy access to their accounts. The EU proposals for a Digital ID represent a valuable first step in allowing investors to take control of their data and promote more effective decision making.

To summarize: An investor centric policy framework focusing on empowerment and protection will help citizens better engage with the system of investment services and product provision and will help to address longer term strategic challenges such as the transition towards a greener and digital economy.



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Improve access to capital markets through digital technology

Why we at Erste Group focus on retail investors

People in our region have dreams. They want to buy a new home, start their own business, desire the best education for their children or prepare for retirement. The standard of living in the CEE region has steadily converged towards Western European levels in the last two decades. But despite having regular income to enjoy life, many people in the region still lack the financial knowledge to take the right financial decisions to make more out of their assets in the long run.

A glance at the composition of household financial assets reveals that people in CEE hold much of their financial wealth in cash and savings accounts. At the same time, households in the more developed markets hold a much smaller fraction of their wealth in cash and savings; they tend to hold their financial assets in typical investment products such as investment funds, bonds, shares or pension insurances. This reveals that households in CEE should and could do much better in terms of building up wealth. Having the prosperity of our region at the core of our statement of purpose, it

is our particular interest to put all of our clients into the position to make well-informed investment decisions, to benefit from more profitable investment opportunities and to ultimately improve their financial health.

Based on this situation, what are our current focal points?

1. Digital as key channel to increase customer awareness

With the roll-out of our digital platform “George” in our core markets, we are well on the way to prepare the ground for the democratization of advice via digital channels and to support even more people in CEE with advice on how to prosper financially. This includes the continuous broadening and updating of our product portfolio by integrating asset management and bancassurance solutions into our digital offering. Overall, in combination with personal advice via branches and remote advisory centers, this makes it easier for customers to invest.

Democratise financial knowledge and financial advice by fostering digital channels and improving personal touchpoints

2. Proactive and holistic advice to become our customers’ lifelong partner

Our customers’ financial situations change depending on their life situation, e.g. through job changes, starting a family or retirement. To help our customers the most, we continue to shift from financial product specific advice to putting clients’ needs into the center of our advisory approach and to provide holistic advice over a lifetime. Together with the strong ambition of each and every employee to proactively deliver best advice to the customers in CEE, this will enable us to further boost prosperity in the region.

What needs to be done at the EU level to further promote retail investments?

When it comes to retail investment, a lot of regulatory measures have been taken at EU level in recent years, particularly regarding investor protection and disclosure. On the one hand, this framework has helped to further integrate capital markets and facilitate cross-border investments. On the other hand, it has also sometimes led

to overregulation and inconsistencies that are effectively creating new barriers for financial service providers to offer investment solutions to retail clients.

As stated above, digital channels to interact with clients are key to democratize financial knowledge and financial advice. In this respect, harmonization through EU rules often does not go far enough and thus, can lead to goldplating at the national level. For instance, this is the case with MiFID II where complexity and deviating national implementation make it difficult to build standardized digital tools for financial advisory that can be rolled out across multiple markets, leading to extra costs, delays in implementation and further difficulties for financial services providers. More harmonization to foster digital solutions is therefore key to improve citizens’ access to capital markets and should be a top priority for the upcoming Retail investment strategy of the European Commission.

Apart from that, we believe that financial literacy and tax incentives are key for a stronger retail investor participation. Financial literacy is an essential basis for every citizen and in combination with tailored financial advice can strongly improve individuals’ financial well-being.

When it comes to taxation, suitable incentives such as notional interest rate deduction can have a positive impact by nudging people into making the right investment choices.