RETAIL INVESTMENT STRATEGY

VERENA ROSS
Chair - European Securities and Markets Authority (ESMA)

Retail Investment Strategy: creating a safe environment for retail investors

More than five years into its existence, the MiFID II framework has proven to be a significant milestone in the development of an effective investor protection regime across the EU, introducing key requirements in areas such as product governance, cost transparency and suitability. Still, certain limits have also been exposed, warranting targeted amendments across MiFID II and other related pieces of regulation, which I hope will be part of the Retail Investment Strategy (RIS).

As ESMA, we fully subscribe to the objectives of empowering retail investors to take advantage of capital markets and of enhancing consistency of investor protection rules across markets, as was originally envisaged under the CMU Action Plan. In my view, we should use this opportunity to build investors' trust in capital markets and make the framework fit for the digital age. In this short article, I would like to highlight two important aspects in this respect.

First, the retail investor protection framework will need to do a better job at addressing conflicts of interests and the related issues of high costs and biased advice. Despite the enhanced inducements requirements in MiFID II and the introduction of the concept of independent investment advice, for which inducements are banned, the EU retail investment landscape remains dominated by non-independent advisors predominantly recommending inducement-paying products. Several studies demonstrated that more expensive products are distributed to retail clients in inducement-based models, and I thus believe this deserves further attention. Indeed, as we conclude in our own ESMA analysis[1], costs remain a critical component in determining final retail investor outcomes in the EU and have only marginally declined over time. This of course affects investor trust. European consumer organisations even qualified inducement-based advice as a mere "sales pitch".

Opportunity to build investors' trust in capital markets and make the framework fit for digital age.

The limitations of the framework identified in ESMA's 2020 Technical Advice were more recently confirmed in a study prepared on behalf of the European Commission, which showed that disclosures on inducements seemed to have only limited effect on retail investors' decision-making. While mentioning the experience of the countries that have already prohibited inducements, ESMA did not recommend an EU-wide ban because its impact across the EU could not be sufficiently assessed in the time we had been given for our advice. In my view, another look at the topic is fully warranted and needed now.

As to the actual intervention options, an inducements ban is often mentioned as the most effective way to address the conflict of interest between firms and product manufacturers, contributing to bias-free advice and lower costs for investors, and this is currently supported by the European consumer organisations. Many others warn that such a move would lead to an "advice gap". Should the RIS take the direction of a ban, accompanying measures would be advisable to ensure investors' access to high-quality, unbiased investment advice. For example, the introduction of a simplified, and thus less expensive advice framework could be considered whereby simpler, low-risk products can be recommended to clients using such a service.

A second key aspect is the importance of adapting the MiFID II framework to the digital age. While not a recent phenomenon, digitalisation of investment services has picked up enormously and created opportunities for investors by making these services broadly accessible. Think, for instance, of the abundance of user-friendly investment apps allowing investors to instantly visualise information about their investment portfolio. Digitalisation provides firms with new opportunities vis-à-vis retail clients, by facilitating interaction, tailoring information to their needs and profiles. Overall digitalisation can make the provision of information more effective, also helping to manage the risk of information overload. Digital regulatory disclosures enable layering of information, so that investors focus on vital information but can also dig deeper on aspects they are interested in when making investment decisions.

Digitalisation has however also brought about new investor protection risks, such as those related to aggressive digital advertising and engagement practices. Due to their constant exposure to investment information, retail investors may feel pressured to take decisions that are not in their best interests; based on push notifications generated by investment apps and unreliable investment information provided on social media.

While the investor protection framework is and should remain technology neutral, clarifications may be needed to ensure that all digital advertisement and engagement practices are fair, clear and not misleading. Moreover, it should be made even clearer that firms remain always responsible for what is done on their behalf, also through social media and "finfluencers".

[1] *Costs and Performance of EU Retail Investment Products 2023.*

FAUSTO PARENTE

Executive Director - European Insurance and Occupational Pensions Authority (EIOPA)

Retail Investment Strategy: are we tackling the main issues?

The European Commission is currently in the process of developing a legislative proposal to support its Retail Investment Strategy. One of the key objectives is to promote more transparency, simplicity, fairness and cost-efficiency for retail investment products across the internal market, which EIOPA strongly supports. If insurance products are appropriately designed and distributed, this can be a lever in enabling consumers to participate in capital markets and address growing savings gaps. The main question has been, however: how to best achieve this objective?

So far, the primary focus amongst stakeholders has been on whether the Commission plans to take more stringent measures to tackle conflicts of interest which are damaging to interests of consumers, such as a total ban on the payment/receipt of inducements. This has led to an impassioned debate amongst different stakeholders.

The question raised in this article is "Are we tackling the main issues?": from an EIOPA perspective, we view the current debate as too polarised around the issue of banning or not banning inducements, with a disproportionate focus on the "point of sale". As we stated in our technical advice to the Commission in April 2022, we see the need for more to be done to tackle damaging conflicts of interest arising throughout the product lifecycle of an insurance-based investment product. As an anecdotal example, in a recent public event we held on "Five Years of the Insurance Distribution Directive", an audience poll clearly supported enhancing product oversight and governance (POG) requirements when asked about the IDD provision that can bring the most benefit for consumers if effectively applied.

Banning the payment/receipt of inducements can help to address product bias, but it is unlikely to completely eradicate poorly designed products from the market - it should not be seen as a "silver bullet" solution. One only needs to look at the jurisdictions where more stringent measures on conflicts of interest have been taken, where additional flanking measures have been necessary such as "fair value" measures, enhanced POG obligations, introduction of a consumer duty, a simplified advice regime etc., to see evidence of this.

Insurance-based investment products should be cost-efficient and offer value for money to consumers.

EIOPA is firmly of the view that insurance-based investment products should be cost-efficient and offer "value for money" to consumers. "Value for money" is already embedded in the IDD POG regime. On that basis, we have published a Supervisory Statement and a Methodology to be used by NCAs in assessing value for money in the unit-linked market. We are pleased to see a number of national supervisory initiatives following in a similar direction. We are now following up this work by working to determine whether it is possible to have "reference benchmarks" which would aim to guide insurance manufacturers in determining what constitutes a cost-efficient product.

What is crucial from an EIOPA perspective is to fully take into account the heterogeneous nature of the insurance distribution market in Europe and the way that consumers engage in this market. And heterogeneity can present challenges in ensuring that any harmonised approaches apply evenly across all national markets and consumers are treated in a consistent manner: For example, because there are a very large number of small insurance intermediaries which are natural persons and tied agents in the insurance sector, we are of the view that insurance undertakings (who have easier access to cost data) are better placed than insurance intermediaries to carry out a value for money assessment and this can produce far more meaningful outcomes for consumers.

Finally, it is important to note that however significant the reforms made to the regulatory framework for retail investment products, these will only be truly effective if these are bolstered by a strong supervisory framework. Implementation is key. National authorities need to have access to the necessary data and have the required tools, powers and resources to supervise and enforce effectively, which means being able to intervene early to prevent the risk of material consumer detriment arising. This can be done by tackling issues at an earlier stage, "upstream", such as at the product testing phase where the IDD already provides that insurance products should not be brought to the market "if the results of the product testing show that the products do not meet the identified needs, objectives and characteristics of the target market".

In conclusion, if we are to effectively tackle the main issues underpinning the Retail Investment Strategy, we need to adopt a broader focus across the product lifecycle, which places supervisory implementation as much at the centre as addressing any perceived gaps in the current regulatory framework.

JOS HEUVELMAN
Member of the Executive Board - Dutch Authority for the Financial Markets (AFM)

RIS success depends on low costs and high trust for all

The European Commission's landmark Retail Investment Strategy will likely contain improvements to product disclosures, quality and independence of advice, value for money, enforcement, and financial literacy. At the heart of the strategy is the ambition to get more European citizens to start investing while future-proofing the consumer protective framework.

Inducements

People will need to trust financial institutions before they start investing. They should be able to rely on financial institutions having their interests at heart and that financial products are sound and of high quality.

Remuneration matters a great deal in terms of incentives. A commission-based distribution model leads to an unacceptable risk of perverse incentives, mis-selling, and unnecessarily expensive products. The inducement ban in the Netherlands has decreased costs as advisors sold cheaper alternatives. We have also seen the quality of financial advice improve because of various investor protection measures, along with the ban on inducements. Advisors have to critically examine their value proposition to their clients, instead of relying on provisions. This ultimately benefits the client.

There is a persistent misconception that inducement-based advice is free. First, the (relatively high) provisions that product manufacturers pay to advisors are not charity; they are charged to the retail client through opaque cost structures. Second, retail investors pay dearly for unsuitable products that they have bought because of bad advice. It is true that the use of advice has decreased, but this trend had started before the ban was introduced and was not accelerated by the ban. The possibility of an advice gap is the most common argument against a possible inducement ban, but wrong advice is clearly worse than no advice at all. We have not seen evidence for such a gap,[1] and the Dutch association for financial advisors reports that three out of four consumers is a client of an independent financial advisor.[2]

Brokers may similarly appear to offer a free service, but investors may be worse off if they pay higher transaction prices because the broker receives payments from third parties to carry out the order at unfavourable prices – a practice known as payment for order flow.

Cross-border enforcement

Digitalisation has further diminished national borders and helped to create a single market for financial services. Supervision of that market, however, is still largely carried out by national authorities, operating in different jurisdictions and with supervisory approaches. Cross-border enforcement is not discussed as passionately as inducements, but it is crucial for the framework's success. Consistent and high-level supervision is key to ensuring that the legislative framework is complied with and followed in practice. From an operational viewpoint, home member state supervisors may find it difficult to effectively address transgressions in other markets with which they are not familiar. Information sharing between authorities can be unnecessarily cumbersome. To make the RIS future proof and ensure that the framework delivers optimal outcomes, the Commission should critically look at making the division between home and host supervisors more effective and increasing the powers of host member state supervisors.

> **To ensure the success of the RIS, division of home-host NCA competences must be more effective.**

Disclosures

Product disclosures are a cornerstone of investor protection, but they are too lengthy, detailed, and complex for consumers. Most people do not read these documents or find it difficult to relate information to their personal situation. Significantly improving disclosures requires design based on consumer behaviour. Behavioural research shows that past performance is one of the most prominent pieces of information on which investors base their decision. Although understandable, past success offers no future guarantees. If firms want to maintain their clients' trust, they must be clear about this and offer realistic expectation of the possible returns.

Value for money

Addressing unreasonably high costs is key to delivering the best outcomes for ordinary people saving for retirement or other long-term goals. A difference of one percentage point annually in costs may not seem like much but will significantly impact long-term returns. Cost efficiency is the result of a holistic package of consumer protection: strong product governance, incentives for distributors that favour the client, clear disclosures and a competitive market. If the European Commission can make these work together, the RIS will be a success.

[1] *Decision and CentER Data, "Zakelijker verhoudingen: de markteffecten van het provisieverbod," 22 March 2018, http://decisio.nl/wp-content/uploads/Decisio-Periscoop-Evaluatie-Provisieonderzoek-Definitief.pdf*

[2] *Adfiz, "Advies in Cijfers, 2022-2023," p. 5, https://www.adfiz.nl/media/5079/advies-in-cijfers-2022-2023-webversie.pdf*

JÉRÔME REBOUL

Managing Director, Regulatory Policy and International Affairs - Autorité des Marchés Financiers (AMF)

Retail investment strategy : focus on the right issue

Striking the right balance between investor protection and the need to provide access to capital markets so that European savings efficiently finance the economy is at the core of EU regulators' concerns.

There is, therefore, a general agreement on the broad objectives of offering better choice, better information and value-added advice to retail investors. In addition, there is a broad consensus on the fact that changing market practices in the area of retail financial products - eg the growing role of influencers and digitalization of distribution - justify to take another look at the regulatory framework in this area.

Any new proposal should however take into account the existing industrial landscape. In this respect, radical proposals such as a general ban on inducements may seem theoretically attractive, but would probably have significant detrimental effects in reality. In countries where this practice is widespread, such a ban would drastically reduce access to the advice offered in banking branches for low to middle income households, that would then be left to influencers - who offer free 'advice' and are not subject to specific rules of conduct. On top of that, banking networks would have an incentive to distribute only in house products which would everything else equal be detrimental to competition.

This is not to say that we should not be interested in preventing conflicts of interest or reducing the overall cost of savings products. A strong regulatory framework already exists on both these topics. It might be enhanced by enlarging the duties of services providers to consider the pricing of their product to assess whether clients get sufficient value for money. Initiatives to encourage competition are also welcome.

But there are more pressing issues given the fundamental challenges posed to the Single Market by current industry developments. While digitalization and cross-border provision of financial services grow, investor protection must be further ensured to allow for safe cross-border investments.

A strong and harmonised supervision of market participants in all Member States should be a key objective going forward, to ensure a consistent level of protection to investors within a digital market. Some issues remain to be addressed in the light of recent market developments. Over the past years, the AMF received numerous complaints from retail clients of EU investment firms based in other Member States and operating on a freedom to provide services basis, about aggressive, if not illegal, marketing behaviours from those firms selling complex products to French retail clients.

Investor protection must be further ensured to allow for safe cross-border investments.

This shed light on the difficulty to allocate powers between home and host authorities in a context of the cross-border provision of investment services, and the lack of effective coordination mechanisms to respond quickly to providers acting irregularly under the EU passport. Although overall the passport has contributed positively to the Single Market it is still not underpinned by a single supervisory model; this allows for regulatory arbitrage between Member States and differences in investors' rights in the various jurisdictions.

In the absence of unified supervision, improvements should be made to the passporting framework to strengthen coordination measures between home and host authorities. Notably, there should be an effective system for the exchange of information as well as broader abilities for a host authority to effectively exercise supervisory powers where firms undertake meaningful activity in its jurisdiction, including under the passport.

Host supervisors and ESAs should be enabled to intervene timely in the event of serious risks to investor protection and the proper functioning of markets. Also, clarifying the criteria to determine in which jurisdiction an investment service should be deemed to be provided is essential in the context of digitalisation, as the increasing use of technology makes it difficult to allocate the provision of an investment service to a given host Member State. This is key to determine which rules apply and which authority is responsible for their enforcement. As a principle, an investment service should be deemed to be provided where the retail client targeted by the service is located.

On another front, the framework protecting retail investors should also be strengthened to take account of evolving practices regarding digital advertising and financial solicitation. Indeed a rise in misleading digital promotional communications from professionals, but also from third parties paid to promote certain investments (some of whom are influencers) has been observed.

To guarantee the protection of retail investors, it is proposed to make the advertising chain responsible, from professionals to advertisers. It is also necessary to take into account the development of indirect advertising comparable to financial solicitation and thus to improve the EU framework applicable to digital financial solicitation.

GUILLAUME PRACHE

Managing Director - Better Finance

Retail investment in the EU: the egregious example of listed bonds

Since 2021, EU citizens as "retail" investors" have seen the real value of their financial savings collapse, victims of the unprecedented "financial repression" (in short, the voluntary engineering of very negative real interest rates) operated by EU policy makers.

This very detrimental environment for savers and individual investors is compounded by the failure of meeting two critical and related objectives of the CMU started in 2015: fostering retail investments into capital markets, and rebalancing the funding of the economy between banks and capital markets.

Indeed, the share of retail investments into equities is almost flat since then, despite a very favorable price impact. And the retail bond market is all but disappearing (from 7,5% of total EU households' financial savings in 2008 to 1,6% in 2021), even though today retail investors would often be much better off going to bond markets than to their home bank:

Ex: nominal returns for a one-year term (before transaction costs) *:

- French Sovereign bond 3,47% rather simple, not "advised."
- Best non-domestic € bank term account 2,65% simple, no access and not "advised"
- Money market fund 2,20% complex, little "advised"
- Best domestic (BE) € bank term account 1,50% simple and "advised."
- BE inflation (Eurostat HICP) 5,40%

Why ?

First, because of the lack of independent advice.

"Non-independent advice" (sic, MiFID jargon) is dominant, except in the Netherlands. Various independent studies have shown how detrimental it is for retail investors.

The labeling of retail distributors itself is very misleading and not compliant with EU Law which requires clear, fair and not misleading information: when a retail distributor is essentially compensated by sales commissions, calling him an "investment advisor" is like calling a car dealer a "transportation advisor". Nobody dares to do that. Most of the time retail investors are faced with an investment dealer, not and investment advisor.

Most of the time retail investors are faced with an investment dealer, not and investment advisor.

Second because of lack of retail access.

The bond secondary markets are opaque and very illiquid (large bid/offer spreads, few trades, at least from what retail investors can see) - even for the main EU sovereign ones - compared to listed blue chip equities. Also, very few retail intermediaries (banks, brokers) promote them and facilitate their trading.

The primary bond market is even worse, in particular regarding disclosure requirements and minimum investment sizes. The summary prospectus is still very long and written in legal verbiage, and is lacking for bonds with individual issue prices of € 100,000 or more. And too often bond issuers set the minimum initial investment price at ... € 100,000. Sometimes the issuer even has to issue a PRIIPS KID on top of the summary prospectus, whereas it would be much more effective to have only one summary document, as closely aligned as possible to the PRIIPS KID for clarity and comparability purposes.

Issuing Member States bear an important responsibility in favoring financial intermediaries versus citizens as investors in both the primary and secondary sovereign bond markets. The ECB, which owns a large share of EU Sovereign bonds, could also play a big role with regard to bond dealers and other intermediaries.

Re-opening the plain vanilla investment grade bond markets to citizens is good for them and for the bond markets.

Third, because of the promotion of complex products vs. simple ones.

So far, policy makers and supervisors have not fulfilled their legal duty to promote simplicity, as they "shall take a leading role in promoting ... simplicity ... in the market for consumer financial products or services across the internal market".

For example, some retail intermediaries are more involved in promoting retail "EMTN" products based on hyper complex highly customized indices designed only for – but unintelligible to – retail investors, and misleadingly portrayed as "market" indices (such as the "S&P Eurozone 50 Net Zero 2050 Paris-Aligned Select 50 Point Decrement Index" – which has had a negative return over the last 5 years, when the broad European equity index has returned close to +30 %**). Conversely, they rarely "advise" plain vanilla instruments such as simple bonds and bond ETFs. Such "structured" products are not allowed for sale to Belgian retail investors, but they are - for example – to French ones.

The success of the CMU and of adult investor education both require access to independent advice, and also to simple products and to clear, fair, not misleading, short and comparable key product information. The European Commission's "Retail Investor Strategy" has fortunately identified these issues. It remains to be seen if other EU policy-makers really want to stop impoverishing citizens as pension savers, and to achieve the main CMU goals.

**As of 9/3/2023*
*** 5 years ending 31/01/2023*

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ANDREAS WIMMER
Board Member - Allianz

Quo vadis EU Retail Investment Strategy: evolution versus revolution

The EU Commission Retail Investment Strategy (RIS) intends to ensure that retail investors take full advantage of capital markets and that rules are coherent across different EU legal instruments, while enhancing pension adequacy in the EU. As a precursor it makes sense to understand how current regulation has contributed to investor protection and where it should be changed to fulfill the EU Commission's ambition.

The existing regulatory framework implemented in 2018 already introduced a high level of protection to retail investors when investing in capital markets. Relevant indicators of sales quality have increased since the implementation of IDD, including a steady material reduction of customer complaints across key markets in the past years. In light of those indicators, a comprehensive overhaul of the regulatory framework seems unnecessary. Having said that, no regulation is flawless and should evolve with business, society and technological development.

Until now the debate has focused predominantly on remuneration in light of a potential EU-wide ban on inducements for retail investment advice. Much has been said about the implications of such a ban in the recent debate between policymakers, consumer organisations and industry stakeholders. Evidence from various markets indicate that a ban on inducements would restrict retail investors' access to financial advice, thereby having a counterproductive effect on retail participation in capital markets. It would shift the provision of advice towards a fee-based remuneration model and effectively deprive customers with low-to-medium income of relevant advice. Such detrimental effects have been observed in markets where a ban was introduced, like the Netherlands and the UK.

While innovative distribution models and technology enabled advice may play a larger role in the future, they remain currently very limited in practice and would not be sufficient to mitigate an advice gap triggered by a ban on inducements. Market research suggests that there is still a very high demand for human advice: in a representative sample of new life insurance customers in Germany, only 10% opted for fully digital advice as recently as in 2022.

The RIS success depends on a design that meets insurance customers' needs while allowing innovation.

In markets with advice gap, large numbers of retail investors can end up with inadequate products (e.g. high-risk/volatility, crypto assets) partially driven by information from unregulated advisors like "finfluencers". This would be especially problematic in most EU markets, where old age provision relies materially on a well-functioning third pillar. In contrast, the UK and the Netherlands operate pension systems that are built around mandatory and automatic enrolment for occupational pensions so that the third pillar doesn't play a critical role for the overall old age provision framework.

To achieve the target proposed by RIS and improve consumer participation in the capital markets, it is crucial to address other key challenges that deserve at least as much consideration as remuneration in the policy debate, chief among them:

- Moving to digital-by-default in insurance distribution, to abolish the requirement to provide all information on paper, which fails to reflect the continuous digitalization of sales processes in the sector, relevant to cater for the younger cohorts of the population while ensuring no one is left behind.
- Reducing information overload stemming from the cumulative impact of sectorial disclosure obligations, which can, especially in life insurance business, be particularly overwhelming and burdensome (e.g. Solvency II, PRIIPs, SFDR requirements, as well national requirements).
- Improving transparency of costs, and especially distribution costs, in a targeted and meaningful way for retail investors, also to the benefit of a competitive distribution market.
- Reinforcing value for money standards, already embedded in current regulation, to increase consumers' confidence in the products on offer. Value for money should ensure a holistic assessment to reflect subjective and objective factors and focus beyond pure investment returns.

In insurance, there is no evidence that an all-encompassing solution imposing a commission ban would prove beneficial for customers across Europe. Reducing customer choice of available advice in favor of fee-based remuneration model would work against the target of encouraging consumers to invest and undermine the key objective of increasing retail investment across the EU.

The RIS success depends on a design that meets insurance customers' needs while allowing innovation. Market research suggests that the existing framework is already a solid basis that has improved consumer protection materially. As such we believe that an evolution of the current framework towards more cost transparency, digitally enabled and streamlined documentation and reinforced value for money standards would be the best way forward – a revolution is not required.

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ELISABETH STERNER

Head of the Nordic Region - BlackRock

Empowering retail investors: a matter of trust and choice

Increasing retail participation in capital markets has been a long-standing EU policy objective. Despite many positive initiatives, there is still work required to create a culture of investing in Europe. Success in coming up with effective measures to increase retail participation requires recognising the interaction of many factors, including diversity of investors, different levels of financial education, distribution models, and the myriad of European and national rules including domestic tax incentives.

This can be done by learnings from markets and countries that have managed to create a strong investment culture among the public. Nordic countries such as Sweden stand out in Europe with a well-functioning equity market and broad participation by retail investors, through funds, ETFs and direct equity investments. The introduction of the 'Investeringsparkonto' (a type of savings account) in 2012 is widely recognised to have contributed to this, in part thanks to its simplified and automated tax system, calculated quarterly on the value of holdings (no tax on profits, interest, or dividends). This makes it simple for Swedish citizens to participate in the capital market.

To empower retail investors, we need effective policies built on these success stories, to demystify and make investing easier for the public. By building trust and providing choice, we can empower retail investors to reap the full benefits of the capital markets union (CMU). At BlackRock making investing accessible, affordable, and transparent to more people is core to our mission. Increased retail participation has positive effects on the entire financial ecosystem and is a key building block for wealth creation for EU citizens.

Trust in the financial services sector – and the advisory process in particular – is key to achieve this. While a recent study suggests that there is increased trust of financial services amongst retail investors (60% in 2022 compared to 44% in 2018)[1], these numbers suggest that there is still much work to do. Harmonizing distribution rules across investment and insurance products to deliver comparable outcomes for investors would represent an important step in aligning the interests of intermediaries and investors.

Another aspect to increase trust is clarity on fees. There is a need to provide complete but intuitive disclosures across the value chain on the reporting of costs and performance to illustrate the added value of investing. Clarity will give consumers confidence that the costs they incur add value to the returns they seek to achieve.

By building trust and offering choice, we empower retail investors to reap the benefits of the CMU.

Still talking about trust, our investor surveys[2] have consistently shown that people feel more confident about investing when they receive professional support. However, the current regime for regulating the provision of investment advice in the EU is not as effective as it could be. To increase trust in the advisory process, we need to adopt a consistent supervision approach that expands on the EU's current high-level framework of investor protection to deliver better outcomes for investors. We can also strengthen trust in financial advice by ensuring a high level of quality. This can be done by encouraging convergence and promoting best practices including the development of a pan-European certification for financial advisers for consumers to rely on. With the growing trend for retail investors to trade directly through platforms, we believe that there are also benefits in creating a simplified guidance framework to allow platforms to better support their clients. Appropriate supervision and/or certification of social media "finfluencers" could also complement that objective.

To increase participation, we need to reduce the complexity of investing by making choices clear and accessible, for example by focusing on the benefits of saving regularly into diversified investment products. As a first step into markets, we encourage the use of diversified and default investment solutions, such as ETF savings plans, where citizens invest a regular amount (however small) every month to benefit from cost averaging and long-term compounded interest.

Finally, technology will continue to play an important role in increasing trust and making choice accessible. Digital tools can serve as enablers to deliver at scale, complement existing advisory models and enable more effective investor communication. A digital-first environment will help ensure that regulation works with and supports the movement towards improved disclosure standards, account opening, portfolio allocation, and advisory and trading practices.

All in all, to increase retail participation, the public and private sectors need to work together to increase protection, access, and trust in the system that will empower new generations of investors.

[1] Enhancing Investors' Trust. 2022 CFA Institute Investor Trust Study.
[2] BlackRock People and Money Survey.

SERGIU CRISTIAN MANEA

Chief Executive Officer & Chairman of Management Board - Romanian Commercial Bank (BCR)

How to make retail investors more confident

In its 2020 CMU Action Plan, the Commission reiterated the importance of increasing retail investor participation in capital markets. Currently, most discussions center around measures to protect, teach and inform investors. The main idea is to empower investors to make informed decisions, correctly assess opportunities and risks and consequently be more confident in their ability to invest.

We are fully supportive of this objective and, in our view, one of the most important aspects to increase investors' level of information is the fostering of financial literacy. Let's make it an integral part of the standard educational curriculum. The issue has been gaining speed under Commissioner McGuinness, notably under the EU's financial literacy competence frameworks. It is now vital to ensure a high uptake of the frameworks by Member States. Moreover, we hope that policymakers, in the next legislative cycle (2024-29), will not allocate less importance to this crucial topic.

However, any effort to increase financial literacy will only pay off in the long run. This means that it will not immediately change the current situation, where many citizens simply do not have the necessary knowledge to confidently take their own investment decisions. Fortunately, we already have an excellent remedy at our disposal – professional, easily accessible investment advice for retail clients.

Under the current MiFID system investors have the choice to obtain advice which either comes at often heavy upfront fees or is financed through inducements. For many retail investors, the choice is clear: they cannot or do not want to pay an upfront fee, which is why they opt for inducement-based investment advice. Nonetheless, some stakeholders have been pushing for an outright ban on inducements lately.

What are possible consequences? A ban on inducement-based advice would reduce the choices for retail investors and likely create a situation, where potential retail investors are scared away from the capital market instead of supporting its development - something completely counterproductive to the CMU's intentions.

This outcome could be amplified when financial intermediaries start focusing on higher-end clients and neglecting smaller retail investors. It can also reduce competition among intermediaries, which can lead to higher fees and reduced access to investment products. Furthermore, such a step could push retail investors towards free information sources such as online platforms and influencers, whose credibility for financial advice is highly questionable.

Let's help retail investors make the right choices, which is impossible with a ban on inducements.

The alternative of paying for professional advice will be shunned by most small retail investors. Consequently, in countries where the investment services market has just begun to develop (eg RO & BG), a ban would simply put a dramatic stop to their growth and preclude this most vulnerable group of clients from using one of the best available solutions to improve their financial health.

Therefore, while a ban on inducements may seem like an attractive solution to some, we urge to carefully consider the likely negative effects and explore alternatives, which promote instead of hampering the access of retail investors to the capital market. Ideally, the existing status-quo remains in place, leaving the choice between inducement-based vs. fee-based advice.

Apart from that, an important aspect to improve is the quantity of information. Typically, the regulatory approach regarding retail clients is to assume that more information is generally better. Accordingly, the MiFID framework defines detailed information requirements for a limited scope of accessible products. Experienced retail investors give regular feedback that they neither appreciate this overload of information, nor the limited product offer, and therefore the entire investment experience. Less and at the same time more relevant information would surely be more beneficial for them.

Against this background, the introduction of a new investor category, the Qualified Investor (QI), should be revisited, in our view. The idea first came up in the wake of the EU High Level Forum and subsequent Action Plan in the years 2019-20 but has never been implemented in the MiFID framework. The new category would allow to differentiate between sophisticated retail clients (who may not need the full set of information every time they become active) and less sophisticated clients (who should always be provided with all information). QIs would also be given the opportunity to invest in a broader scope of products.

In summary, our common goal should be clear – to empower retail investors and help them make the right investment choices. The Retail Investment Strategy (RIS) should be about delivering the right information to investors – which will prove to be impossible with a ban on inducements. We look forward to the publication of the RIS and stand ready to give advice so that it lives up to its expectation: creating a better investment environment for retail investors.