

PRESS RELEASE**THE EC STUDY ON RETAIL INVESTMENT PRODUCTS CONFIRMS A DIRE NEED FOR SIMPLE INVESTMENT PRODUCTS, MORE TRANSPARENCY ON PERFORMANCE AND COSTS AND INDEPENDENT COMPARISON TOOLS**

25 April 2018 – Today the European Commission released the results of its study on the current features and functioning of the European market for retail investment products¹.

BETTER FINANCE thanks the EC for releasing this long awaited but very necessary study on the main source of funding of the EU economy, which for this reason has also been identified as a top priority of the “Capital Markets Union” Initiative of the EU.

The study draws a grim picture detailing the obstacles retail investors face when seeking financial advice or wanting to buy an investment product.

However, this study is limited in its findings by the very limited availability and comparability of costs and charges of the retail investment products (therefore mostly focusing on investment funds which represent only 8% of EU households’ financial savings), and the fact that consumer and individual investor organisations were not properly consulted. Also, the study was conducted in 2017, i.e. before significant regulatory changes - e.g. MiFID II, PRIIPS, IDD - entered (or will enter) into force.

Retail investment products

The EC study confirms what BETTER FINANCE has been stressing for years:

An average individual investor is overwhelmed by the sheer complexity of, and uncertainty associated with, the investment products available. The information on distributors’ websites is not really transparent and not at all standardised across products and countries. As regards costs and charges some distributors either don’t display this information at all or present it only partially. Therefore, it is difficult for individual investors who are not financially savvy to find, understand and compare this information in order to make an informed investment decision and choose a suitable product. This confirms the urgent need for independent and cross-border comparison websites that support retail investors in finding the right and most suitable investment product.²

Not surprisingly, the situation is different in the UK and in Netherlands, where inducements have been banned. In these Members States, individual investors are systematically redirected by banks and insurers to Independent Financial Advisors and distributors present the lowest ongoing charges of all types of funds. Consequently, local investors have become more cost-sensitive and better informed about investment products.

The EC study confirms that there are large differences in terms of costs of retail investment products across Member States and that fees for the same category of investment products vary

¹ Study on the distribution systems of retail investment products https://ec.europa.eu/info/publications/180425-retail-investment-products-distribution-systems_en

² Please see page 25 of BETTER FINANCE’s response to the EC consultation document on the CMU Action on the cross-border distribution of funds

http://betterfinance.eu/fileadmin/user_upload/documents/Position_Papers/Financial_Markets_Infrastructure/en/PP_-_Investment_funds_distribution_EC_consultation_-_091016.pdf

substantially across Member States. Also, in general, low cost ETFs were rarely proposed by “human” advisors but are predominant among robo-advisors.

Advice provided to individual investors

The EC study confirms BETTER FINANCE’s findings, i.e. that investment products are not bought but sold, and that an average individual investor is not able to differentiate between the benefits and risks of different types of advice. Individual investors and savers have been crowded out of equity markets and pushed into fee-laden and too often under-performing “packaged” investment products (see for example the BETTER FINANCE Report on long term and pension savings 2017³ [here](#)). In fact, the study confirms that an average retail investor seeking personal advice would tend to go to non-independent advisors via banks and insurers (believing it’s “free” advice and being unaware of incentive schemes and potential conflicts of interests) and end up with relatively similar investments “recommendations” across Member States in terms of product types, i.e. in-house investment funds and life insurance policies.

FinTech solutions

The study acknowledges that the potential for new distribution models based on FinTech is promising but still needs to be monitored carefully.

BETTER FINANCE believes that robo-investing platforms could lead to significant benefits for EU citizens⁴ as savers and individual investors - and therefore to the real EU economy as a whole - who are in bad need of a more direct and stronger link between savings and the real assets they are invested in. Already now the emerging sector is charging significantly lower and more transparent fees with few or no commissions from providers. However, these platforms still deal with products and services that require clients to be relatively financially literate to really understand the value of their offers.

Guillaume Prache, Managing Director General of BETTER FINANCE stated that *“BETTER FINANCE again calls on EU Authorities to fulfil their legal duty to promote simplicity and transparency of investment products as well as to follow up on their “consumer financial services action plan”⁵ released in 2017 and go beyond the non-binding “Key Principles for Comparison Tools”. The study released today confirms that EU citizens are in dire need of comparable information on past performances relative to the objectives of the providers (their “benchmarks”), and on costs. It should be accessible via independent web-based comparison tools for retail long-term and pension investments. BETTER FINANCE is ready to contribute to this process, since this constitutes a major challenge for EU citizens as long-term savers, for the Capital Markets Union initiative, for the EU economy and for the adequacy of our pensions”*.

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³ Please see on page 62 of 2017 Pension Savings Report BETTER FINANCE’s detailed recommendations on how to achieve “transparency, simplicity and fairness in the market for consumer financial products” as engraved in EU law.

⁴ BETTER FINANCE’s 2017 Robo-Investing Report

http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Robo_Investing_Report_070617.pdf

⁵ The EC’s Financial Services Action Plan https://ec.europa.eu/info/publications/consumer-financial-services-action-plan_en