

Financial Advice in the EU

Mapping the Rules Protecting Individual Investors



Why financial advice matters

Financial advice plays a growing role in how Europeans save and invest.

However, many Europeans:

- struggle to understand complex financial products,
- lack sufficient financial knowledge, and
- remain exposed to poor or biased advice.

High-quality financial advice can help bridge these gaps, but only when protections are in place to ensure the advice is working for the benefit of the investor.

What counts as *financial advice* in the EU?

Financial information ≠ financial advice

Under MiFID II and IDD, advice exists only when a personal recommendation is given to a client, either at the client's request or at the adviser's initiative.

Financial advice is when a recommendation is:

- personal
- related to specific financial instruments
- presented as suitable for client's circumstances

This distinction is crucial: information can easily become advice depending on how it is framed and delivered.

How does a simple recommendation qualify as advice?

EU supervisors use five cumulative tests to determine whether a service qualifies as investment advice.

If even one test is not met, the service is not legally considered investment advice.

Is it financial advice?

1. Does the service being offered constitute a recommendation?

Yes

2. Is the recommendation in relation to one or more transactions in financial instruments?

Yes

3. Is the recommendation at least one of the following...

...a) presented as suitable?

Yes

...b) based on the consideration of the person's circumstances?

Yes

4. Is the recommendation issued otherwise than exclusively to the public?

Yes

5. Is the recommendation made to a person in their capacity as one of the following...

...a) an investor or potential investor?

Yes

...b) an agent for an investor or potential investor?

Yes

INVESTMENT ADVICE

Who can give financial advice?

Financial advice in the EU can be provided by different types of advisers, depending on the product and legal framework.

- Investment firms providing advice under MiFID II
- Insurance distributors advising on insurance-based investment products under IDD
- “Local advisers” operating under national rules using a MiFID II exemption

While EU legislation sets common principles, qualification and competence requirements still vary widely across Member States, leading to uneven levels of investor protection.

How are investors protected in the EU?

EU rules aim to protect investors throughout the entire investment journey (before, during, and after investing).

Key protection mechanisms under MiFID II and IDD include:

- Suitability tests when advice or portfolio management is provided
- Appropriateness tests for complex products sold without advice
- Disclosure obligations on risks, costs, fees, and conflicts of interest
- Best execution and ongoing reporting requirements

Retail investors receive the highest level of protection, reflecting their lower financial knowledge and experience compared to professional clients.

Where the EU framework falls short?

Despite extensive EU rules, retail investors still face important risks when receiving financial advice:

- Uneven qualification standards for advisers across Member States
- Regulatory fragmentation, especially for “local advisers” under national regimes
- Rules that rely on broad principles, leading to inconsistent implementation
- Growing challenges linked to digital and robo-advice models

The problem with “free” advice

One of the most serious challenges is conflicts of interest created by how advice is paid for.

In many cases, advisers receive commissions (“inducements”) from product providers -> these payments reward selling products, not delivering good advice -> costs are often hidden inside financial products, reducing transparency = undermining trust in financial advice.

BETTER FINANCE advocates for a ban on inducements across all retail investment products.

But what is high-quality financial advice?

- Client-centred, based on a real understanding of the investor's situation
- Free from sales incentives and unmanaged conflicts of interest
- Delivered by properly qualified and trained professionals
- Transparent about costs, risks, and remuneration

Why this matters for EU savers?

Financial advice shapes how Europeans save, invest, and prepare for the future.

When advice is trustworthy, independent, and high-quality:

- Investors are more confident
- Participation in capital markets increases
- Savings are better protected against inflation and poor outcomes

Improving the quality of financial advice is therefore essential for investor trust, financial well-being, and the success of the EU's Savings and Investments Union.

Read the full report

