

Ref: European Commission Public Consultation on the EU Strategy for Retail Investors (“Retail Investments Strategy”)

Link to consultation:

- https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12755-EU-strategy-for-retail-investors/public-consultation_en
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ANNEX 1

Background information

In our view, the Strategy for Retail Investors (topic of this consultation) and the Capital Markets Union project are strongly interlinked as both share the aim to promote more investments into capital markets by EU households (individual, non-professional investors) in a safe, transparent, and trustworthy environment. As such, we believe that the Strategy for Retail Investments can be seen as a sub-part (although significant) of the Capital Markets Union project, which also covers other topics, such as professional trading and investments.

BETTER FINANCE has supported the initiatives to create a Capital Markets Union since the initial Action Plan in 2015.¹ The EU needs integrated capital markets where EU citizens’ long-term capital can be optimally allocated to well-performing and cost-efficient investment products across the EU, benefitting of bias-free investment services.



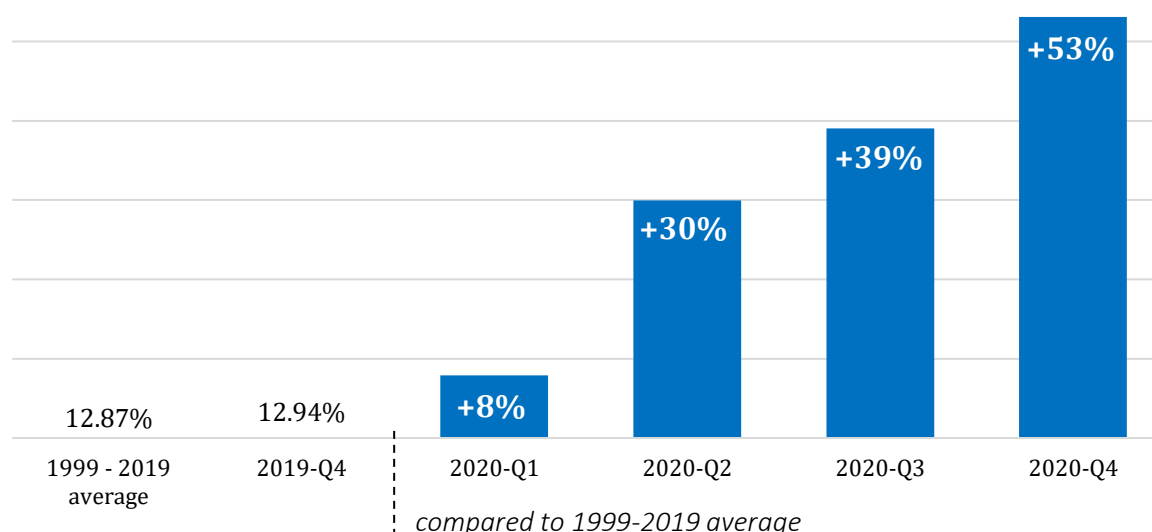
What is the CMU? *The Capital Markets Union (CMU) is an EU political agenda to integrate all 27 local capital markets by reducing barriers to cross-border investments, harmonising applicable law and supervision, and also by improving the investment conditions across the EU.*

In short, the EU needs a CMU “*That Works for People*”.² This is now all the more important as the global health pandemic brought about two significant developments. First, households started to save much more of their net disposable income in 2020, which will lose its value if kept allocated to products with low (or even negative) interest rates or not invested at all (due to inflation).

¹ European Commission 2015 Action Plan on the Capital Markets Union.

² Mission letter from Ursula von der Leyen President-elect of the European Commission to Valdis Dombrovskis, Executive Vice-President-designate for An Economy that Works for People, 10 September 2019.

Eurozone household savings ratio (% of disposable income)



Source: BETTER FINANCE own composition based on ECB data

By the end of 2020, Eurozone households reportedly saved up to 53% more of their net disposable income³ compared to the last 20 years' average (1999 – 2019), reaching almost a fifth (19.71%). Second, European and national supervisors, as well as BETTER FINANCE members, observed a large number of new, young investors coming to the market: either by opening brokerage accounts, buying investment products or signing-up with robo-advisors, we are seeing a particular momentum and growth perspectives for EU capital markets.

However, the landscape of retail financial savings is more relevant. As seen in the table below regarding the financial balance sheets of EU households, life insurance and pensions products have the highest share in the financial savings of EU citizens, followed by bank savings, and only a distant third-largest share for securities and funds. In our view this table is very important as it is almost always ignored in public policy statements on “retail investors”.

in € millions	EU28				Eurozone			
Type of account/year	2015	2018	2019	Δ ('15-'19) €	2015	2018	2019	Δ ('15-'19) €
Total	32,953,678	34,350,361	37,529,754	4,576,076	21,998,790	23,644,693	25,639,245	3,640,455
Currency & bank deposits	9,848,128	10,719,953	11,363,343	1,515,216	7,189,108	8,041,926	8,457,524	1,268,416
Debt securities	839,342	623,812	596,556	-242,785	780,338	564,195	528,954	-251,384
Listed equity	1,338,699	1,282,517	1,559,051	220,353	890,767	882,398	1,077,468	186,702
Investment funds	2,460,982	2,597,685	2,960,101	499,119	1,912,713	1,997,285	2,239,408	326,694
Life insurances & pensions	12,823,669	13,376,535	14,533,072	1,709,403	7,241,815	8,037,559	8,821,395	1,579,580
in % of total	EU28				Eurozone			
Type of financial savings	2015	2018	2019	Δ ('15-'19) %	2015	2018	2019	Δ ('15-'19) %
Currency & bank deposits	30%	31%	30%	▲ 1%	33%	34%	33%	▲ 1%
Debt securities	3%	2%	2%	▼ -38%	4%	2%	2%	▼ -42%
Listed equity	4%	4%	4%	▲ 2%	4%	4%	4%	▲ 4%
Investment funds	7%	8%	8%	▲ 5.6%	9%	8%	9%	▲ 0%
Life insurances & pensions	39%	39%	39%	▼ -0.5%	33%	34%	34%	▲ 4.5%

Source: BETTER FINANCE composition based on Eurostat data

As such, the CMU must create the optimal investment environment for EU citizens. To achieve the CMU, several initiatives in the past years have been put forward, most importantly: the CMU

³ Net disposable income

Action Plans of the European Commission (EC, 2015; 2017;⁴ 2020⁵), the Next CMU Report,⁶ the Final Report of the High-Level Forum on the Future of the CMU (HLF FMU, 2020),⁷ and the CMU Report of the Economic and Monetary Affairs Committee of the European Parliament (2020).⁸ All this work focused on the CMU as a whole and put forward recommendations on the necessary steps to achieve this common goal.

 **What are Action Plans?** The European Commission announces its upcoming policy initiatives (reviews, reforms, or new legislative proposals) in financial services through Action Plans, which essentially analyse what areas need improvement, what the objectives are, and how the European Commission proposed to tackle them.

However, the first initiative of EU public authorities solely dedicated to individual, non-professional (“retail”) investors is the EC’s *Retail Investment Strategy*, which will be rolled-out in 2022. In short, this forward-looking policy agenda aims to ensure that “*retail investors can take full advantage of capital markets and that rules are coherent across legal instruments*” through possibly a series of reforms of applicable EU law and hopefully recommendations for EU Member States.

In preparation of this agenda on the Strategy for Retail Investments, the EC seeks input from stakeholders on what is working well or not in a wide palette of topics related to “retail” investments. Albeit there is – at the moment of writing – no additional information on the rolling-out schedule, what it would look like, or if further public consultation processes will be necessary, the EC states ambitious objectives, such as offering *adequate protection* for non-professional investors, building towards *bias-free advice* and *fair treatment* of retail investors by professionals, improved disclosures (“*transparent, comparable and understandable product information*”) and “*open markets with a variety of competitive and cost-efficient financial services and products*”.

This consultation addresses a list of topics, which are briefly described in the table below:

Topic	Summary
<i>Financial literacy</i>	EU and national authorities are considering what measures can be taken to increase the level of knowledge and awareness of the adult population of capital markets and financial services.
<i>Digital innovation</i>	New technologies are becoming incorporated into traditional financial services and new financial services are being developed through digitalisation. This section covers digital innovation in investments.
<i>Disclosure requirements</i>	This topic refers to the mandatory information financial services providers must convey to “retail” clients before and after purchasing an investment product or service, such as the <i>Key Information Document (KID)</i> .
<i>The PRIIPs Regulation</i>	This is the EU Regulation that establishes the content and format of the <i>Key Information Document</i> for the majority of “retail” investment products (p ackaged retail and i nsurance-based investment products - PRIIPs).
<i>Suitability and appropriateness</i>	This topic refers to the assessment, based on a questionnaire filled in by the client, that the financial adviser or seller of investment products must undertake to ensure that the recommendation is <i>suitable</i> or <i>appropriate</i> for the client.

⁴ European Commission 2017 Mid-Term Action Plan on Building a Capital Markets Union.
⁵ European Commission 2020 New Action Plan on the Capital Markets Union.
⁶ Final Report of the NextCMU Group on the Capital Markets Union.
⁷ Final Report of the High-Level Forum on the Future of the Capital Markets Union (10 May 2020).
⁸ European Parliament Economic and Monetary Affairs (ECON) Committee Own Initiative Report on the Capital Markets Union: European Parliament Economic and Monetary Affairs (ECON) Committee Own Initiative Report on the Capital Markets Union: Further development of the Capital Markets Union (CMU): improving access to capital market finance, in particular by SMEs, and further enabling retail investor participation.

<i>Investor categorisation</i>	This topic refers to how clients of investment firms or insurers are treated, i.e. <i>professional</i> or “ <i>retail</i> ” clients.
<i>Inducements and quality of advice</i>	Currently, investment advice can be independent, when the advisor is paid by the client, or non-independent, when the advisor is paid (also) by product manufacturers through “inducements”. This topic seeks to improve the regulation of investment advice.
<i>Complexity of products</i>	Certain products are deemed “non-complex” if these fulfil certain criteria. The questions under this section concern the rules on how to define “complex” investment products and how can these be distributed to clients.
<i>Redress</i>	Currently there are several means to enforce a right against intermediaries, such as complaints procedures, alternative or online dispute resolution (ADR/ODR), mediators, ombud(wo)men or court action. This section seeks input on how to improve the tools available for retail clients on seeking enforcement of their rights.
<i>Product intervention powers</i>	National and EU (EIOPA, ESMA, EBA) supervisory authorities dispose of certain competencies to intervene and take decisions on certain products (limit distribution, temporary bans etc), called <i>product intervention powers</i> . This section seeks input on how should these competencies be delimited between local and EU level.
<i>Sustainable investing</i>	Reorienting capital towards sustainable activities and engaging with companies to take into account environmental, social, and governance considerations are key aspects for retail investors. This topic refers to the trend of investing sustainably and what should the EU do in order to promote such investments and provide trustworthy and high-level standards.