Individual Investors' Key Priorities for 2024-2029

Sustainable Savings & Investments Union: Reconciling Individuals, Enterprises & Planet

BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

MANIFESTO

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Sustainable Savings & Investments Union: Reconciling Individuals, Enterprises & the Planet

Let's harness the Savings and Investments Union's (SIU) potential to benefit our citizens as financial consumers, retail investors and pension savers, as well as our planet, economy, and future generations. This will ensure Europe's prosperity and security in a rapidly changing geopolitical environment.

BETTER FINANCE acts as an independent expertise centre and strengthens the voice of European financial consumers, retail investors, shareholders and EU citizens as insurance policyholders and pension savers.[i]

We use our collective independent financial expertise to work together with the EU policymakers towards delivering a truly Sustainable Capital Markets Union that "works for people". BETTER FINANCE's EU Elections Manifesto has been endorsed by BETTER FINANCE's Board of Directors. This roadmap reflects our 2023 national members' survey while echoing our "Key Priorities 2019-2024", many of which have yet to be addressed by policymakers.

Major efforts have already been made to achieve this objective. The incoming EU Parliament and Commission must build on the existing work but should also be more ambitious. The financial well-being of EU citizens and the competitiveness of the EU economy are threatened by too low participation in local capital markets. Since 2008, the significance and relative size of EU capital markets have greatly diminished, particularly in comparison to the United States.

While non-financial issues like the physical health conditions, the war in Ukraine, or the control of immigration into the EU do impact the welfare of EU citizens, securing the financing of the EU economy is key to avoid further widening this gap in financial wellbeing. The growing problems with the national pension systems and pension inadequacy, in particular stemming from underperforming and complex pension savings products, are also serious hindrances to the wellbeing of European citizens. EU capital markets can be more competitive only if they are deeper, more integrated, and stronger, with citizens at the centre. More competition among service providers, promotion of market efficiency, integration and especially better outcomes for investors are needed at the forefront of the debate.

In order to make EU capital markets more competitive and attractive for citizens and enterprises, an SIU that works for people, BETTER FINANCE recommends to:

01 **Address the misallocation of EU savings and improve outcomes for consumers**

02 **Facilitate access to simple, cost-efficient and pan-European investment products**

03 **Effectively address the pensions time bomb**

04 **Simplify SMEs' access to capital markets while enabling EU investors' access to private enforcement**

05 **Support the ESG transition with investment products that truly aim at having an impact**

06 **Drive a consumer-centric digital transition**

07 **Further involve, consult and empower EU citizens as financial users and investors, and their representative organisations**

01

Address the misallocation of EU savings and improve outcomes for consumers

“Household saving is the main domestic source of funds to finance capital investments, a major impetus for long-term economic growth.” [ii]

OECD 2024

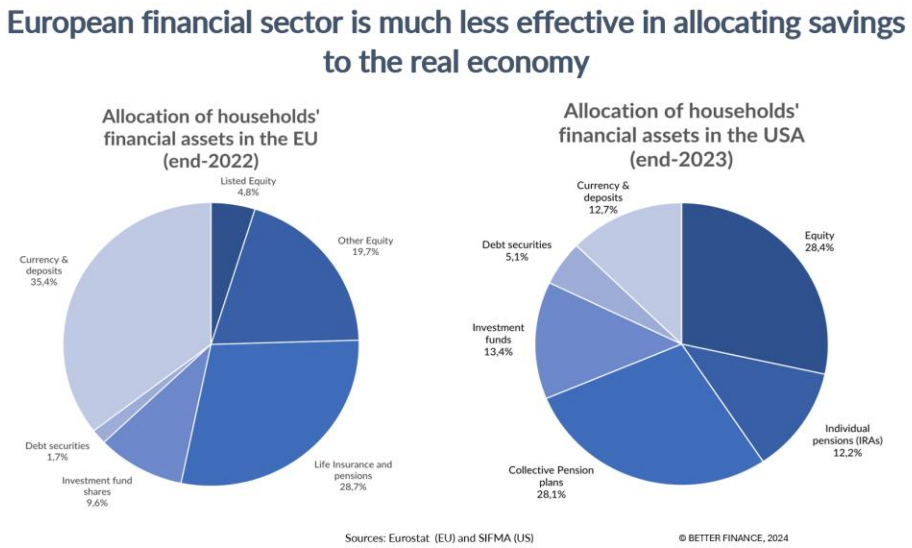
“*Despite their higher savings, EU households have considerably lower wealth than their US counterparts, largely because of the lower returns they receive from financial markets on their asset holdings*.” [iii]

M.Draghi

“Household financial savings amount to €35,533 billion, fuelled by one of the world's highest savings rates (13.3%). However, these savings are poorly allocated.” [iv]

Ch. Noyer

The main reason why EU savers invest so little into capital market products such as listed stocks, listed bonds and low-cost listed index funds is that these products are very rarely “advised”, promoted and sold at the retail points of sale. The distribution model mostly favours more complex and much more costly packaged products, with ineffective asset allocation to the EU’s economy funding needs, which also alienates citizens as savers from the investee enterprises. The most powerful place to provide investment and capital markets education to adults is at the retail point of advice/sales, provided that the advice is independent.



EU consumers are poorly served by the current distribution system for retail investment products. Under the dominant “commission-based” distribution system, “advisors” receive remuneration from investment product manufacturers based on the amounts they sell, not for the efforts they put into advising clients. Under this system, clients are led to invest in products that return the most fees for all intermediaries rather than in products that create the most value for the investor and for enterprises. The result is endemic underperformance of the retail investment products and very little equity funding for the economy. EU citizens rely on these for their long-term and pension savings, chronic underperformance puts them at risk of old-age poverty and fosters consumers’ distrust towards any kind of professional financial and investment advice.

- Enforce “value for money” requirements and assessments for providers and distributors of packaged products,
- Enact a strong ‘best interest of the client’ test, with precise and enforceable requirements, to hold so-called ‘non-independent’ advisors to account,
- Make a clear distinction between ‘sales of’ and ‘advice on’ investment products: Reserve the terms ‘advice’ and ‘advisors’ for situations where a professional is remunerated by the client for researching and selecting the most suitable and cost-efficient products,
- Move towards an integrated supervision for retail investments to build a true single savings & investments market,

- Elevate “agency owners’” (asset managers of “other people’s money”, pension funds, life insurers, etc.) accountability by implementing a fiduciary duty for exercising all voting rights and for giving a say to the end-investors (misleadingly and paternalistically called “beneficiaries” by the EU) who bear all risks and rewards (after fees and when there are any),
- Encourage effective adult investment education: Promote employee share ownership best practices for investment and capital markets education (learning by doing),
- Require that financial education efforts from the industry be supervised by independent bodies,
- Promote the development of independent, user-friendly digital tools based on independent behavioural studies that would assist consumers in checking and improving their financial health.

02

Achieve at last the Single Market for investments (“SIU”) by facilitating access to simple, cost-efficient and Pan-European investment Products.

“Financial integration within the Single Market will remain elusive unless it is clear that such integration serves not merely the finance sector itself.” [v]

E. Letta

EU citizens are encouraged to invest to increase their wealth, to foster economic growth and employment in Europe, and to fund firms’ transition to a more sustainable production model. However, there currently exist important discriminations between the various investment channels that EU citizens could use to invest their savings. In most cases, consumers are led—by tax advantages and financial ‘advice’—towards national-only complex, packaged retail and insurance-based investment products (PRIIPs) that wrap the investment in various fee layers of guarantees. Direct holdings of equity, bonds, listed index funds (“ETFs”) or even fund shares (only 9% of EU households’ financial savings), by contrast, are most often not talked about, “advised” or sold at the retail point of sale, and are often deprived of any of the tax incentives attached to more complex and packaged intermediated products. Yet, in many cases, simple investment products are fully suitable for retail investors with a long-term investment horizon: their long-term performance tends to be much higher than that of most complex PRIIPs, while their costs are more limited owing to their simplicity and much smaller “inducements”, if any, from providers. It is, therefore, in the interest of EU citizens and the economy to:

- Ensure direct access to simple and cost-efficient investment products (such as listed equities, listed bonds, index ETFs and UCITS funds) bringing EU citizens as investors closer to real economy assets instead of pushing them further into more packaged, complex, opaque and fee-laden products. For example, the EU could take inspiration from Member States’ initiatives such as the “retail” one-year Government bond offered by Belgium in August 2023 which enabled more than €20 billion to be switched from bank funding to bond market funding by citizens in five days, and generated a lot of securities accounts openings and on-the-spot “education” on listed bonds,
- Use taxes as an incentive for long-term and pension investors, not as a punishment,
- Eliminate existing tax discriminations for individual investors within the EU, such as the double taxation of dividends from another Member State, and the uphill battle to try to get a refund of the withholding tax,[1]

- Revive the Pan-European Personal Pension product by thoroughly simplifying it (like the US IRA), and by asking Member States to promote it, or at least ensure a level playing field by not establishing tax and other non-tariff barriers,
- Consider creating also a Pan-European corporate long-term and pension plan, looking at extending and developing some successful Member States' experiences such as in Sweden or France, or the successful, simple and cost-efficient US "401k",
- Consider launching a European Total Stock Market Index Fund, finally allowing European citizens to invest significantly in mid- and small-cap equities (SMEs) across all EU Member States, as is the case in the US,
- Make mandatory key investment product disclosure simple, short, intelligible, relevant, comparable and digitally readable,
- Disclose again the actual long-term performance alongside the chosen benchmark's performance, in both nominal and real terms.
- Ensure a consistent level of consumer, investor and shareholder protection throughout the EU, ideally by establishing a Twin Peaks approach with an EU Consumer Protection Agency,
- Introduce fully digitalised and cost-free cross-border voting for EU retail investors, aiming to foster engagement while rebuilding trust and enhancing corporate governance.

[1] BETTER FINANCE and DSW, Withholding Taxes on Dividends in the European Union.

03

"The main risk of a pension product is the risk of not reaching the individual's retirement objective." [vi]

EIOPA

Effectively Address the Pensions Time Bomb

For long-term and pension savers, the year 2022 was disastrous. Poor capital market performance and skyrocketing inflation across all European Union (EU) Member States resulted in mostly low and negative real returns[2]. Over the longer term, too many EU personal pension products delivered negative real returns, in part due to a very low allocation to equities.

- Curb the fixed-income bias in the asset allocation of European insurers and pension plans (for long-term and pension savings schemes), which are de facto more risk-averse than individual investors and their US counterparts,
- Use taxes as an incentive for long-term and pension investors, not as a punishment, by assessing those on the real income (purchasing power) and not largely fictitious nominal income,
- Introduce auto-enrolment in adequate occupational pensions that have a track record of not destroying the real value of their participants' savings,
- Urgently improve reporting to supervisory authorities and the publication of sectoral data, including look-through asset allocations of "institutional" and individual investors, and the ESAs' report on the cost and performance of retail investment products,
- Improve the governance of collective long-term and pension schemes – especially "defined contribution" ones – by giving more say to their participants (the ones bearing the risks),
- Convince more engaged investors to help "green" brown firms, instead of disengaging from the brown economy (i.e. most of it) and "washing their hands".

[2] BETTER FINANCE, Will You Afford to Retire (2023 Edition).

04

"The most relevant sector concerning observed mass claims/issues is the financial services sector." [vii]

European Commission

Simplify SMEs' access to capital markets while enabling EU investors' access to private enforcement

BETTER FINANCE would support a thorough simplification of SMEs' access to capital markets, provided EU individual investors eventually receive effective private enforcement in cases of abuse. Even today, more than 90% of investor abuse settlements occur only in the US. One reason why EU citizens' trust in capital markets is very low is the lack of effective collective redress mechanisms, except in the Netherlands, resulting in many scandals and EU investors getting no possibility of redress whenever they have been misled.[3] Due to lack of expertise, trust, time or resources, individuals rarely pursue their rights or legitimate interests in court to seek injunctive relief or compensatory redress. However, when offered the possibility to act together, 79% of EU citizens would be more willing to defend their rights.[4]

- Introduce common rules for collective redress for all EU investors: Improve the EU's current collective redress mechanism (introduced by the Representative Actions Directive) by including direct investors in the collective redress scheme,
- Introduce compulsory collective redress schemes comparable to the Dutch system across all Member States.

[3] BETTER FINANCE, Collective Redress.
[4] European Commission, Flash Eurobarometer 299, 8.

05

"If a 'brown' company changes its polluting emissions by just 1%, that would be much more meaningful for the environment than an already existing green company, which changes its emissions by 100%." [viii]

Professor Kelly Shue, Yale University

Support The ESG Transition with Investment Products that Truly Aim at Having an Impact

With retail investors' growing interest in sustainable investment products on the one hand and new scandals concerning such products on the other, the EU must implement measures to improve trust and transparency in sustainable investment products and minimise greenwashing, by focusing on transition and impact investing, and address the lack of positive impact and counterproductive effects of the currently dominant "exclusion" investing approach.[5]

- Introduce a mandate for a unified engagement mechanism, ensuring common practices and the evaluation of engagement. This would reduce greenwashing and enable the timely phase-out of highly emitting sectors while avoiding the risk of creating stranded assets. Ensure clear transition plan requirements for firms across applicable legislation, with rules specific to transition investing, including a set of "Transition KPIs". Mandate supervisors to monitor them, impose enforcement measures, and sanctions whenever necessary,
- For ESG compliant products (in relation to the sustainability preferences of clients), policy makers should consider adding a "transition" and/or "impact" category, and a warning sign which mentions that exclusion approach has no impact on ESG and may be counterproductive to the environmental transition (the necessary "greening" of the brown economy),
- End the proliferation of often misleading national/commercial labels and instead revive the EU Ecolabel for financial products.

06

“Now is the time to take every measure to bridge the gap and ensure that the full digital transition is reached by 2030, without leaving anyone behind.” [ix]

Věra Jourová, Vice-President for Values and Transparency

Drive a consumer-centric Digital Transition

Swift digitalisation in the financial services landscape presents risks and opportunities in equal measures. It is crucial to catalyse a consumer-centric approach that ensures the integrity of all market players and emerging trends while addressing online marketing wrongdoing. Infrastructure should be optimised to enhance financial processes, ensuring clearer and more efficient market practices. Critically, fostering competition is essential, but not at the expense of the 'same service, same rules principle’. The strategic focus should steer the digital finance transition towards responsiveness to consumer needs, emphasising inclusivity alongside suitability, transparency, information, with fundamental safeguards in the face of innovation.

- Enable shareholders and fundholders to digitally and easily express their votes and preferences (also via smartphones) to promote corporate accountability towards the transition,
- Digitalise asap the PRIIPs KID, with layering/drawdowns features to make it easily accessible and comparable on smartphones and simplify and shorten it (in particular with the upcoming addition of key sustainability disclosures),
- Foster public independent product databases (Norwegian best practice of “FinansPortl”) to feed web comparing tools,
- Tackle biases and transparency issues in AI-driven systems for retail clients by promoting an active consumer-centric approach. Ensure algorithmic accountability, also through human oversight and re-assessment, and provide clear information to facilitate clients' evaluations,
- Establish a robust and competitive framework for digital financial services, and implement ongoing oversight of new services and business models to guarantee suitability for clients (e.g. robo-advisors) and fair consumer access to simple products,
- Open Finance: assess market opportunities and consumer risks by including safeguards that foster sound market practices and prevent exclusion risks, while focussing on financial data security and minimisation, privacy and consumer control, and consumer protection,
- Prioritise consumer protection in crypto investing by tackling fraud and manipulation and assessing the appropriateness of MICA,
- Address fraudulent online marketing channels and digital services’ misconduct to prevent retail investor harm.

[5] BETTER FINANCE, Transition Investing.

07

"In the crowd of stakeholders participating in the EU debate on financial services regulation, BETTER FINANCE stands out with evidence-based and pertinent contributions. They are a crucial voice for all EU decision-makers." [x]

MEP Stéphanie Yon-Courtin

"We value the input that BETTER FINANCE contributes to our work, most recently on value for money. Since the voice of those representing consumers is too often drowned out, simply put, the voice of BETTER FINANCE makes our work better. For this reason, BETTER FINANCE is one of our most valued stakeholders." [xi]

EIOPA Chair, Petra Hielkema

Further Involve, Consult and Empower EU Citizens as financial users and investors, and their representative organisations

Sustain EU support for the involvement of financial services users in EU policymaking in the upcoming Single Market Programme. To achieve this:

- Fairly assess and sustain the EU support initiated following the 2008 crisis to better involve investors and other users of financial services in the EU financial policy-making process,
- Ensure that independent experts from user organisations are adequately represented and compensated in all expert consultative groups of the EU institutions (especially the ESAs and the Commission),
- Legitimise EU financial policies by informing and directly addressing the needs of citizens. Harmonise EU legislation for clearer market visibility, empowering citizens to take better control of their finances.

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[xi] Ibid.