

# Individual Investors' Key Priorities for 2024-2029

At national level

**BF 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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Let's harness the Capital Markets Union's (CMU) 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.<sup>1</sup> We use our collective independent financial expertise, to work together with the EU policymakers to deliver a truly Sustainable Capital Markets Union that "works for people".

Major efforts have already been made to achieve this objective. Nevertheless, individual investors' participation in capital markets remains heterogeneous across the EU. This heterogeneity should prompt the national governments to urgently look for the best practices and learn from solutions that have proved the most successful at national level in driving retail participation.

We must strive for more ambitious targets in terms of financial wealth for EU citizens. 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, the securing of the financing of the EU economy plays an important role in this widening gap in financial wellbeing.

Growing pressures on national pension systems and the risk of pension inadequacy, which stems, in particular, from complex and underperforming pension savings products, severely threaten the well-being of European citizens.<sup>2</sup> 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.

To make EU capital markets more competitive and attractive for citizens and enterprises, a CMU that works for people, BETTER FINANCE recommends prioritising two measures at national level:

**01**

**Provide access to independent investment advice**

**02**

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

<sup>1</sup> BETTER FINANCE's mission - Article 3 of BF Bylaws, <https://betterfinance.eu/bylaws/>

<sup>2</sup> BETTER FINANCE, Will You Afford to Retire (2023 Edition).

# 01

## **Provide Access to Independent Investment Advice**

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 which also estrange citizens as savers from the investee enterprises. The most powerful way to provide investment and capital markets education to adults is the retail point of advice/sales, provided this advice is unbiased.

EU consumers are poorly served by the current distribution system for retail investment products. Under the dominant “commission-based” distribution system, so-called “advisors” receive remuneration based on the number of products they sell, or the kind of product manufacturer whose products they sell, rather than 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. 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.

- Make a clear distinction between ‘sales of’ and ‘advice on’ investment products: Reserve the terms ‘advice’ and ‘advisors’ to situations where a professional is remunerated by the client for researching and selecting the most suitable and cost-efficient products,
- Limit the consumer detriment caused by ‘inducements’ (in plain language: kickbacks from manufacturers of packaged investment products (so-called “PRIIPs”):
  - Ban these ‘inducements’ whenever a retail investment product is sold without investment advice or where the advice is presented as ‘independent’,
  - Enact a strong ‘best interest of the client’ test, with precise and enforceable requirements, to hold so-called ‘non-independent’ advisors to account,
  - One complementary way to remedy this detriment is to enforce “value for money” requirements and assessments for providers and distributors of packaged products,
- 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

### **Facilitate access to simple, cost-efficient investment products to address the Pensions Time Bomb.**

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 of 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, Member States could take inspiration from 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,
- Ensure a legal framework for cost-efficient simple and transparent pension products,
- 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<sup>3</sup>,
  - Revive the Pan-European Personal Pension product by promoting it or at least ensuring a level playing field by not establishing tax and others non-tariff barriers,
- Consider creating corporate long-term and pension plans, 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”.

<sup>3</sup> BETTER FINANCE and DSW, Withholding Taxes on Dividends in the European Union.

# References

- BETTER FINANCE Research Report, Brussels, December 4, 2023. <https://betterfinance.eu/publication/willyouaffordtoretire2023>.
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