PRESS RELEASE

INVESTING IS NOT A FULL-TIME JOB FOR CITIZENS

INVESTOR EMPOWERMENT IN THE DIGITAL AGE – INTERNATIONAL BETTER FINANCE CONFERENCE, 2018, BRUSSELS

3 July 2018 – With fewer individual investors investing directly in equities and bonds and households being sold packaged products instead, the products EU citizens invest in are becoming increasingly complex. As a result people struggle to understand and to trust the financial products they are invested in.

Whereas new technologies and FinTech are, in principle, cutting out the middle man and returning some control to retail investors, these new tools also require a certain degree of knowledge on the part of the end-user. Investor Education is therefore a key success factor for the wellbeing of EU citizens as savers and investors.

Investor Empowerment has always been a focus of BETTER FINANCE and its member organisations, in particular those organisations which represent individuals who invest or would like to invest directly into capital markets. With indirect - or "packaged" - investments now constituting the main part of the financial assets held by European households - from mutual funds in the 1970s to unit-linked insurance contracts and structured banking and pension products nowadays – investor information and education has never been more necessary. It is therefore worrying to observe that, as the OECD financial literacy surveys indicate, the average financial literacy level of citizens is in decline. The question is then whether emerging FinTech platforms and tools could reconcile this fall in financial literacy levels with increasingly complex products.

New research by BETTER FINANCE on Robo Advice and other FinTech developments aimed at individual investors, points to the growing trend towards online "execution only" investing as well as an emerging reliance on automated advice services. The next generation of individual investors tends to rely more on their computers and smartphones than on human professionals to make financial decisions.

BETTER FINANCE believes that Robo Advice could play an important role in attracting retail investors back into equity markets. Our findings once again illustrate that these automated financial advice services are less expensive than their traditional counterparts and can offer individual investors better value for their money. Such reduced fees are possible thanks to the fact that most platforms are "fee-based" and use only or mostly low-cost exchange-traded index funds (ETFs), unlike their traditional counterparts.

However, since financial literacy and trust in financial services amongst EU citizens are very low, it will take much more than just a better alignment with investors' interests and lower fees to attract them back into equity markets.

In its latest study on this emerging sector, BETTER FINANCE approached the different platforms from the individual investor angle and focused on four crucial criteria:

- In as far as **user-friendliness** is concerned, the Robo-Advisors with varying degrees of success engaged in a delicate balancing act between the need to keep the process simple and concise on the one hand and the need to go into a sufficient amount of detail in order to comply with regulations and provide advice that is sufficiently adapted on the other. An important caveat is the fact that, whereas it is crucial to address the lack of financial literacy of potential clients, doing so without independent supervision easily risks turning into a marketing exercise.
- As for **transparency**, the study found important divergences between the different platforms as it analysed the degree to which essential information is clearly disclosed with regards to fees, portfolio allocation, risk and past performance. Unfortunately, providing "fair, clear and non-misleading information", as required by the Markets in Financial Instruments Directive (MiFID II) that lays down the rules for investment services across the EU, is one of the least enforced investor protection rules in the EU. The robo-advice sector is no exception.
- Perhaps even more important than transparency is the **suitability** of the investment advice provided. The very essence of this emerging industry is to provide individual investors with adapted advice based on information gathered through the questionnaires. The most worrying finding of our mystery shopping is the very wide dispersion of the investment advice provided. For instance, for our Baby Boomer profile, some advisors predicted an expected return on investment of almost 34.000€, while another robo-advisor presented an expected return of 270.000€ on top of the initial 100.000€ invested. This amounts to an 8-fold difference in what the investor is "offered" from one advisor to another.
- This brings us back to **fees and costs**. The success of robo-advice - their Unique Selling Point if you will - hinges on their capacity to keep costs low. And in this respect most robo-advisors don't disappoint. Most robo providers display a simplified fee scale, often a single "all-in" fee or consisting of a simple combination of an advice fee and a fund fee.

From an Investor Education perspective, Robo Advice does seem to offer a simplified way of investing in capital markets and provide tools that would allow investors to better understand the investment process and related costs and risks. This is obviously a positive development. "*After all, being an investor is not a full-time job*", stresses Guillaume Prache, the Managing Director of BETTER FINANCE. "*On the other hand*", he adds, "*it is important to keep in mind that these platforms still deal with products and services that require clients to be highly financially literate to fully understand the value of the services provided*".

Therefore, BETTER FINANCE again calls on EU Authorities to fulfil their legal duty to promote **simplicity** and **transparency** for investment products. EU citizens are in dire need of comparable and intelligible information on investment products, including past performance information and costs. It goes without saying that, while investor education is important, it should by no means relieve financial institutions of their primary role of providing individuals and businesses with *fair, clear and non-misleading information* before and after contracts are concluded.