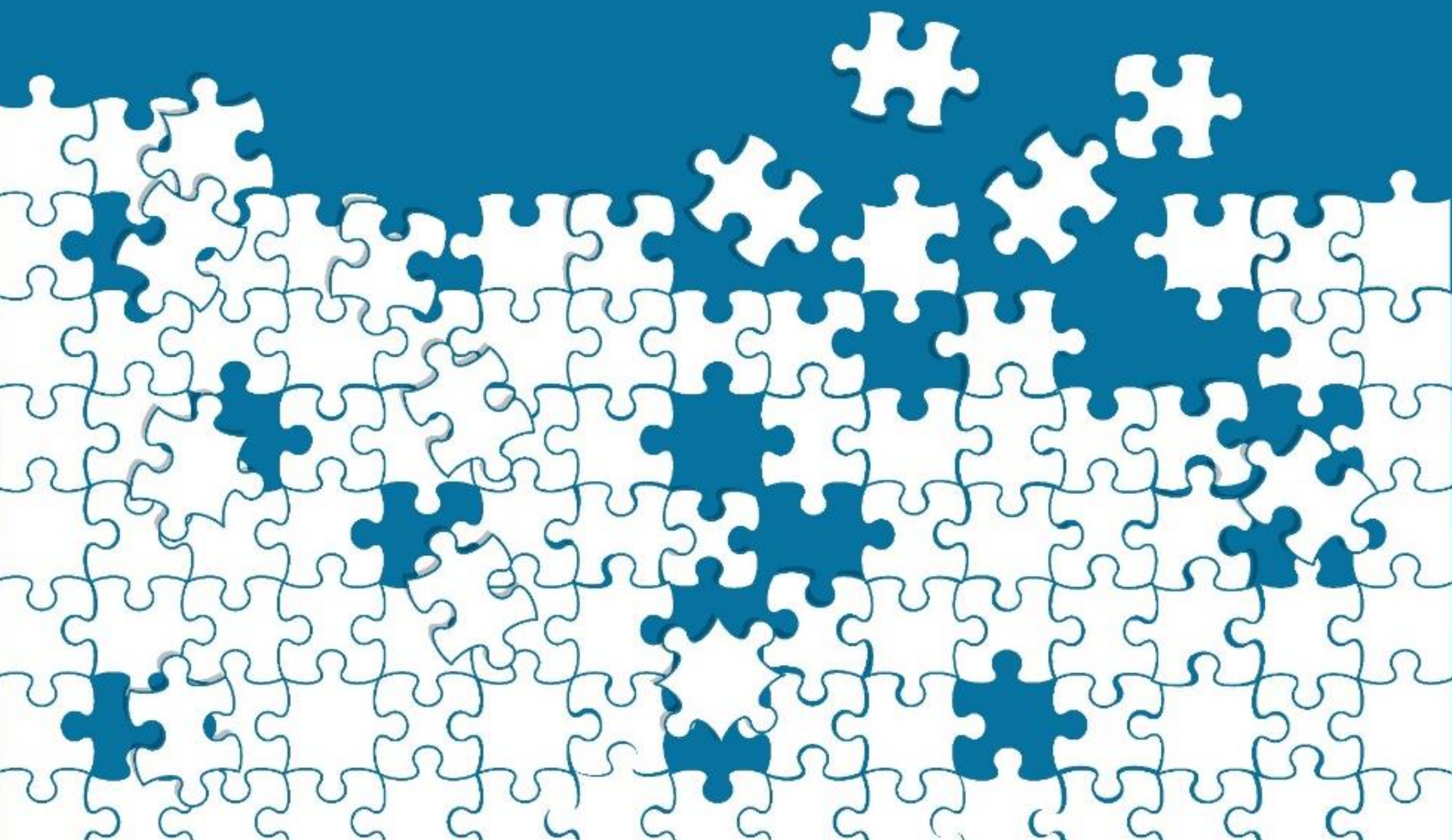
EBF European Banking Federation

EFAMA European Fund and Asset Management Association

insurance europe

Charting the Course: Unlocking Retail Participation in EU Capital Markets

Discussion Paper presented at the European Commission Roundtable on the distribution of retail investment products of 11 April 2024



At the Roundtable on the distribution of retail investment products on 18 July 2023, the European Commissioner for Financial Stability, Financial Services and Capital Markets Union, Mairead McGuinness, invited the European Banking Federation (EBF), the European Fund and Asset Management Association (EFAMA) and Insurance Europe to advance an industry-driven process to explore common solutions aimed at increasing retail participation in EU capital markets.

Responding to the call, EBF, EFAMA and Insurance Europe coordinated a dialogue among financial and insurance industry stakeholders, and reached out to consumer organisations. This discussion paper titled "Charting the Course: Unlocking Retail Investment Participation in the EU" is the outcome of this collaborative effort and was presented at a second Roundtable meeting hosted by the European Commission on 11 April 2024.

The objective of the discussion paper was clear: to explore avenues for increasing European citizens' participation in capital markets, recognising the dual imperative of economic growth and individual benefit. As underscored by the findings of recent high-level reports, such as those by Mr. Letta and Mr. Noyer, mobilising more savings towards EU capital markets is a necessary objective not just for advancing the Capital Markets Union (CMU), but for financing the long-term competitiveness of the EU as well.

Despite fruitful discussions that yielded several recommendations, we were faced with significant constraints. We adopted strict methodological guidelines to ensure that both the democratic scrutiny of ongoing European legislative proposals, like the Retail Investment Strategy, and transparency and anti-trust obligations of representative bodies around the table would be fully respected (see page 8 of the paper).

Achieving consensus on every issue proved challenging. This is why, in the spirit of transparency and open dialogue, the discussion paper includes a letter from BEUC, Better Finance and Finance Watch, underscoring differing perspectives on this subject.

We, as EBF, EFAMA and Insurance Europe secretariat, are grateful to all stakeholders for their engagement in this important endeavour. We believe that the production of this discussion paper represents a crucial step towards fostering ongoing dialogue and collaboration.

Thank you.

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1. Introduction

1.1. Background: a new sense of urgency

For over thirty years, one of the primary ways in which the European Union has served its citizens and companies has been fulfilling the potential of the Single Market. Since its inception in 1993, the Single Market has put the economy at work for people in the EU, creating opportunities for cooperation and growth, boosting prosperity, and giving the European Union a competitive edge in technology and innovation. Today, the EU faces a pivotal juncture. Amidst the backdrop of emerging societal and economic transformation, a new cost-of-living crisis and geopolitical uncertainty, its competitive edge and leading role in advancing a just and sustainable transition comes under question. All the more, the EU continues to grapple with long-standing challenges that include shifting demographics, increased demand for action against climate change, and rapid technological disruptions.

These dynamics create a new sense of urgency underpinned by mounting uncertainty over the EU's future capacity to meet its financing needs.

The European Commission's Strategic Foresight Report[1], released in July 2023, highlights that to achieve the objectives of the Green Deal and RepowerEU alone, an estimated additional investment of over EUR 620 billion annually will be required, with the bulk expected to come from private sources. Additionally, bridging the EU's investment gap for the digital transition will necessitate at least EUR 125 billion annually, while addressing demands generated by a new geopolitical landscape will come at significant costs, with surges in member states' defense expenditure to be expected. Furthermore, potential age-related expenditures generated by demographic transition will continue to increase.

Against this background, devising a concerted and clear view on how to harness the necessary investments becomes all the more urgent to bolster the EU's global competitiveness, foster innovation, sustain growth, and generate employment while empowering citizens to invest their savings meaningfully and within Europe.

Here lies the challenge, but also the opportunity. To master old and new challenges and turn them into competitive advantages, it will be essential to harness the full benefits and financing power offered by European capital markets and the achievement of the Capital Markets Union.

1.2. Why more capital markets?

Deep and liquid capital markets enable economic vibrancy. By channeling households' financial assets into higher yielding asset classes, they help mitigate the effect of inflation and better prepare individuals for their future. By providing access to hedging options, they serve companies and investors with effective tools to manage and promote private risk-sharing and financial stability.

Also, they provide the essential and best indicated source of funding to enable the just and sustainable transition. While both public and bank-based financing play a key role in steering growth and entrepreneurship, they alone cannot provide the necessary capital to transform our economies. Capital markets financing, on the other hand, is best suited to supporting high-growth sectors in the

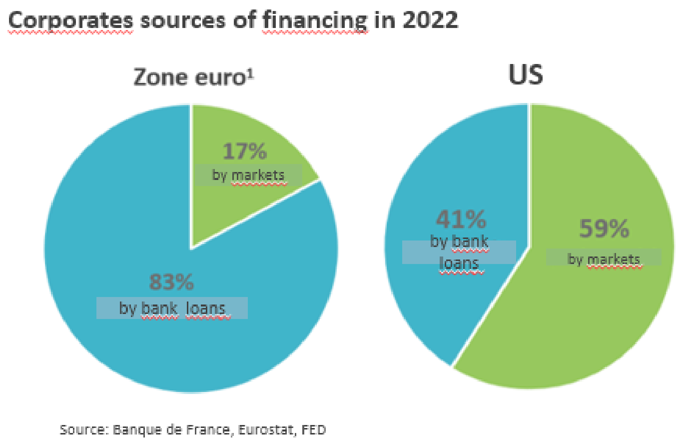
[1] https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3623

presence of intangible assets[2] by providing the necessary risk capital. As a result, advancing the development of EU capital markets is paramount and all the more urgent for the EU from a funding perspective.

1.3. Where are we now?

Despite achieving positive headway in recent years, **both Capital Markets Union action plans** (launched in 2015 and 2020) **have yet to realize their full potential**. European companies still heavily rely on bank-based financing, presenting a stark contrast to counterparts in the US and indicating limited progress in altering funding dynamics.

Most importantly, the absence of robust and efficient markets for risk capital in Europe compels many of the EU's most dynamic and innovative businesses to seek funding outside EU borders. This perpetuates negative trends, such as the declining number of listed companies in Europe, and the outflow of EU savings invested abroad, which erodes EU competitiveness.



Reinforcing this mechanism of causality is the modest participation in EU financial markets, whether direct or indirect, of European households. Private household savings are to a large extent invested outside the EU, to the detriment of both EU markets' overall attractiveness and the cultivation of deep liquidity pools.

1.4. Guiding the way ahead

The future prosperity (and leading role in sustainability) of the EU economy will depend on the concerted responses and strategic choices that EU policymakers, member states, and stakeholders, will be able to enact. In this scenario, the development of European capital markets must prioritize competitiveness and leverage public-private partnerships, encouraging households to participate in capital markets and prompting European firms to utilize capital markets financing through the creation of deeper and more liquid investment pools.

Therefore, it is key to lay out concrete solutions to enhance retail participation in EU capital markets. The EU needs an economy that serves and appeals to all European citizens, where everybody, including

[2] M. Demertzis, M. Domínguez-Jiménez and L. Guetta-Jeanrenaud "Europe should not neglect its Capital Markets Union", Policy Contribution 13/2021, Bruegel, 2021.

a young individual entering the workforce and a self-employed, are encouraged to invest in order to provide for their future retirement. To foster EU competitiveness, there is a need to invest in real assets listed on EU financial markets. With those investments, new EU businesses can sprout, while current businesses and the most efficient and competitive revenue models can expand.

Leveraging private savings and investments will be critical to ensure that European households are prepared for the future, to allocate long-term capital towards the support of the European Union's economy, funding its green and digital transitions, and to boost its resilience and appeal to businesses. A broad and more diversified investor base resulting from greater participation by retail investors in the European capital markets brings a source of stable demand for investment opportunities, thus advancing liquidity and depth of the markets — a combination which nourishes economic vibrancy.

1.5. The objective of this Discussion Paper: a forward-looking approach to a shared goal

The pursuit of greater retail investor participation in capital markets to complement traditional bank lending has been one of the core objectives of the Capital Markets Union from the outset of the first Action Plan in 2015, then relaunched in 2020.

In this spirit, on 24 May 2023, the European Commission unveiled its legislative proposal for an EU Retail Investment Strategy— a comprehensive package setting out a revised framework for the design and distribution of financial products across Europe. In line with the objectives of the Capital Markets Union, the Retail Investment Strategy represents an important milestone in the European Commission's efforts to strengthen market integrity, consumer protection and economic growth, as well as to finance the digital and sustainable transitions.

A strong investor protection framework is the expression of the established fundamental tenet: retail investor participation in capital markets hinges upon a drastic change in the equity culture. For such change to happen, retail investors must feel confident that acceding the capital markets is to their benefit and that their rights are adequately protected. As will be elaborated below, for instance, one crucial element of investor protection — as a matter of EU legislation — is the realization of effective collective redress.

However, while enhancing the investor protection framework undoubtedly constitutes a pre-condition to a successful Capital Markets Union, **this discussion paper adopts the fundamental perspective that the factors influencing greater participation of retail investors in capital markets extend beyond it** (see Section 2 below).

Recognizing the importance of tackling the broader picture, on 18 July 2023 the European Commission hosted a roundtable on the "Distribution of Retail Investment Products", which gathered key stakeholders including the financial and insurance industry, and consumer organizations, to discuss important issues pertaining to the future of retail participation in EU capital markets. During the roundtable, the European Commissioner for Financial Stability, Financial Services and Capital Markets Union, Mairead McGuinness, stressed the need for decisive action to foster retail participation in capital markets and insisted on the importance of an "industry-led initiative". The Commission decided that this initiative should be coordinated by the European Banking Federation (EBF), the European Fund and Asset Management Association (EFAMA) and Insurance Europe, acting jointly as Secretariat.

The invitation from Commissioner McGuinness was fully taken up and this discussion paper and the forthcoming discussions. Both seek to leverage and deepen the value-added brought by the collaborative reflection started in July 2023. It represents a unique opportunity to adopt a forward-looking approach and "chart the course" towards unlocking greater retail participation in European capital markets.

To achieve this objective, the discussion paper summarizes and consolidates the results of a consultative process carried out among the various stakeholders who participated in the first meeting of the Roundtable launched in 2023. The aim of the discussion paper is to conclude a unique and inclusive inter-associational dialogue to advance two goals:

(i) **The research:** to enhance collaboration between academia, thought-leaders, and private and public stakeholders, to develop improved strategies and solutions that facilitate and encourage retail investors' access to the capital markets. This can include, for instance, both an in-depth analysis of behavioural economic aspects related to financial investments, as well as the promotion and development of financial education, which remains a key priority to all stakeholders**.**

(ii) **The recommendations**: finally, based on the assumption that accelerating the realisation of a truly European internal market for retail investment services stands to gain from identifying concrete policy recommendations and best practices to encourage the mobilisation of millions of European savers, the discussion paper puts forward recommendations on (i) potential areas of targeted policy intervention by EU regulators, (ii) best practices and initiatives that national governments and supervisors' member states should consider sharing and adopting, including structural fundamental questions, and, finally, (iii) insights into potential approaches based on industry experience.

In this spirit, the discussion paper is structured as follows:

<u>Section 2</u> focuses on providing a short fact-based description of the key issue at hand: current low levels of retail investor participation in EU capital markets. The section also seeks to identify and discuss a number of root causes and barriers constraining the supply of long-term capital by EU households.

<u>Section 3</u> provides an overview of proposed policy recommendations to be considered at **EU** and **member states** level, as well as practical solutions or good practices that stem from **market experience**.

<u>Section 4</u> takes the long-term view by focusing on technology. Against the backdrop of a growing demand for digital support, it discusses how and if the use of new technologies can better help retail investors make the most out of their savings.

1.6. Methodological note

The EBF, EFAMA and Insurance Europe drafted this discussion paper following consultation with the Association for Financial Markets in Europe (AFME), the European Federation of Insurance and financial intermediaries (BIPAR), the European Association of Co-operative Banks (EACB), the European Fintech Association, the European Financial Planning Association (EFPA), the European Forum of Securities Associations (EFSA), the European Savings and Retail Banking Group (ESBG), the European Structured Investment Products Association (EUSIPA), European Investors, the European Federation of Financial Advisors and Financial Intermediaries (FECIF), the Federation of European Securities Exchanges (FESE), Investment Company Institute Global (ICI Global) and UNI Europa Finance.

The contents of this discussion paper were shared with BEUC, Better Finance, Finance Watch, European Investors-VEB and Uni Europa Finance. BEUC, Better Finance and Finance Watch, however, signalled their disagreement with the analysis and recommendations developed herein. Their full response may be found annexed to this discussion paper.

During the consultation phase, roundtable participants had the opportunity to share and discuss ideas, suggestions, and concrete proposals for the development of retail investor participation in European capital markets. In compiling the contributions of participants into a single discussion paper, this discussion paper followed strict methodological guidelines. These focus on safeguarding the commitment of its contributors to respect both: (i) the scope of the democratic scrutiny of current European legislative proposals, and (ii) transparency and anti-trust obligations, to which stakeholders are subject. **Therefore, proposals for recommendations or best practices fully or partially seen conflicting with these guidelines were not included in this discussion paper.**

More specifically, methodological guidelines followed the principles below:

1) While key legislative initiatives launched at EU level, i.e. the Retail Investment Strategy, the Financial data access and payments package (FIDA), as well as any other relevant EU legislative proposal or consultations that may still be ongoing at the time of writing, may touch upon aspects of the regulatory framework that is relevant to the purposes of the discussion paper, the democratic scrutiny of these proposals pertains exclusively to the European ordinary legislative procedure, which is the full prerogative of EU co-legislators. As such, the discussion paper seeks not to interfere in any way with ongoing legislative work of the European Parliament and the Council, nor with the many European Supervisory Authorities' (ESAs) consultations running in parallel.

2) As trade associations are subject and fully committed to comply with competition laws, this discussion paper refrains from presenting any commentary, analysis or proposal on issues related to the proper functioning of competitive market mechanisms, such as pricing, compensation, remuneration or any other commercial practice. As a result, none of the considerations discussed in the discussion paper should be interpreted as conducive or facilitating the agreement or exchange of unlawful information between roundtable participants.

Finally, this discussion paper starts from the assumption that transparency on choice regarding both products and distribution systems (all highly regulated and supervised under current rules) is a prerequisite for accommodating all potential investors having widespread access to investments or savings which are aligned with their economic and personal objectives. IBIPs, investment products and other possibilities geared towards long-term planning are not mutually exclusive but are often complementing one another in a balanced long-term savings plan.

2. The problem: levels of retail investor participation in capital markets

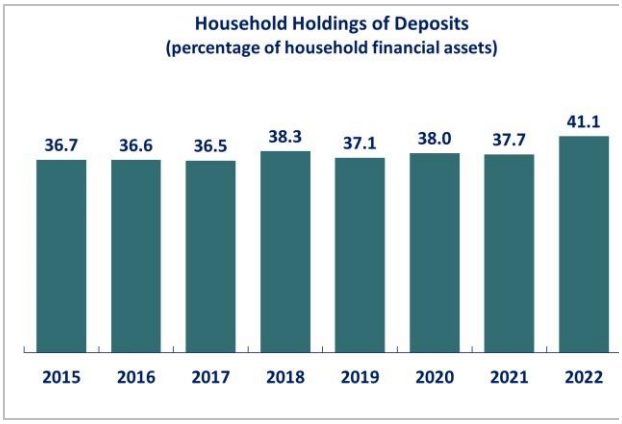
2.1. Record saving, low investment

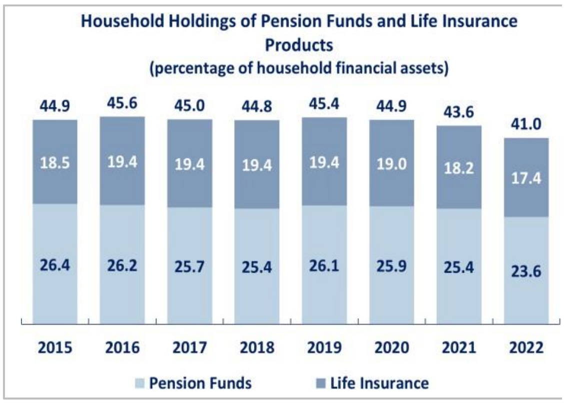
Recent surveys of retail participation in EU capital markets describe a complex and multifaceted situation influenced by several factors.

In the analysis conducted by the European Commission[3], financial securities including listed shares, bonds, mutual funds, and financial derivatives, accounted for approximately 17% of EU27 household assets in 2021, totalling EUR 5 610 billion or 38.6% of GDP. This contrasts starkly with the United States, where households allocated about 43% of their assets to securities.

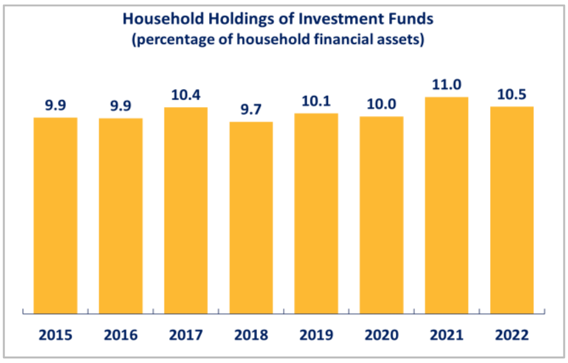
At the same time, Europe has a record-high rate of individual savings[4]. Latest figures show that EU households consistently saved an average of 12.4% of their gross disposable income annually between 2013 and 2019[5], indicating that despite substantial gains observed in stock markets over in recent years, a considerable portion of household financial wealth remains parked in bank deposits, thereby missing opportunities for better-yielding capital market investment returns.

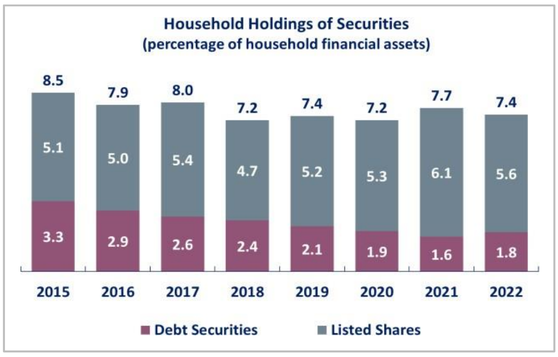
More in detail, EFAMA's latest investigation into the level of household participation in capital markets[6], provides a breakdown of the allocation of financial wealth by EU households to capital market instruments (pension plans, life insurance, investment funds, debt securities and listed shares).

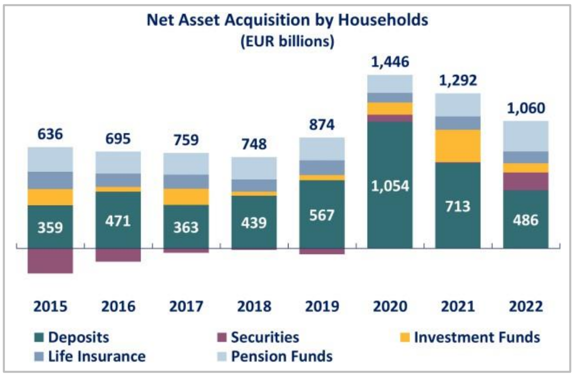


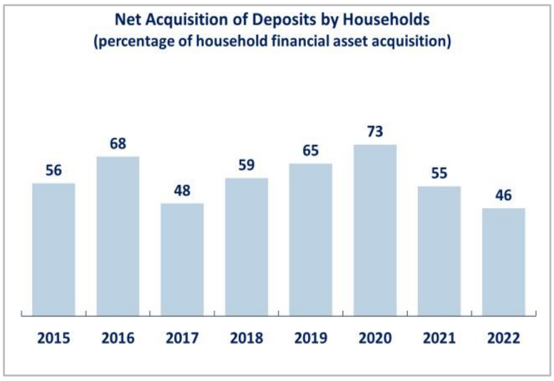


3 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023SC0278
4 "Retail investment: opportunities, challenges and EU policy proposals", EUROFI Regulatory Update, February 2022.
5 Quarterly sector accounts – households, Eurostat, October 2023.
6 https://www.efama.org/newsroom/news/household-participation-capital-markets-0





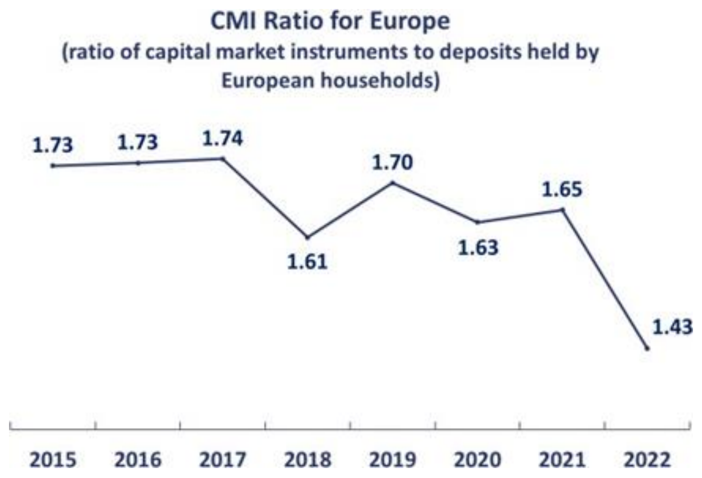




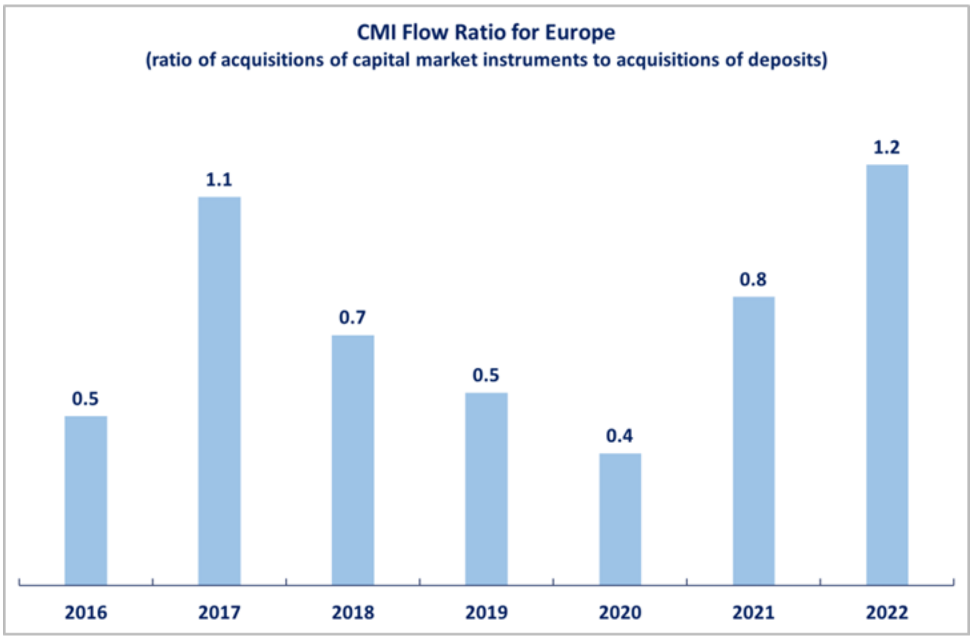
The study finds that over the period 2015 – 2022:

1) From a starting point of 36.7% in 2015, the share of deposits increased to 38% in 2020, before reaching 41.1% in 2022.
2) The share of pension funds fluctuated between 26.4% in 2015 and 25.4% in 2021, before falling to 23.6% in 2022.
3) The share of life insurance increased from 18.5% in 2015 to 19.4% in 2018, before falling to 17.4% in 2022.
4) The share of investment funds fluctuated between 9.9% in 2015 to 11% in 2021, before dropping to 10.5% in 2022. Through indirect ownership, however, the degree of total ownership of investment funds by retail client is greater.
5) Ownership of debt securities dwindled from 2016 to 2021 due to low interest rates and limited offerings. However, a rebound occurred in 2022 with rising interest rates, reversing the trend of disinvestment.
6) The share of listed stocks increased from 5.1% in 2015 to 6.1% in 2021, before falling to 5.6% in 2022 due to the stock market downturn.

Furthermore, EFAMA concludes that at the end of 2022 the ratio between the household savings invested in capital market instruments (CMIs) and those placed in deposits (the so-called 'CMI' ratio, which paints the picture in terms of "stock" of CMIs owned by households) figured significantly below pre-COVID levels.



At the same time, in terms of “flow”, retail demand for capital market instruments sightly increased after the pandemic to a modest ratio of 1.2 percentage points.



Overall, EFAMA observed that European households increased their holdings of cash and bank deposits from EUR 10 260 billion in 2015 to EUR 13 944 billion in 2022, or from 36.7% of their financial wealth to 41.1%. Admittedly, households increased their investments in capital markets to EUR 574 billion in 2022, compared to an annual average of EUR 303 billion in 2015–2019. However, the increase in bank deposits remained substantial, and it re-affirms the need to trigger a profound change in investment behaviour. Furthermore, one must emphasise that the level of cross-border investment by retail investors is also low.

2.2. Factors discouraging retail participation in EU capital markets

Having established the phenomenon in quantitative terms, **attentive consideration should be given to identifying the root causes that may be constraining the full mobilisation of European savers**.

The study commissioned by the European Commission titled "Disclosure, inducements and suitability rules for retail investors''[7], argues that while 72% of the interviewed respondents have not invested in any financial product, only 11% are actively looking for investment opportunities, and a staggering 23% have no interest in making financial investments with their savings.

Based on a recent Eurobarometer survey[8], there could be many reasons why savers are not investing: many of them do not have sufficient money to invest (47%); a significant proportion are afraid of the risk of losing money (21%) or of the level of returns (15%); some find investing too difficult (14%); and a few (12%) do not trust investment advice.

A subsequent Eurobarometer survey finds that less than 40% across the EU feel 'very confident' or 'somewhat confident' that investment advice that they receive is primarily in their best interest (one in three Europeans), while 45% does not feel confident.[9] However, the degree of trust in advice varies significantly among member states: individuals from Finland (59%), Czechia (54%), and Denmark (47%) have higher levels of trust in the advice they receive, whereas citizens from Cyprus (20%), Greece (21%), and Latvia (24%) exhibit much lower levels of trust.

Other reasons why Europeans are not investing may be linked to the broader macro-economic, social and geopolitical environment that erodes retail investors' **confidence in capital markets returns** (e.g., pandemic risk, memory of the financial crisis, low for long interest rates, exceptionally high inflation, wars, energy and cost-of-living crisis, etc.).

For instance, EFAMA's investigation notes that lockdown measures and the huge uncertainty regarding the risks posed by the pandemic caused a considerable change in the consumption and saving behaviour, and many risk-averse households became even more cautious.

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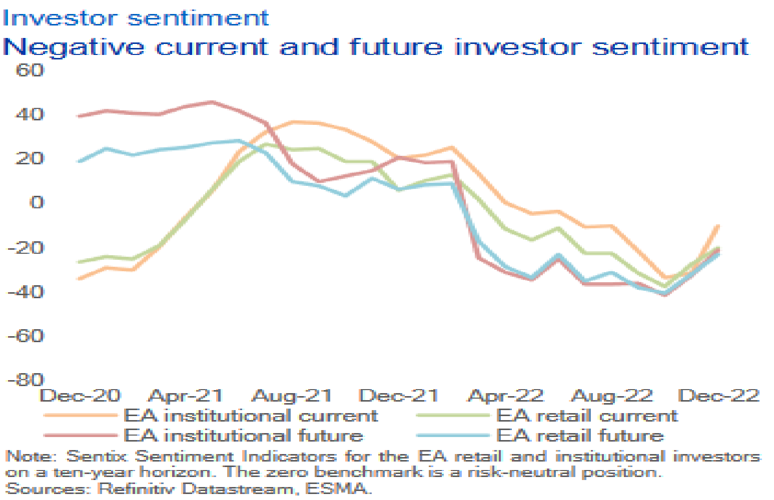
[7] "Disclosure, inducements, and suitability rules for retail investors study – Final report", European Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union, D. Uličná, M. Vincze, M. Mosoreanuet al., Publications Office of the EU, 2023.

[8] Eurobarometer, Retail Financial Services and Products, October 2022.

[9] "Monitoring the level of financial literacy in the EU", Flash Eurobarometer 525, survey requested by the European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union and coordinated by the Directorate-General for Communication, March-April 2023.

At the same time, in its risk monitor 2023[10], **ESMA observes that low confidence persists in capital market investments due to high inflation, economic uncertainty, and tighter economic outlook in the EU**. Both institutional and retail investor sentiment, indicate significant short-term concerns and weak long-term expectations. Importantly, despite December's decline to 9.2% in the euro area, inflation affects short-term consumer resources, notably low-income households. Declining real investment returns further impact long-term consumer investment and savings.



EA = Euro Area

In addition, ESMA mentions that retail investors show enduring interest in crypto assets, generating concern particularly regarding their exposure to high market volatility.

Furthermore, one should note that di**fferences in market structures**, **national-specific regulatory requirement**s and divergence between them, as well as in pension systems may also explain why savers invest to varying degrees in EU capital markets.

Against this background**, it should be emphasised that retail participation needs to be seen in a broader picture of capital markets in Europe and analysed both through the perspective of primary as well as secondary markets**. When it comes to capital markets in Europe, the ultimate aim should be to make it easier for companies to access public markets and for investors across Europe to invest in them. Collective action by European and national policymakers is needed to ensure that European companies, from large caps to small and mid-caps (SMEs), can raise finance efficiently through public capital markets and that investors, particularly retail, benefit from the opportunities such investments provide.

Arguably, while it is not accurate nor meaningful to compare the level of investment in the EU with the approach to investing in other economies, due to significant structural differences in the social security and pension system, taxation, labour market, purchasing power, etc. there is no denying the importance of encouraging greater retail investor participation within and across the pan-European

[10] https://www.esma.europa.eu/sites/default/files/library/ESMA50-165-2438_trv_1-23_risk_monitor.pdf

financial markets. The comparison with such markets where bank finance is far less prevalent than throughout the EU – a comparison laying bare greater entrepreneurial contribution to the real economy, greater entrepreneurial alacrity to bringing about the transition to sustainable businesses, and at the same time greater retail investor financial prosperity – goes a long way towards informing the avenues which the EU may wish to explore. Thus, making EU-investment attractive helps to stem leakage.

3. The course ahead: policy recommendations to foster growth and competitiveness in the retail segment

Section 2 of this discussion paper highlights the low level of retail participation in EU capital markets as a complex and multifaceted issue. Its underlying causes span various levels from the EU to local context and encompass diverse domains, from the micro to the macroeconomic to cultural factors. Consequently, no single "silver-bullet" solution exists to enhance households' access to capital markets. Progress can only be made through adopting an integrated, holistic approach grounded in a comprehensive understanding of the problem and supported by coordinated efforts among EU regulators, national governments, and the financial industry.

The upcoming European legislative term of 2024-2029 presents an opportunity to enact transformative EU initiatives. These should be aimed at fostering a more appealing investment environment - such as targeted reductions in regulatory red tape. However, EU regulatory measures alone cannot suffice. National governments, which play a pivotal role in advancing the development of EU capital markets, must recognise the benefits for their companies, investors, and citizens in deepening and enhancing their markets. This necessitates a clear "capital markets mindset" among national policymakers to take tangible actions, such as game-changing structural reforms, towards augmenting the supply of long-term capital and nurturing an investment-friendly climate in Europe.

Against this backdrop, this section presents evidence-based recommendations and underscores key areas of action for both the incoming EU leadership shaping the 2024–2029 agenda and the national policymakers in EU member states.

At the same time, the financial services industry plays a vital role in offering solutions that best respond to their individual needs of investors. Pensions and investment funds are key to attracting household savings in capital markets and building depth and liquidity. Banks and insurance companies serve as the main distribution channel of investment services and products to citizens. Due to historical and regulatory reasons distribution practices, rules differ between these sectors. Investment and insurance products help savers address and plan for the many different financial goals of households. They also support SMEs by growing and directing capital towards the economy and diversifying risk. Besides, insurers can offer risk cover against unforeseen events and the peace of mind of minimum guarantees, which are decisive elements in convincing risk-averse consumers. To play these roles, financial and insurance institutions need a regulatory framework that is fit for purpose, as stable as possible and conducive to innovation.

Therefore, this section also offers insights, ideas and potential practical solutions or good practices that stem from market experience of industry participants to the retail investment value chain.

3.1. Ideas for the next EU regulatory phase: ensuring a regulatory framework that is fit for purpose

In recent years, the European Union has pursued both regulatory and non-regulatory measures in the retail investment domain, encompassing initiatives such as promoting financial literacy, enhancing market transparency, bolstering pension savings, fostering long-term investment, and generally reviewing the investor protection and overarching retail investment frameworks (with the Retail Investment Strategy still in progress).

While EU policymakers paid sustained attention to the issue and made significant efforts to spur retail investment growth in EU capital markets, the policy approach of the European Commission has leaned decisively towards regulatory initiatives. In many respects, the observed surge in regulation led to increased complexity for both market operators and retail investors (multiplying requirements given by pieces of regulation that often differ and overlap).

Arguably, over-regulation discourages risk-taking. While a strong investor protection framework is essential, with firms devoting considerable resources to ensure compliance and prevent mis-selling, EU policymaking could help grow long-term and stable investments underpinned by both efficient safeguards and a different approach to risk-taking.

The upcoming EU legislative cycle of 2024-2029 presents a pivotal opportunity to embrace a renewed, comprehensive approach to EU policy action. Such an approach could seek to **ensure that the regulatory framework is fit for purpose:** that it maximises the potential of synergies and positive outcomes facilitated by the deployment of national best practices and incentives to drive retail investment growth, as well as industry-driven solutions to simplify the investment process.

Specifically, two key considerations are proposed:

1) Future EU regulatory actions should acknowledge the crucial role that efficient national financial markets can play in the short to medium term. Until a pan-European market materialises – a scenario contingent upon the development of sufficiently sized and deep national markets – the current top-down approach to Capital Markets Union legislation should be complemented with appropriate national initiatives when necessary.
2) Future EU regulatory action should also consider prioritising the reduction of regulatory red tape where appropriate. The continuous influx of financial market legislation since 2008 has posed significant challenges and costs, particularly for smaller market players, who must navigate numerous adjustments to comply with the regulatory framework.

In light of these considerations, participants call upon the European Commission to consider:

- **Recognising the combined effects of the comprehensive rules set out in MiFID II and the IDD and at all stages of a product's life cycle, from development to distribution, and the prudential rules.** Notably, the distribution of retail investment products is subject to robust regulatory requirements, including the Markets in Financial Instruments Directive (MiFID II), the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPs).

  The non-exhaustive list of existing rules includes:

  - Product oversight and governance (POG) requirements
  - Rules on professional advice
  - Suitability test including the assessment of sustainability preferences
  - Appropriateness test
  - Demands and needs test for all insurance products
  - Transparency over the services provided and costs charged to the customer both on ex-ante and ex-post basis
  - Robust measures to prevent, mitigate or disclose conflicts of interest
  - Distributors' initial and continuous training

  Looking ahead, to ensure that savers have access to a wide range of investment options, also at local level, and to support the cultivation of deep liquidity pools, future European regulatory action should consider allowing tailored sectoral approaches, where appropriate, to take into account the specific features of products and distribution channels, as well as national specificities. At the same time, it is important to recognise the combined effects of the comprehensive rules set out in MiFID II and the IDD, and to continue monitoring the enforcement of such extensive regulatory framework at national level.

- **Keeping the regulatory framework stable.** For operators, every change in the rules comes with high cost and needs time to be processed. For consumers, too frequent changes to the regulatory framework could be confusing, leading to further hesitation or search for less regulated alternatives. This tendency might be reinforced, seeing that increased regulatory costs, for example, also have an impact on product pricing.
- **Keeping compliance costs to a minimum.** Small companies and distributors in particular have a proportionally higher burden to cope with overly complex administration. The current burden is created by duplications and overlaps between different pieces of legislation, lack of sufficient time to implement the requirements, lack of clarity and the timely provision of Q&As, and too many reporting requirements. This negatively impacts customers, for example through higher costs. For example, there could be potential to reduce costs and burdens related to the sustainable disclosure of financial products currently covered by Sustainable Finance Disclosure Regulation (SFDR).
- **Allowing for sufficient implementation timeline for level 1 and 2.** As new requirements are increasingly defined in delegated acts and via technical standards, it is important that the implementation time for new regulation is counted from the time that level 2 is adopted, so as to avoid a "gap" between level 1 and 2.
- **Allocating the necessary time and resources to meaningful consultations with all stakeholders including the employees.** The experience of the sectors of the financial and insurance industry can help the EU to produce high-quality legislation that provides maximum legal clarity. In equal measure, inviting and seeking contributions from dedicated and experienced retail investor representing organisations is important for effective decisions. In general, allowing more time and resources to public consultations is likely conducive to more balanced outcomes.

- **Carrying out consumer testing before introducing any new requirements.** When preparing legislation, the cumulative impact of individual rules and the coherence of the entire regulatory framework are frequently not taken into account, resulting in inconsistencies, overlaps and duplications between the different pieces of legislation. To avoid such a situation, the industry recommends conducting thorough, real-life consumer testing covering both new and existing requirements before introducing any changes. This would ensure that the proposals indeed benefit consumers and match their actual information needs without excessive administrative burden for the industry. Consumer testing exercises should be carried out by supervisory authorities/regulators to ensure impartiality.

In relation to investment advice, further EU regulatory action should consider:

- **Preserving consumers' freedom to choose the products, providers and services they need.** Today, consumers have access to a variety of distribution channels (eg agents, brokers, bancassurance operators, direct sales, etc.) and services (eg advised sales, sales with an appropriateness test, execution-only services where allowed, etc.). This allows consumers to find the solutions that best meet their needs and maximise options for diversification. Regulatory interventions that reduce consumers' choice and make it more difficult to access different types of distribution systems as well as limit the access to personal, professional advice would not help consumers think about or achieve their financial and pension needs.
- **Making disclosure requirements simpler and more targeted to avoid information overload for consumers.** Consumers already receive a large amount of information that can use very complex EU-terminology and is sometimes duplicated due to different pieces of EU legislation. For example, under the current EU rules, consumers interested in a green IBIP receive 339 pieces of pre-contractual information. Also, the SFDR product disclosure is too complex for retail investor. Streamlined and high-quality disclosures are key to making investing more attractive to consumers. Disclosure of any relevant information should be structured in a way that substance prevails over form, as to avoid overburdening and inconsistencies between different levels and kinds of information. Moving forward, we need to find the right balance between disclosures that are meaningful for consumers and those required for supervisory purposes. This distinction should be fully taken into account when designing a new disclosure requirement.
- **Promoting digital-by-default disclosures, while keeping the paper-based option available to consumers who wish so.**
- **Ensuring a simpler and shorter distribution process.** Under the current EU rules, consumers interested in retail investment products need to go through multiple pages of questions for an advised process, including a suitability test and a sustainability preferences assessment. For insurance, in addition to these, a demands and needs assessment must be conducted. This means that, for insurance, consumers need to go through up to 14 pages of questions for an advised process. In particular, the assessment of sustainability preferences is very complex due to an overly technical discipline that is difficult for retail investors to understand. If the distribution process is too complex, consumers are more likely to turn to sources of unregulated information such as social media and be more exposed to scams or high-risk investments or to simply continue to keep their savings in bank accounts, as is currently the

case in most of Europe. In particular, greater simplicity is needed, flexibility and effectiveness in the sustainability preferences assessment, while preserving the general spirit of the ESG regulatory requirements. In this regard, we believe the possibility to verify the sustainability preferences should also be admitted considering as a whole all the three characteristics currently indicated by MiFID II/IDD (letter a, letter b and letter c), since these characteristics: i) are not watertight compartments but strongly interrelated with each other; ii) are granular and detailed aspects (if taken individually) of little use and interest for investors compared to the ESG preference as a whole.

- **Looking further into any EU legislative changes to facilitate retail investments,** including through the assessment of the cumulative impact of proposed and existing rules on investors, for example in terms of information overload, and the consideration of targeted reductions of red tape that may be conducive to an easier, more attractive customer journey underpinned by an effective investor protection framework.
- **Considering a review of the Pan-European Personal Pension Product (PEPP) framework.** Among other things, this should address the problems posed by the fee cap and product standardisation. Another avenue would be to consider how the PEPP could be offered as an occupational pension product to increase the potential demand for it. The European Commission could ask EIOPA to review the problems faced by potential PEPP providers and make recommendations for solving them. As stated above, it is also important for member states to consider a suitable tax treatment, with incentives for citizens to invest in suitable products providing them with an additional income in retirement.
- **Realising effective pan-European collective redress mechanisms.** Access to redress outside the member state by a retail investor can be complex in practice and costly. Irrespective of where a company is registered within the EU, it must be liable for corporate misinformation. Clear legal remedies should be available to allow compensation for investors across the EU in a simple form. Consumers should have easy access to redress mechanisms. It will be important to assess the functioning of the revised provisions of the Alternative Dispute Resolution Directive and Collective Redress Directive once they are fully implemented, to identify possible further room for improvement.
- **Strengthening the investor/shareholder culture among EU citizens to increase retail participation** by reviewing the EU Shareholder's Rights Directive, notably with the aim to better harmonize shareholder rights in the EU and facilitate the exercise of shareholder rights by retail investors, such as participation and voting at annual general meetings, within the EU.
- **Endorsing the European Retirement Week and World Investor Week.** The European Commission should take the necessary steps to grant European Retirement Week and World Investor Week official status and treat them in the same way as EU Green Week. European Retirement Week and World Investor Week should become annual opportunities to trigger discussions, both at national and EU level, on the pension challenge and the importance of saving and investing enough for retirement. Likewise, the European Commission should also support the European Money Week, aimed at basic financial and economic education in schools.
- **Simplifying and digitalising withholding tax reclaim processes within the Union**. These should focus on enabling administrative simplification for both investors and intermediaries,

ensuring speedy tax reclaim processes that do not further disincentivise cross-border retail investment.

- **Considering the core aim of advancing Europe's competitiveness, which consequently extends to the financial sector.** Policymakers must assess the impact on competitiveness before introducing any EU legislative proposal or embarking on any review. This evaluation is crucial to ascertain the relevance and calibration of proposed legislation. Referred to as the "competitiveness test," it should meticulously analyse whether a proposal effectively contributes to bolstering Europe's competitiveness.

3.2. Recommendations to national policymakers: tackling structural reforms

Participants call upon EU member states to consider:

- **Promoting retirement savings**: the organization of a national pension system is a key factor determining the outcome of savers' decisions of savings allocation. A thriving pension market acts as the launchpad for households to invest in capital markets, paving the way for a genuine Capital Markets Union in Europe. To meet increased financing needs generated by an ageing population with longer retirement periods, savers have to channel more of their financial assets into higher yielding asset classes. Whereas well-diversified long-term investments in investment products and IBIPs could be one solution for savers, most of them do not invest directly in markets but rely on savings accounts.
- **Favouring the development of complete and robust multi-pillar pension systems**. It has been demonstrated that when set up properly, a three-pillar pension framework (mandatory state pensions, occupational pensions, and private supplementary pensions) provides benefits to individuals and society at large.
- **Implementing auto-enrolment pension schemes as a way to encourage long-term saving.** Such systems, which should aim to ensure the widest uptake and coverage, have to take into account the design, role and institutional capability of a country's statutory pension scheme, as well as existing national, sectoral and company level collective agreements dealing with pension schemes. Typically, under an auto-enrolment system, individuals would be automatically enrolled into a retirement savings scheme but with the possibility to opt out. When deciding on and setting up such a system, it is important for member states to take into account national realities. Such decisions should always remain at national level.
- **Ensuring that people receive clear information about their expected retirement income, thus helping them to make the right decisions**. Such information could include the benefits accrued so far by citizens through their first and second pillars and an estimate of their future retirement income. This could be done, for example, through pension dashboard/tracking tools, which would encourage citizens to think about their future pensions. See for example, EIOPA's recommendations on pension tracking systems (PTS) or the Global Federation of Insurance Associations' "Older and wiser — Solutions to the global pension challenge". National best practices can provide valuable examples for jurisdictions wishing to devise similar solutions, create synergies and promote positive spillover effects. There are various national examples, such as the Swedish Pension Agency "orange envelope" providing both

savers and retirees with an overview of their pension. A similar example is the Danish www.pensionsinfo.dk, which provides users with a comprehensive overview of pensions and insurance. Similarly, Belgium has a well-developed pension dashboard (mypension.be).

- **Leveraging on tax policy to incentivise investment:** tax policy significantly impacts how households distribute their financial wealth and plays a crucial role in either increasing or decreasing retail investment levels. Complexity within the tax system, such as intricate, paper-based withholding tax procedures, tends to deter retail investors from accessing a broader spectrum of investment opportunities, affecting them the most. Conversely, it is demonstrated that tax incentives play an instrumental role in driving retail investors' participation in capital markets. .Tax incentives do not solely imply tax reductions but may also involve simplifications, such as streamlined processes for the taxation and declaration of investments and capital gains.

  The current approach to handling withholding tax across the EU, for instance, hampers efforts to promote cross-country investments. Hence, we urge EU governments to design an appropriate and attractive tax framework aimed at encouraging retail investment in capital markets. Notably, a review and simplification of the tax treatment for long-term retail investment products, as well as for capital gains and losses, are essential measures to consider.

  Therefore, we call on EU governments to calibrate a suitable saver-friendly and investor-friendly tax framework aimed at incentivising retail investment in capital markets. Tax systems should therefore have easier withholding tax relief and simplify the treatment of long-term retail investment products and capital gains and losses.

- **Creating accounts or products that enable individuals to save without incurring income or capital gains tax on investment returns, as well as tax on withdrawals**. The success of initiatives like the United Kingdom's Individual Savings Accounts (ISA) and Italy's *Piani Individuali di Risparmio* (PIR) in encouraging retail investments underscores the effectiveness of this strategy.

3.3. Potential approaches based on industry experience or good practices

Advised and non-advised distribution, as well as effective product disclosures play a key role in providing individuals with the support and tools they need when making investment decisions.

Today, European retail investors have access to various advice and distribution services. These encompass advice, distribution conducted under the appropriateness test, digital distribution through execution-only applications and platforms, as well as a "demand and needs" assessment that applies to all types of insurance products. Finally, face to face (online and/or brick and mortar) channels for obtaining investment services are an important source of investor information.

The existence of different distribution systems increases consumers' exposure to investing and helps consumers think about long term savings, thus reducing the "solicitation gap".

Furthermore, advice is also important in helping retail investors understand how to meet their sustainability preferences as interest in sustainable finance increases. 62% of those who responded to the Retail Financial Services and Products Eurobarometer[11] find it important that their savings and investments do not fund economic activities that have a negative impact on the planet. However, if they are unable to ask questions and receive guidance, consumers encounter extensive difficulties in navigating their way through the complex EU framework for sustainable products. Easy access to advice and/or assistance is therefore important for the uptake of sustainable products and the EU's sustainable finance objectives.

For IBIPs, even in the case no advice is provided, a demands and needs test is required. In many markets, advice has been made compulsory for IBIPs in all cases..

Against this background, improvements based on industry experience should be considered:

- **Enhancing transparency to ensure consumer protection.** Well calibrated transparency regimes empower consumers to take decisions on an informed basis. It is important to provide consumers with simple and clear information about the product features such as, the risk, cost and benefits of investing to provide consumers with simple and clear information about the product features such as, the risk, cost and benefits of investing. As set out above, any disclosure requirement should be fully tested with real consumers to make sure that it is meaningful and understandable. Adding information is not a solution; if additional transparency is considered, this should ultimately be accompanied by a simplification of other information requirements in order not to increase the information overload placed on consumers.
- **Suggesting policymakers to consider insights from behavioural research** to better understand the drivers behind consumers' decision, for instance in relation to risks and risk taking.
- **Leveraging consumer-friendly disclosure approaches developed at industry level.** One of the examples that could be used for inspiration is the concept of "Essential Product Information (EPI)" developed by Insurance Europe. The EPI divides the information provided to consumers into several categories, each with a clear title and icon. The industry deems it important that the future European regulatory framework considers the benefits of new approaches that ensure that disclosures are easy to read and actually support consumers in their decision-making. Naturally, striking the correct balance is key. Layering should not produce the effect of making information document/display/format even longer and/or complex and it should be calibrated vis-à-vis specific characteristics of structured products. Qualified intermediaries or distributors are also important in providing consumers with assistance and explanations or advice and recommendations.
- **Ensuring a transparent framework for personal, professional and affordable advice.** For consumers who are not familiar with the financial sector outside of having a savings account and Pillar 1 and 2 pensions, it is important to ensure access to information and advice. People also need to be encouraged and solicited to talk about savings, investments and risk. This

[11] Eurobarometer, Retail Financial Services and Products, October 2022.

advice or encouragement could come from a variety of sources. It is important that consumers have transparent choice between various business models which can provide advice or assistance. A distinction needs to be made between investment and insurance-based investment products. Irrespective of the consumer's available capital, financial advice offered by a professional and trained advisor is essential to avoid customers falling prey to bad advice. This is also key to avoid a more general solicitation and advice gap. In this respect, it is also important that the professionalism of the intermediaries is recognised as value for consumers and for the market overall.

- **Furthermore, it is important that consumers can easily identify reliable sources of advice and access information regarding the framework of protection, regulation and supervision applicable to intermediaries and distributors giving advice**. In this way the recent challenge of fin-influencers and unregulated advice coming from various sources online could be alleviated. It is critical that consumers can easily identify the content creators who are regulated and supervised professionals. This is important in the light of the use of social media; for example, 25% of 18-24 year olds in the UK in 2023 are using social media for financial guidance and 20% have invested money based on recommendations found on social media. In this sense, where necessary, the industry could work together with the respective national competent authorities to devise systems to facilitate and promote access to national registries of regulated intermediaries, distributors, advisors and providers, with a clear indication of the regulatory framework to which they are subject to.
- **Recognising the important role of regulated intermediaries, distributors and professional advisors in mobilising retail investment.** It is key to ensure that the person in contact with the consumer is provided with clear quality information about the features of products, and then have time, resources and flexible training to be able to have a dialogue with potential investors and offer adequate advice and assistance to their client. A flexible continuous training is important across sectors and could encompass various types of facilitated learning opportunities including courses, e-learning and mentoring. At the same time, this discussion paper recognises the importance of providing products and services that continue to meet consumers' objectives, including ESG expectations.

3.4. How to empower consumers through awareness and education initiatives

Financial education is essential to enable consumers to better understand risks, make informed decisions about their investments and make the advice, intermediation and distribution process smoother and more balanced. Adequate measures in financial education would help increase consumers' confidence to ask the right questions and truly engage with the financial distributor when investing, as well as better understand the information they receive.

A recent survey conducted by Bruegel at the request of the Belgian Presidency of the Council of the European Union[12] finds that, on average, only one in two Europeans has acquired some financial

[12] https://www.bruegel.org/policy-brief/state-financial-knowledge-european-union

knowledge. This indicates that a large number of European citizens are insufficiently prepared to plan for retirement or for sudden expenses, or let alone to enter capital markets with confidence.

These findings re-affirm the need to roll out national educational strategies. Member states should be encouraged to share best-practices, especially on how to combine digital financial literacy and close gender and other gaps.

Key points for member states to consider when promoting financial education include:

- **Risk awareness:** consumers' awareness of the risks they face in their day-to-day life and future, including in relation to any potential shortfall in pension provision, while also making them understand that solutions can be provided, e.g., in the form of long-term investment and/or insurance biometric coverage.
- **Risk understanding:** educate consumers about investment risks, but also about the opportunities well-considered risks and financial products can bring, such as returns on investment, capital guarantees, biometric risk coverage, etc.
- **Familiarity with products and distributors:** make consumers aware of the wide range of financial products and distribution services available in their national markets, so that they can understand which ones best meet their specific demands and needs.
- **Long-term planning:** promote long-term financial planning and explain the key role of long-term investing in preparing for retirement.
- **Budgeting and saving:** teach basic financial literacy skills (e.g., percentages, interest rates, inflation, etc.) including budgeting and saving to improve the overall comprehension of capital markets and investment.

These core ideas could be supported by:

- **Conducting a financial health check** at key points in life to nudge people into considering their financial wellbeing, talking to an advisor, an intermediary or other financial professional etc. For example, authorities could contact consumers at key stages of their lives with awareness messages ("Have you thought about … ?", "What to think about next …").
- **Recommending the ESAs to develop indicators on the financial education level in their respective areas** (e.g., investments, insurance and pensions) and conduct annual surveys to assess/monitor the financial education/literacy level of citizens at various ages across EU member states. For example, the ESAs could work with the OECD on common methodologies (like PISA) for assessing the knowledge of consumers and the progress made in each member state over the years.
- **Mandate member states to report on their financial education initiatives to the ESAs** in their respective areas and have the ESAs make them publicly available in the various EU official languages via dedicated Digital Hubs.
- **Creating an intra-EU mechanism to facilitate the exchange of member states' information on their "best practices" on how to bring retail investors to capital markets.** The proposed mechanism could help member states better understand which practices work and do not work in various jurisdictions and further incentivise member states to improve their internal

frameworks and approaches towards retail investments. Member states could also use the mechanism to bridge the financial literacy gap by sharing their “best practices” on financial education. They could share their experiences with national financial education programmes and other relevant initiatives to boost the knowledge of retail investors. The mechanism could serve as the forum for continuous dialogue between national competent authorities and also help them to follow up on their progress.

- **Recommending supervisory authorities to develop educational materials (eg videos for social media, slides, games, infographics, one-pagers, etc.)** that can be used by teachers, trainers, local authorities and consumers at key stages of their life.
- **Ensuring all EU member states develop national strategies on different aspects of financial and insurance literacy and include the topics in national school curricula**. The European Commission should explore possible avenues to make funding available to support financial and insurance education programmes in member states.
- **Integrating financial, insurance and investment education in school curricula to ensure that young people acquire the necessary knowledge early in life.**
- **Using public awareness campaigns by member states to raise awareness of the importance of investing and preparing for the future and of the resources and distribution channels available.**
- **Promoting digital literacy:** some consumers, particularly older ones, may struggle to adapt to digital channels and may suffer from a lack of digital literacy. Solutions must be found to bridge the digital divide and provide appropriate support for these consumers. For instance, the proposed financial education initiatives could expand their scope to technical skills on how to use financial digital services and access the financial system through digital means, as well as associated risks of digitisation. The educational materials could match the wide diversity of retail investors and provide support based on their level of financial and digital skills**.**
- **Making use of digital tools and opportunities to increase financial literacy:** see for example the OECD report on digital education “Shaping Digital Education: Enabling Factors for Quality, Equity and Efficiency”.
- **Exploring public-private partnerships for establishing investment initiatives aimed at young European citizens**. These could substantiate initiatives ranging from offering easy-to-use simulation tools to practical, controlled exposure to capital markets.

4. Taking the long view: using new technologies to better help consumers

The financial and insurance industry shares the European Commission's objective of ensuring that consumers and firms can reap the benefits of digitalisation while being adequately protected from its potential new risks. The digital revolution has paved the way for innovative distribution channels that leverage various technologies, including the internet, mobile apps and artificial intelligence (AI).

Notably, the COVID pandemic has sped up the inclination among investors to utilise digital applications, websites, and tools for managing their finances. These tools are also used to seek advice before buying or selling financial assets. In recent years, many retail investors have turned to social media for such recommendations as well. Nevertheless, increased digitisation and over-reliance on social media platforms for investment advice bring new risks, including gamification trends, and rising self-directed trading without adequate consumer education. Again, investor education is key, as well as a technology-neutral, future proof regulatory framework that encourages innovation.

Having said that, today most consumers prefer hybrid distribution models that offer the flexibility of online research and offline shopping with a personal interaction with an intermediary, distributor or advisor. Specifically:

(i) The number of consumers using a digital online tool in relation to financial products is increasing (in some markets more than in other markets). For instance, in Denmark and Estonia it is estimated that online sales of insurance products account for 80% of the total volume of gross written premiums[13], while 60% of EU consumers used online banking in 2022[14].

(ii) At the same time, many consumers value face-to-face interaction. For example, figures from the banking industry indicate that when it comes to advice, face to face interaction is still preferred (e.g., Finland: 79% of the value of investment, Spain: 95%).

It should therefore remain possible for consumers to choose the avenue by which they receive financial advice and conduct their financial business, with both online and in-person being easily accessible. This is especially important considering that insurance and financial institutions serve groups of consumers who will not be able to make (full) use of online tools for various reasons. Be it due to inadequate digital or financial skills, groups of customers not able to reap the benefits of the CMU online and by themselves should not be excluded from also having the opportunity of contributing to making the CMU a success.

The hybrid distribution of financial products is offering opportunities to increase investor participation in capital markets and can improve consumers' experience when investing. However, there is an increased risk that consumers purchase risky, unregulated products through unregulated or unsupervised platforms or encounter a lack of data security, misleading information, scams or regulatory compliance issues.

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[13] European Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union, COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT REPORT Accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directives (EU) 2009/65/EC, 2009/138/EC, 2011/61/EU, 2014/65/EU and (EU) 2016/97 as regards the Union retail investor protection rules and Regulation of the European Parliament and of the Council amending Regulation (EU) No 1286/2014 as regards the modernisation of the key information document, 2023, p. 185.

[14] Consumer Conditions Scoreboard, European Commission Directorate-General for Justice and Consumers, March 2023, p. 21.

Against this background, European industry players constantly innovate to meet consumers' evolving demands and needs, for example using new technologies in distribution to increase accessibility, offer digital assistance, etc. However, policymakers also can play a role in facilitating the use of new technology and raising awareness of different means of making services available.

Therefore, the discussion paper explores recommendations to EU and national policymakers to ensure a future-proof, technology-neutral and innovation-friendly regulatory framework. We invite policymakers to consider:

- **Preserving consumers' choice of digital sales and face-to-face interactions.** Consumers are diverse; some are very confident online while others are less digitally savvy. At the same time, hybrid consumer journeys are the new normal. For example, clients can search online before purchasing offline; conclude contracts with physical distributors and then use the smartphone, apps and chatbots for assistance, etc. The variety of choice facilitates financial inclusion and needs to be preserved.
- **Maintaining a level regulatory playing field between digital and face-to-face activities using a "same activities, same risks, same rules" approach.** The regulatory framework needs to remain neutral and not favour one distribution channel over another.
- **Ensuring consumer protection through digital channels.** Consumers need to be equally well protected when they purchase investment products from different market players, irrespective of their business models. The comprehensive EU consumer protection rules applicable to financial activities should apply to both established distributors and new market entrants where they carry out the same activities. It should be made clear to consumers if financial services providers are subject to EU regulation or not.
- **Making rules future-proof and innovation-friendly so they are fit for the digital age and allow distributors to respond to the evolving needs and expectations of consumers.** For example, the use of new technologies can make information more engaging.
- **Ensuring that online and in-person distribution processes do not become too long or burdensome.** It is difficult to imagine consumers sitting for two hours in front of their screen, completing - on their own and without the support of a distributor - a suitability test, including a sustainability preferences assessment and a demands and needs test for insurance, which all often use difficult terminology imposed by EU rules. Furthermore, it is difficult to see how consumers could make sense of the overload of pre-contractual information that EU rules currently impose without the support of a distributor. As stated above, if the process for a transaction is too complex, consumers are more likely to turn to other sources of unregulated information such as social media and be more exposed to scams or high-risk investments, or simply continue to keep their savings in bank accounts, as is currently the case in most of Europe.
- **Recognising that any use of comparison websites or simulators is not exempt from risks and biases.** For example, any ranking of preference of products solely focused on price would be misleading. A comprehensive assessment of product features is necessary (eg risk, returns, liquidity, guarantees, insurance coverage, services, etc.).

5. Conclusion: a possible way forward

The discussion paper has three main focuses. Firstly, it seeks to provide a fact-based understanding of **why European households are not participating much in EU capital markets**. Section 1 presents the latest surveys and figures to highlight cause and effect mechanisms, which reveal:

- How European households continue to increase their holdings of cash and bank deposits, while progress on increased investments in capital markets remains limited.
- How the low level of retail investment participation is a multifaceted problem that does not have a single solution. Investors are different, and factors influencing the mobilisation of savings are multiple, including fiscal pressure, social security, perception of risk, and others.

Secondly, **the discussion paper consolidates the outcome of the consultative process among roundtable participants** into a set of recommendations, ideas, and proposals aimed at EU policymakers and national governments (Section 2). It also offers insights and best practices drawn from market participants, employees, and investors themselves, showcasing that:

- The next EU legislative cycle represents an opportunity to re-think key questions of regulation to ensure that the framework is fit for purpose. While over-regulation is seen as increasing complexity for both firms and investors, EU policy action should consider the targeted reduction of regulatory red tape to support the simplification of the investor journey. It should also consider measures to stimulate an investor-friendly environment, by promoting, *inter alia*, consumer testing, improved product disclosures, enhanced transparency requirements, efficient collective redress mechanisms and takeaways from behavioural economics.
- Member states need to adopt a "capital markets mind-set" to tackle difficult, structural reforms entailing broader societal questions. To grow markets locally and harness the necessary financing power to boost the EU's competitiveness, member states should consider developing a robust multi-pillar pension system and attractive retirement saving schemes. Also, they should harness the pivotal role of tax treatment of long-term investments to incentivise participation.
- The distribution of investment products is a vital component of financial markets, but its success relies on an effective regulatory framework, access to good and affordable advice and informed consumers and ensuring adequate investor protection. Notably, progress is always possible through quality disclosure requirements, appropriate measures that are coherent with the diversity of financial markets, the different consumer profiles as well as robust supervision and enforcement. Access to suitable advice is pivotal. In this respect, it is important that consumers have the right to choose freely between face-to-face and digital advice, and any combination thereof. To this end, it is also important to focus on constant development of advisors' competences, as well as suitable development of digital tools.
- Additionally, financial education plays a pivotal role in empowering consumers to make informed decisions about the investment products they need. Collaborative efforts between governments and supervisory authorities, as well as attractive educative tools, can help promote financial education and improve overall financial literacy across Europe. Above all, it will be crucial to ensure participation by young citizens. Increasing their understanding, interest and familiarity with financial services will build long-term benefits, turning them into

the investors of tomorrow. This would also help to promote a different “risk culture'' in Europe.

Finally, the discussion paper incorporates reflections on broader, long-term questions of technology, financial inclusion, and generational turnover. Therefore, section 3 analyses how new technologies can better help savers to become investors. It finds that, while realizing the potential of digital-powered innovation is key to provide a gateway into investment markets for younger generations, a technology-neutral, innovation-friendly regulatory framework needs to balance emerging and long-standing financial investment habits, as well as cater for both traditional and new types of risk. Regulation, however, needs to be complemented by effective initiatives combining digital and financial literacy to maximize inclusivity.

By addressing these issues comprehensively and putting forward the right ideas, it may be possible to create a more transparent, consumer-centric and resilient investment landscape for financial products, ultimately benefiting consumers, the financial services industry and the EU economy as a whole.

This discussion paper is the result of a collaborative effort among many different stakeholders who contributed to its proposals, considerations, and findings. Commissioner McGuinness's call for cooperation was met by a diverse, unique network of experts giving voice to the financial and insurance industry, to the professionals it consists of and to the citizens they serve every day**. We thank them all for their contributions.**

Annex - Reaction by BEUC, Better Finance and Finance Watch to Insurance Europe-EFAMA-EBF draft report on retail investments

The Consumer Voice in Europe

Wim Mijs, CEO,
European Banking Federation

Michaela Koller, Director General,
Insurance Europe

Tanguy van de Werve,
Director General

European Fund and Asset
Management Association

Brussels, 01 February 2023

Ref: Reaction to Insurance Europe-EFAMA-EBF draft report on retail investments

Dear Wim, Michaela and Tanguy,

On behalf of our respective organisations, we would like to welcome the common efforts by the EBF, EFAMA and Insurance Europe which resulted in the draft report that you shared with us. We appreciate the effort to collectively reflect on the future of the European retail investment market.

Nevertheless, we are concerned to see that this report does not fully acknowledge the existence of a significant problem with the current state of the distribution system in the European retail investment market. This issue leads to significant consumer detriment and hinders the development of a genuine Capital Markets Union "that works for the people". An essential departing point to find appropriate solutions is to have a common understanding of the problem otherwise all efforts risk being in vain.

The report indeed appears to start from the premise that current market structures and practices are acceptable and therefore only require some marginal improvements. Since the report does not address the issues of distribution on the European retail investment market, it falls short, in our view, to put forward genuinely meaningful solutions to the various issues highlighted by the European Commission, among others, in the impact assessment of its Retail Investment Strategy.

To provide a positive example of what could be done: It would be in the industries' power to implement industry-wide standards on financial advisor qualifications. Such standards exist for many professions inside the EU and are even legislatively mandated for this profession in other jurisdictions; The standards of financial advisor training adopted by the UK, for example, may serve as a template for what could become an industry-driven standard in the EU as well.

Establishing a system like that may provide a positive change to the market for all interested parties in the medium-term and would be much more effective, in our view, than the report's proposals on consumer financial literacy and disclosures with a view to solve whatever information asymmetry and conflict of interest issues that exist (literacy or education are mentioned 26 times in the draft report).

It is our understanding that the purpose of this document is to explore possibilities through which the industry may improve the market results for consumers. We will therefore not engage with the sections of the paper focused on legislative recommendations as these are being negotiated independently from this paper in the Retail Investment Strategy process currently in the Parliament and Council.

Considering that we cannot support the general premise of the report, we would ask not to be cited, either individually or collectively, among the organisations that have been consulted for the drafting of this report.

We still hope that there will be a positive takeaway of the initiative launched with the roundtable of 18 July 2023 to put forward effective proposals to solve the flaws of the current distribution system for retail investment products. In the meantime, we remain open to a constructive exchange of views with representatives of the industry, in the interest of consumers and the EU economy.

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