

RETAIL INVESTMENT: ADVICE

Good advice

Expert advice is important to help consumers make the right financial decisions



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High quality financial advice offers real benefits to consumers when making investment decisions, but the current model of providing advice is under threat from overzealous regulation as part of the EU's Retail Investment Strategy. In order to protect consumers' interests, it is crucial that the value of advice is properly understood.

Consumers indicate time and time again that they place a high value on having access to top quality, financial advice (see side box on "Advice and security"). The recent European Commission [study](#) on disclosure, inducements and suitability rules found that a recommendation from an advisor is a key driver of a consumer's decision to invest. The same study also found that when consumers access advice they are glad that they did. 64% of consumers in the survey that had received advice considered the process useful in assisting in their decision-making.

Consumers have increasingly complicated decisions to make

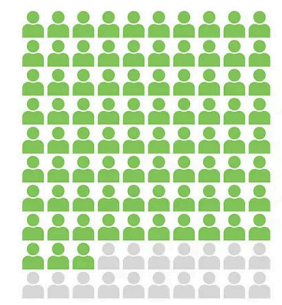
Advice is becoming more, not less, relevant. Consumers have increasingly complicated decisions to make and are provided with an ever-growing amount of information on investment products as a result of requirements that are piling up at EU level. The rise of "green" products offers a new opportunity for retail investors, but understanding these products is not easy. Advisers have a role to play in deciphering technical language and opening up this section of the market to inexperienced investors.

But while market developments make advice ever more important, regulation could cut consumers off from this resource. Across Europe, the most common way of paying for advice is via commission paid to the adviser. This means consumers can access as much advice and ask as many questions as they like, without facing a fee for the advice provided. This enables consumers to shop around, to look at their options without making any financial commitment and ultimately to invest when they are comfortable that they have enough information.

Advice can be prohibitively expensive

Paying for advice directly is prohibitively expensive for many smaller investors. If we take the example of Germany — a comparatively affluent European country with a higher than average savings rate — we can see that the numbers simply do not add up. A 2021 KPMG study found that the average cost of advice for a consumer is €360 (€180/hour), but we also know from the same study that more than half of all investments made by retail clients in Germany are for amounts below €5 000 (55.5%) or monthly savings of less than €100 (54.6%). It is easy to see why a €360 fee for a €100 investment would be unattractive.

So what would happen if financial advice became beyond the reach of consumers? Consumers will still search out guidance, but this will come from family and friends, from things they read online or — increasingly — from unregulated “finfluencers”.



83%

Advice and security

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Uninformative information documents

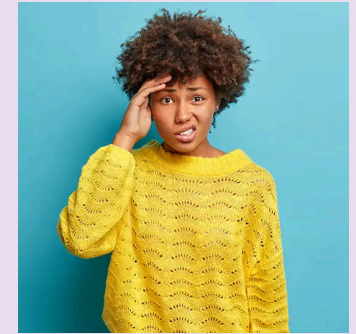
They might also turn to the product information documents required under EU law, but these documents provide little help (see side box). They are not well understood by consumers and they miss out key information about insurance-based investment products (IBIPs). Consumers would have minimal information on the insurance cover provided by each product, with no meaningful way of comparing between products, and would struggle to identify which IBIPs are higher or lower risk. Consumers would be left to navigate a complex investment environment without the tools to compare products on the basis of the things we know they find most important for their decision-making.

Unintended consequences

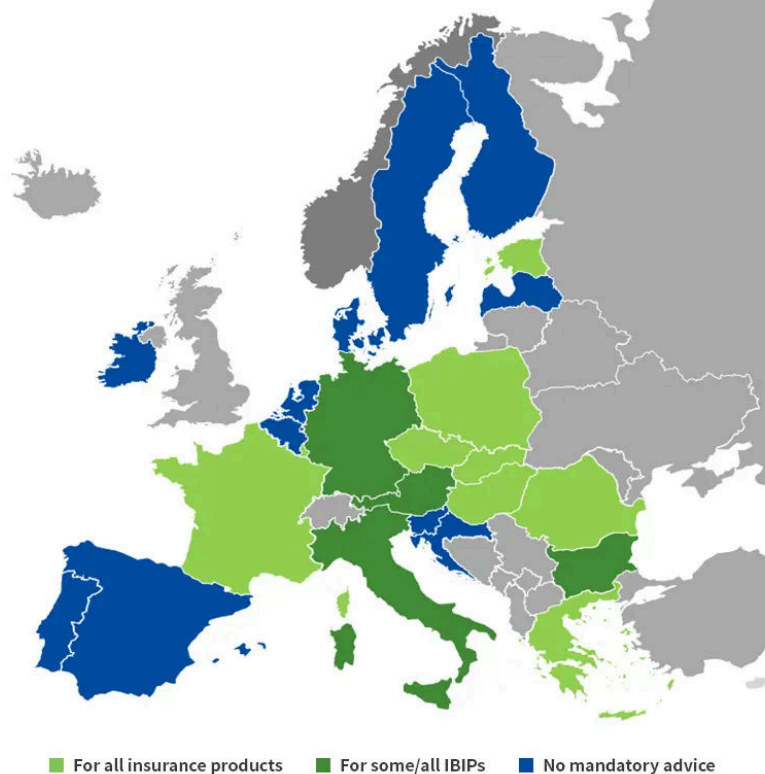
Perhaps even more worryingly, without advice consumers may simply turn their backs on capital markets and not invest. This is exactly the opposite of what the EU Retail Investment Strategy is looking to achieve. Firstly, consumers may simply find that they do not feel comfortable going it alone. Even those who do seek to invest may find that the IBIPs market is cut off from them; in many markets it is simply not possible to buy an IBIP without advice (see map below). In some markets it is a requirement that a consumer receives advice. In others, although advice is theoretically not compulsory, IBIPs are often considered as complex products and cannot be sold on a simple “execution only” basis, in contrast to many pure investment products.

This leaves consumers stuck. If they cannot pay for advice upfront they are not able to access these important investment products and manage their money or prepare for old age. In other words, extreme measures — such as an EU-wide ban on the payment of commission or separate bans for different types of sales, combined with requirements that are so prescriptive and complex that they make it hard, if not impossible, to provide advice — would only increase the pension gap and the insurance gap in the EU.

Advice requirements in EU countries — 2023



**Misleading and
unhelpful disclosure
documents**



The key to ensuring continued access to advice — and by extension to capital markets for retail investors — is to put decisions on how consumers access advice in their own hands. Consumers need to be provided with the information they need to assess whether (and how much) advice they want to be provided with through strong transparency requirements that give them the opportunity to access information on costs if they need it. And armed with this information they should be able to choose an adviser that fits their needs. The best way to support retail investors is to maintain access to advice. This cannot be achieved by prescribing a single way that advice must be paid for or by imposing requirements that are so complicated that they make the provision of advice impossible.

Other measures offer better consumer protection than an inducement ban

- Focus on the enforcement of the existing [robust set of rules](#) in the EU’s Insurance Distribution Directive and the delegated regulation.
- Introduce further transparency on commissions to put consumers in control, with well tested disclosure formats proven to be understandable and useful to consumers.
- Imbed “value for money” principles to ensure every cost is justified and proportionate to the services and product features offered.
- Bolster financial education.

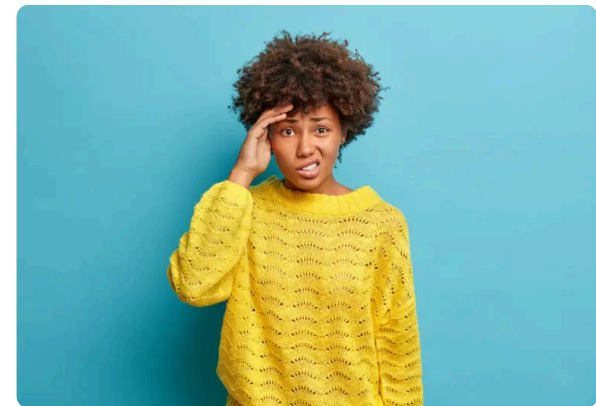


Misleading and unhelpful disclosure documents

A [study](#) carried out for the EC by Kantar found that consumers “can be put off by the current measures in place regarding disclosures” and need “disclosures documents that are highly engaging, offer simplicity and focus on the most important items”.

The 2022 [UK consultation](#) on revoking the Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs) listed several issues identified with the EU’s PRIIPs Regulation including “confusing information, reduced choice and regulatory burdens”.

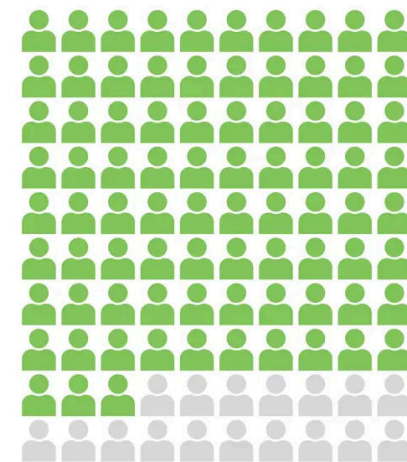
An [academic study](#) on information overload under the EU Markets in Financial Instruments Directive (MiFID) and PRIIPs Regulation in Germany in 2019 highlighted that most respondents feel overwhelmed or even distracted by the information they receive.



Advice and security

[Insurance Europe’s Pan-European Pension Survey](#) (2021) shows that 83% of respondents prefer investment safety over investment returns.

Advisers can help them identify the products that provide them with the security they need to invest with confidence.



83%