

RETAIL INVESTMENT: PURCHASING PROCESS

# Bumpy ride

The journey for consumers wishing to invest is far from smooth



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When considering investing, consumers face a labyrinth of decisions to make and administrative hoops to jump through. Many of these are set by EU regulatory requirements. It was hoped that the European Commission's Retail Investment Strategy (RIS) would provide an opportunity to refocus on consumer needs, creating a sales and advice process that meets consumers' expectations and encourages them to invest with confidence in financial markets. Unfortunately, the RIS proposals, which have just been published, will make consumers' investment journey much longer, more complicated and more intimidating.

To fully understand how complicated the current situation is, imagine the case of a young woman in her early twenties starting her first proper job and wanting to make sensible financial decisions. She is unlikely to have covered the key concepts at school and she will almost certainly be learning about the differences between products for the first time. She is unlikely to want to spend a large amount of her earnings on advice as she has so many other financial priorities and so she is looking at making complicated but important decisions on her own.

Like most millennials and members of Generation Z<sup>1</sup>, she lives her life online. If TikTok and Insta are good enough for recipes and fashion advice, surely they can also be a resource for financial advice too? Unfortunately not. Guidance and "advice" provided online are largely unregulated and provided by "finfluencers" without proper training and expertise.



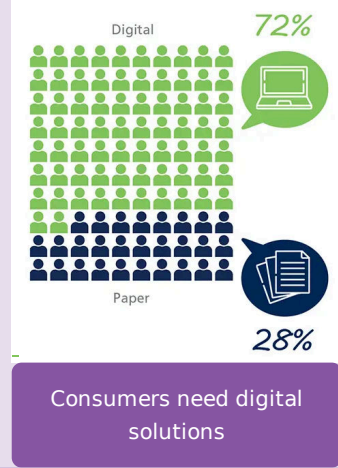
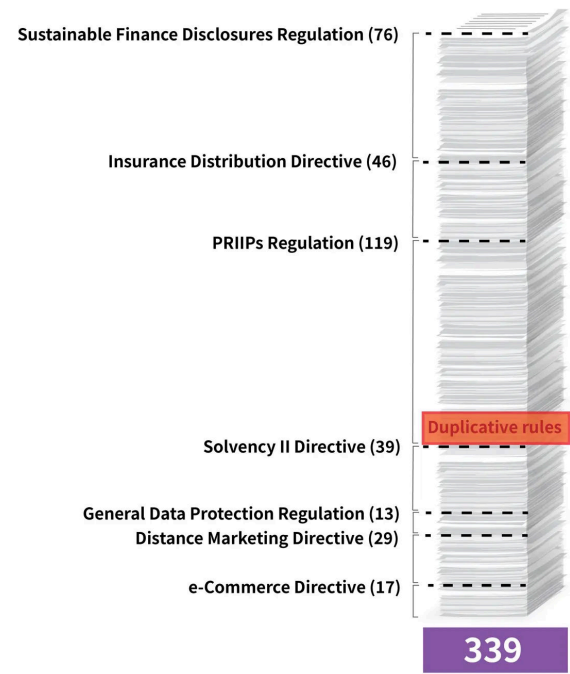
**Relying on social media**

The best-case scenario is that she stumbles across a reputable website from a properly regulated distributor. But even here, her journey is not straightforward. EU regulation was not written with the

digital world — or the needs of digitally savvy younger people — in mind, so she will find it difficult to complete the process online.

But the hurdles do not stop there. The process is about to get even more overwhelming. At the point of sale, the consumer must be provided with reams of paper-based information. For insurance-based investment products, this means a PRIIPs Key information document (KID). This document, the contents of which are entirely dictated by EU legislation, will not give her the information she needs. And the KID is not the only information she will receive. A massive 339 disclosures are required for a sustainable insurance-based investment product (IBIP) under the various applicable EU regulations (see figure below). Some of this information is useful, some is duplicative and a large amount is not relevant at all.

Excessive disclosures



**“Guidance and ‘advice’ provided online are largely unregulated and provided by ‘influencers’ without proper training and expertise.”**

## Many steps in the journey

The advisory process is also not streamlined. EU rules have added layers of different steps that need to be taken before our young woman walks away with her new IBIP. The process begins with a “demands and needs test”, then a multi-stage “suitability assessment” and finally an assessment of any sustainability preferences. Each of these stages is important, but the experience of consumers is a never-ending list of questions that can take up to two hours to address. If we overcomplicate this process further then we risk losing consumers — particularly younger ones who are used to the fast services of the digital word — from investing altogether.

### Regulatory steps in the advice process for IBIPs

Steps specific to insurance 	Check customer's personal information and insurance demands & needs	Check whether a particular product best meets customer's demands & needs (insurance advice)	Analyse a sufficiently large number of contracts (fair analysis insurance advice)
Steps that apply to all investment products 	Check customer's experience and knowledge	Check customer's financial situation, including their ability to bear losses	Check customer's investment objectives, including their risk tolerance
Steps specific to sustainability 	Check customers' sustainability preferences	Check customer's sustainability preferences in %	Adapt customer's sustainability preferences if needed



Protecting consumers is important, but we do not protect them or build their confidence to invest if they are overwhelmed and confused by the process. If we do not engage consumers and meet their expectations, the risk is that they drop out of the process and do not buy the insurance products they require. There is a pressing need to address the protection and pensions gaps across the EU and losing consumers during the sales process will only make the problem worse.

The IDD advice process is robust and provides the security consumers need, but it is already long. Any new steps or initiatives that further complicate the process should be avoided.

In particular, the possibility of introducing new requirements to assess value for money as part of the distribution process could add further complication without any benefit to consumers. The insurance industry already has some experience with value-for-money principles, and has been working on implementing EIOPA's guidelines on this. This is valuable in ensuring insurance products offer value to consumers but should be performed at the product design stage, not duplicated in the advisory process and added on top of the information overload already placed on customers.

Similarly, proposals to introduce a personal investment plan (PIP) assessment or supplementary obligations to assess the need for portfolio diversification would add another layer that consumers do not want or need. Consumers do wish to compare products, but only within product categories with similar features. A potential requirement to provide a complete market overview would be unnecessary.

The message is clear: keep it simple. Where customer information can be streamlined, simplified and presented in a more manageable way this should be addressed as a matter of priority, starting with an assessment of what information consumers really find important. And always start from a digital perspective. We need rules that work online, which can then be transferred to the offline world as necessary. The RIS will only be successful in the long term if it meets the needs of the next generation of European retail investors.

The European Commission found that only 28% of consumers have invested in a financial product. We need to attract the remaining 72%<sup>2</sup>.

1. Those classed as millennials were born between 1981 and 1996 and those classed as Gen Z between 1997 and 2012

2. "Disclosures, inducements, and suitability rules for retail investors study", European Commission, May 2022 (corrected February 2023)

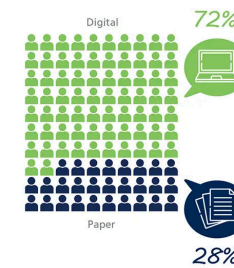


## Consumers need digital solutions

If a customer contacts an insurer online, both the Insurance Distribution Directive and the PRIIPs Regulation require the insurer to provide them with the information about the product on paper by default. Only if certain conditions are met and extra steps are taken can the insurer provide disclosures digitally.

This does not reflect consumers' preferences. According to Insurance Europe's 2021 Pan-European Pension Survey, 72% of respondents prefer to receive product information digitally rather than on paper.

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## Relying on social media

23% of respondents trust social media “a lot” (3%) or “somewhat” (20%) to help them make financial decisions.

Of those aged 15-24, 33% trust social media to help them make financial decisions.

Source: [Eurobarometer](#)

