

EFA Position Paper on the EU Retail Investment Strategy

The European FinTech Association (EFA) welcomes the European Commission's (Commission) work on a dedicated Retail Investment Strategy. We agree that the ultimate goal of the Capital Markets Union (CMU), i.e. getting investments and savings flowing across the EU so that it can benefit consumers, investors and companies regardless of where they are located, cannot be attained without a meaningful inclusion of retail investors. To foster retail investment in Europe, legal frameworks for retail investors need to be suitably adapted to their profiles and needs, empowering retail investors and enhancing their participation in capital markets, while at the same time ensuring adequate protection levels.

High-level EFA Messages

- **Empower consumers by streamlining the due diligence assessment:** An informed consumer is an empowered consumer - but the information provided to investors should aim at fostering financial literacy, rather than increasing barriers to entry.
- **Make investing more accessible, transparent, and inclusive:** Retail investing should be more accessible to a higher number of European consumers. However, this needs to go hand-in-hand with increased transparency to ensure consumers understand what they are paying for. Open finance can help consumers compare and contrast providers. Financial literacy and social inclusion are key parts to both empower and protect consumers as participating in retail investing expands across the EU.
- **Harmonize rules for a true Single Market:** Differences in local rules maintain fragmentation across the European Union with very few firms offering their products and/or services in multiple, let alone all of the Member States. This has led to an unfair distribution of access to financial services and products.
- **Remove digital-only barriers:** Digitization can lead to a democratization of access to products and services for all retail investors regardless of where they are located. This should be supported by regulation that does not differentiate between digital and non-digital solutions..

1. Empower consumers by streamlining due diligence assessment

Under current EU regulation, investors need to be presented with the appropriate information concerning the advice provided and the financial instruments proposed. However, especially for those retail investors looking

to gain their first investing experience, the amount of information to process before investing a relatively small amount is enormous and holds them back from entering the financial market.

We want to empower consumers to take charge of their own finances, no matter how large or small their initial investment might be. However, we also need to make sure they feel confident enough to enter the market. In this context, we argue that we need to increase general financial literacy by being able to provide clearer, more transparent, and digitized information to investors, to streamline the due diligence assessment and lower barriers to market entry for those seeking to take charge of their finances.

2. Make investing more accessible, transparent and inclusive

The wealth management and investment industries have historically been awash with complex pricing schemes. Customers are offered different prices and fee structures based on € amounts, financial products, tailored advice versus do-it-yourself, digital or in-person solutions and more. With so many variables and little transparency, people struggle to compare alternatives and find a fair price for the services they need. Open finance holds major potential to fix this - if supported by the right regulatory framework.

We would encourage the EU to create policies and regulation that will support more industry participants, which will ultimately make investing and financial planning more accessible. MiFID already promotes more fee transparency, but the EU can go beyond this. Instead of requiring further disclosures, the aim should be to improve the readability and accessibility of the existing disclosures for retail investors. For example, digitising disclosures could allow consumers to select the specific information they want to access, rather than being overwhelmed by huge amounts of information in a non-readable format. This would not only help the transparency but also the understanding of the retail investor of the product.

New innovative business models have formed in the last years, attracting a new generation of investors via attractive pricing structures, simple user interfaces and clear value propositions. Business models like these leverage existing structures as inducements and/or payment for order flow to offer services at much lower direct client fees. New business models should be welcomed, provided they are compatible with applicable regulation regarding conflicts of interest and transparency.

Furthermore, we would like to highlight the distinct difference between “ease of use” and “gamification”. While those notions seem to be often confused in discussions, they are two very different things. Broadening access to capital markets for retail investors through clear interfaces as well as contributing to investor education and capability through a modern information architecture should not be regarded as “gamification”, i.e., the systematic user engagement for the mere sake of activity. As our members’ user behaviour and client records show, the clear and simple applications heavily support the long-term sustainable creation of wealth.

- **Open finance: empowering retail investors with control over their own data & comparing offers**

Open finance is an opportunity for industry players to aggregate data on various services and create comparison tools that benefit consumers. It has the potential to drastically increase consumers’ access to information about their products and spending habits. In practice, people could share their financial profile, which includes their pensions, current accounts and such - and industry participants could compete for their

accounts, similar to utility switching. Consumers who are investing would significantly benefit from this. Today, the friction and timelines that come with, for example, transferring workplace pensions or securities held with a custodian to another custodian makes people less likely to switch to more competitive providers. The process to transfer securities between custodians currently is non-standardized within several Member States. This means that there are inter alia no standardized communication methods between custodians and no minimum service levels. This holds even more true for securities transfers between custodians of different Member States. Although indirectly, this ultimately supports higher fees in the industry by restricting competition. With open finance, data-sharing amongst industry providers should dramatically reduce the cost and time of switching providers.

Consumers should be able to see where their data is, understand with whom it has been shared, and retain the power to easily revoke their consent at any time. We need to ensure that consent management tools are properly applied across sectors to ensure that consumers' expectations on how their data is used and handled are met. An inconsistent approach in this regard could undermine the benefits of open data. Consumers should not have to track through multiple dashboards to understand where their data has been shared, while we simultaneously promise them simplified access to their financial data.

With this in mind, we believe the move to open finance and open data should be based on a clear ongoing right of data portability under the EU's landmark General Data Protection Regulation (GDPR). Extending PSD2-type enhanced data protection would make it difficult for consumers to make use of their data locked into incumbents and Big Tech. For industries like finance, security standards on communication and data parity to user interfaces may need more regulatory clarification. To enable open data, the EU should consider the potential of commercial API services across industries.

As investments become increasingly available for larger consumer groups, advice becomes especially important. Advice should be easy to understand and accessible at any time. Harnessing the data that open finance could provide means more individually tailored advice can be given to help consumers manage their financial responsibilities. With greater access to a wider range of data, the potential for open finance to help facilitate personalised pricing to almost an individual basis could result in winners and losers: some may see more competitive outcomes while for others, their personal data leads to greater discrimination. Sticking with the consumer protection lens, we also must continue to think about vulnerability in a dynamic context. Affinity with technology, while important now, may become one of the key characteristics of vulnerability as we transition into open finance.

- **Financial literacy & inclusion**

Expanding and improving financial literacy across the EU is important. Eliminating complex and opaque pricing practices that permeate the investment industry today is equally important. Regardless of a consumer's financial literacy, fees and mark-ups should be presented transparently by all providers, in real time. This should be complemented by transparency regarding any conflict of interest arising from investment advice. Complex pricing schemes are difficult to understand even by the most educated of consumers.

- **Sustainability**

In general terms, as well as in ESG products specifically, sustainability plays an increasingly big role for many retail investors and the investment decisions they make. However, stewardship and industry leader

approaches are crucial to help transformation across all industries, too. EFA supports the view that the financial industry now has the chance to contribute in a meaningful way to a more sustainable economy.

3. Harmonize rules for a true Single Market

Currently, local differences among the Member States with regards to e.g., KYC-requirements, marketing to or onboarding of retail clients, passporting of financial products etc. create a fragmented market. This significantly reduces the ability for providers of financial services and/or products to efficiently serve retail clients across the EU. Not only does this oppose the basic principle of the CMU as it means an unequal availability of products and services across Member States, but as our evidence suggests retail investors without access to certain products and/or services in their home states have been seeking access to those products and/or services from other states. In some cases this entails they might not be able to fully comprehend the products' and/or services' terms, conditions and disclosures due to language barriers posing a risk to investor protection.

Avoid gold plating: Some rules are still open for interpretation by national competent authorities (NCAs). For example, certain NCAs consider that all investment firms provide investment advice. This places a major burden on firms, and this categorization limits consumers' access to traditional investment products, rather than allowing innovative products to emerge. The EU should strive to harmonize rules, giving firms clarity on what types of products they can offer across the EU, while leaving room for innovation and products that may not fit narrowly into traditional investment firm categorization.

Harmonize marketing and advertising rules: Diverging rules on marketing and advertising are difficult to navigate for innovative financial services providers aiming to expand across the European continent. In order to offer investments across the continent, a true EU Single Market in this area would be helpful. In marketing and advertising, it's important to avoid more burdensome regulation as this is already a barrier for firms expanding operations across the EU. Focus should be placed on harmonizing rules that vary across Member States as much as possible so that consumers across the bloc can benefit from new products and services.

4. Remove digital-only barriers

In line with the comments made by EU Commissioner Mairead McGuinness at the EFA General Assembly (June 2021), we fully support the concept of increasing democratization through digitalization, which will allow more and more people across Europe to have greater access to financial products. To achieve this, EFA supports the idea of creating an ecosystem of users, connecting multiple business clients with multiple investors / associated financial services providers.

The evidence gathered by EFA members over the years suggests that in many cases digital solutions, especially with regards to disclosure and reporting, do offer significant advantages in terms of accessibility, adaptability, auditability, and sustainability.

Digital solutions ensure access to products and services for all retail investors regardless of where they are located even against the backdrop of (i) such extreme circumstances as the COVID-19 crisis which limited, or in some Member States continues to limit, the extent of personal interactions or (ii) the ongoing reduction of

physical access points to financial products and services in many regions outside of metropolitan areas. Over the course of the past years, EFA members have been able to quickly adapt to comply with new or changing rules and regulatory requirements in an efficient and seamless way due to the digital nature of their businesses and processes. At the same time because it is possible to leverage technology to provide a reliable and sustainable record of auditability.

About us:

The European FinTech Association (EFA) is a not-for-profit organization representing leading FinTech companies of all sizes from across the EU. It brings together a diverse group of 35+ FinTech providers ranging from payments, to lending, banking, robo-advice, investment as well as software-as-a-service for the finance sector, with a clear focus on enabling a single market for digital financial services.

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