

Aligning Goals with Actions: The EU Retail Investment Strategy

Michael N. Pedroni
Chief of ICI Global

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Good afternoon. I'm delighted to welcome you to our roundtable in the new ICI Global Brussels office and to see so many policymakers, asset managers, and stakeholders around our seminar table. We're here to discuss a critical issue—the European Commission's recently proposed Retail Investment Strategy.

Opportunity to Unlock Retail Investment

Let me say at the outset that we have an opportunity for a substantial jump forward in the development of European capital markets.

With the Retail Investment Strategy (RIS), the European Union has a chance to empower tens, perhaps hundreds, of millions of people to chart a stronger financial future. There is an opportunity to create a framework that will enable and incentivize retail savers to invest in the capital markets to deliver better returns on their hard-earned savings. Creating deeper and more liquid capital markets will strengthen the outlook for European citizens for decades to come.

On behalf of ICI Global, I commend Commissioner Mairead McGuinness as well as Marcel Haag and the DG FISMA staff for embracing this opportunity.

I want to spend a few minutes introducing our discussion today on the proposals under the retail strategy. And while many proposals of the strategy will support retail investors and should be vigorously pursued, there are also parts of the strategy that may lead to unintended and counterproductive consequences—specifically the cost-benchmarking requirement.

The litmus test for analyzing the various proposals is simple: does the measure improve outcomes for retail investors? If it does not, then the measure should not be pursued.

After my observations, we are looking forward to an open discussion with all of you around the table.

Different Approaches to Financial Planning

As is widely recognized, EU citizens in too many Member States rely on low-yielding savings accounts for their financing needs. I spent parts of my childhood in Germany with my grandmother, and I recall watching her live off of the meager investment returns she was getting from putting her entire savings into a deposit account at a local bank.

She should have had much better options, as capital markets can yield significantly better investment outcomes. The idea of the RIS is to create the reasons why today's generations of savers in Germany, Belgium, Italy, France, and across the Union will choose investment funds to grow their wealth.

We need to ask ourselves: Why hasn't this happened to a greater extent already?

A huge percentage of US workers gain access to defined contribution plans early in their careers, creating a strong culture of investing. Most European workers, by contrast, tend not to have the same level of access, especially in their 20s and 30s, and don't embrace investing to the same extent. The retail investment strategy seeks to address this imbalance. But how?

Europe's retail investors need to be empowered with better tools for making informed choices. Investors have a wide range of

objectives, risk tolerances, time horizons, and preferences, including considerations such as sustainability. Yet, they need help discovering the options that are best for them.

That brings us to the RIS proposal.

What Parts of the Framework Will Help Retail Investors

At ICI Global, we're very supportive of the European Commission's attempts to modernize disclosure and allow for simplified investment advice.

To that end, there are several parts of the RIS that we find very promising:

First, our members have long recognized the benefits of digital disclosure. As such, we're pleased that the Commission has proposed making electronic delivery the default method for Key Information Documents.

Second, the simplified advice proposal is promising. It would allow independent investment advisors to provide advice to retail investors on certain "non-complex" products without the need to obtain information on the client's knowledge, experience, and existing portfolio composition.

Third, we are supportive of the enhanced best interest of the client principle, although we do question the over-emphasis on costs for the advice framework. Financial advisers should, at the core of their services, have the best interest of their clients in mind. With some adjustments, the best interest of the client principle could be a key driver in improving the investor experience.

Fourth, we commend the Commission for refraining from introducing a full ban on inducement. The Commission acknowledged that a full ban "would entail significant and sudden impacts on existing distribution systems, with consequences that are hard to predict." We agree.

What Parts of the Framework are Counterproductive

Yet, it must also be said that some parts of the RIS need to be improved or indeed removed.

One example is the cost-benchmarking requirement. Let me clear that we support the Value for Money principle. Embedded in ICI's mission is a commitment to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor.

When we evaluate the elements to the RIS, unfortunately we find the cost-benchmarking requirement would not achieve its objectives and would be counterproductive. Based on our analysis, this requirement would reduce product diversity and stifle innovation, to the detriment of retail investors. Therefore, we believe it should not be pursued.

Our primary criticism is that the benchmark will function like a price control cap. Such controls have a long history of failing: they reduce competition, drive up prices, and for retail investors they will eventually lead to a one-fund-fits-all approach.

Let me take just a moment to explain why it will function like a price control cap. The requirement calls for the European Supervisory Authorities to construct cost benchmarks against which approximately 30,000 UCITS would need to be evaluated. Any deviation from the relevant benchmark would introduce a presumption that costs and charges are too high—regardless of other factors such as performance and investment objectives—and require a manager to suspend new subscriptions until they have justified any cost deviation.

Although [cost is an important element of any assessment of value](#), factors such as investment performance, diversification, the investment objectives of the retail investor, and the services provided to the investor play an equally important role. Given these nuances, it would be extremely difficult to construct adequately granular and fully representative benchmarks across the full range of potential funds, strategies, and investor preferences.

So how can value for money be accomplished without solely focusing on cost at the expense of broader factors of value?

First, categorizing costs and charges more consistently across several areas, including ongoing advice, marketing, and distribution, will allow for apples-to-apples comparisons across funds being offered.

Second, fund managers need to work with distribution partners to create greater efficiencies, which can be passed on to retail investors in the form of more competitive costs.

And third, it is important to note that, as [ICI Research has shown](#), average ongoing charges of UCITS funds have declined since 2013, with most of the decline stemming from assets shifting to lower-cost funds, lower-cost funds entering the market, and higher-

cost funds exiting the market.

Conclusion

I'll stop there and take a step back. Empowering retail investors is no easy task, but this proposal is a commendable effort and a welcome advance. We're ready to collaborate to ensure that the final reforms deliver the strongest benefits to retail investors, and ultimately, strengthen Europe.

Let's make the most of this opportunity, and more immediately, the most of our in-depth debate around the table here today. I would now like to introduce Victor Van Hoorn, Managing Director of the ICI Global Brussels Office, to guide our discussion.

Thank you.

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