Brussels, 19 October 2023

Subject: **Don't let conflicts of interest sink the Retail Investment Strategy**

Dear Ms Yon-Courtin,
Dear shadow rapporteurs,

We are writing to you on behalf of BETTER FINANCE, BEUC, Finance Watch, and WWF as the main civil society stakeholders working on the Retail Investment Strategy (RIS).

It was with severe disappointment that we read the draft reports (Omnibus[1] and PRIIPs[2]) recently published on this file. In these, effectively all aspects of the Commission's proposal that were of genuine value to consumers, environment and society have been removed without presenting an appropriate alternative.

The RIS is a central piece of financial markets regulation, aimed at improving the investment markets for consumers. Such a reform is urgently needed as consumers regularly rate investments as among the worst functioning markets in the European Union.[3]

Over the past decades, our societies have staked more and more on the investment decisions of consumers. Sustainability, pensions, building a nest egg, all require functional opportunities to invest, among other things. Because of their growing importance, it is imperative that these systems serve society, not a small group of vested interests.

Unfortunately, this is currently not the case. What is commonly called a 'financial advisor' in most of the EU is, in fact, a sales agent who receives inducements for the sale of products. These inducements are financed by taking them from the consumers' investment in the form of costs, undermining the quality of financial products. This system costs consumers significant amounts of money which end up in the pockets of financial institutions. **Proof of this is that quality of retail investment products in the EU is ranked very low,[4]** a fact that costs citizens hundreds of billions each year, according to a recent study based on OECD data.[5]

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[1] https://www.europarl.europa.eu/doceo/document/ECON-PR-753711_EN.pdf
[2] https://www.europarl.europa.eu/doceo/document/ECON-PR-753665_EN.pdf
[3] https://commission.europa.eu/system/files/2019-05/consumer-markets-scoreboard-2018_en_0.pdf P.17.
[4] https://op.europa.eu/en/publication-detail/-/publication/d83364e5-ab55-11ed-b508-01aa75ed71a1/language-en/
[5] https://epub.uni-regensburg.de/54281/9/2023-05%20Sebastian-Noth-Grafe_Commission-Ban.pdf

At least since the global financial crisis of 2007-2008, consumer organisations have asked to eliminate the conflicts of interest inherent in this system of sales. For years, the EU has failed to make significant progress; the current system, that has only served the financial industry, is fiercely defended by the only beneficiary of the status quo: the financial lobby. This results in a system that **prevents competition on product quality** and instead creates a race to the bottom based on which products are more profitable to sell for the financial institution.

Consequently, we have only seen cosmetic interventions. Through MiFID, MiFID II and IDD the European legislators have spent years attempting to contain this harm without a fundamental reform by relying on disclosures and suitability rules. An approach that is unfortunately replicated in the draft report.

Even though the Commission proposal was weakened before it was even presented – from a full ban on inducements to only a handful of lesser improvements – **it still represents a first significant attempt to improve the situation for consumers.** The RIS must not become yet another proof of the financial industry's sway on EU policymaking.

The draft reports propose to eliminate even these improvements:

The ban on inducements in the sale of investment products without advice ('execution-only'), which was already a compromise of a full ban, was removed entirely. It would be unacceptable for the European Parliament, representing the will of the people, to adopt the position that consumers should systematically pay for services they have never received.

The Value for Money (VfM) provisions in the proposal were also effectively removed. While we understand that there may be debate on the best way to introduce such a system, we want to reiterate that it is very much needed. Very poor-quality products currently crowd European markets.[6] If competition for product quality through capable and independent advice is not politically palatable yet, we need to at least eradicate the most blatant cases of products that enrich suppliers whilst impoverishing consumers.

The review clause is an essential part of this proposal, as it provides not only a pathway to further analysis and action, which will be required, but also provides an incentive for industry actors to contribute actively to a solution of the current market failure. A five-year review after transposition, on a limited scope, does not meet this need.

The report identifies sustainability as a cost driving issue, which must be weighed against consumers' need for cost-efficient products, an assertion that is wholly unfounded. This also comes in the context of this false juxtaposition having been presented as a fact during the hearing in ECON on 29 June 2023. Sustainability and consumer interests are not opposing goals but are complementary; an overwhelming majority of consumers want to invest sustainably[7]. Sustainable investment products often outperform their mainstream counterparts; their cost is not systematically higher either.[8]

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[6] As BETTER FINANCE's forthcoming research on the real return of long-term and pension products shows: Out of sample of 35 categories of products, 11 (31.4%) yield negative returns over ten years, after charges and inflation, and 30 (85,7%) fail to beat a simple pan-European capital market benchmark of 50% equity-50% bonds.

[7] BNP Paribas' survey (2018): while 64% of retail investors in Europe are willing to invest in sustainable finance, only 5-7% of investors have invested in sustainable products.

[8] https://www.esma.europa.eu/sites/default/files/2023-01/esma50-165-2357-esma_statistical_report_on_costs_and_performance_of_eu_retail_investment_products.pdf

What's more, the conflicts of interest that harm consumers financially also undermine the very premise of sustainable finance. If the market power of the industry allows the sale of products that ignore the financial wellbeing of consumers, **it will also ignore the sustainability preferences of consumers.** We see this in the alarming number of greenwashed products on the European markets and how those are distributed.[9]

Finally, the RIS proposal comes in the context of the action plan to strengthen the Capital Markets Union (CMU), a goal nominally endorsed by all stakeholders. In the current system of inducements, tied salesforces sell products by their local providers. This means that **a unified investment market will not materialise** until we enable consumers to find the best products for them out of all on offer in the EU. This is only possible on a mass market scale if consumers are aided by financial professionals to find the best product for them. Without, at the very least, a ban on inducements for "execution only" the CMU will remain an item of lip service only.

We therefore urge you to put consumers at the centre of your considerations and to ensure that the public interest informs your decisions. In this spirit, we ask you to restore and improve the Commission's proposal, rather than undermining any meaningful progress.

We would like to discuss these crucial issues with you at your earliest convenience.

Yours sincerely,

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[9] https://www.reuters.com/legal/dws-pay-25-mln-over-us-charges-over-esg-misstatements-other-violations-2023-09-25/