

## INCREASING RETAIL INVESTMENT



### CARMINE DI NOIA

Director of Financial  
and Enterprise Affairs –  
Organisation for Economic  
Co-operation and  
Development (OECD)

### Financial markets should not be a casino for the uninformed

Retail investment is growing rapidly, driven by easier access to financial markets through user-friendly digital trading platforms and a new generation of young investors. At the same time, retail investment practices are evolving, with investors increasingly self-directed and influenced by social media. Many are also turning towards high-risk products like crypto assets. As a result, financial consumers face new risks, including online frauds and scams. Without proper financial literacy, investing can resemble gambling, leading to avoidable losses.

Limited financial literacy can hinder safe and informed participation in financial markets. Alongside a robust financial consumer protection framework, financial literacy should be central to EU efforts to strengthening retail

investor participation in capital markets and ensure that it ultimately leads to greater financial well-being and a more inclusive financial democracy. Financial literacy is essential to help consumers make informed decisions, assess and manage risks, diversify their portfolios, and invest for the long term.

Yet many individuals lack the financial literacy to navigate today's fast-changing financial landscape safely. The *OECD/INFE 2023 International Survey of Adult Financial Literacy* highlighted that many adults struggle with basic financial concepts like compound interest and investment diversification. The 2022 Programme for International Student Assessment (PISA) also showed that the future generation of investors has limited awareness and knowledge about investing. On average across OECD countries and economies, fewer than one in three 15-year-olds reported that they had learned about diversification (18%), dividends (24%), compound interest (25%) or return on investment (27%) and still know what these terms mean. Results also showed that socio-economically disadvantaged students are overrepresented among low performers in financial literacy, calling for policy action to prevent inequalities from increasing as these students reach adulthood.

**By enabling confident and  
safe investing, financial  
literacy is a matter of  
financial democracy.**

The OECD was one of the first international institutions to prioritize financial education, notably by creating the OECD International Network for Financial Education (OECD/INFE) in 2008. Adopted in 2020, the OECD's *Recommendation on Financial Literacy* sets a global standard, urging governments to adopt national strategies that engage public authorities and relevant stakeholders in the development of coordinated financial education programmes, including those targeting vulnerable populations. Today, a growing number of countries and economies have national financial literacy strategies. The OECD has worked closely with EU Member States

such as Austria, Germany, Greece, Ireland and Poland to support the development and implementation of evidence-based national strategies, including initiatives to improve financial literacy on investing.

The OECD has also developed country-specific strategies aimed at improving the financial literacy of retail investors. For example, the *Financial Literacy Strategy for New Retail Investors in France*, developed with the Autorité des marchés financiers (AMF) and SG REFORM, responds to the post-COVID surge in new investors, many of whom lack experience. The strategy integrates behavioural insights and digital financial education tools to engage investors where they are most active, ensuring they have the knowledge to make informed investment decisions.

Another key initiative is the development of *Financial Competence Frameworks*, which serve as essential tools for guiding financial education initiatives, including those targeting retail investors. In 2019 the OECD and IOSCO developed a core competence framework on financial literacy for investors, defining key financial knowledge and behaviours to help policymakers and financial institutions improve investor literacy. More recently, the OECD and the European Union jointly developed two financial competence frameworks - one for adults and one for children and youth - outlining essential financial competences for safe investing.

At the OECD, we remain committed to advancing financial literacy for retail investors, across the EU and beyond. We will continue supporting the development and implementation of national financial literacy strategies, thanks in part to support from the European Commission's SG REFORM. We will also continue collecting data through international exercises such as the PISA 2029 assessment and the upcoming OECD/INFE international survey of adult financial literacy, as well as through country and regional level studies. Finally, through the OECD/INFE network, we will monitor emerging trends and best practices to support the development, delivery and evaluation of financial literacy programmes, ensuring that retail investors are equipped with the knowledge and skills necessary to navigate financial markets safely and effectively.



## STÉPHANIE YON-COURTIN

MEP, Committee on Economic  
and Monetary Affairs –  
European Parliament

### Empowering European Retail Investors: A Blueprint for a Strong Strategy

With a new mandate, a new Commission, and a renewed compass guiding us forward, delivering on our work with the Retail Investment Strategy is imperative. In the face of emerging challenges, the call for a more competitive and autonomous Europe has never been louder. Within financial services, a key driver of this agenda is the development of a true Savings and Investments Union. It is within this evolving economic and geopolitical landscape that the Retail Investment Strategy (RIS) must be finalized. To break it down, the essence of the RIS can be captured by its core elements.

Three key pillars are the driver of this initiative:

First, **Retail**—How do we effectively engage retail investors and encourage broader participation in financial markets?

Stepping back, one core issue is the urgent need to shift from a savings culture to a true savings and investment culture. Right now, an enormous amount of money is sitting unused

in European savings accounts—funds that could instead be working to secure better pensions for citizens, fuel the real economy, and build a stronger financial future. But there's a major obstacle: financial literacy. Many Europeans simply don't feel equipped to make informed investment decisions, and that must change.

The Retail Investment Strategy must be fine-tuned to strike the right balance. It should not only empower citizens through public initiatives and the integration of digital tools but also ensure that investment products are designed with the consumer in mind—minimizing unnecessary costs while maximizing accessibility. Value for money requirements and stronger financial literacy measures will be key to unlocking these opportunities. Citizens must have both physical and online access to high-quality financial advice and a diverse range of investment options at fair and transparent prices.

Second, **Investment**—How do we channel more investment into European companies to foster growth and innovation?

If Europe's financing gap stands at a minimum of 800 billion euros per year, relying solely on public funding is simply not an option. Capital markets must step up to bridge the gap and provide businesses with the financing they need to grow and innovate. At the same time, ensuring greater corporate responsibility through the value for money framework will help build trust in financial markets. The goal is not to disrupt the entire system but to acknowledge its imperfections and work toward meaningful improvements.

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**We are expected  
to deliver, and the  
time to act is now.**

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This is why strengthening the accountability of all companies through value for money measures is essential. This approach examines the entire value chain—from the creation of financial products to their distribution—ensuring that sector-specific legislation does not create loopholes that allow unjustified fees to be charged along the way. Giving national supervisors stronger tools to intervene will also make a real impact.

Finally, unlocking additional investments can be done by revisiting client categorization rules, reducing unnecessary bureaucratic burdens, and

expanding investment opportunities for experienced investors.

Combined with a stronger focus on financial literacy, these measures can help shift the perception that investing is risky for financial security—when, it can be a key tool for long-term financial stability and growth.

Third, **Strategy**—How to achieve these goals in the final stages of negotiations?

The key lies in creating a true Savings and Investments Union—our ultimate objective. To increase citizen engagement and unlock financing for businesses, we must simplify the process.

For the Retail Investment Strategy, this means simplifying the positions of co-legislators on critical issues, particularly when it comes to applying the value for money principle across the entire value chain. Equally crucial is streamlining reporting to reduce unnecessary duplication.

But let's be clear—simplification does not mean deregulation or scaling back ambition. If done correctly, it will bring significant benefits to both consumers and businesses.

For citizens, an improved and simpler framework will bring greater clarity, enable them to better leverage digital tools, improve financial literacy, and gradually restore trust in finance. For businesses, it will foster innovation, enhance competitiveness, and expand their funding opportunities. Achieving a balanced and practical approach to the value for money requirements is essential for an effective and trustworthy framework.

The Retail Investment Strategy must go beyond being just another policy—it must drive real change. We are expected to deliver, and the time to act is now. The Retail Investment Strategy can define Europe's future—let's rise to the challenge and make it count for both retail investors and companies.



## FAUSTO PARENTE

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

### RIS value for money benchmarks & simplification – boosting consumer outcomes

EIOPA supports the European Commission's Retail Investment Strategy (RIS) proposal, particularly the Value for Money (VfM) framework. If properly calibrated, RIS can bring significant benefits by mobilising consumers' capital into investment products offering VfM, improving consumers' financial health and deepening European capital markets.

EIOPA's 2024 Eurobarometer survey highlights key barriers discouraging EU consumers from purchasing insurance-based investment products (IBIPs): high costs (17%), lack of understanding (15%) and poor performance (10%). Low cost (37%), good returns (34%) and ease of communication with providers (29%) are seen as most important in perceiving VfM. EIOPA's Cost and Past Performance (C&PP) Report shows that while costs have not risen despite inflation, the reductions seen in the investment funds have yet to materialize in IBIPs markets.

In this context, EU VfM supervisory benchmarks contribute to objective product pricing, ensuring costs and charges are justified and proportionate

to performance, benefits, and product features such as guarantees and biometric risk coverage. Benchmarks help National Competent Authorities (NCAs) prevent products lacking VfM from being marketed to consumers, supporting a more data-driven, risk-based and independent supervisory assessment, which a self-regulatory approach could not achieve. EIOPA's work shows benchmarks are achievable - products from many markets are similar and concentrated in a small number of clusters, enabling the creation of sub-clusters and considering additional specificities.

RIS negotiations are occurring alongside discussions on simplification, burden reduction and the development of the Savings and Investments Union. Simplified, sustainable regulation or business models can enhance consumers' financial health. While RIS is essentially product-agnostic, retail investor participation could also increase with the development of a simpler savings product with a pan-EU label and reduced documentation/distribution requirements to help bridge the widening savings gap.

When simplifying, a pragmatic, evidence-based perspective is essential, prioritizing collective EU interests over national priorities. The rationale behind product-sensitive benchmarks applicable to all markets where products are commercialized, is that EU consumers pay similar prices for products with similar returns/services, facilitating the development of the single market – a “one stop shop” for firms rather than multiple parallel regimes. EIOPA's C&PP Report shows that cross-border business benefits consumers only in some corridors, while in others, cross-border products are costlier than domestic ones.

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#### How Value for Money benchmarks and simplification can boost consumer outcomes.

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EIOPA sees potential for simplifying RIS. A dual system with peer grouping and benchmarks, plus a supporting database, would be duplicative and increase the burden for supervisors, manufacturers and distributors. They would need to stay updated on developments around each tool, whose interplay is unclear, potentially causing to supervisory challenges if they lead to diverging VfM evaluations. Moreover, providing access to sensitive, commercial data not

publicly available, would be costly and add little value, given the existing IT infrastructure already.

EU supervisory benchmarks help reduce burden for firms, especially for smaller ones lacking resources for detailed peer-grouping. EIOPA would develop these benchmarks, in collaboration with NCAs, allowing firms to use them as a simple tool to assess consumer risk.

Simplification requires pragmatic, evidence-led steps while ensuring good outcomes. EIOPA's recent mystery shopping exercise revealed a need and clear opportunities to simplify the customer investment journey. Advised sales, which involve a suitability assessment, can involve a lengthy, cumbersome onboarding process for the distributor to gather data about the customer's situation before making a personalised recommendation. Our findings show that longer processes do not necessarily improve consumer outcomes, which are often driven by other factors such as product availability.

Bringing a stronger focus in the regulatory framework on achieving good consumer outcomes, rather than on rigid, procedural requirements could be a step forward. Also, introducing more proportionality – considering the distributor's service, the specific distributed product customer type and the necessary personal data – could also bring benefits. Simplification in this area could be particularly benefit SMEs struggling to meet all the requirements.

In conclusion, this is a crucial opportunity to make simplification meaningful in RIS and boost retail investor participation. However, based on our experience with the limitations of NCAs in ensuring sufficient 'pre-emptive' corrective action and compensation for consumers, the regulatory framework will only be effective if properly implemented. Strong European supervisory convergence, as well as robust ex post enforcement powers, are equally important.



## INÊS DRUMOND

Vice Chair – Portuguese  
Securities Market  
Commission (CMVM)

### RIS negotiation: a game changer in a new context?

A vibrant, integrated and deep capital market plays a crucial role in enhancing the EU economy's competitiveness and resilience. I assume this is widely accepted. A well-functioning capital market, like any other market, needs both sellers and buyers: both sides of the market (supply and demand) need to be enhanced. The supply of financial instruments depends on firms' willingness to finance themselves through the capital markets. I assume this to be a given, for the moment, and I focus instead on the demand side: how to attract investors and encourage them to invest a higher fraction of their savings in more productive and strategic activities.

The level of investors' trust on markets is key in this context. Trust, in turn, depends on several factors such as i) the effectiveness of supervision; ii) financial literacy and iii) the value-for-money of the financial instruments offered.

RIS aimed to increase investors' trust in the capital markets by ensuring they are treated fairly and better protected. But is the RIS the right response to the challenge?.

The task is complex, and the impact of some proposals can only be grasped after the adoption of Level 2 measures.

However, the sum of the improvements proposed with some burdensome innovative rules may not be the route for decisive change. Thus, it is not entirely surprising that the proposal has been the subject of much debate and counterproposals. However, these hardly pass the test of simplicity and fit-to-purpose.

Concerning inducements, although the Council's approach did not substantially challenge the current regime, it would contribute to higher complexity by i) introducing overarching principles to be respected when paying or receiving inducements and ii) conducting a best client interest test to pay or accept inducements. The EP's position is simpler, dropping the ban on incentives for execution-only services and abolishing the designed-to-enhance criterion that would allow inducements in specific cases. However, stricter rules on the provision of investment advice are proposed. Given the different perspectives and mixed outcomes in countries that banned inducements, and in the absence of strong evidence of positive impact for investors, the proposed ban was not acceptable. However, it is also unclear whether the proposed principles and test will improve the service or if the EP rules on investment advice won't deviate focus from more important elements like cost-efficiency.

**Changes in rules may be needed, but key improvements may depend more on a new will than on new rules.**

The Council's value-for-money proposal also raises some concerns. The possibility to choose between peer-groups and EU benchmarks for the purpose of product comparison brings complexity. The EP's simpler peer-group approach raises doubts about the real advantage of introducing a mandatory product comparison with industry developed peer-groups. Although CMVM strongly endorses a value-for-money assessment, a product comparison with pre-established, mandatory peer-group/benchmarks may not be the right approach as it would lead to higher supervisory costs, may risk stifling innovation, may lead to unintended distortions in the financial market and be insensitive to different market conditions and to investors' needs and risk profiles.

The break in negotiations allowed for further consideration and, in light of the new context, a greater clarity and focus on the "take 2" of the RIS negotiation is to be expected.

In CMVM's view, making clear and comparable information available to investors will empower them to make decisions that better suit their needs. Introducing ways that make easier for retail investors to compare different (but comparable) products, notably in terms of costs and expected returns, is always a plus. But there are other unexplored areas at the EU level that might bring about the desired change. In particular, the development of the 2nd and 3rd pillars of the pension systems, crucial to complement the redistributive schemes in a vulnerable ageing EU, has also the advantage of allowing potential investors to become more familiar with the capital markets while enhancing markets' liquidity and scale. Financial literacy at this level is also key. However, independently of the effort that is still needed to integrate financial education in school curricula, the promotion of the 2nd and 3rd pillars will also incentivize more people to improve their knowledge and attitude towards capital markets, thus building a greater investment culture in Europe.

That said, can we attract more investors (i.e., spur the market's demand side) if the offering is unappealing in terms of financial returns compared to other alternatives? I do not think so. We need innovative and ambitious firms willing to compete with the best, for whom the capital market will be a strong option. These companies are the ones that will truly attract EU citizens to the capital markets. To foster this business environment, the SIU, including the RIS, need to be integrated into a holistic plan to promote productivity and competitiveness in Europe.



## COSIMO PACCIANI

Head of Unit, Group  
Research Hub & Chief  
Economist – Poste Italiane

### Back to basics: a bottom-up savings market

In a 1917 book, *'Postal Savings'*, Prof. W. Kammerer (Princeton University Press), investigated how the US working-class population, including European immigrants, was strongly attracted by postal deposits/savings. Among many reasons listed, the following ones stand out: the *"democratic atmosphere which pervades most offices"* and *"all the immigrants from main countries have postal saving banks at home"*, so they were familiar with the products and their relative safety (Europe was at war at that moment in time). These lessons mirror the principles underpinning the Commission's *Retail Investment Strategy (RIS)*: ease of access to financial products, transparency and accuracy of information, clarity on risk profiling of customers, protection of data and investments and, crucially, an adaptive investment culture.

The accent on 'Savings' firstly introduced by the Letta Report, also key to the *Capital Markets Union (CMU) – renamed Savings and Investments Union* – aligns with the geopolitical context. The role of finance has once more become the main building block in the upcoming upgrade of infrastructures and on keeping the ongoing efforts on different kinds of adaptation (e.g. climate change and reskilling).

Harnessing European savings by the public and private channels implies an alignment to society changes. Savings collection in our fast changing times needs to adapt, just as our responses to climate change, to new trends and the pervasive invasion of innovation in our lives, which is both a risk and an opportunity.

Some elements:

#### **Development of a bottom-up approach:**

The statement of the Eurogroup in March 2024 fostered the idea that retail investors are nowadays in the driving seat. Their investment choices and preferences are more skewed on a prolonged interval between annuity returns and fast profit seeking. Financing bodies should try and connect with these classes of investors by offering a greater diversity of products and by addressing the link between public/private financing needs and risk-time profiles of retail clients. The 'democratic'/no frills' approach highlighted in 1917 is similar to the current disintermediation drive, though investors' activism at retail level is becoming higher (a recent piece by the Wall Street Journal defined this the end of *"the Set&Forget investors"*).

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A completed SIU could be  
seen in terms of a new  
virtual space where to  
reconnect retail investors.

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#### **Impact of demographic and socioeconomic transitions:**

There is a drift of demand for savings products across demographic clusters: annuity-life products preferences among older generations are counterpointed by resilient demand for more cash-like products by the younger generations. There is also increasing demand for easier paths to redemption and revaluation of investments. Besides, policies will have to consider the impact of social media advisory and finance gaming platforms among younger generations. Last but not least, we may see the beginning of new products where wealth management, health insurance or care and welfare could be brought together, offering not only income but different layers of protection to an ageing European population, a kind of *"wealthfare"* offering.

#### **Financial education and digital innovation:**

It is increasingly difficult to separate financial education and digital awareness, as most of the

financial products today are managed through websites and digital platforms. Telephone advisory is becoming more and more managed via AI. Technology will allow the development of intuitive applications, where it will be important, in some form of gamification approach, to provide snippets of financial education and micro-training to customers, along the lines of language apps. Having said that, it remains important to define communication channels for every client to human-based advisory in order to provide more tailored support. Once again, innovation will boost productivity and reduce costs, but we should not ignore the key fact that the main engine of growth remains the trust of customers towards financial institutions.

#### **Data usage and customer feedback loops:**

Access to clients' data is a key feeding component of algorithms, now widely used by the financial industry. The way in which feedback data is collected varies from industry to industry, with the financial one already gathering information to improve systems. However, we may want to find solutions that will allow clients-citizens to be part of this data collection, building platforms that will allow for transparency on how data is used and offering some form of dynamic consensus and benchmarking on clusters of individuals' decisions as additional service. We might even want to build some public consortium of data analysis on collective trends, a kind of public alert system.

Somehow, the advent of a completed European SIU could be seen in terms of the 1917 analysis of *Postal Savings*: a virtual office, where clients will be offered a 'democratic', user-friendly and safe access to European saving products.



## MARTIN PARKES

Managing Director, Co-Head  
EU Policy – BlackRock

### Transforming retail investment: The role of financial planning advice

Well-functioning capital markets rely on a broad and diverse investor base of institutional and retail investors. Increasing retail participation in EU markets has the potential to create a virtuous circle which not only deepens capital markets but also drives sustained economic growth. However, the primary motivation for encouraging EU citizens to invest their savings should focus on enhancing their long-term financial well-being.

BlackRock's 2024 "People and Money Survey"<sup>1</sup> shows that only 34% of Europeans currently invest, lagging other developed markets. Among those not investing in capital markets, a significant number cite a lack of knowledge and understanding as major barriers, with 12% unsure about where to begin. These findings suggest that complexity and accessibility remain some of the main barriers to investing.

The overarching goal of regulatory reform should be to make investing more relatable and accessible to a wider range of people, particularly those who may feel excluded or overwhelmed by the breadth of traditional investment options or by the complexity of opening an investment account. Whether in the Retail Investment Strategy or the broader Savings and Investments Union project,

measures aimed at making medium and long-term investment accounts accessible and attractive across the EU, particularly by encouraging regular savings, boosting financial literacy through financial health checks, simplifying the onboarding processes for investment products and promoting accessible financial planning advice could go a long way to meet investor concerns.

In particular, we see a gap in the market for financial planning advice to help more retail investors navigate the current investment landscape. While many investors identify the need for advice, they often view existing advisory services as too expensive, burdensome to access or not tailored to their specific needs. Advisors are increasingly looking for new ways of providing advice which is better connected to the goals of mainstream retail investors, drawing on experience in non-EU markets, where we observe significant innovation and use of technology to develop intuitive advisory solutions for investors.

In this context, the RIS offers a unique opportunity to introduce such a simplified advice framework within MiFID II and ensure that all advisers can offer it, regardless of business model. These adjustments will allow advisory services to be more relatable and affordable to access and scalable to provide, addressing existing financial and psychological barriers.

**Financial planning advice has the potential to play a key role in encouraging greater retail participation.**

Simplified advice can use the existing MiFID target market regime for both product manufacturers and distributors as many of the suitability elements inherent in advice are already embedded in the product design and distribution processes. This allows the rollout of a simplified advice regime over a range of non-complex financial products designed to be suitable for mass-market retail investors while continuing to ensure high levels of investor protection.

In parallel, we recommend reviewing the MiFID definition of advice to provide clarity on when information becomes an implicit recommendation and when a recommendation can tip over into a personal recommendation, and hence advice, to reduce legal uncertainty and encourage market

participants to offer more support and information to investors.

Ultimately, we believe financial planning advice has the potential to play a key role in encouraging greater retail participation. Through accessible, personalized, and cost-effective solutions, financial planning advice, supported by digital tools, can empower retail investors to take control of their financial futures without sacrificing existing standards of investor protection. To achieve this vision, collaboration among policymakers and financial institutions to achieve the goal of motivating EU citizens to invest more to secure their futures.

1. BlackRock "People & Money" Survey. October 2024. Available here: <https://www.blackrock.com/uk/literature/brochure/people-and-money-infographic-emea.pdf>



## TAMAZ GEORGADZE

Chief Executive Officer –  
Raisin GmbH

### Unlocking the potential of retail investing in Europe

Retail investing is a crucial pillar of economic development and financial well-being. More engagement from households in investing would yield multiple benefits, including closing the pension gap, achieving better returns, and ensuring more efficient capital allocation in the real economy. Additionally, it would mitigate excessive intergenerational capital transfers, leading to improved societal outcomes. Given the immense pool of household capital in Europe, which amounted to more than EUR 32 trillion in 2023, even a marginal improvement—such as a one percent higher return on total capital—could create hundreds of billions in value annually. However, achieving these gains requires a pragmatic, goal-oriented approach that takes fostering cross-border investing, the lack of financial literacy, missing flexibility and tax neutrality into account.

#### Cash returns and retail investing

The current perception of retail investing as securities is too narrow. In Europe, more than one third (34.1%) of household assets are held in cash and deposits, which is unsurprising given the predominant role of banks in corporate financing compared to the U.S. This structural reality is unlikely to change rapidly, especially considering demographic

trends toward increased longevity and a general risk-averse mindset among consumers. Consequently, a more comprehensive perspective on retail investing must include optimizing returns on cash savings.

At Raisin, we are addressing this issue by focusing on returns on cash savings and inefficient local deposit behaviors. With central bank reference rates expected to remain positive for the next decade, there is significant potential for improvement. Currently, less than two percent of German savings are invested across borders (quite often European banks offer better returns on cash than local incumbent providers), highlighting the need for better consumer awareness of investment choices, proactive periodic assessments of idle cash, and increased access to competitive third-party deposit solutions through platforms.

#### Prioritizing goal orientation over formalism

Historical initiatives aimed at encouraging retail investing have often failed to meaningfully influence consumer behaviour. Overly formalistic requirements—such as obligations of wet signatures and excessive consent procedures—have added administrative burdens without delivering tangible benefits for customers and providers alike. A shift toward a goal-oriented approach is needed.

A graded assessment framework that evaluates investments along key dimensions, such as cost, transparency, diversification, liquidity, and expected performance, would be more effective. Instead of one-time assessments at the initiation stage, investors should have continuous access to such evaluations, allowing them to make informed decisions throughout their investment journey.

#### Enhancing financial education

While financial education is widely acknowledged as important, it needs to be practical, concise, and ongoing. The bulk of free capital is held by older citizens, who often operate under common misperceptions that cannot be effectively addressed through school-based financial literacy programs. The lack of financial knowledge led to almost 90% of adults in Germany saving actively, but only 18% holding investment products, according to an OECD study. Online tools providing personalized insights can help tackle issues such as European's unrealistically short estimates for their own life expectancy, view of investments in isolation rather than as part of a holistic

portfolio and overestimating their own actual liquidity needs.

#### Cross-border barriers in retail investing: Tax neutrality and more flexibility

Tax incentives play a pivotal role in shaping investment behaviour, and current frameworks in many European countries discourage retail investing. Some nations lack private pension plans, while others impose strict capital guarantees that conflict with the dynamics of capital markets. If member countries add national tax benefits to the pan-European pension product while avoiding mistakes like costly capital guarantees, they could drive broader retail participation in capital markets.

Despite the promise of the EU's single market, cross-border retail investing remains fraught with inefficiencies. Limited consumer options in smaller markets hinder competition and choice. There is an urgent need for policies that incentivize financial service providers to offer investment products to a wider audience, including citizens of smaller countries. Additionally, issues such as double taxation agreements and tax withholding complexities must be addressed to unlock the full potential of a truly integrated European capital market.

#### The EU needs pragmatic reforms to foster retail investing

In a difficult political time, Europe has the opportunity to significantly enhance household investment outcomes by adopting a pragmatic, goal-driven approach. By broadening the view of retail investing, streamlining implementation, strengthening financial education, ensuring tax neutrality, and addressing cross-border disadvantages, we can secure better financial futures for millions of Europeans.



## ALEKSANDRA MACZYNSKA

Managing Director –  
Better Finance

### Retail Investment Strategy – Will it make a difference?

The Retail Investment Strategy (RIS) was launched in May 2023. It emerged from the realization that many EU consumers, pension savers, individual investors and insurance policyholders alike, keep substantial savings in cash and bank deposits instead of investing them and improving their financial health and wealth. The political debate on enhancing trustworthiness and improving access to independent investment advice has now unfortunately closed. Moreover, the current political discourse on boosting retail investments centers on a forthcoming Communication on the “Savings and Investments Union,” effectively relegating RIS. However, from an individual investor’s perspective, several policy options mentioned both in the European Parliament’s and Council’s positions can still improve the status quo in the coming years, provided that the co-legislators keep EU savers’ best interests at heart during the trilogues beginning on 18 March.

A central question remains: Will the RIS proposal, considering the positions adopted by the co-legislators, encourage greater retail participation in capital markets and unlock the full potential of European capital markets? I believe it will, on the condition that the final legislative package is consumer-centric and the

co-legislators reach a compromise that has as its main goal facilitating retail investments in cost-efficient good quality products. BETTER FINANCE’s recent paper on the Parliament’s and Council’s positions on RIS may serve as a guidance through this process<sup>1</sup>. For instance, a ban on inducements for non-advised sales was a key demand from the retail investor community, yet it was removed from the EP position without a replacement. In contrast, the Council provides an inducements “test” and overarching principles that would be beneficial for individual investors. But there are several other elements that are worth working on.

An important area requiring simplification – that in turn could truly empower investors – would be the non-nonsense disclosures and re-instating the financial performance information in the PRIIPs Key Information Document (KID). In BETTER FINANCE’s view, the current future performance scenarios are misleading. Instead, individual investors would benefit from clear disclosure of past performance of the product alongside that of a benchmark. Therefore, we recommend that legislators remove references to “scenarios” in the PRIIPs Regulation.

The Value for Money (VfM) assessment process is critical. Quantification is necessary to compare costs and benefits of products with similar characteristics. The Council’s version includes requirement to “identify and quantify” all costs: For manufacturers, maintained and extended to “the other benefits of the product” (e.g. insurance risk cover) and for distributors maintained for any distribution costs not already taken into consideration by manufacturers. We support the requirement to identify costs and charges and performance and assess whether the former are justified in view of the latter (“VfM assessment process”).

**Consumer-centric  
RIS compromise  
may improve retail  
investments, boosting  
returns and trust.**

Likewise, the identification of VfM, where costs and charges are weighed against performance, must be both transparent and quantifiable. For benchmarking, the Council’s version rightly mandates the use of data published by ESAs, with methodologies defined in delegated acts, and permits national benchmarks only as

exceptions. This ensures a harmonised, EU-wide approach and prevents underperforming providers from adding unnecessary national specificities to their products to eschew European-level comparisons, undermining the Savings and Investments Union.

Furthermore, the “best interest of the client” test is a good example where both the Council and the EP could work out a compromise improving the current situation of individual investors. Ideally, in the final version we would see a mix of solutions including appropriate range of products from the EP’s version and recommendation of most cost-efficient product (a combination of the Council’s version with the EP’s addition on the need to justify recommending a higher-cost product).

From the perspective of an individual investor, a consumer-centric compromise reached during the upcoming trilogues could significantly improve conditions for retail investments. By endorsing clearer rules on inducements, insisting on straightforward financial performance disclosures, defining “cost-efficient” products, and providing a VfM framework with relevant assessments and benchmarking, co-legislators have an opportunity to empower individuals to make better-informed investment decisions and encourage them to put their savings to work in the real economy.

1. “Improving Retail Investment in the EU”  
<https://betterfinance.eu/publication/improving-retail-investment-eu-trilogues/>