

# Increasing retail investment

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## 1. Retail investment trends and challenges

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### 1.1 Importance of retail investment for the EU economy

A public representative emphasised that the current geopolitical changes highlight the urgent need for Europe to regain autonomy and strengthen its economic and financial position. This necessity has been highlighted in many recent reports, including the Draghi and Letta reports. Although Europe's economy has significant growth potential, with a population larger than that of the US, it is significantly less competitive. Up to €8 trillion could additionally be injected into the economy to bridge this competitiveness gap if citizens were empowered to invest. The Retail Investment Strategy (RIS) must reflect this urgency and support the broader goal of establishing a Savings and Investments Union (SIU) to fund economic growth within the EU.

An investor representative agreed that increasing retail investment and channelling the €10 trillion currently lying idle in bank accounts into investments is crucial for strengthening the European economy and society.

The Chair added that increasing retail investment is not only a financial necessity for the European economy, but also a matter of financial democracy, with retail investors too often being excluded from the market at present.

### 1.2 Trends and challenges to overcome

The Chair noted that retail investment is expanding in Europe. This growth is being driven by a new generation of investors who are being empowered by digital platforms that offer easier and cheaper access to markets. However, this shift presents challenges, as many new investors lack the necessary knowledge to safely navigate financial markets. There is a need for more active participation from retail investors across Europe, but safety and investor information must be preserved.

Research by the OECD in countries such as France and Portugal highlights that investors are increasingly self-directed and influenced by social media. They are often drawn to high-risk products, which is not necessarily an issue as long as the rewards are proportional. They are also more vulnerable to online scams and fraud. These risks are exacerbated by alarmingly low levels of financial literacy, with surveys revealing widespread misunderstanding of basic concepts such as return on investment and dividends. Enhancing financial culture is essential to achieving the objectives of the SIU, as informed and confident investors are key to financing the economy in a sustainable and impactful way.

An investor representative stressed that according to the Draghi and Letta reports and a number of recent reports on the Capital Markets Union (CMU), the main factors deterring retail investment are high costs, insufficient net returns, complexity, and the perception that the financial system is not sufficiently customer-oriented. European citizens are increasingly aware of the pension gap and the importance of long-term investment, and many would prefer to invest in the European economy and infrastructure close to home. However, the consistent underperformance of European investments compared to those in the US, notably due to high investment costs, remains a significant obstacle for many of them.

A regulator noted that the latest Eurobarometer survey, which is conducted yearly by EIOPA among a large group of European citizens, showed that high product costs and poor performance are major barriers to investment in insurance-based investment products (IBIPs), as is the difficulty investors have in understanding the products. Only 45% of respondents perceived value in these products, indicating a significant trust gap. While EIOPA's own assessments show that the proportion of valuable products on the market is higher, this investor perception must be improved.

An industry representative highlighted the results of a recent survey of 36,000 investors across Europe, which showed encouraging trends, with an increase of 11 million new investors since 2022 (approximately +11%), particularly among 25-to-44-year-olds and women. However, these trends differ significantly across member states. In addition, barriers to investment persist. One barrier is the perception among savers that they do not have enough money to invest. Many believe that they require a minimum of €8,000 to begin investing, which suggests a lack of awareness regarding the range of low-entry investment options available. It is important to promote small, accessible investment opportunities and the fact that investments can be built up over time without risking large sums of money. A second barrier is the lack of knowledge about investing.

The Chair observed that data on the French market showed similar results with many young people who started to invest during the pandemic.

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## 2. Update on the RIS proposal

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### 2.1 The need for simplification of the RIS proposal

A public representative stated that the RIS proposal will not be removed. While the initial RIS proposal was not fully adequate, there is now a broad agreement among the co-legislators on the improvements required. The RIS framework must be simplified and better aligned with the SIU objectives. Three main priorities for simplification were identified at the outset

of the trilogue negotiations: simplifying value-for-money rules through a peer-grouping approach; enhancing disclosure requirements under the MiFID and IDD directives to remove redundancies and focus on essential information; and improving the consumer journey to facilitate market access for retail investors with targeted refinements to MiFID and IDD requirements.

An investor representative considered that although the initial proposal fell short of expectations, the RIS still brought hope for progress and could be helpful in simplifying the investment process for retail investors, e.g. by fixing the PRIIPs KID. The RIS includes some constructive elements, such as its aim to enhance value-for-money, transparency on cost and inducements and provides an opportunity to fix the PRIIPs KID (re-instating the past performance and getting rid of future performance scenarios)

A regulator stressed that the main concern with the RIS proposal is its complexity. While each element of the proposal makes sense individually, combining them creates a complex framework that may ultimately deter retail investors. In particular, a more efficient and less burdensome approach must be found for value-for-money assessments, so that supervisors and investors are provided with relevant information without processes becoming overly complicated. This will enhance retail investor trust and engagement.

Another regulator agreed that simplifying the investment journey can lead to better matches between clients' needs and financial products and that retail investor requirements need to be simplified to increase their level of engagement. EIOPA's mystery shopping studies indeed show that a longer and more elaborate sales process does not necessarily improve client outcomes.

An industry representative emphasised the importance of adaptation in addition to simplification. The RIS must be able to adapt to ongoing changes in the market such as digitalisation and the increasing impact of social media. It must also facilitate the use of technology to make investment products more accessible and transparent. The RIS must therefore strike a balance between innovation, simplification and safety to ensure that financial products remain clear, accessible and safe and that processes can adapt to the new digital environment.

## **2.2 Improvement of value for money and information requirements**

An investor representative was favourable to the adoption of value-for-money measures and supported the Council's approach of introducing a structured methodology to assess the value-for-money of investment products based on objective quality and cost criteria. However, the speaker was concerned that the peer-grouping method proposed in the RIS could mislead investors by comparing inefficient products sold in Europe. Transparency regarding costs and incentives is also essential to enable investors to make informed decisions. In this regard, the proposals of both the Parliament and the Council to simplify the Packaged Retail and Insurance-based Investment

Products (PRIIPs) Key Information Document (KID) are welcome. The KID should focus on past performance compared to benchmarks, and unhelpful future performance scenarios should be removed. The requirement to clearly identify inducement-free products is also positive.

A regulator welcomed the proposals on value-for-money, a concept on which EIOPA has been working for several years. EIOPA has developed a methodology for assessing value-for-money, mainly through product-sensitive benchmarks. The aim is to support supervisory action and remove outlier products from the market. Ideally, this should be done pre-emptively, addressing issues before products reach the market, in order to improve outcomes for retail investors. However, concerns have been raised that the peer-grouping approach proposed under the RIS could create a dual system, complicating supervision and imposing additional costs. A European-level benchmarking system managed by the European Supervisory Authorities (ESAs) would be preferable.

An industry representative noted that the benchmarking approach, if adequately designed, could contribute to achieving a more coherent regulatory framework across financial sectors with more consistent requirements between securities and insurance-based products, for instance.

Another industry representative stressed that retail investment policies must focus on meaningful outcomes, such as encouraging market participation, long-term holding of investments, and cost-conscious investing. This should lead to a two-tier framework. Complex products should have full disclosures and rules preventing sales to certain types of clients, and simpler, meaningful products should be more widely accessible with minimal barriers. Excessive disclosure and benchmarking requirements for simpler products could deter retail participation, rather than protect investors.

## **3. Priorities for developing retail investment beyond the RIS**

### **3.1 Main actions needed beyond the RIS to foster retail investment**

The Chair noted that further targeted action is required in the areas of financial literacy, advice, and product information, beyond the RIS measures. Additionally, digital tools must be employed more effectively to encourage retail engagement.

An industry representative emphasised that tax regimes also play a key role. Cross border market fragmentation within the EU, which is primarily caused by divergent tax regimes, must be addressed, as it increases costs and inefficiencies and reduces the addressable market in Europe for cross-border investors. Taxes differ across Europe for similar retail products such as exchange traded funds (ETFs), and there are local specificities for pension and tax-incentivised products. Harmonising tax treatment

across products and countries is essential to building a simple, understandable, and efficient retail investment environment in Europe, which would lower costs and encourage greater participation. The Chair added that tax treatments differ across the EU even for the simplest products such as shares and bonds, which is an obstacle to retail investment.

An investor representative warned that certain new ideas, such as the assumption that retail investment in crypto-assets could spur investment in traditional assets, should be approached with caution, given the lack of supporting evidence. In order to increase retail participation in capital markets effectively, efforts should focus on replicating and expanding proven models such as Sweden's Investment Savings Account (ISK). This initiative has succeeded in streamlining processes with investor-friendly features such as automatic tax declarations, encouraging widespread adoption. Today, around 40% of Swedes hold an ISK and actively invest, integrating investment decisions into their daily lives. Therefore, enhancing simplicity and accessibility is essential to meaningfully boost retail investment in capital markets.

### 3.2 Financial and digital literacy

A regulator stated that evidence, such as a study conducted in Germany in 2023, shows a clear link between financial literacy and retail participation in capital markets. In Portugal, a comprehensive financial education programme was set up in 2011, involving the three supervisory authorities in partnership with the Ministry of Education and industry associations. The programme was designed to reach all segments of the population. This programme has led to positive micro-level initiatives and has developed greater awareness among citizens of their limited understanding of investment issues. However, survey results indicate that financial literacy in Portugal remains weak overall, particularly with regard to knowledge of core financial concepts.

Rather than creating a new strategy, the Portuguese supervisors have chosen to work on developing a methodology to assess the effectiveness of their action, which is expected to happen under the Technical Support Instrument (TSI) EU programme.

According to the speaker, financial literacy initiatives should be a structured, compulsory part of the school curriculum. Secondly, the lack of financial literacy should not be an excuse to delay the implementation of other key measures for capital markets development: these actions must be developed alongside other measures and incentives to encourage retail investors to participate in the market, since financial literacy also grows through direct engagement with financial services and experience of investing.

An industry speaker agreed that financial literacy should be included in school programmes and also be improved throughout adult life. Potential investors also need regular financial nudges and health checks to encourage them to take their first steps and invest regularly.

The Chair noted that in Asia, financial literacy is part of the school curriculum. In the EU, an OECD/EU

Commission competency framework has been recently developed, that details what should be taught in schools and how it should be taught for children and youths between the age of 5 and 18. Three age clusters were identified. An adult competency framework has also been recently produced by the OECD and the European Commission.

An investor representative observed that while increasing financial literacy is important, given that many European savers have limited knowledge of capital markets, it is not a panacea. For example, a study by the Central Bank of Ireland shows limited correlation between financial literacy and proactive investment behaviour.

An industry representative emphasised that in Italy, bridging the digital divide and improving financial awareness are viewed as closely-linked objectives, as people must acquire digital skills to enhance their financial literacy and navigate investment platforms and AI-powered advisory tools. Moving beyond basic financial education towards building a genuine risk culture is also vital.

A public representative agreed that digitalisation and financial literacy are central to achieving the SIU. People must have the adequate knowledge and tools to seize investment opportunities. Digital innovation offers opportunities, such as the possibility for more interactive KIDs and for comparison tools, as proposed in the RIS, but it also exposes consumers to new risks like unscrupulous influencers potentially operating across borders, exploiting unregulated spaces to promote risky investments like crypto assets. The RIS introduces rules to better supervise these actors and practices.

Knowledge can also empower investors and reduce inequalities among them. The experience of the Nordic countries shows that lifelong engagement with investment decisions, for example related to pension schemes, builds more informed and confident investors. Financial literacy actions need to be embedded across all stages of life, such as in schools, workplaces, and families, in order to build a practical investment culture. Policy-makers and regulators, both at the EU and national level, have a role to play in this space. The establishment of a public forum to facilitate the exchange of best practices between public and private stakeholders proposed in the RIS is essential for fostering such an investment culture across Europe.

An industry representative stated that beyond financial education, behavioural aspects must be considered. Boosting retail investment requires targeting primarily affluent individuals who currently hold large amounts of idle savings. These investors are typically around 57 years old, and not from the younger generations. Two key behavioural biases must be overcome. First, many investors of this generation underestimate their life expectancy and therefore their investment horizon, mistakenly assuming they cannot invest with a long-term perspective. Second, they often lack a holistic view of their entire portfolio, focusing only on new investments while ignoring existing holdings such as savings and capital-guaranteed products. As a result,

they assess risk at the individual product level rather than across their overall portfolio, which leads to an excessive preference for low-risk assets like bonds. Tackling these behavioural barriers is crucial to effectively mobilise the €10 trillion currently held in bank deposits in the EU.

### **3.3 Improving the advice framework to support financial planning**

An industry representative suggested a more proportionate approach to MiFID advice requirements to facilitate the development of standardised digital financial planning solutions that could meet the needs of many retail investors better than comprehensive portfolio advice. Investment advice is essential for retail investors, but current services remain rooted in an outdated, in-person model that is poorly suited to today's digital reality, where visits to bank branches are rare. Rather than conducting exhaustive suitability checks for every product, advice should focus on helping clients articulate their financial goals and delivering streamlined, accessible planning solutions. Such innovation would empower savers more and promote wider market participation.

An industry representative agreed that digital tools can be effective, but they should be complemented by human advisory services at branches, offering

empathetic and more personalised support. In addition, many customers tend to trust digital bots, making it essential that they know how to use these tools effectively.

The industry representative added that services must be adapted to the needs of different age groups and levels of digital readiness. Older customers tend to prefer low-risk, income-generating products, and in-person contact, whereas younger investors are generally more open to risk and digital channels. Digital innovation can also help to achieve more precise customer profiling and adjust the level of service with continuous feedback, provided this is done in a transparent way.

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## **4. Conclusion**

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The Chair concluded that the panel had demonstrated the complex balance needed between regulation, innovation, financial literacy, and market engagement. Achieving a safer, more rewarding environment for retail investors with improved information and financial knowledge is essential for boosting savings mobilisation and building a stronger European economy.