



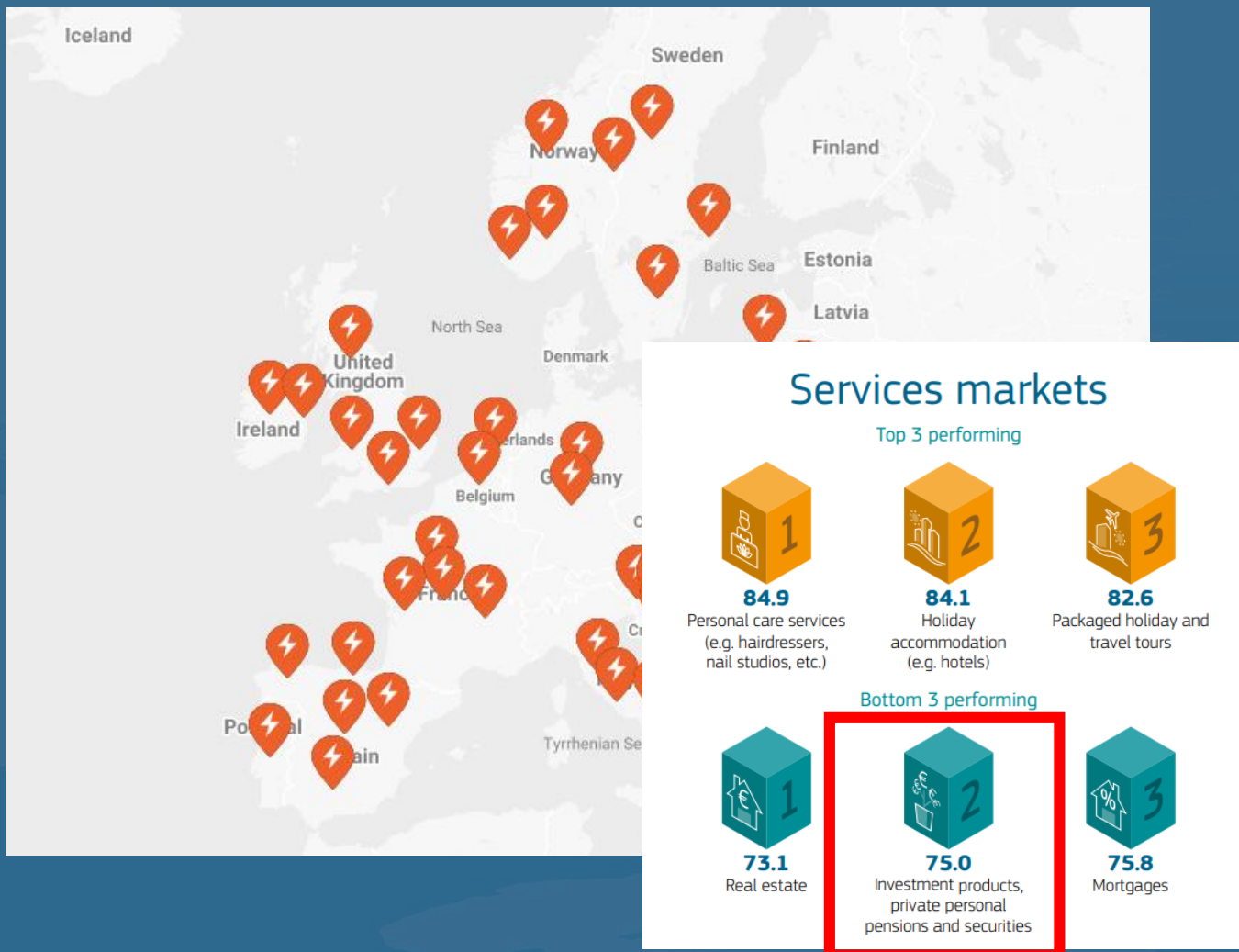
The Price of Bad Advice

CEPS-ECMI – ‘Refocusing the agenda on retail investors’
Brussels

Monique Goyens, Director-General, BEUC

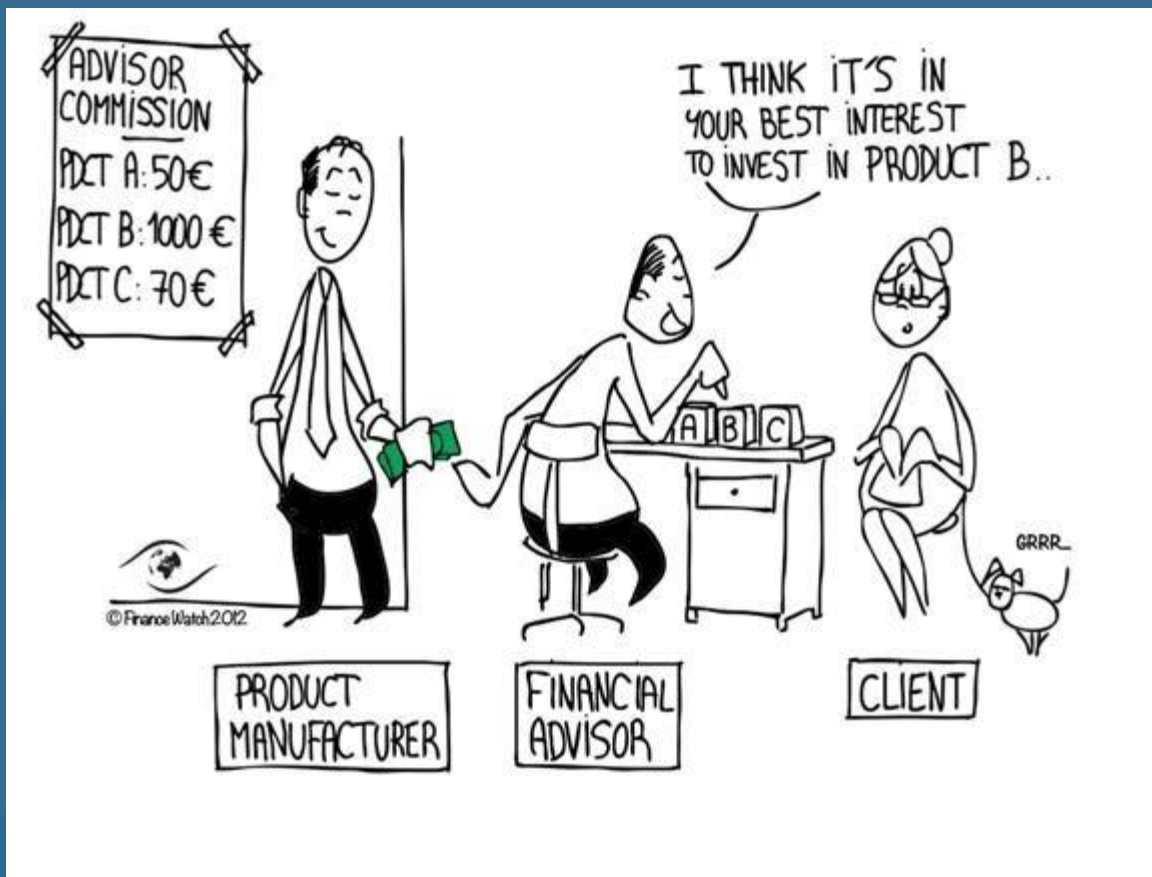


THE PRICE OF BAD ADVICE IN EUROPE



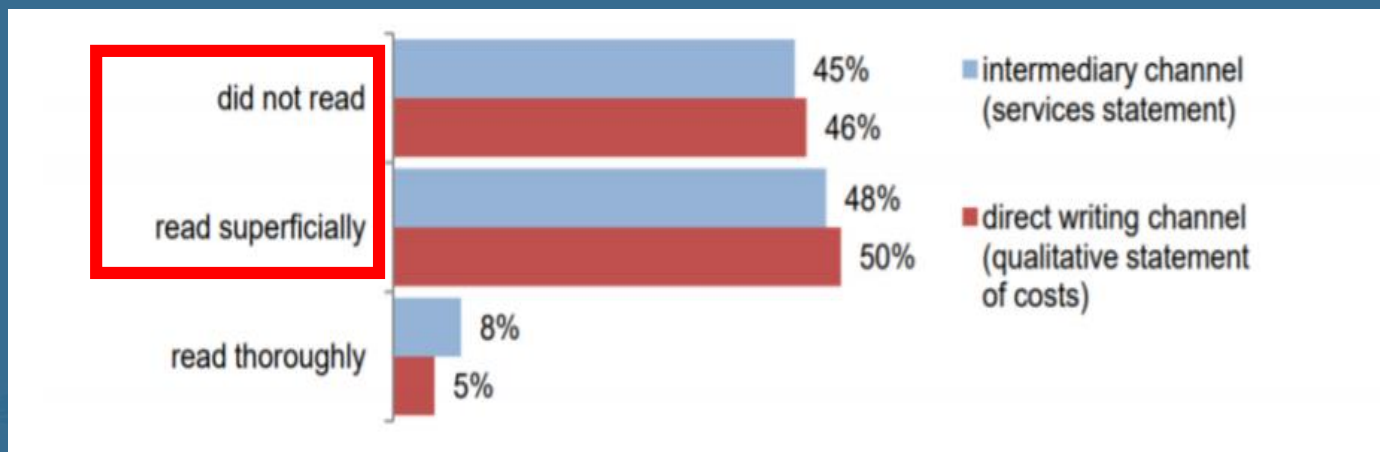
- 40 cases where consumers received bad financial advice from eighteen EU countries
- Inadequate financial advice remains an urgent problem in EU
- Retail investment market second-worst performing according to most recent EU Consumer Scoreboard

THE ROLE OF COMMISSIONS IN BAD ADVICE



- Legacy of mis-selling scandals
- Conflicts of interests
- Incentive to sell products, rather than suitable advice
- Incentive to sell higher-cost products that attract higher commissions
- Products recommended limited to those with a commission attached

THE FOG OF DISCLOSURE



A **minority of Dutch consumers** carefully read disclosure information about commissions paid to advisers

MiFID II requires **disclosure of commissions** to consumers in case of non-independent advice

Disclosure **not a substitute** for real regulation:

- Few bother to read
- Few understand what they read
- Information overload
- Does not improve decisions
- Few consumers shop around for less costly advice

IS THERE A BETTER WAY?



The Netherlands **banned commissions** for:

- All retail investment products (2014)
- Mortgages and complex investment products (2013)

“We wanted **a change in culture** with financial service providers, **a change from product pushing to advice** in the (best) interest of the customer.”

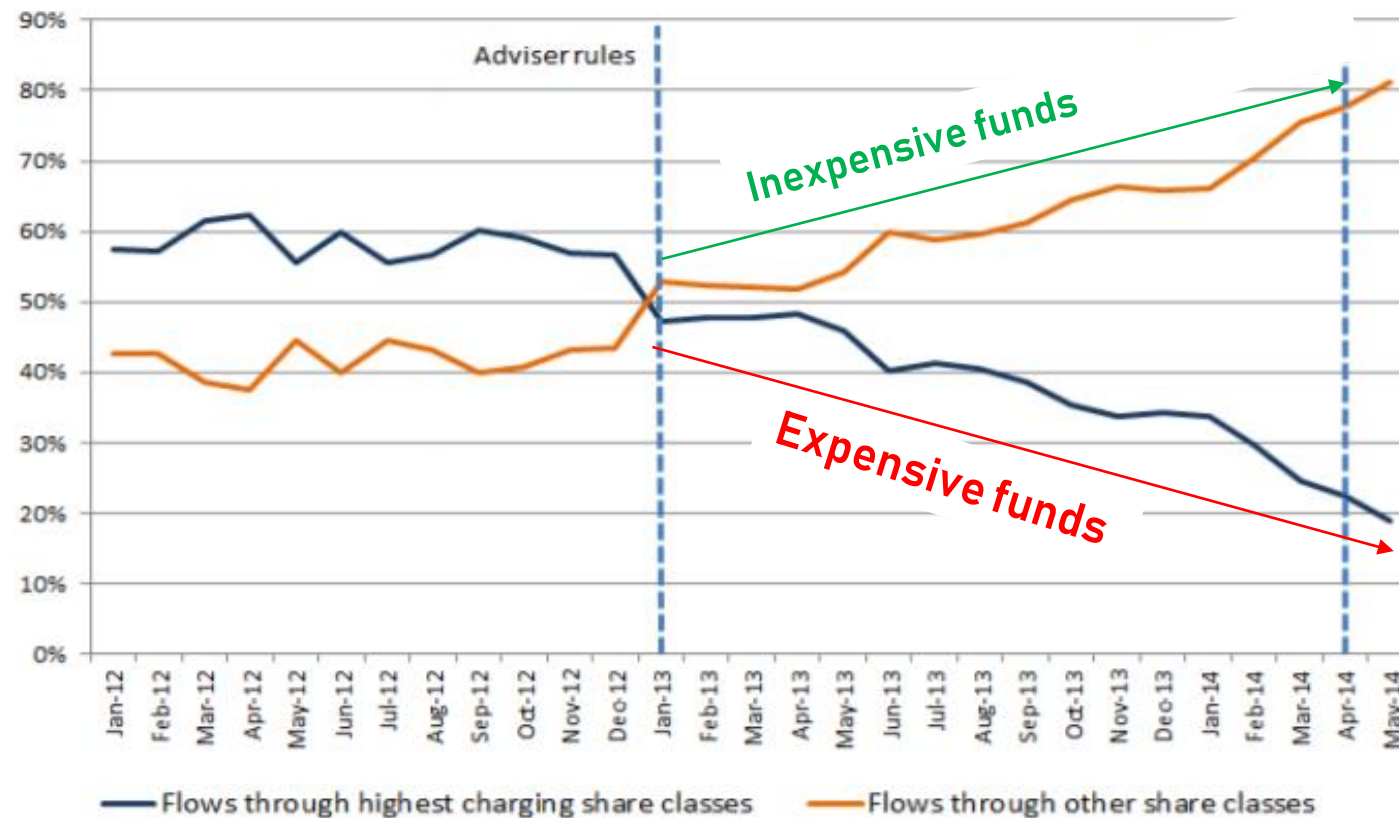


The UK's **Retail Distribution Review** banned third-party commission payments for retail investment products (2013)

“One of the principal aims of the Retail Distribution Review (RDR) is to allow consumers to have confidence that the advice they receive is in their best interests and that **advisers are not simply recommending providers which pay the highest commission.**”

WHAT HAPPENED AFTER COMMISSION BANS?

Figure 6.2: Gross retail flows through highest-charging class shares and other shares



In 2018, the UK and The Netherlands carried out reviews of their commission bans:

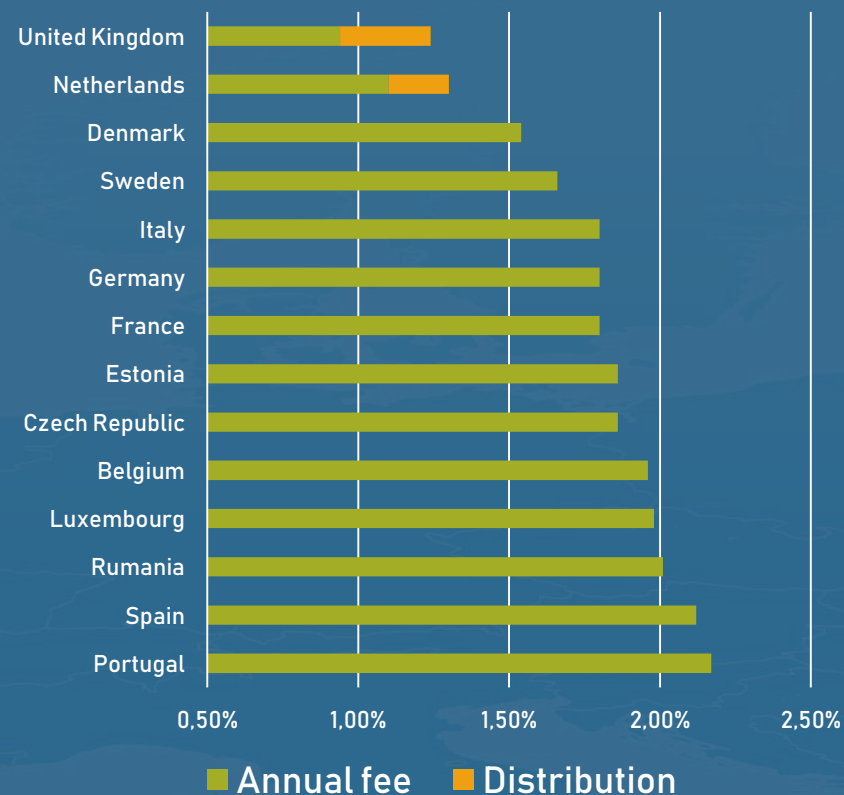
- Reduced **conflicts of interests** for financial advisers
- The **quality of advice** delivered to consumer increased
- No more **commission bias**
- Increased **sale of lower-cost investment products** to consumers

COMMISSION BAN LEADS TO LOWER COSTS

European Commission Retail Distribution Study (2018):

- Products **carrying low fees rarely recommended** to consumers
- Independent advisers in the UK recommend **low-cost investment funds** to consumers (such as ETFs)
- UK and Dutch consumers invest in the **lowest cost investment funds** in Europe

Ban = price competition = lower cost



Source: EU Commission / Norwegian Consumer Council



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Thank you for your attention

Find out more:
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