



The Consumer Voice in Europe

Innovation for retail investment

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Roundtable COM

07/02/17

Intro

- Digitalisation/fintech: new trends
 - online distribution
 - new players & services
 - big data
- Financial *advice*: urgent change needed
- Automated *advice*/on-line distribution: first findings
- Regulatory challenges

Financial *advice*

- Facts: **35%** of retail investors trust investment services providers/**57%** personal recommendation are not suitable
- **Mystery shopping:** public authorities/BEUC members show consumer detriment
- ESMA: MiFID I rules on suitability not enforced
→ **Mis-selling cases abound:** from closet tracking to sales of overly expensive & complex products
- CMU study of retail investment distribution

Automated *advice*: too good to be true?

- Fintech claims:
 1. Cost-cutting potential/unlock access to affordable advice for mass market consumers
 2. Transparency on costs/user-friendly experience
 3. Access to cost-effective products (ETFs etc)

Automated *advice*: first member reviews

UK Consumer panel (FSCP): 15 on-line investment services surveyed

- regulatory distinction between guidance/advice + its implications not clear
- **only 1 in 15 consumers** can correctly calculate the total cost of a £1000 investment
- several advisers promoted “all-in” fees **without including additional costs**
- difficult jargon

Automated *advice*: first member reviews

Which?: 3 on-line *advice* services surveyed (not exec-only)

- after questionnaire all consumer receive similar portfolio servicest, but one did not offer “regulated advice”
- annual costs between 1.2- 1.3% (including initial charges, annual advice fees/annual mgmt fees/fund costs –mostly trackers)
- fees hard to calculate, but **cheaper than independent financial adviser** (3% initial charges, 0,5 % annual fees, 1% ongoing)

Danish Consumer Council: general remarks

- automated advice/portfolio management available for around **1% all-in fees**
- BUT Danish banks take (unnecessary) cut by controlling access to securities infrastructure (0,5% mark up?)

Automated *advice*: regulatory challenges

- **blurring boundaries** between services: consumers need to know what they are getting and what they are NOT getting
- promises on **cost-transparency** should be fulfilled
- supervision of **algorithm**: risk of mass mis-selling?
- specific rules for “**online journey**”
 - how to deal with conflicting answers in questionnaire?
 - necessity of on-line journey “stops”
 - possibility of human interaction (for regulated advice)
 - human check on every automated recommendation (for regulated advice)
- conflicts of interest exist in online environment as well (e.g. role ‘short-lists’ & research with exec-only), **role of inducements**



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