

The Consumer Voice in Europe

Innovation for retail investment

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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?)

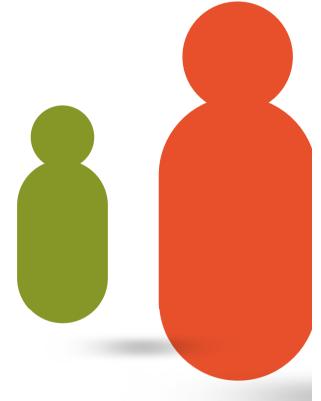


Automated *advice*: regulatory challenges

- 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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