Distribution systems of retail investment products across the European Union

Final report

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1 Introduction

1.1 Context and objectives of the Study

The European Commission's mandate for the current executive period focuses on 10 top priorities,[1] one of which is "Jobs, Growth and Investment", which aims at stimulating investment for the purpose of job creation. Since November 2014, an all-encompassing policy tool has been deployed to ensure that Europe achieves these objectives of creating a market with better jobs, sustainable growth and with strong, steady investment. This tool was meant to overcome and reverse the aftermath of the 2008-2012 financial crisis with its Investment Plan for Europe (the Plan).

This Plan aims at mobilising circa 315 billion EUR in three years (2015-2017) to support and create investment in the real economy.[2] To help create an investment friendly environment within the European Union, the Plan targets progress towards the Digital Single Market, the Energy Union and the Capital Markets Union.

The Capital Markets Union is set to offer businesses greater choice of funding at different stages of their development and to provide more options and better returns for savers and retail investors.[3]

The acceleration towards completing the Capital Markets Union was further emphasized in the communication released by the European Commission following President Juncker's 2016 State of the Union address. Specifically affecting the retail investment market, the European Commission highlighted how "the CMU aims to put European **savings to better use**, improving the efficiency through which **savers and borrowers are matched**, and increasing the performance of the EU economy. Retail investor **engagement** is a critical challenge for the development of a stronger capital market in the EU. This requires greater **confidence among retail investors**, and **transparency** to help investors to make the right investment decisions".[4]

The end-goal is to build an integrated capital market in the European Union by 2019. To achieve this, the European Commission has set up an Action Plan structured in 33 separate actions. These actions are entrenched in the different pillars through which it deploys this Action Plan:

- Financing for innovation, start-ups and non-listed companies;
- Making it easier for companies to enter and raise capital on public markets;
- Investing for long term, infrastructure and sustainable investment;
- Leveraging banking capacity to support the wider economy;

[1] European Commission, 'Priorities'. Accessed October 2016. Available at: https://ec.europa.eu/priorities/index_en
[2] European Commission, 'Investment Plan'. Accessed October 2016. Available at: http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en
[3] Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions – Action Plan on Building a Capital Markets Union, COM (2015) 468 final, 30.9.2015.
[4] European Commission (2016), "Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee Of The Regions Capital Markets Union - Accelerating Reform". COM (2016) 601 final. Available at: http://ec.europa.eu/finance/capital-markets-union/docs/20160914-com-2016-601_en.pdf

- Facilitating cross-border investing; and
- Fostering retail and institutional investment.[5]

Generally, less than half of European households (43%) invest in any type of financial product with the notable exception of Sweden – where more than 60% of households invest – as Swedes seem to be culturally more open to making investments than the average Europeans.[6] In line with their rather conservative nature in terms of investment, the vast majority of Europeans (80%) have savings to act as a buffer for emergencies and unpredictable expenses, see **Table 1.**

Table 1: Proportion of households saving and investing across Member States

	Belgium	France	Germany	Italy	Netherlands	Spain	Sweden	UK	***Average***
Survey respondents who have savings (%)	83%	87%	75%	79%	78%	81%	75%	79%	***80%***
Survey respondents who invest (%)	42%	33%	44%	45%	27%	44%	61%	43%	***43%***

Source: Blackrock 2017 Investor Pulse survey (2017)

In order to support further policymaking, we have been asked by the European Commission to carry out a Study on distribution systems of retail investment products across the European Union, analysing specifically:

- The supply of retail investment products through various distribution channels;
- The access to financial advice by retail investors and related risks and benefits;
- The impact of online distribution on the retail investment offering, notably on the breadth and terms of the offer, and on investor protection; and
- The risks and benefits of new distribution models developed by Fintech companies.

Therefore, with this Study we aim to provide a sound understanding of the market for retail investment products, covering its size and functioning, specifically in relation to the type of distribution and intermediation channels available for retail investment products. The Study also covers the access to and quality of the advice delivered to consumers. Finally, it will allow for an assessment of the information made available to the retail investor and its compliance with applicable regulations as well as the pricing and cost structures across representative European Union Member States.
In summary, the expected principal outcomes of this Study are:

- Comprehensive assessment of European markets for retail investment products;
- Data on the costs of the retail investment products' offering;
- Information on the quality of advice services by advice type; and
- Analysis of the impact of new online distribution models on the retail investor.

1.2 Basic methodological considerations

The purpose of this Study is to provide facts and figures on the current functioning of European markets for retail investment products. Member States in scope of the Study

[5] European Commission, 'Capital Markets Union'. Implementation table. Accessed October 2016. Available at: http://ec.europa.eu/finance/capital-markets-union/implementation-table_en.htm
[6] Blackrock 2017 Investor Pulse survey

are the following: Belgium, Czech Republic, Denmark, Estonia, France, Germany, Italy, Luxembourg, the Netherlands, Poland, Portugal, Romania, Spain, Sweden and the UK. The tender requirements posed specific methodological challenges as this study had to cover different types of investments products that fall under different regulations. We were not able to identify a suitable existing methodology which would set a common framework for all types of products and related regulations across the countries in scope. As a result, we needed to develop a methodology specifically for this project that would allow for a coherent study of the distribution of different types of investment products to retail investors as well as comparability with other previous studies on the topic. A major element of the methodology that will be described in detail over the whole report is the application of two data collection methods that explicitly mimicked the behavior of a financially less sophisticated retail investor seeking for information and advice on investment products. Furthermore we relied on classical methods of data collection, e.g. desk research, literature review, online surveys and interviews with relevant stakeholders. Finally, the list of companies that were covered in the study was created with the intent to cover 80% of the retail market in terms of assets under management in each country.

In the first step, we mimicked the behaviour of a retail investor that was seeking information on investment products offered by distributors of investment products (banks, insurance companies, fund supermarkets, robo-advisors and social trading platforms). This would allow us to understand the breadth and diversity of products on offer and to compare fees. Our researchers therefore visited the websites of these distributors and recorded the information (particularly information on costs and charges) provided for each presented investment product under the "retail customer" sections. For the sake of this study, the term distributor refers to a financial institution that actively proposes and sells investment products to retail clients, no matter whether these investment products are in-house products or manufactured by a 3rd party.

In the second step, we mimicked a retail investor who was seeking advice/assistance in order to help him choose the investment product(s) that responded to his needs. Our researchers carried out a mystery shopping exercise covering different types of advice, i.e. non-independent advice through a bank or insurance company, independent advice through independent financial advisors (IFAs) and automated advice through robo-advice platforms. Mystery shops were executed in 10 Member States: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Poland, Spain, Sweden and the United Kingdom (UK). While we have undertaken all reasonable efforts to design and conduct the mystery shops with a view to capture and analyse the quantitative and qualitative aspects of the different types of advice, this method is limited. A detailed explanation of the method's limits is given in the annex.

This "retail investor view" allowed us to collect data that, within the limitations of the methods applied, reflect the experience a retail investor is confronted with when looking for information and advice on investment products.

Annex 1 contains a detailed description of:

- The main criteria used in the selection of the Member States in scope of this Study, as the panel of Member States aims to strike a balance between market sizes, dates of integration in the EU, and the variety of policy frameworks in place;
- Definitions used in the Study, relative to:
    - Investment advice: retail investor, execution-only, discretionary management, investment advice;

    - Investment products in scope: investment funds, listed bonds and equities, life insurance products, pension products;
    - Distribution channels in scope: banks, insurance companies, IFAs, fund supermarkets, robo-advisors, social trading platforms;
- Data collection methods applied along the course of the Study, which are briefly described below.

The specific analysis framework used to analyse the collected data is specified in each section.

2 Mapping of the distribution systems for retail investment products

In this section we assess the availability of different investment products to European retail investors. Results are based on publicly available data from Eurostat and OECD.

Section 2.1 provides a high-level overview of the retail investment landscape in all 28 EU Member States, by considering statistics on the financial situation of households across the EU. This information should help to set a general framework for the rest of Study which will provide a retail investor's view of the supply of investments products, the access to financial advice and the impact of online and Fintech solutions.

Section 2.2 provides an overview of the Member State-specific composition of the financial assets of the average household in the 15 Member States in scope of this Study, including but not limited to the investment products that are targeted in this Study.

Sections 2.3 and 2.4 provide a bottom-up view of which types of products are actively distributed to retail investors, either through the webpages of the distributors or through advice given to customers. This part of the Study is based on the large data collection exercise carried out on the websites of the distributors of investment products (e.g. banks, insurance companies and robo-advisors) in the 15 member States as well as the Mystery Shopping exercise carried out in 10 Member States.

In section 2.3 we give an overview of those products that are explicitly distributed by financial institutions through their websites. These products are therefore considered to be easily accessible to a financially non-sophisticated retail investor seeking for information.

Section 2.4 maps the products that were proposed to mystery shoppers when seeking advice either through personal interaction with banks and insurance companies or robo-advice platforms.

For a detailed view of the products offered through fund supermarkets, online brokers and social trading platforms, please refer to Section 8.

2.1 Overview of financial assets of households in the European Union

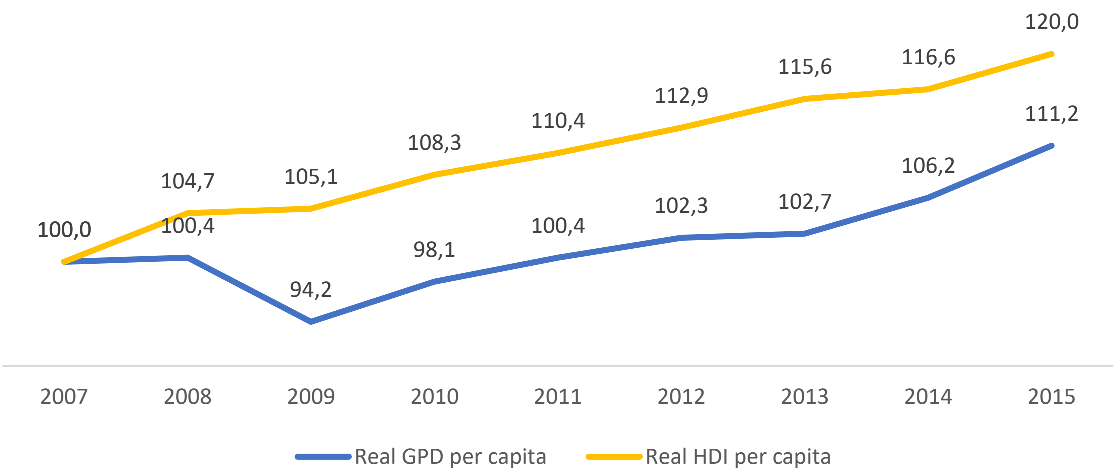
Today the EU has a population of more than 511 million,[7] with an average age of 42.6.[8] In 2015 the aggregated nominal GDP of EU-28 was above 14.8 trillion EUR,[9] leading to a GDP per capita of 28,900 EUR.[10] The average household's annual income was slightly above 28,000 EUR.[11] According to Eurostat data, EU-28 households own more than 33 trillion EUR of cumulated financial assets, and their financial liabilities were equal to 30% of their financial assets on average in 2015.[12] This proportion, however, varies

[7] Eurostat: http://ec.europa.eu/eurostat/web/population-demography-migration-projections/overview
[8] Eurostat: http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing
[9] Eurostat: http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP
[9] IMF
[10] Eurostat: http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP
[11] OECD
[12] Eurostat: http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP

significantly across Member States. For instance, households in Denmark (45%), Portugal (43%), Luxembourg (42%), as well as in Estonia (39%), Spain (38%), the Netherlands (38%), and Poland (38%) show a financial asset-to-liability ratio well-above EU average. Conversely, financial liabilities of households in Belgium (20%) and Italy (20%) represent a much lower proportion of their financial assets.

Using pre-financial crisis figures (2007) as a baseline, **Graph 1** illustrates the changes in households' disposable income and the seasonally adjusted GDP per capita since 2007. Households' average disposable income has experienced a continuous growth from 2007 to 2015, increasing on average by 20% over 8 years across the EU. In Poland (52%), Estonia (44%), Czech Republic (32%) and Denmark (29%) this progression has been especially strong, whereas it has been below average in Portugal (10%), Spain (10%), the Netherlands (7%) and Italy (6%).

Graph 1: Real GDP per capita and household disposable income per capita Index 2007=100, seasonnaly adjusted



Source: Eurostat (2007-2015), OECD (2007-2015)

To a lesser extent, real GDP per capita has also increased. After a sharp decrease of 6.20% in 2009, EU-28 average real GDP per capita has gradually increased and reached its pre-crisis level in 2011. The upward trend continued afterwards, with a notable increase of 5% in 2015.

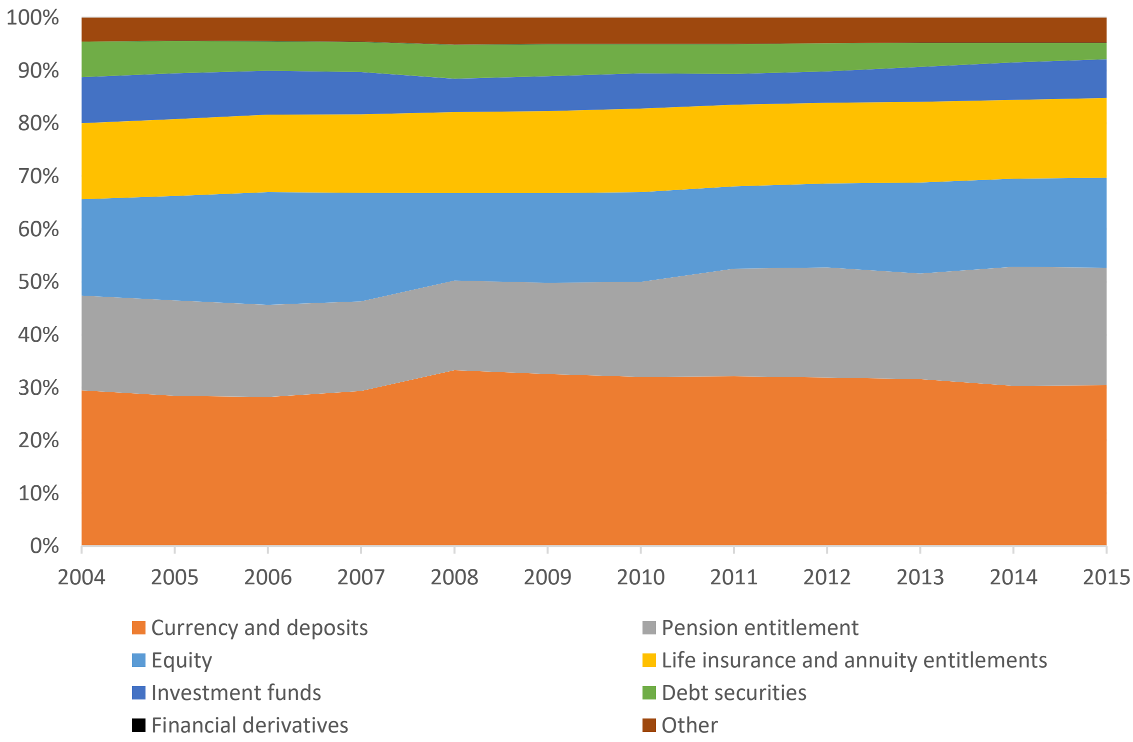
Based on Eurostat data, we analysed the composition of the financial assets held by EU-28 households (**Graph 2**). The categories and sub-categories are defined as follows:[13]

- Currency and deposits includes: currency in circulation, transferable deposits, inter-bank positions, other transferable deposits and other deposits, both in national and foreign currencies.

[13] Please note that it is our understanding that there is no overlap between financial assets categories and for more details on classification of assets you may refer to : European system of accounts (ESA 2010): http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334

- Debt securities includes: short-term debt securities and long-term debt securities, including structured products.
- Investment funds includes: money market fund shares/units and non-MMF investment fund shares/units.
- Life insurance and annuity entitlements includes: financial assets representing policy and annuity holders' claim against the technical reserves of corporations providing life insurance. This category includes life insurance (both unit-linked and non-unit linked), as well as voluntary pension subscribed on individual initiatives (not linked to employment).
- Pension entitlements includes: pension entitlements either from employer(s) or life (or a non-life) insurer, claims of pension funds on pension managers and entitlements to non-pension benefits. It is our understanding that this definition refers to funded occupational schemes, excluding entitlements from both state-run pension systems and voluntary private pensions. As mentioned, voluntary private pensions are included in the Life insurance and annuity entitlements category.
- Equities includes: listed shares, unlisted shares and other equity.
- Financial derivatives includes: financial derivatives (e.g. options, forwards and credit derivatives) and employee stock options.
- Other includes: loans, non-life insurance technical reserves and provisions, and monetary gold and special drawing rights (SDRs).

Graph 2: Structure of households' financial assets in EU-28 since 2004



Source: Eurostat (2004-2015)

Overall, the composition of households' financial assets in EU28 has been relatively stable since 2004. Currency and deposits has remained the largest asset class. After a

period of increase from 29% in 2004 to 33% in 2008, this portion gradually decreased to 30% in 2015.
After a long period of stagnation around 17% between 2004 and 2008, the proportion of pension entitlements started to increase gradually and reached 22% in 2015. The portion of equity has seen a brief period of increase between 2004 and 2007 when it reached its peak level at 21%. In 2008, the percentage of equity of total households' financial portfolio fell to 19%, and stagnated around 15% in the following years.

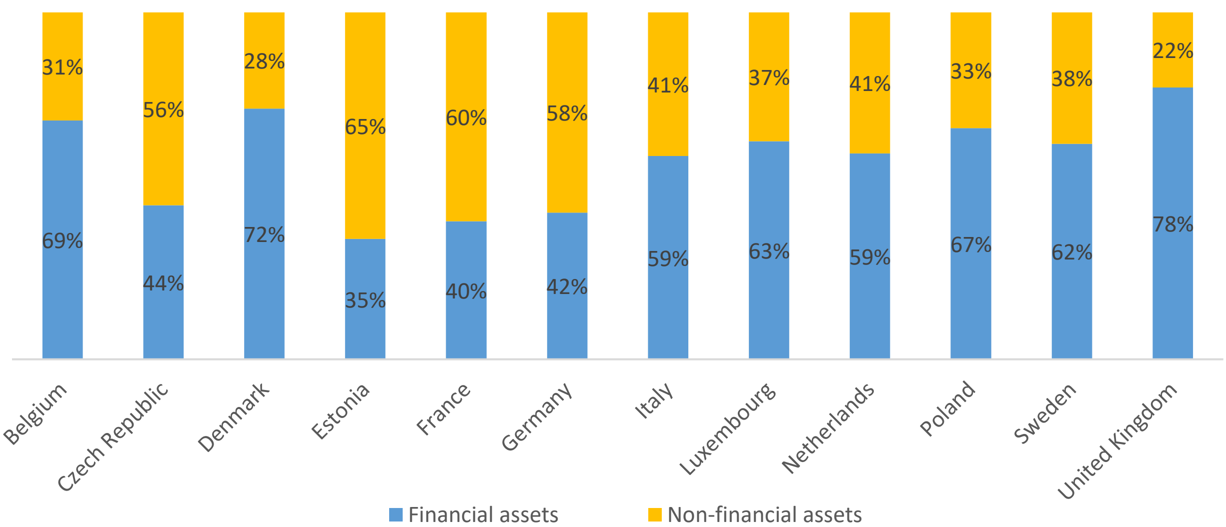
The percentage of investment funds has experienced downward trends, decreasing from 9% in 2004 to 7% in 2015. A similar trend is observed for debt securities, with its portion dropping from 7% in 2004 to 3% in 2015.

The proportion of life insurance and annuity entitlements have remained relatively stable at around 15%. In addition, less than 1% of households' financial portfolio have been invested in financial derivatives over the period.

2.2 Financial assets of households by Member State

In this section, to determine the scope and diversity of the European market in a top-down approach, the composition of households' asset portfolio is observed across the 15 Member States under study. As clearly visible in **Graph 3**, the allocation of households' assets between financial and non-financial holdings differs significantly across Member States. Three groups can be identified among our sample. The first group shows financial assets reaching almost 70% of total holdings, with Poland, Belgium, Denmark or the UK. British households are in this case the Member State with the largest share of financial assets in their holdings (78%). Then, in Member States such as Italy, Luxembourg, the Netherlands and Sweden, financial holdings represent around 60% of households' total assets on average. Finally, households in Czech Republic, Estonia, France and Germany keep less than half of their assets in the form of financial holdings, with numbers ranging from 44% in Czech Republic to 35% in Estonia. For Portugal, Romania and Spain, the breakdown of households' assets into financial and non-financial holdings is available on neither Eurostat nor OECD, and couldn't be retrieved from any alternate publicly-accessible source.

Graph 3: European households' asset portfolio per country, split between financial and non-financial assets, in percentage



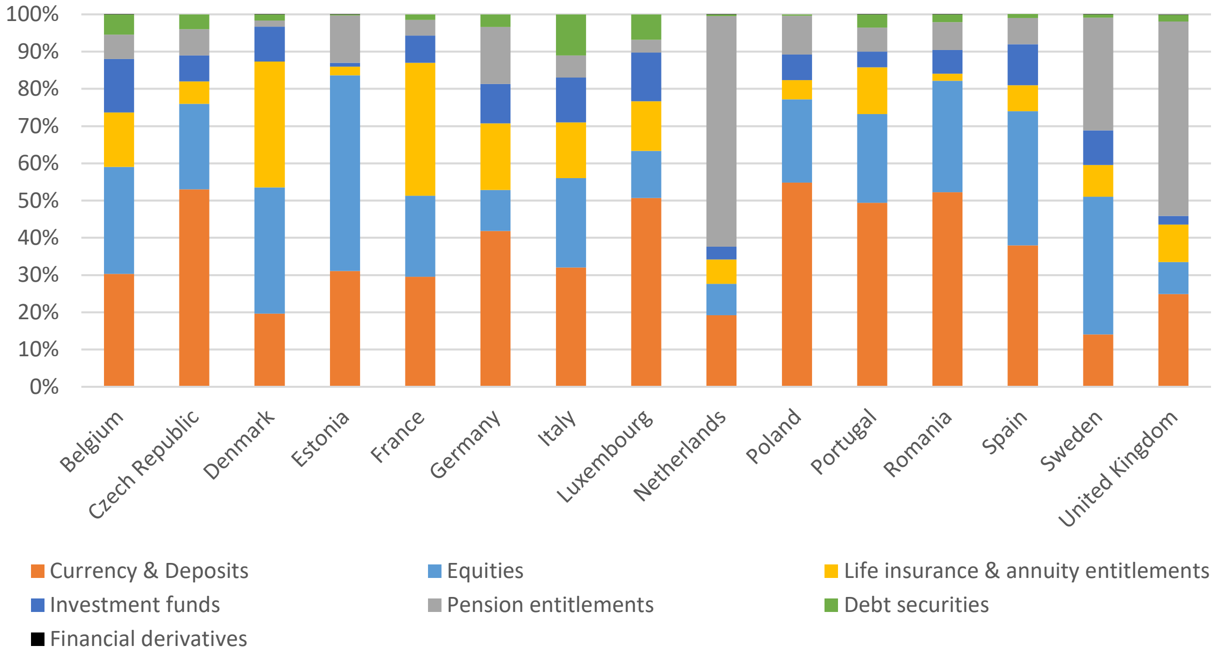
Source: Eurostat (2015), OECD (2015)
Please note that this chart is based on 2015 data for all countries except Belgium, Estonia and Poland, for which latest available year is 2014

Graph 4 presents the composition of financial assets held by households across the 15 Member States under study. Note that the asset categories used in this section are based on the same definitions from Eurostat as used in **Graph 2**. Eurostat has been used as a primary data source for this analysis, complemented by data from OECD. Please note that data on households' financial assets exclude monetary gold and special drawing rights (SDRs), loans, and other accounts payable, which are not considered investment products and altogether represent less than 5% of households' financial holdings. While they are not considered investment products either, currency and deposits are still included for reference, given their predominant weight in EU households' financial portfolios.

The overview of households' financial holdings gives indications on retail investors' behaviours, their propensity to invest (or not) in investment products as well as on the level of availability of investment products for the general public in the different Member States. **Graph 4** shows important disparities between Member States in the way households allocate their financial wealth.

Currency and deposits generally represent a very high proportion of households' financial holdings. On average, they constitute 36% of households' financial portfolio across the 15 Member States analysed. It is worth nothing, however, that currencies and deposits amount to half or more of households' cumulated financial assets in several Member States, including Portugal (49%), Luxembourg (51%), Romania (52%), Czech Republic (53%), and Poland (55%). On the other hand, in Sweden (14%), the Netherlands (19%), Denmark (20%) and, to a lesser extent, the UK (25%), a relatively low percentage of households' financial wealth is under the form of currency and bank deposits.

Graph 4: Structure of households' financial assets in EU Member States in scope (in stock, in percentage)



Source: Eurostat (2015), OECD (2015)

Equities are the second largest asset class in households' financial portfolios across the 15 Member States analysed, representing 25% of cumulated financial assets on average. Estonia (53%) is well above average in this regard, followed by Sweden (37%), and Spain (36%). In Luxembourg (13%), Germany (11%), the UK (9%) and the Netherlands (8%), the proportion of equities in cumulated household financial assets is low.

Just like in **Graph 2**, it should be noted that in **Graph 4** pension entitlements are defined (by Eurostat) as "entitlements either from employer(s) or life (or a non-life) insurers, claims of pension funds on pension managers and entitlements to non-pension benefits". It is our understanding that this definition refers to funded occupational schemes, excluding entitlements from both state-run pension systems and voluntary private pensions. It is our understanding that voluntary private pensions are here included in the Life Insurance and Annuity entitlements category. Pension entitlements represent on average 16% of households' financial assets across the 15 Member States analysed, making them the third largest component of households' portfolios. This number is however driven up significantly by two Member States, where pension entitlements account for the vast majority of households' financial wealth: the UK (52%) and the Netherlands (62%). This proportion is also relatively high in Sweden (30%), Germany (15%) and Estonia (13%). In most Member States in scope, however, pension entitlements account for less than 10% of households' financial assets. This disparity is due to important historical differences between Member States in the way pension systems were introduced. Two systems can broadly speaking be distinguished in the EU: the Beveridgean and the Bismarckian systems.[14] The UK and the Netherlands inherit from the Beveridgean system, under which all citizens benefit from a flat-rate pension

[14] http://www.europarl.europa.eu/RegData/etudes/STUD/2014/536281/IPOL_STU(2014)536281_EN.pdf

independent of earnings, supplemented with semi-mandatory occupational schemes as part of a contract with an employer or through collective bargaining. The other Member States in scope of the Study follow various forms of the Bismarckian system, under which pension benefits are earnings-related and profession-related. Under Bismarckian systems, private funded occupational schemes traditionally play a much lower role, explaining the rift between the UK and the Netherlands on the one hand, and the rest of the Member States in scope on the other hand.

Among the Member States presented on **Graph 4**, life insurance and annuity entitlements account for 13% of households' financial portfolio on average. As mentioned before, note that the life insurance and annuity entitlements category includes voluntary private pension schemes, such as the investment products referred to as guaranteed/non-guaranteed pension products in the other sections of this Study. Like pension entitlements, their share is much larger in two Member States than in any other: France (36%) and Denmark (34%), where they are the largest component in households' cumulated financial assets due to various forms of tax privileges. Life insurance is generally a much less popular asset class in Eastern Member States, including Czech Republic (6%), Poland (5%), Estonia (2%), and Romania (2%).

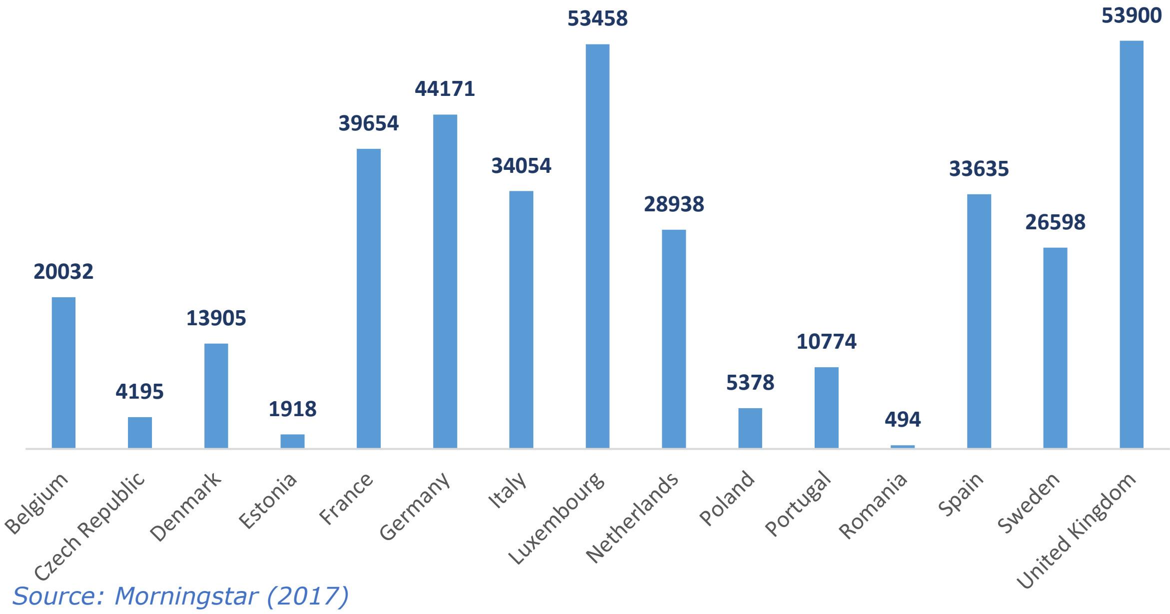
On average, direct holdings of investment fund shares represent a relatively low proportion of households' financial assets (8%). In Portugal (4%), the Netherlands (3%), the UK (2%) and Estonia (1%) this proportion is especially low. Nevertheless, in Belgium, Italy, Luxembourg and Spain, the proportion is above average between 10 and 15%.

Outside of financial derivatives, which represent less than 0.10% of households' financial assets in each of the Member States analysed, debt securities typically account for the lowest portion of households' financial assets (3% on average). In Italy, however, this portion is unusually high (11%), in part due to the particularly high amount of bank bonds owned by Italian households. According to a 2016 report by the Bank of Italy,[15] Italian banks have relied heavily on their customers for funding, by selling 31 billion euros worth of their own junior debt to retail clients, which has increased the risk borne by households in the event of a banking crisis.

Before analysing the products that are actively[16] offered to retail investors online by the various types of distributors, we first have a look at how many products are available to retail investors. **Graph 5** shows the total number of share classes (including passive investment funds) available for sale to retail investors, per Member State. The graph shows that there are substantial discrepancies between Member States, but the general trend is that the number of share classes correlates with the size of the Member State. For listed bonds & equities, retail investors can have access to any stock exchanges in the world, therefore a count of such securities being available would be difficult to make. In addition, the number of life insurance and/or pension products available to retail investors is difficult to estimate across all Member States analysed in our Study.

[15] https://www.bancaditalia.it/pubblicazioni/qef/2016-0359/QEF_359_16.pdf?language_id=1
[16] Products that are offered on financial institutions' websites

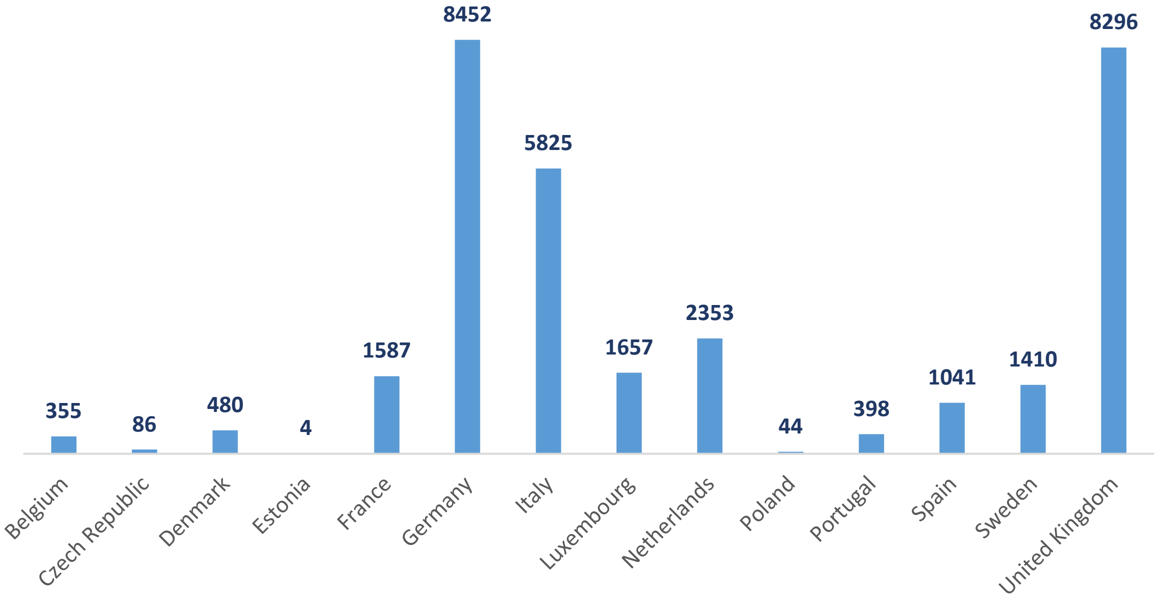
Graph 5: Total number of share classes available for sale to retail investors in the analysed Member States



Source: Morningstar (2017)

Graph 6 shows the number of passive investment funds (in share classes) available for sale to retail investors, per Member State. Three Member States show comparatively high numbers of share classes available to retail investors, namely Germany, the UK and Italy.

Graph 6: Total number of passive share classes available for sale to retail investors in the analysed Member States



Source: Morningstar (2017)

2.3 Mapping of products actively offered to retail investors online

For this part of the Study, our researchers mimicked the behaviour of a financially less sophisticated retail investor seeking for information on suitable investment products through the websites of banks and insurance companies. The methodology used in collecting this data is detailed in Annex 1 of this report. To remain coherent with Section 4 detailing the costs and charges of actively offered investment products, we only considered here those products where information on costs could be found on the distributor's webpage. It should however be mentioned that the availability of information on costs and charges was found to be quite opaque and inconsistent across distributors and across Member States.

The sample of distributors analysed includes on average the 10 largest banks and insurance companies in each market, in terms of AuM (assets under management). To ensure data quality, the aim was to cover at least 80% of the market. While asset managers were initially identified as potential distribution channel, evidence (from our mystery shopping activity) showed that for a "typical" retail investor with investment levels of up to 100,000 EUR, this distribution channel was difficult to access. As described above, the products identified are the ones listed under the retail section of each distributor's website. Their categorization is based on that of the websites, in order to reflect the view of a retail investor. For example, mutual funds advertised specifically under the pension sections of websites were considered pension products and have been regrouped in the category "Pension Mutual Funds", distinct from other investment funds and other pension products. Our research provides a conservative estimate of the number of products actively offered to retail clients by banks and insurance companies through their websites, and reflects the view of retail investors doing their own research online in each market. Please refer to Annex 1 for the definitions of investment products.

Graph 7 shows the number of products identified for each type of product in each Member State across banks and insurance companies. Please note that the numbers presented in the table refer only to the number of products for which applicable fees were disclosed on distributors' websites. Cells marked "Not Available" in the table indicate that no product with associated costs and charges could be identified in this category in this Member State. This does not entail that such products are not actively offered but the average retail investor will not be able to assess costs for these products. Finally, please note that although they are available through all banks' websites, bonds and equities were excluded from **Graph 7**, since distributors typically do not advertise specific stocks or bonds, but merely list the names of the stock exchanges they give access to, with their applicable transaction fee.

Although they represent a relatively modest share of households' financial portfolio (c.f. **Graph 4**), investment funds (excluding ETFs) are by far the most widely-available product category across the distributors analysed, in terms of number of products offered. This is probably due to the fact that distributors intend to respond to the large variety of customers' expectations in terms of asset classes, risk profile, geographical and sectorial coverage, etc. Regrouping money market funds, bond funds, equity funds, mixed funds, and real estate funds, investment funds (excluding ETFs) represent over 75% of all products identified on intermediaries' websites during our desk research. Among them, equity funds are generally the most prevalent in intermediaries' offering: they represent 32% of all products observed online. Within this category, less than 1% of the investment funds analysed are Index funds, with the exception of Sweden and the Netherlands where Index funds represent approximately 10% and 7% of equity funds respectively. They are followed by bond funds (20%) and mixed funds (18%). Index funds also represent less than 1% for those two categories of investment funds in all Member States, with the exception of Spain where Index funds represent approximately 5% of the mixed funds analysed. The number of money market funds (4% of all products) and real estate funds (1%) offered is much lower across Member States. Denmark, Romania and Portugal are the three Member States observed with the smallest range of funds available based on the website of main local distributors. It is also worth noting that real estate funds are absent altogether from the offering of main distributors in Denmark, Italy, Poland, Romania, and Spain.

Furthermore we investigated whether distributors actively offer their own in-house funds (managed internally by their own asset managers) or 3rd party funds (managed by non-affiliated asset managers). Overall, we found out that distributors mostly actively offer in-house products:

- Indeed, banks' webpages in the Czech Republic, Denmark, France, Italy and Poland almost exclusively display in-house funds, with very little amount of 3rd party funds. The fund supermarket associated with one Polish bank has been disregarded for this analysis as it gives access to a very large number of funds. An analysis of fund supermarkets can be found in section 8.1.
- Belgian, German, Dutch and Portuguese banks usually exclusively actively offer in-house funds. In our sample, 1 or 2 banks in those Member States mix both in-house and 3rd party funds.
- Estonia and Luxembourg are two Member States where half the distributors analysed offered mostly in-house funds and the other half mostly 3rd parties' funds.
- Banks in Sweden and Spain mostly actively offer in-house funds. In contrast to the above-mentioned Member States, the number of in-house products is substantially higher. Both Member States also host 1 bank that acts like a fund supermarket. In Spain, this bank gives the retail investor the possibility to search over 2,600 different investment funds (mixing both in-house and 3rd parties' funds). In Sweden, this particular bank offers the possibility to choose from more than 800 investment funds, also mixing in-house and 3rd parties funds. This bank's fund selector also has a tick box where only the funds "selected by the bank" are shown, reducing the number to 100 funds available. For those two Member States, these two banks have been disregarded when making the count of products shown in **Graph 7**.[17]
- Finally, the UK financial institutions mainly actively offer 3rd party funds through various types of Individual Savings Accounts (ISAs). As for Spain and Sweden, one bank in the UK is associated with a fund supermarket giving access to a very large number of funds. The funds actively offered through this bank's fund supermarket are not included in the **Graph 7**.

ETFs represent about 12% of all products identified on the distributors' websites across Member States, although their availability varies strongly across Member States. The availability of ETFs for retail investors seems to be particularly limited in Czech Republic, Romania, Poland, and Italy.

[17] The business model of fund supermarkets is detailed in section 8.1. An overview of fees of fund supermarkets (no matter if associated with a bank or not) can be found under section 4.2

Graph 7: Number of products identified on the webpages of top banks and insurance companies, by asset type

		Belgium	Czech Republic	Denmark	Estonia	France	Germany	Italy	Luxem-bourg
Investment funds	Money market funds	7	11	3	5	30	13	15	21
	Bond funds	71	84	24	41	70	53	135	86
	Equity funds	139	176	40	99	193	100	105	145
	Mixed funds	37	72	17	27	106	98	48	71
	Real Estate funds	5	2	Not Available	2	12	27	Not Available	2
	ETFs	76	Not Available	13	66	91	105	7	56
Life insurance policies	with Guaranteed capital	10	3	Not Available	Not Available	16	Not Available	9	3
	Non-guaranteed capital	12	40	Not Available	Not Available	15	Not Available	21	12
Pension products	with Guaranteed capital	13	1	4	2	7	4	3	3
	Non-guaranteed capital	13	10	13	13	8	Not Available	10	6
	Mutual funds	17	Not Available	3	8	Not Available	Not Available	9	7

		Netherlands	Poland	Portugal	Romania	Spain	Sweden	UK
Investment funds	Money market funds	7	14	10	10	32	8	8
	Bond funds	64	37	26	26	184	78	112
	Equity funds	86	90	38	34	181	191	224
	Mixed funds	20	42	23	20	248	50	169
	Real Estate funds	7	Not Available	5	Not Available	Not Available	5	11
	ETFs	79	3	12	2	112	16	20
Life insurance policies	with Guaranteed capital	1	Not Available	10	2	Not Available	Not Available	Not Available
	Non-guaranteed capital	6	26	14	17	Not Available	2	Not Available
Pension products	with Guaranteed capital	3	1	3	Not Available	30	2	Not Available
	Non-guaranteed capital	1	14	4	5	85	10	6
	Mutual funds	22	57	21	Not Available	Not Available	45	30

Source: Intermediaries' websites (2017), Deloitte analysis (2017)

Cells marked "Not Available" indicate that no products with associated costs and charges could be identified for this category in this Member State

Within the sample of products that display fees on the webpages of distributors, pension products represent 9% of total number of products observed on distributors' websites in the Member States in scope. The relatively high number of products in this category is mainly due to the large amount of mutual funds marketed as pension investment products in Member States such as Poland, the Netherlands, and Portugal. However, no pension mutual funds were identified in France, Germany, Romania or Czech Republic. Apart from pension mutual funds, pension products regroup guaranteed capital and non-guaranteed capital voluntary pension schemes. Considering that we only include those products for which costs were disclosed, the offering for such schemes is relatively limited in all Member States except for Spain (where the vast majority of life insurance products are marketed by distributors as pension products), and is especially limited in the UK, Germany, Romania, and the Netherlands. It must be noted however that there is no obligation for distributors to disclose fees for pension products on their webpages.

Finally, life insurance products (both with guaranteed capital and without guaranteed capital) make up for 4% of the total number of products identified on distributors' websites in the Member States observed. Please note that the sample of distributors did not include brokers. The products availability depends largely on the market analysed. In France, Italy, Czech Republic, Belgium and Portugal, a relatively wide variety of life insurance policies are offered. However, in Denmark, Estonia, Germany, Spain, Sweden, and the UK, no such products were identified with their associated costs disclosed. In the cases of Denmark and Germany, the lack of information on life insurance costs and charges, although well known, is all the more remarkable, since life insurance and annuity entitlements represent a very significant share of households' financial asset portfolio. It must be noted however that there is no obligation for distributors to disclose fees for life insurance products on their webpages.

As far as Member States are concerned, Romania, Denmark, Portugal, and Estonia seem to be the Member States with the smallest range of products offered across all asset types, although this is likely due to the limited number of banks and insurance companies operating in these markets. Spain, France, Luxembourg, and Sweden, on the other hand, are the Member States where distributors present the widest offering of retail investment products (in terms of number of products disclosing fees).

2.4 Mapping of products actively offered to retail investors through advice

The 532 mystery shops conducted across 10 Member States as part of this Study allowed for a comparison of financial advice received in the different Member States either by face to face contact or through robo-advisors. Two investment profiles were used as part of the mystery shopping exercise:

- Profile A: a young, risk-averse teacher with 10,000 EUR to invest and no investment experience.
- Profile B: a 50 year old freelancer with 100,000 EUR to invest, medium risk-appetite and limited investment experience.

For more details about the profiles and methodology used in the mystery shops, please refer to Annex 1 of this report, as well as to Section 5 where the results of the mystery shopping exercise are analysed in greater detail. In this section of the report, the analysis is limited to the comparison of products offered by human advisors in face to face settings (of which 75% worked for banks and 25% for insurance companies) and robo-advisors to profiles A and B in each Member State. The mystery shopping exercise also covered face to face advice by Independent Financial Advisors (IFAs) in the UK and the Netherlands.

Graph 8: Products actively offered by advisors to Profile A investors

	Belgium	France	Germany	Italy	Luxem-bourg	Poland	Spain	Sweden	IFA UK
Money market funds	6%					18%	12%		
Bond funds	6%		4%	28%	7%	41%	66%	8%	
Equity funds	28%	3%	2%	13%	13%		2%	12%	
Mixed funds	31%		52%	21%	27%	15%	12%	65%	47%
Real estate funds			7%						
ETFs									20%
Bonds	11%		2%	4%					7%
Equities		8%						4%	20%
Life insurance	11%	89%	24%	28%	27%	18%	2%	8%	
Pension products	8%		7%	6%	13%	5%	5%	4%	7%
Structured products			2%		13%	3%			

Source: Deloitte analysis (2017)

Graph 9: Products actively offered by advisors to Profile B investors

	Belgium	France	Germany	Italy	Luxem-bourg	Poland	Spain	UK	IFA UK
Money market funds	11%					18%	10%	6%	
Bond funds	4%		3%	5%	7%	18%	3%	6%	
Equity funds	14%	4%	10%	3%	43%	18%	3%		
Mixed funds	36%	7%	59%	90%	29%	20%	68%	18%	37%
Real estate funds			8%						5%
ETFs			8%				8%		
Bonds			5%			2%		12%	5%
Equities		22%				2%		18%	21%
Life insurance	18%	67%	8%	3%	18%	5%	5%		
Pension products	18%						3%	29%	32%
Structured products					4%	16%	3%	12%	

Source: Deloitte analysis (2017)

Graph 10: Products actively offered by robo-advisors to both investment profiles

	Belgium	France	Germany	Italy	Luxem-bourg	Nether-lands	Spain	UK
Money market funds								
Bond funds								
Equity funds								
Mixed funds	13%	29%	33%				43%	40%
Real estate funds								20%
ETFs	88%		67%	100%	100%	100%	43%	30%
Bonds								
Equities								
Life insurance		71%					14%	
Pension products								
Structured products								10%

Source: Deloitte analysis (2017)

Graph 8 shows the breakdown of products offered to Profile A by advisors of banks and insurance companies for each Member State. **Graph 9** displays the results for the mystery shops conducted by profile B. Finally **Graph 10** shows the distribution of products offered by robo-advisors in each Member State, regardless of the investment profile. Our research showed that the specific profile only <u>had a minor influence</u> on the composition of the offered portfolio in terms of different types of products. Based on this data, the following observations can be made per Member State:

In each Member State, non-independent advisors at banks and insurance companies almost exclusively proposed (one or a selection of a few) in-house products. Conversely, 3rd party products (e.g. the few ETFs offered were 3rd party products) were only proposed in very rare cases.

- In **Belgium**, retail investors are offered quite a large portofolio of products with mixed funds as the most-offered products by bank and insurance advisors (31% for profile A, 36% for profile B). Robo-advisors analysed in our sample offered mainly ETFs (88%) with the rest being mixed funds.
- In **France**, life insurance is by far the most offered product, both from face to face advice and robo-advice. Equities were offered more frequently to investors with higher investment amounts. Mutual and cooperative banks sometimes offered shareholding of their bank (as they are owned by their clients resulting in a comparativly large share of equities proposed (22% for Profile B). In contrast to the other Member States, robo-advisors analysed in our sample offer to a large extent life insurance products (70%) while mixed funds account for the remaing 30% of the offered products.
- Mixed funds are by far the most offered products by banks and insurance companies to both investment profiles (above 50% for both profiles) in **Germany**. In terms of differences, life insurance products were offered by 24% of face to face advisors for profile A, significantly more than for profile B (8%). Profile B was also offered equity funds (10%) more regularly than profile A (2%). As a notable exception to most mystery shops in gerenal, the Profile B investor in Germany was advised to invest in ETFs by 3 banks (8% of products advised). Robo advisors analysed in our sample only offer 2 types of products, i.e. a majority of ETFs and the rest in mixed funds.
- In **Italy**, mixed funds are by far the most offered products by bank and insurance advisors to profile B investors. In contrast, a much broader range of products was offered to profile A investors with bond funds and life insurance the most frequent products (28%). ETFs were the only products offered through automated channels.
- For **Luxembourg**, we recorded differences in product recommendation by face to face advisors, as advisors for profile A investors offered 6 types of products, the majority of them being mixed funds and life insurance (accounting for 27% of the offered products). On the other hand, equity funds represented 43% of the total offered products to profile B investors. Robo-advice platforms analysed in our sample only offer 1 type of product, i.e. ETFs.
- In **Poland**, both profiles were mostly advised to invest in funds. Bond funds are actively distributed to investors following profile A (41%) whereas profile B investors were proposed a wider range of mutual funds. Around 20% of the offered products were either money market, bond, equity or mixed funds.
- Mutual funds were the main category products proposed to both profiles in **Spain**. For profile A investors, the most frequently-offered products are bond funds (66% of the total offered products). Advisors for profile B investors tended to offer mixed funds (68%). Notably, ETFs constitute 8% of the products offered.

Robo-advisors analysed in our sample only offer 2 types of products, i.e. mixed funds and ETFs.

- In **Sweden**, mixed funds are by far the most offered products by face to face advisors (65% for Profile A). The second most offered products are equity funds, followed by life insurance contracts and bond funds.
- **In the UK**, the investment advice landscape is very different from that of other Member States due, to a large extent, to the Retail Distribution Review (RDR).The most significant change introduced by RDR is that financial advisers are no longer permitted to benefit from commissions from fund companies in return for selling or recommending their investment products. Instead, investors now have to agree fees with the adviser upfront. Depending on the investment amount, mystery shoppers were limited to certain types of advice. Profile A mystery shoppers (with 10.000 EUR to invest) were, as a result, turned down by all the banks and insurance companies for having too little money to qualify for advice. They were redirected to IFAs. IFAs indeed accepted to receive them and provide advice regardless of the investment amount. While profile B (100,000 EUR to invest) was turned down by all the the insurance companies, he was able to receive advice from both banks and IFAs. As a result, the analysis done here is based solely on advice from IFAs for profile A, and on advice from IFAs and banks for profile B. In the UK, the most offered products for Profile A investors by IFAs are mixed funds (representing 47% of the offered products) followed by ETFs and Equities (20% each of the offered products). Please note that in the case of the UK, Mixed funds and Equities include Stocks and Shares ISAs (i.e. Individual Saving Accounts).
- Finally, **the Netherlands** are absent from the **graphs 8 and 9**, since dutch banks did not provide advice to mystery shoppers. Due to the recent ban on inducements, the investment advice landscape in the Netherlands is quite different from other Member States. When contacting financial institutions to receive investment advice, mystery shoppers were systematically redirected to the institutions' websites where they could invest on their own, in execution-only mode. Banks also propose discretionary portfolio management services, even for investors with limited financial resources, however these services are not considered advice and are thus not considered in this analysis. Unlike in the UK, our shoppers were not redirected to IFAs by banks and insurance firms. Furthermore, mystery shops conducted with Dutch IFAs showed that, unlike in the UK, IFAs do not replace banks and insurance companies as providers of financial advice. Like banks, IFAs only proposed discretionary portfolio management services to our investment profiles. Those who did provide advice only would do so for investors with substantial capital to invest: depending on the IFA, qualifying for advice required minimum investment amounts ranging from 250,000 EUR to 500,000 EUR. As a result, neither profile A or B qualified for advice in the Netherlands, regardless of the face to face channel used. Robo-advice was however available, and offered exclusively ETFs.

Overall, the following trends can be identified regarding the types of products offered to each profile through human advice or robo-advice:

As previously mentioned, the overwhelming majority of non-independent human advisors only proposed in-house products.

- In general, mixed funds are the most offered products by advisors across Member States and investment profiles by a considerable margin. They represent alone 35% of all products offered by advisors in the mystery shops.

- On the other hand, life insurance is by far the most offered product category in France for both profiles, to the point of eclipsing all other product groups. France is the only Member State in this case, although life insurance policies are also quite commonly-distributed by advisors to both investment profiles in Belgium, Germany, Italy and Luxembourg. In the UK, Sweden, and Spain, however, they are rarely recommended by advisors. Altogether, life insurance policies represent close to 20% of all products distributed by advisors across Member States and investment profiles.
- Robo-advisors mostly distribute ETFs to both investment profiles, except in France, where robo-advisors do offer ETFs but these are most often wrapped into life insurance products.Banks and insurance advisors almost never recommend the purchase of ETFs: they are only recommended by IFAs in the UK, and in very few instances to profile B in Germany and Spain. As a result, ETFs represent less than 6% of the total number of products offered by human advisors.
- Within the remaining product categories, bond funds are the most commonly-distributed product group (12% of all products offered by advisors). This is mainly due to the fact that Polish and Spanish face to face advisors tend to recommend bond funds rather than mixed funds to profile A investors.
- Equity funds are quite commonly recommended to profile B investors, especially in Luxembourg and Belgium, and account for about 9% of all products distributed by advisors.
- Pension products accounts for 5% of the overall count of products offered in mystery shops: they are commonly recommended to profile B in Belgium and the UK.
- Money market funds (5%) and real estate funds (1%) are the least commonly-recommended funds across Member States and profiles, although money market funds were offered to profile B on several occasions in Poland.
- Although they represent only 4% of advisors' recommendations, investing in listed equities was suggested quite commonly to profile B in France. Finally, direct investments into bonds (2% of all products offered) and the purchase of structured products (2%) were the least commonly recommended investments across profiles and Member States.

Focus on offered products by robo-advisors:

When it comes to analysing the recommended portfolio allocation of robo-advisors across Europe, it is possible to identify a number of trends and patterns in the data. Such trends are particularly noticeable when considering the asset class allocation (principally equity, bonds and cash & cash equivalents[18]) within the recommended portfolios.

Most robo-advisors invest exclusively in ETFs, taking advantage of the lower costs associated with these passive funds. However, some occasionally choose other fund types to invest their funds in. Nevertheless, the level of transparency of the fund type varies significantly; ranging from messages explicitly stating the investment in ETFs or revealing the names of the funds, to providing ambiguous or hard to find information

[18] Cash and cash equivalents refers to assets that are cash (for example, put aside by fund managers for investing flexibility) or can be converted in cash quickly (such as money market funds and short-term government bonds).

about the funds invested in. Therefore, the majority of the data cited below are funds invested in ETFs, but the exact percentage allocated to ETFs cannot be provided.

For a risk-averse profile A, as might be expected, portfolios where weighted heavily towards lower-risk asset classes such as bonds and, to a lesser extent, cash & cash equivalents, compared to the 'riskier' asset classes such as equity, real estate and commodities. For the 29 robo-advisors analysed across Europe, the median allocation for the lower risk profile was 71% in bonds. This high weighting of bond allocation was typical for almost all robo-advisors across Europe, with robo-advisors in Germany and Italy recommending as much as 90% and even 100% investment in bonds. Portfolio allocations of Robo-advisors in France often list 'fonds euro' as significant proportions of their recommended portfolios. These are typically highly secure and guaranteed funds, composed of around 80% bonds, and around 10% in equity, and are offered as life insurance contracts, but the breakdown of which is often not visible.

Cash & cash equivalents remained a relatively low portion of recommended portfolios even for this low-risk profile, with only 10 of the robo-advisors offering cash & cash equivalents, with a median allocation of 15.54% across them. The equity allocation for these low-risk portfolios was universally low, with a median 23% of recommended portfolios, and rarely rising above 30%. We found that UK robo-advisors were occasionally more willing to allocate equity to these lower risk profiles, going up to 46% in one case, but results varied significantly, and the median allocation across UK robo-advisors was 24.3%.

A similar, but inversed, trend is noticeable for the asset class allocation by robo-advisors for a profile more open to risk (profile B). These profiles, in contrast to those with lower risk appetites, were generally recommended portfolios with high percentages of equity allocated (a median of 61.6%), and significantly lower proportions of bonds (29.9%). Indeed, every robo advisor allocated a higher percentage of the recommended portfolios to equity when comparing the risker profile to the risk-averse ones. The median change from profile A to B across the robo-advisors analysed was an increase of 37% of equity in their portfolios. For bonds, the change is much the same, with the median change of 40% fewer funds allocated to bonds in the portfolios.

In terms of geographic allocation of portfolios, we found a higher allocation in European assets for profile A. The median allocation of those robo-advisors that supplied clear geographical data (which was the case for at least one robo-advisor per country) for profile A was 47.35% in European assets compared to 40% for profile B. We find that as funds for profile B are less concentrated in European assets, they are moving most prominently to North American (a +10.3% median change) and Emerging Markets (+7.85% median change) assets.

2.5 Distribution strategies of financial institutions

In this section, we provide a very high-level overview of the principal distribution strategies of the different stakeholders.

Distribution of funds

When launching an investment fund, an asset manager will, first of all, define the target market(s), target clientele and the legal/fiscal framework under which the investment fund will be incorporated. Once incorporated and the necessary authorisations / registrations have been performed in accordance with European and local regulations, the investment funds are then marketed through various distribution channels. In continental Europe, the distribution model is still largely based on the commission-based remuneration model with banks and insurers as the most prevalent end-client distributors. The below exhibit shows a simplified view of the distribution of funds from manufacturer to the retail investor.

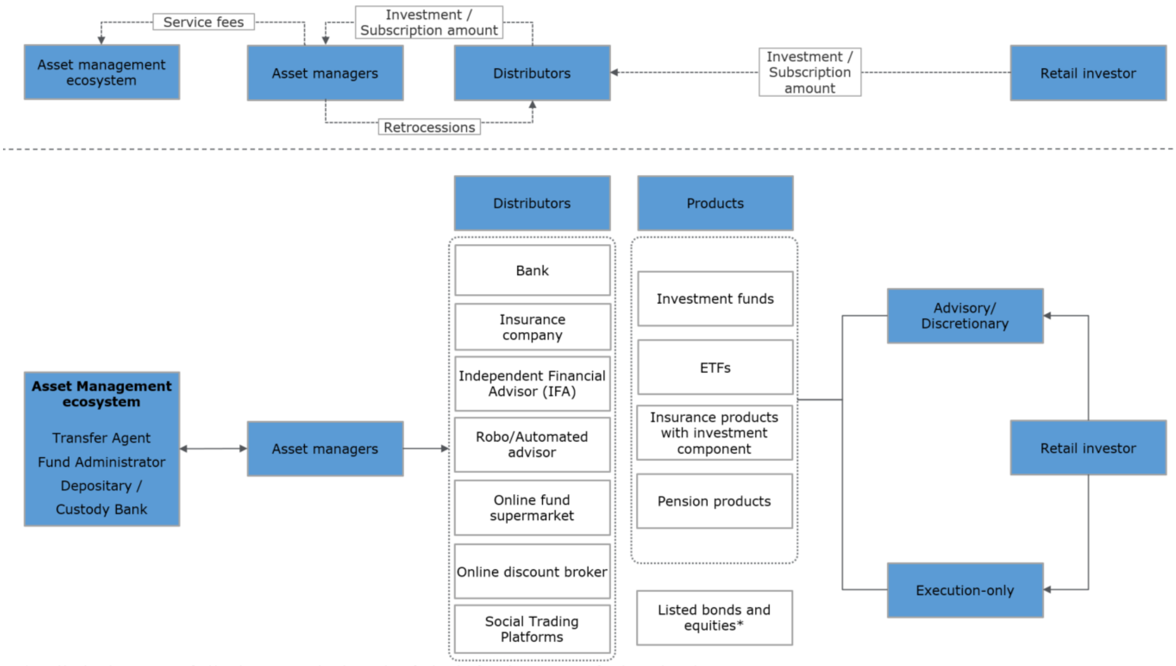
Asset managers rely on various types of distribution channels. Their distribution strategies in terms of types of products and fees are described in detail in sections 2, 4 and 8 of this Study. Institutions providing advice (i.e. banks, insurance, IFAs and robo-advisors) usually have teams of investment experts constructing, on an *ex-ante* basis, a rather limited portfolio of products that, to a large extent, are suitable to cover the different needs of many retail investors, in terms of knowledge and experience, financial situation, investment horizon, objectives and risk tolerance. The main role of the advisor/algorithm merely consists in choosing the product(s) out of this limited portfolio which is/are deemed as the most suitable for the specific investor depending on the outcome of the discussion with the retail client and the suitability checks. Our research showed that the vast majority of banks propose their own in-house actively-managed investment funds to their clients.

The upper part of the exhibit shows the flow of the amount being invested by the retail investor ("the subscription") and the different types of fees that are paid out to the various actors in the fund distribution value chain. The recurring expenses of an investment fund are typically paid for out of the investors' fund assets and not billed to investors directly. However, by reducing the returns that would have been received on those assets, fund investors still pay indirectly. As shown in section 5 of this Study, recurring fees vary across the different fund types and across Member States, but are typically composed of the following fees:

(1) management fees covering investment and portfolio management services but also the cost of marketing, supporting and servicing distribution organizations;
(2) distribution retrocessions; and
(3) administrative / other expenses which include, but are not limited to, client administration, accounting, custody, and transfer agency fees.

According to a study of fund fees[19] in Europe, fund managers retain 42% of the total recurring fees. Through retrocessions, distributors are paid 41% of the total recurring fees. The balance of 17% is used to cover operating services such as custody, administration and transfer agency. The same holds true for the insurance sector. The thematic review by EIOPA[20] found that retrocessions are widespread and significant. It provides evidence for concluding in general that poor or inconsistent mitigation of conflicts of interest could lead to material consumer detriment. 81% of participating insurance undertakings received monetary incentives and remuneration from asset managers. For those undertakings that engage in these monetary practices, monetary incentives and remuneration received represent a median value of 0.56% of assets under management and 46% of fund management charges. ETFs generally do not pay retrocessions and are thus substantially cheaper than actively-managed investment funds. On the other hand, this reduces the attractiveness for distributors like banks and insurance companies to propose ETFs to retail investors. In contrast to other types of distributors, IFAs directly charge a fee for the provision of advice to investors.

[19] FUND FEES IN EUROPE: ANALYZING INVESTMENT MANAGEMENT FEES, DISTRIBUTION FEES, AND OPERATING EXPENSES, 2011, EFAMA, https://www.efama.org/Publications/Statistics/Other%20Reports/EFAMA_Fund%20Fees%20in%20Europe%202011.pdf
[20] Report on Thematic review on monetary incentives and remuneration between providers of asset management services and insurance undertakings, EIOPA; 2017



* Listed bonds and equities are not fund based investment products but are shown for the sake of completeness in terms of products under study.

In contrast to much of continental Europe, cultural habits and the ban on inducements have led to a noticeable shift towards IFAs and execution-only online platforms in the UK and the Netherlands over the last few years.

Distribution of investment funds to retail investors can be characterized effectively by two distribution channels - captive and third party distribution. The distribution through institutional channels does not directly touch upon retail investors hence is considered as out of scope for the purposes of this Study.

The distribution through captive channels is characterized by funds being sold through the distribution network of the company itself or affiliated companies. Captive channels are dominant in southern Europe with almost two thirds of market share in Spain and about 50% in Italy. While the proportional market share of captive distribution is also high for Germany (50%) and for the Netherlands (where it is driven by execution-only platforms of distributors), it is substantially lower for France with only about one third of funds sold, the UK (25%) and Sweden (15%).[21]

The distribution through third parties covers funds sold to the direct end investor through an intermediary. Based on our research, we can identify the following trends across Member States, where reliable and comparable data exist:

- Third party distribution is much smaller in France where only approximately 5% of funds are sold by IFAs through B2B platforms and insurance companies.
- In Germany, third party distribution accounts for roughly one third of the market. In terms of intermediaries, retail banks, private banks and IFAs largely

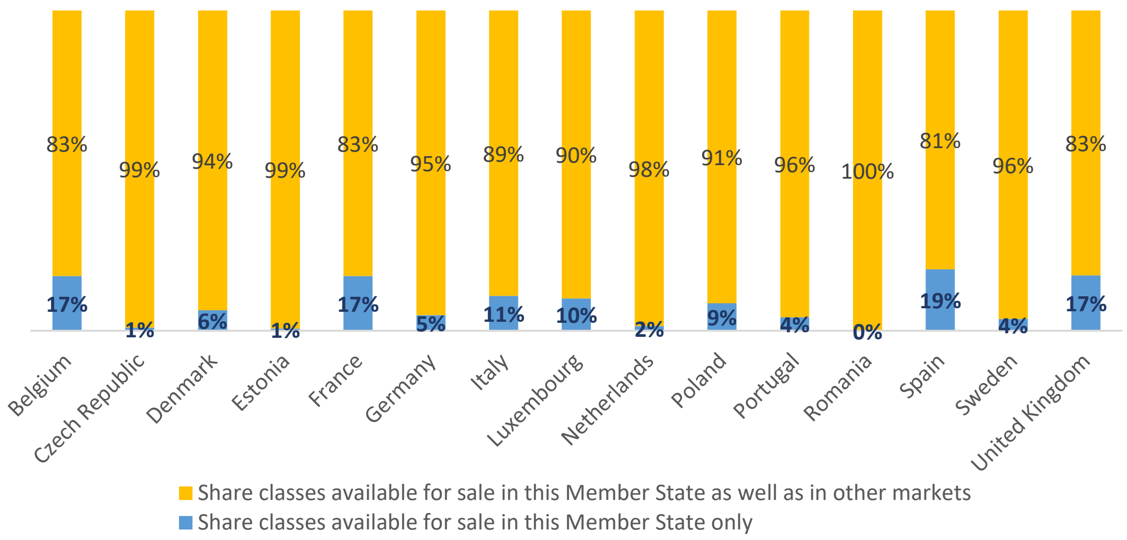
[21] Deloitte analysis

dominated with roughly 20% each with insurance companies trailing close behind.

- Italian third party distributors account for about 30% of the market. The share among distributors is roughly the same as for Germany with banks and IFAs covering about two thirds of the market.
- For Spain, the share is around 25% with a large dominance of retail banks at almost 40% of the market closely followed by private banks at about 30%. IFAs and insurance companies each cover little more than 10%.
- For Sweden, third party distribution accounts for approximately 25% of funds sold by manufacturers. In contrast to other Member States, there is no dominating type of intermediary and the market is almost evenly shared between banks, IFAs and insurance companies.
- This channel is dominant in the United Kingdom with more than half of funds sold by the manufacturers. The main intermediaries are IFAs through B2B platforms and private banks while the distribution through D2C platforms is growing strongly. Distribution through insurance companies and retail banks jointly accounts for only 15%.

For the sake of completeness, the institutional distribution channel covers funds sold directly to large financial institutions (e.g. insurers and pension funds) which are not affiliated with the fund manufacturer. This channel is largely dominant in France and Sweden with more than half of funds sold directly to large financial institutions. In contrast, institutional distribution accounts for only about one fifth of funds sold in the United Kingdom, Germany and Italy with Spain trailing at around 10%.

Graph 11: Proportion of cross-border funds out of all investment funds available to retail investors, in each Member State

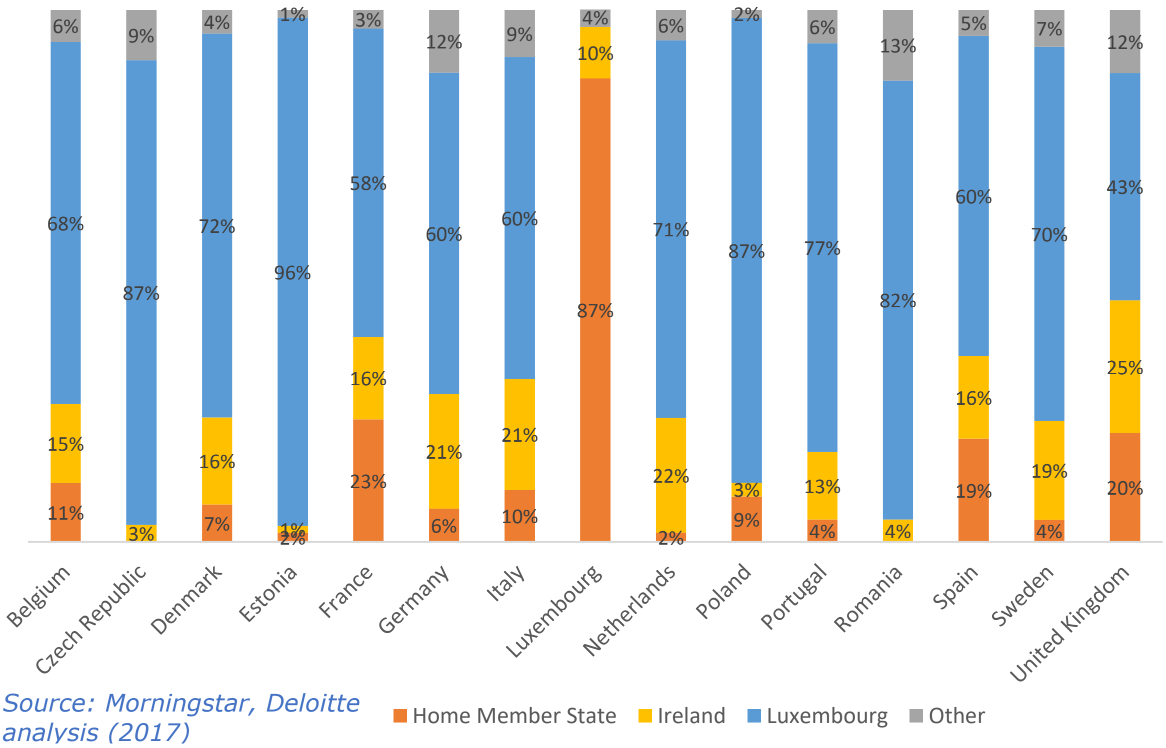


Source: Morningstar (2017)

While cross-border distribution of investment funds is subject to a large number of different national, regional and fiscal environments, it also allows for economies of scale which are more difficult to achieve when staying within the borders of one single country. **Graph 11** shows the percentage of retail investment funds only available for sale in the Member State (in blue) compared to funds that are available for retail investors in other countries too. The graph shows that only a small fraction of the retail funds available for sale in one country are only available in that Member State. All other funds are available for retail investors in other countries too. In Belgium, France, Spain and the UK, about a fifth of all funds are only available in that particular country. This share is even lower in the Czech Republic, Estonia, the Netherlands and Romania where the fraction of funds available only in the country is close to zero.

Graph 12 shows the country of domiciliation of investment funds available to retail investors (including passive investment funds). For each Member State in scope of the Study, the majority of funds are domiciled in Luxembourg. Ireland is usually the second most prevalent country of domiciliation except for France, Poland and Sweden where the home Member State is the second most occurring domicile (e.g. 23% of investment funds available for sale to French retail investors are domiciled in France).

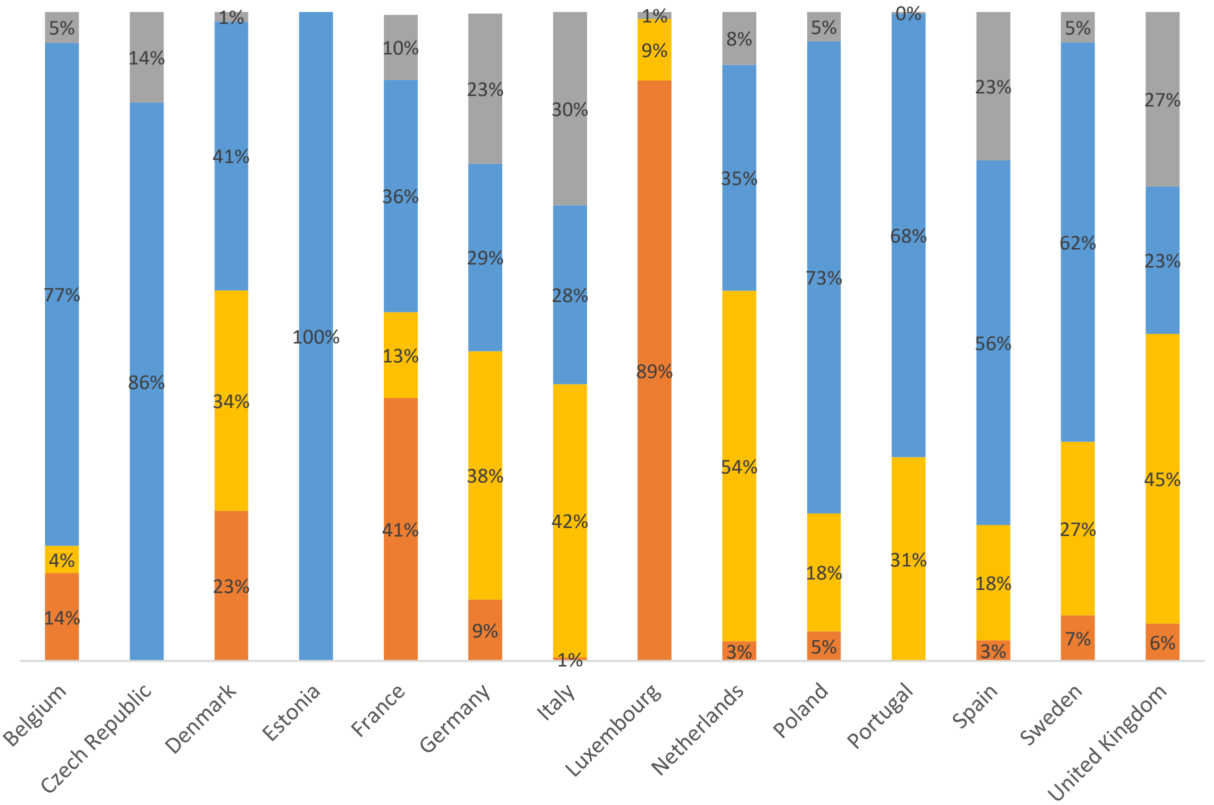
Graph 12: Split by domicile of all investment funds available to retail investors in all Member States (AIF & UCITS) by total number of share classes available for sale in the given Member State



Source: Morningstar, Deloitte analysis (2017)

Graph 13 shows the countries of domiciliation of passive investment funds. Across Member States, passive investment funds are mostly domiciled in Ireland and Luxembourg.

Graph 13: Split by domicile of all passive investment funds available to retail investors in all Member States by total number of share classes available for sale in the given Member State



Source: Morningstar, Deloitte analysis (2017)

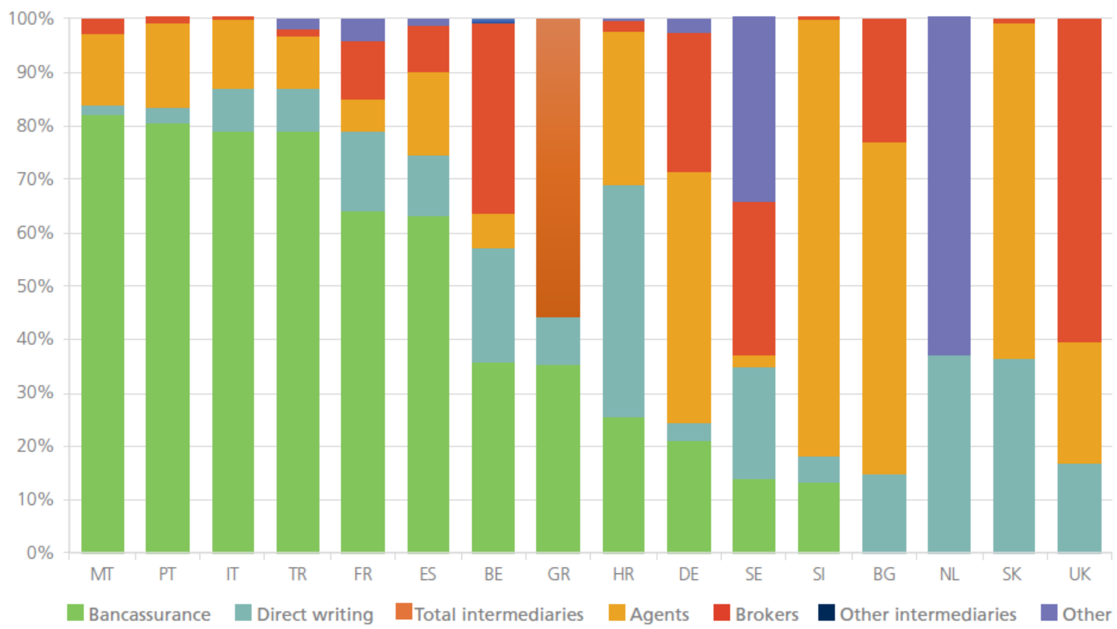
Distribution of life insurance products

Insurance is sold either directly by insurers or through a number of different channels, the most common of which are brokers, agents and bancassurance. The popularity of each channel varies depending on both the market and the insurance product. This diversity of channels, which makes it possible for insurers to adjust to differing cultures, needs and preferences in different markets, reflects the historical development of insurance markets across the various Member States.

Among the largest life insurance markets, most products were sold via bancassurance in Italy (79% of gross written premiums), France (64%) and Spain (63%), while in the UK and Germany[22] most life products were sold by agents and brokers (83% and 73% respectively). The market in which agents and brokers were most dominant was Bulgaria (85%). Agents alone were the main distribution channel in Slovenia (82%) and Slovakia (63%). The distribution channels for life insurance products differ substantially from non-life insurance policies which are mainly distributed through agents and brokers in both large and small markets.

[22] UK data is 2013. For Germany, the data is for new business

Graph 14: Distribution channels of life insurance products[23]



Source: European Insurance in Figures (2015)

Types of products offered

As described in the sections 2.3 and 2.4; banks, insurance companies and robo-advisors offered a variety of investment products to their clients. What is common across all Member States (except for the UK) is that the investment funds offered by banks, either through their webpages or through face to face advice, are almost exclusively in-house products. Our shoppers had in many instances the impression that, in non-independent (as well as independent) advice settings, the impact of the discussion (more specifically the "suitability" questions) on the actual product(s) proposed was quite limited. As frequently explained by the advisor, the institution's team of investment experts constructed *ex-ante* a small portfolio of in-house products that, to a large extent, are suitable to cover the different needs of retail investors, in terms of knowledge and experience, financial situation, investment horizon, objectives and risk tolerance. The job of the advisor merely consisted in picking product(s) out of this limited portfolio which he deemed the most suitable for the specific shopper. A correct ex-ante identification of the target market combined with a thorough suitability assessment of the particular client should ensure that the product ends up with the 'correct' type of customers for whose needs and objectives it had been designed, instead of another group of clients with which the product may not be compatible. While this approach, on one hand, potentially reduces the risk of the customer to be exposed to unsuitable products it highlights on the other hand the often reported bias of non-independent advice due to the incentive schemes in place.

This is particularly relevant in view of the associated fees (analysed in Section 4) which differ widely across Member States. According to our research, fees for funds in the

[23] European Insurance in Figures, 2015 data

Netherlands are among the lowest across the different types of funds. This is probably a consequence of the ban on inducements as well as of the average Dutch client having become more cost-sensitive. In contrast, banks in Poland seem to charge substantially higher fees to their retail clients for products of the same type.

Our research also showed that it is quite common practice for banks to charge a custody fee when investing in a 3rd party investment fund. This custody fee is charged on top of the recurring and one-off fees of the investment fund and represents, to our understanding, an additional "distribution" fee for investing in a 3rd party fund instead of an in-house fund. **Table 2** shows the average annual values for custody fees across Member States. When computing the below values, we considered only those custody fees where the central tariff sheet of the distributor explicitly mentions that they relate to third party funds.

Table 2: Annual custody fees for 3rd party funds

	Belgium	Estonia	Germany	Italy	Luxembourg	Portugal	Spain
Custody charges for 3rd party funds	0.24%	0.28%	0.17%	0.45%	0.20%	0.28%	0.35%

2.6 Findings

- Currency and deposits are generally the most common form of financial assets owned by households in EU Member States. The rest of households' financial assets is comprised of the various investment products in scope of this Study, all of which seem to be available in all the Member States analysed. However, substantial differences in the average financial portfolio of households can be noticed between Member States. Specifically, the representation of asset categories such as Pension entitlements and Life insurance entitlements varies dramatically across Member States. These differences can be explained by various factors, including, but not limited to, cultural preferences, taxation, pension systems, and distribution systems.
- Looking at the offering presented on distributors' websites, it is worth mentioning that the most widely available investment products for retail investors across Member States are generally, in order: equity funds, bond funds, and mixed funds. On the other hand, the level of availability of products such as ETFs, pension products and life insurance policies is much more Member State-specific.
- Overall, information on nearly all products is available on intermediaries' websites in the different Member States, however the documentation provided is not systematically transparent (especially regarding costs to be supported by the investor after the acquisition of said products), is in no way standardized across Member States, and proves difficult to comprehend for retail clients who are financially less sophisticated. Specifically, for some products, e.g. bonds and equities, information needs to be retrieved from a "central" tariff sheet displaying all types of fees across the institution's services. For other products, e.g. funds, the Key Investor Information Document (KIID) contains the essential information of the product, including costs and charges. However, in some cases, e.g. when buying a third party fund, a retail investor would need to combine fee information from the KIID with the custody charges of the tariff sheet. KIIDs are also not systematically available on the distributors' websites, and investors would need to retrieve them using other sources. Quite frequently, distributors do not display any or only partial information on applicable costs and charges (at least the information could not be found on a best efforts basis on the webpage). These

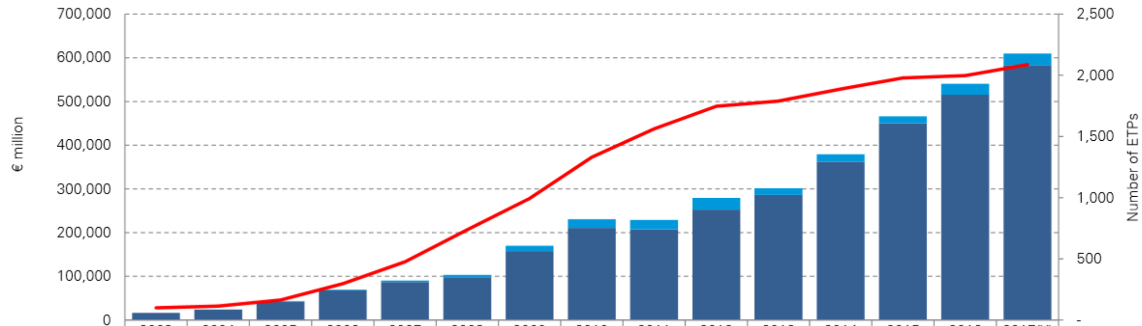
elements make it very difficult for a retail investor to independently gather information and be able to choose the suitable product or channel. Note that there is no legal obligation for distributors to display fees to non-clients.

- Advice from banks and insurance companies (including bancassurance) results in relatively similar investment recommendations across Member States in terms of products. The vast majority of products offered are in-house investment funds, followed by life insurance policies.
- Seeking advice from non-independent advisors (at banks and insurers) remains the norm for the average investor, except in the UK and the Netherlands. In the UK profile A mystery shoppers (with 10.000 EUR to invest) were redirected by all the banks and insurance companies to IFAs who indeed accepted to receive them and did provide advice regardless of the investment amount (the first meeting is generally free, while subsequent investments made through the IFA are typically subject to a fee, expressed as a percentage of the invested amount). In the Netherlands, mystery shoppers were systematically redirected to the institutions' websites where they could invest on their own, in execution-only mode. Banks also propose discretionary portfolio management services, even for investors with limited financial resources, however these services are not considered advice. IFAs only proposed discretionary portfolio management services to our investment profiles.
- ETFs are amongst the most commonly-available products on websites in many Member States, but seem to be almost completely absent from traditional distributors' online offering in markets such as Czech Republic, Romania, Poland, and Italy. Although marketed through online, ETFs were almost never proposed by human advisors across Member States, the only exceptions being a small number of banks in Germany and Spain, as well as IFAs in the UK.
- Concerning investment profiles, advisors proposed broadly the same kinds of products to both A and B mystery shoppers, namely in-house investment funds, with the notable of exception of France where life insurance policies are dominant. Generally, equity funds were offered more regularly to profile B than profile A, in accordance with its higher risk-appetite and performance expectations. Conversely, profile A was offered safer investments such as bond funds on a more regular basis than profile B. Finally, although the most commonly offered products for both profiles were mixed funds (which are diversified thus more suitable for retail investors), it should be noted that the strategy followed by these mixed funds varied based on each profile's risk-appetite: profile B was often proposed more dynamic funds than profile A.
- Overall, robo-advisors recommended relatively similar products across investment profiles and Member States. ETFs are by far the most commonly recommended products, followed by mixed funds, which are only common in Spain, the UK and Germany. France is once again an exception in terms of products offered, since the vast majority of products offered by robo-advisors are life insurance products. While the transparency in terms of types of ETFs allocated greatly varies between robo-advisors, they allocate a larger share of bond ETFs to a risk-adverse profile (profile A) while the share of equity ETFs increases for more risk-seeking investors (profile B).
- The share of funds distributed through captive and third party channels strongly depends on the Member State, with continental Europe dominated by distribution through banks and insurers in contrast to the UK where distribution through IFAs and online platforms is the most prevalent.
- Generally, our research indicates that financial institutions almost exclusively offer in-house products to retail investors.

3 Business case: Accessibility of ETFs to retail investors in the EU

In this Section we investigate the accessibility of low-cost exchange-traded funds by retail investors in Europe. An Exchange-Traded Fund (commonly referred to as "ETF") is an investment fund investing in a basket of securities and commodities generally designed to track the performance of an underlying index. At their core, Exchange-Traded Funds are hybrid investment products, with many of the investment features of mutual funds coupled with the trading features of common stocks. Like a mutual fund, an investor buys shares in an ETF to own a proportional interest in the pooled assets. Furthermore, ETFs are managed by an investment advisor for a fee and are regulated under the supervision of National Competent Authorities. But, unlike mutual funds, ETFs do not sell individual shares directly to, or redeem their individual shares directly from, retail investors. ETF shares are traded in continuous markets on global stock exchanges, can be bought and sold through brokerage accounts, and have continuous pricing and liquidity throughout the trading day.
Introduced slightly less than 20 years ago in Europe, ETFs are now one of the fastest-growing segments of the investment management business. **Graph 15** shows the asset growth of ETFs and ETCs (Exchange-trade Commodities) over the past 14 years. ETFs assets' started to significantly grow in 2009 and then constantly increased from 2011 onwards, almost tripling their value in 2017 compared to 2009.

Graph 15: European ETPs (ETF & ETC) asset growth



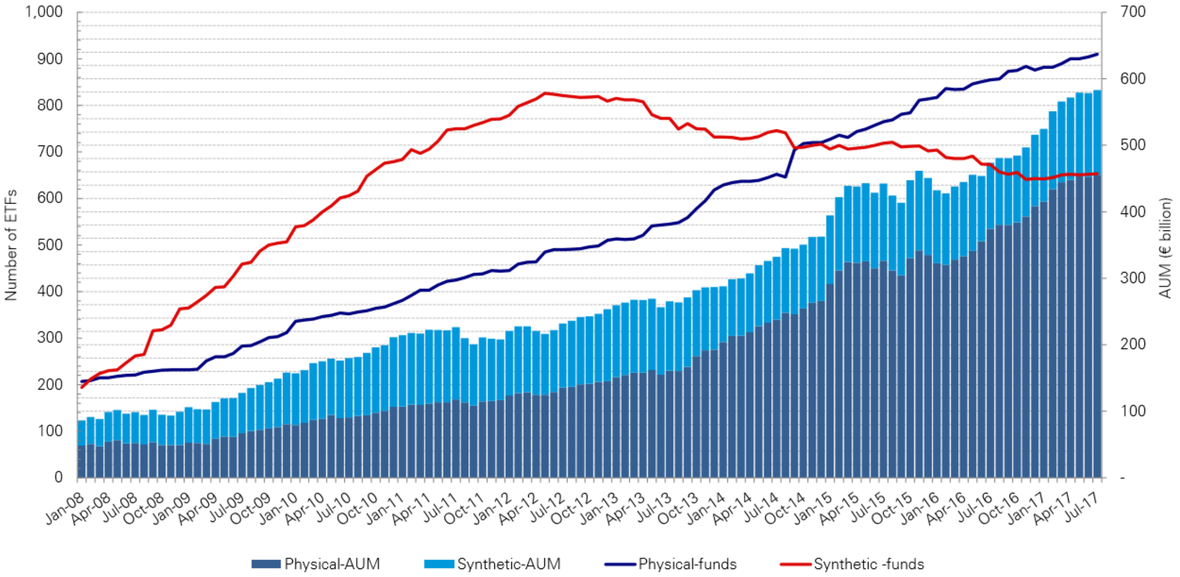
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017**
ETCs	-	491	1,077	1,512	3,161	5,121	11,847	19,514	21,587	26,581	15,415	16,813	16,052	25,080	26,842
ETFs	16,332	23,849	42,249	67,801	86,930	98,211	158,10	211,06	207,60	252,76	286,29	362,38	449,98	515,53	583,11
Total	16,332	24,340	43,326	69,313	90,091	103,33	169,95	230,57	229,18	279,34	301,71	379,20	466,03	540,61	609,95
Number of ETPs	100	115	164	298	476	738	993	1,331	1,563	1,747	1,790	1,887	1,978	1,997	2,087

Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)
**Number of ETPs at the end of the year is net of delistings for the period. **As of July.*

The number of ETFs available is small compared to the number of available actively-managed investment funds, with ETFs representing only about 6% of all the investment funds available.

Two major types of ETFs currently co-exist, distinct by their management styles: synthetic replication ETFs or physical replication ETFs. Physical replication ETFs are considered as those where the ETF manager simply purchases the underlying assets of the index whether they are stocks, bonds, or even gold bars. ETFs applying synthetic replication are ETFs where the manager enters a swap contract with an investment bank that agrees to pay the index return in exchange for a small fee and any returns on collateral held in the ETF portfolio.

Graph 16: Historical composition by ETF structure - Europe



Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)

As shown in **Graph 16**, total Assets under Management (AuM) of Synthetic ETFs has been stable since the economic crisis. On the other side, AuM of Physical ETFs increased substantially since 2011. As of July 2017, approximately 80% of European ETF AUM were represented by physical replication. These trends are also reflected in the number of ETFs. The number of Synthetic ETFs decreased since 2012, whereas the number of Physical ETFs increased steadily to exceed Synthetic ETFs by 30%. This is due, on one hand, to the dominant market players favoring physical ETFs and, on the other hand, to investors who seem to consider physical ETFs as less risky because the products minimize counterparty risk.[24] In the past few years, this resulted in some ETF providers (such as Credit Suisse, Deutsche Bank, and Lyxor / Société Générale) that historically focused on offering synthetic ETFs, to move their ETF business into their asset management operations and to begin offering physical ETFs.

Finally, it seems important to note the emergence of active ETFs. An active ETF is an exchange-traded fund that has a manager or team making decisions on the underlying portfolio allocation or otherwise not following a passive investment strategy. An actively managed ETF will have a benchmark index, but managers may change sector allocations, market-time trades or deviate from the index as they see fit. This produces investment returns that will not perfectly mirror the underlying index. The first actively managed ETF came to market in 2008 in the United States, but active management has struggled to get much traction in the industry since then. Out of more than 583 billion in Europe-listed ETF assets as of July 2017, less than 1% was tied to actively managed funds.

Diversity of ETFs in Europe

As of the end of end of July 2017, the European ETF industry amounted to 583,111M EUR of AuM, with 1,563 products from 44 providers and listed on 25 exchanges across Europe. The European market is characterized by a high concentration of the top

[24] Hill, J.M., Nadig, D. and Hougan, M (2015) A comprehensive guide to exchange-traded funds (ETFs), CFA Institute

players, with that concentration increasing over time. As of end of July 2017, the top 3 players in Europe account for 67.70%, the top 8 accounted for 91.10% and the top 20 for 99.40% market share. These trends are also reflected in terms of product offerings, as the largest manufacturers are also offering the largest variety of products.

As **Table 3** shows, the largest ETF manufacturer in Europe in terms of AuM (Blackrock / iShares) accounted for 47.1% of the overall assets under management, far ahead of the next two manufacturers (Deutsche AM / db x-trackers and Lyxor).

Table 3: Top 20 European ETF providers (All) – Assets and Products

	AUM	*Products*
BlackRock	274,417	295
Deutsche AM	60,653	180
Lyxor	59,720	225
UBS	38,084	120
Amundi	33,211	114
Vanguard	25,956	22
State Street	21,014	99
Source	18,032	74
Deka investment GmbH	8,679	42
ComStage	7,613	114
BNP Paribas	7,015	45
Zuercher Kantonalbank	6,642	4
HSBC	4,837	27
Xact Fonder AB	3,147	14
Ossiam	2,375	12
PowerShares	2,276	17
ETF Securities	2,126	29
Julies Baer Inv	1,957	4
ThinkCapital ETFs N.V.	1,386	14
Wisdom Tree	710	35
Total	579,850	1,486

Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)

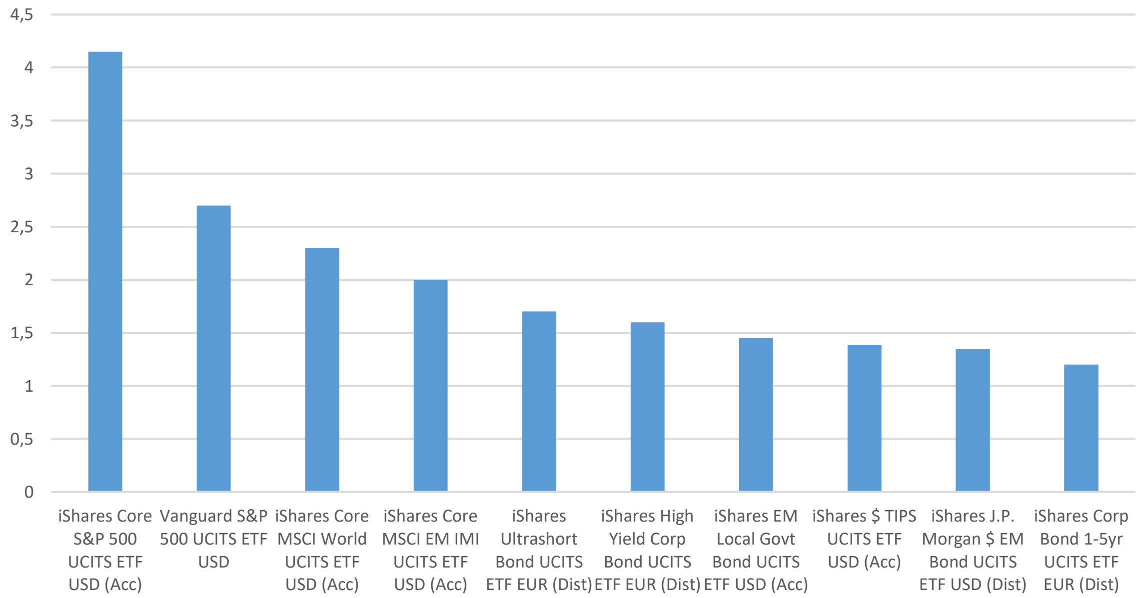
Graph 17 shows the ten best-selling ETFs for the year 2016, led by iShares Core S&P 500 UCITS ETF USD which accounted for net inflows of 4.1bn EUR or 10.88% of the overall net inflows. It was followed by Vanguard SP 500 UCITS ETF USD (+2.7 bn EUR) and iShares Core MSCI World UCITS ETF USD (+2.3 bn EUR). The flow pattern at the fund level confirms the concentration at the manufacturer level. Overall, nine of the ten best-selling funds for 2016 were actively offered by BlackRock and accounted for 45.09% of the net inflows in the European ETF segment.

As for other types of investment products, the manufacturers are keen to anticipate the need for investors and continue to create new products. A large variety of ETFs have opened up for retail investors, providing an extensive product range in which retail investors can invest:

- Equity ETFs
- Fixed-income ETFs
- Commodity and commodity equity ETFs
- Currency ETFs
- Alternative ETFs

- Leveraged and inverse ETFs
- Actively-managed ETFs

Graph 17: Ten best-selling ETFs, 2016 (EUR millions)

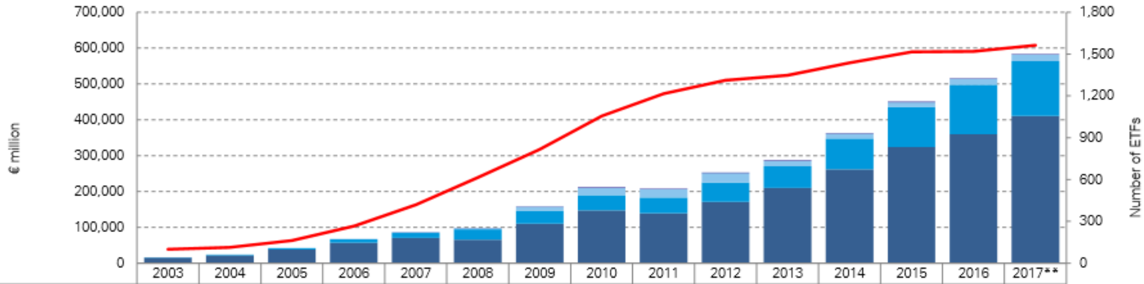


Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)

On a side note, besides differing in asset classes they cover, ETFs also vary in the way they treat dividend payments. ETFs always collect the full dividend of all constituent stocks and pay out the dividends to the ETF shareholder. This pay-out, however, can either be in the form of a cash distribution or a reinvestment in additional fractional shares of the ETF. Some ETFs even focus on dividend-paying stocks as a strategy.

As of end of July 2017, the key ETFs asset classes were as follows:

Graph 18: European ETF asset growth by asset class



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017**
Other	-	-	-	-	96	168	1,078	1,987	1,515	1,592	1,516	1,410	1,398	1,433	1,432
Commodity	-	-	340	1,402	2,314	3,591	10,570	19,312	23,057	26,152	14,512	13,412	12,298	16,449	18,214
Fixed Income	801	2,034	4,002	9,370	13,743	28,979	35,915	42,490	43,695	54,169	60,444	86,151	112,427	138,001	153,172
Equity	15,532	21,815	37,907	57,029	70,776	65,473	110,542	147,272	139,335	170,853	209,824	261,415	323,861	359,653	410,292
Total	16,332	23,849	42,249	67,801	86,930	98,211	158,105	211,061	207,602	252,766	286,296	362,388	449,984	515,536	583,111
Number of ETFs*	100	114	162	266	419	614	817	1,055	1,216	1,312	1,348	1,437	1,516	1,519	1,563

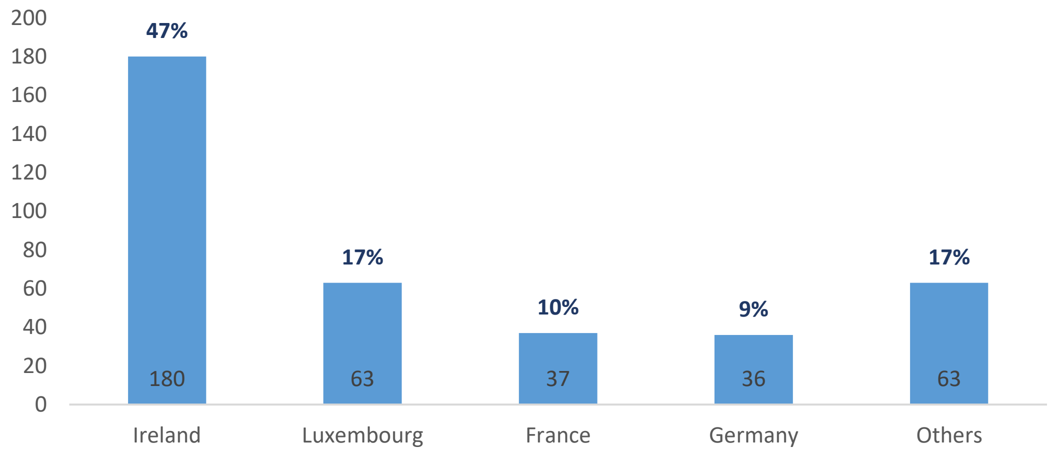
Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)
**Number of ETPs at the end of the year is net of delistings for the period. **As of July.*

As shown in **Graph 18**, ETFs asset classes besides Equity, Fixed-Income and Commodity tend to be niche products, positioned as alternatives to classic ETF asset classes but attracting a very limited market share.

Domiciliation in Europe

Ireland is the leading European country for passive funds domiciliation thanks to advantageous double-tax treaties, in particular with the United States. The largest providers of ETFs in the world being American firms (Blackrock, Vanguard, and State Street) selected Ireland as fund domicile. Dublin is a historical European institutional platform for US funds and houses the European operational centres of the largest US funds services providers (e.g. fund administrators).

Graph 19: Domiciliation of European ETFs



Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)

Key features for retail investors

ETFs show some specific features, distinguishing them from traditional investment funds, which are attractive to retail investors:

- Enhanced access and diversification

Investment in an index tracking product will automatically provide diversification across the sector covered by the index, the actual level of diversification being determined by the specific index. Available ETFs cover indices on most major equity markets as well as regional, industry specific and country-specific sectors. ETFs also cover other asset classes such as fixed income securities with the range of available ETFs continuing to increase. This means that with an ETF, an investor can gain a broad exposure to any number of markets/sectors through the purchase of a single security. Also, most ETFs providers disclose their entire portfolio on a day-to-day basis on their websites, so that investors are fully aware of how their investments are allocated.

- Liquidity

Due to the fact that ETFs are exchange traded, investors can buy them on the secondary market at multiple times during the trading days. Most ETFs are traded on highly liquid market, making possible for the investors to realize buy and sell operations as soon as the market changes. Although some other kinds of mutual funds (traditional closed-end funds, in particular) also trade on exchanges, ETFs are different. They typically disclose their holdings at the start of every trading day, so potential buyers and sellers can evaluate the traded ETF price versus the price of the underlying holdings.

- Lower costs

This is one of the main reasons why retail investors hold ETFs in their portfolios; their lower costs. Retail investors investing in ETFs generally pay less than the ones investing in traditional mutual funds.

Costs associated with ETFs

This section will break down the different costs associated with ETFs. The last few years have seen a material repricing of ETFs in Europe due to increased competition. The weighted average recurring fee observed on the European market, across the whole product offering and strategies is of 0.30%. The cheapest products track fixed income indices at an average of 0.27%. Most expensive are alternative ETFs at average of 0.72%.

Table 4: ETF recurring costs using AUM weighted average – Europe

Asset Class	*TER*
Equity	0.31%
Fixed Income	0.27%
Alternative	0.72%
Commodity	0.39%
Currency	N/A
Multi Asset	0.68%
Total	0.30%

Source: Deutsche Bank, Bloomberg Finance, Reuters (2017)

- Ongoing charges

The cost advantage of ETFs comes, first and foremost, from the fact that most ETFs are index funds and, therefore, do not bear the costs of discretionary, active portfolio management. Such funds therefore generally do not charge portfolio management commissions, but rather apply commissions on potential positive returns achieved by the fund. But index ETFs even tend to be cheaper than indexed mutual funds for investors operating at the retail level. This comes from the fact that they are, obviously, *exchange traded*. When you buy or sell an ETF as an individual investor, you do so through a broker on an exchange. The costs of recording who you are, sending you prospectus documents, handling inquiries, and other factors are all borne by the broker. From the ETF manager's point of view, it only has a handful of "customers" (i.e. the brokerage firms where client accounts are kept). By contrast, in the mutual fund world, individual investors can interact directly with the fund company. Distribution and recordkeeping costs accrue to the fund, therefore raising the overall cost of ownership.

- Other costs

Although ETFs have lower ongoing charges than mutual funds, some costs could differ from those associated with mutual funds. With exchange tradability comes the burden of paying commissions, bid–ask spreads, and, potentially, premiums and discounts to net asset value (NAV). As with trading stocks, these costs can affect returns.

- *Execution fee*

Since ETFs trade like stocks on an exchange, they may be subject to execution fees. These fees can be significant, especially for smaller trades and are supported directly by retail investors. Of course, execution fees vary and some investors trade less frequently than others. However, commissions should always be considered when calculating the total cost of investing in an ETF.

- *Trading costs*

  - *Bid-Ask spreads:*

A fund's bid/ask spread is the difference between what other investors are willing to pay (bid) and accept (ask) for a given transaction. For the largest, most actively traded ETFs these spreads can be quite narrow (e.g. 0.01%[25]), but for ETFs with lower assets or trading volumes, the spread may be much wider (e.g. 1%[26]).

  - *Discounts and Premiums:*

ETFs represent an investment comprised of a portfolio of underlying securities and, consequently, its price is derived from the prices at which the underlying securities are trading.

There can exist a difference in the quoted price of the ETF and the combined value of the underlying securities otherwise known as the net asset value or NAV of the fund. The difference between the quoted price of the ETF and the NAV is expressed as either a premium (when the market price of the ETF is above the NAV) or as a discount (when the market price of the ETF is below the NAV).

Generally, this premium/discount is negligible but it is important for investors to be aware that they may be transacting at levels inconsistent with the underlying securities (especially during market open and close or during periods of high market volatility).

ETFs: Europe vs. US

Numerous and substantial differences exist between Europe and North America when considering the ETF industry.[27] In the United States, the market is more homogeneous than in the EU, as 70% of the trades are made on the same exchange. In contrast, there are many different exchange places, tax and regulatory regimes (as each jurisdiction can modify the EU guidelines for UCITS) across the EU Member States. Further elements, which add to the complexity in Europe, are the different languages, currencies as well as the captive and tied distribution models.

In terms of offered products, in the US only a few ETFs are based on the same benchmark (rarely more than three). In the EU, the approach is different, as most firms base their products on the same benchmarks thus replicating the same index.

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[25] https://advisors.vanguard.com/VGApp/iip/site/advisor/investments/bidaskspread
[26] http://www.nasdaq.com/article/biggest-etf-myths-that-can-lead-to-investor-mistakes-cm345940
[27] Hill, J.M., Nadig, D. and Hougan, M (2015) A comprehensive guide to exchange-traded funds (ETFs), CFA Institute

In the US, asset managers managing the ETFs work with banks and brokers that trade and distribute ETFs. Those stakeholders (asset managers and banks/brokerage firms) are not allowed to trade with affiliated entities due to regulation. This is a significant difference with the EU, where banks and brokers often both manufacture ETFs, trade and distribute them. Thus, they are often both a competitor to other ETF providers and a partner (as market makers) to those providers.

In the US, ETFs invest predominantly in a basket of physical securities or are physically backed with securities in the US. In the EU, as seen above, both synthetic and physical ETFs are offered.

On average ETFs in the US tend to be 25% cheaper than in Europe as can be seen in **Table 5** describing the differences in ongoing charge between the US and the EU (except for the "Alternative" and "Commodity" categories). This is partly due to the US market being a large homogenous market. ETF manufacturers do not have to deal with cross-border distribution, as it can be the case in Europe with its multiple markets triggering additional fees (countries registration, local placing agents, etc.). On the other hand, ETFs in the US are materially larger than European ETFs, thus the operational and administrative expenses of the ETF can be applied on a much more significant AuM.

Table 5: Average ongoing charge by asset class and management style

Asset Class	***Ongoing charge (US)***	***Ongoing Charge (EU)***
Equity	0,22%	0,31%
Fixed Income	0,23%	0,27%
Alternative	1,23%	0,72%
Commodity	0,48%	0,39%
Currency	0,60%	N/A
Multi Asset	0,53%	0,68%
All	0,23%	0,30%

Sources: Deutsche Bank, Bloomberg Finance LP (2017)

Accessibility of ETFs to retail investors

There are differences in terms of accessibility of ETFs between Europe and the USA. ETFs are widely used by retail investors in the US because of their low price. In Europe ETFs are not very well known by retail investors. Therefore we estimate that only about 10% to 15% are held by retail investors.[28] In the US, 50% of ETFs are held by retail investors, according to iShares.

Although ETFs are easily accessible to well-educated retail investors through online investment platforms, this type of investor only accounts for a small percentage of the market. The situation is different for a less sophisticated retail investor in Europe which will depend on advice by a bank or insurance agent or an IFA. Our research shows that the share of ETFs actively offered through the webpages of the financial institutions is coherently small across Member States (approximatively 12% of all investment products). Similarly, bank advisors only proposed our shoppers to invest in ETFs in very few cases, such as in Germany and Spain for profile B and in the UK by one single IFA

[28] "Distribution And Education Key To European ETF Growth", http://www.etf.com/sections/features-and-news/9327-distribution-and-education-key-to-european-etf-market-growth?nopaging=1

for profile A. In a few other rare cases, ETFs were part of a larger portfolio of products proposed to the shopper but remained a small part of the portfolio. The low willingness of banks to propose ETFs to their retail clients may be due to the absence of an incentive scheme, as ETF managers do not pay commissions.

Findings

- The ETF market in Europe, predominantly domiciled in Ireland, has been strongly growing over the last few years. Although dominated by a handful of manufacturers, investors have the choice between a large variety of ETF products.
- ETFs in Europe are today on average 25% more expensive than in the US.
- Only about 10 to 15% of total ETF assets in Europe are held by retail investors.
- A well-educated and self-directed retail investor is able to easily access ETFs through online platforms at a low cost.
- In contrast, a financially less sophisticated investor which relies on human-based advice through banks, will today only in rare cases be advised to invest in ETFs. In contrast, IFAs in the UK are offering ETFs to their clients.

4 Overview of costs and charges of investment products

When choosing the most suitable investment product, associated costs are an important element of the decision making, albeit not the only one. In this Section we analyse the costs and charges of different types of investment products offered through the most frequently used distribution channels. The data collection, the fee definition and the fee computation methods are detailed in the next section. This method allows us to compare costs and charges for each type of product across the 15 Member States in scope of the Study. In a first section, we focus on products offered through banks and insurance companies which represent the most relevant distributors across most European countries. In the following section, we compare costs and charges encountered by a retail investor when buying products through online platforms of banks and through investment platforms (fund supermarkets, D2C platforms and online brokers). Furthermore and to the extent possible, we compare these costs and charges with those encountered when buying products offline through a bank or an insurance company.

4.1 Cost and charges of products purchased at banks and insurance companies

In this section, the different costs and charges of the investment products in scope are analysed, based on costs applicable when purchasing these products through banks and insurers. The findings are presented on a product-by-product basis to display differences and similarities across Member States.

All information including on cost and charges was collected on intermediaries' websites by mid-2017. The following steps were taken during the data collection process:

- A list of banks, insurance companies, fund supermarkets, online brokers and social trading platforms was created during the inception phase of the Study. The list was created with the intent to cover 80% of the retail market in terms of assets under management as well as the most relevant online platforms. Depending on the country 8 to 15 of such entities were identified to be part of the scope of the Study.
- Our researchers visited the webpages of said institutions and in a first step looked for central tariff sheets. Fees such as custody fees and execution fees are generally directly mentioned in these tariffs sheets. The values for each type of fee were then inserted into a global database. Some tariff sheets also disclosed information about fees related to investment funds. Such information was also added to the database.
- Then researchers went to the pages / sections dedicated to retail investors. Here they recorded all individual investment products, including type of product (according to the above-mentioned definition) under which they were marketed.
- The next step of the methodology was to identify costs for all that were not listed in the central tariffs sheets. In the vast majority of cases, three products groups were offered whilst not being specifically mentioned in the tariff sheets: investment funds, life insurance products and pension products.
- For investment funds, information on costs & charges was gathered from the funds' prospectuses and UCITS KIIDs. In most cases, these documents were available on the websites; in a few cases, our researchers collected the required data from Morningstar using the ISIN of the relevant product.

- The different fees were collected at share-class level for each type of fund (i.e. equity, bond, money market, mixed, ETFs, real estate). Every share-class was analysed, or, when an actor distributed more than 100 share classes per fund category, a representative sample, based on underlying investments, geographies, and managers, was taken ensuring to include around 50% of the available share classes. The median value of the fees was computed for each type of fee (e.g. ongoing charges, entry, and exit) for each type of fund (i.e. equity, bond, money market, mixed, exchange-traded funds, and real estate funds). This resulting value was used to obtain a specific value for every type of investment fund in a given country.
- Pension products and life insurance fees were collected using the same methodology as previously described for bonds & equities. Our researchers found that life insurance providers usually presented their product details in a downloadable sheet, where information on costs was also displayed. If an actor offered multiple life insurance contracts and pension products, an average of the different fees was computed, differentiating capital guaranteed policies form policies without a capital guarantee when possible. Note that all fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that retail investors have when conducting their own research. As a result, in some cases, the cost and charges data represented in this report may not capture the entire costs associated with the different products if the information provided was not complete.
- Please note that in the few instances where fees were disclosed as absolute EUR amounts (as opposed to percentages), they were translated into percentage points based on a 10.000 EUR investment amount.
- All fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that retail investors have when conducting their own research/analysis. Any form of discount, including but not limited to commercial gestures and promotional campaigns, have been excluded from the results.

The following table summarizes the types of fees analysed per product category, as well as the source used to gather related cost data:

	Recurring fees		*Source*	*One-off fees*		*Source*
Investment funds	**Ongoing charges**	Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.	KIID	**Entry fee**	Entry fees are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged.	KIID
				Exit fee	Exit fees are one-off fees charged by a provider when redeeming out of a fund.	KIID
ETFs	**Ongoing charges**	Fees charged on a regular (annual) basis including management fees of the ETF, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.	KIID	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including ETFs.	Tariff sheets / websites
Bonds	**Custody fees**	Custody fees are fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safe keeping of the assets of an investor.	Tariff sheets / websites	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including bonds.	Tariff sheets / websites
Listed equities	**Custody fees**	Custody fees are fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safe keeping of the assets of an investor.	Tariff sheets / websites	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including listed equities.	Tariff sheets / websites
Life insurance	**Ongoing charges**	Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for life insurance products include ongoing charges related to the policy's underlying assets. Such Member States have been listed in the Study.	Product sheets / websites	**Entry fee**	Entry fees are fees paid by the investor upon each contribution into a life insurance policy.	Product sheets / websites
				Exit fee	Exit fees are charged when the investor buys back his contract (if he does not hold it until maturity).	Product sheets / websites
Pension products	**Ongoing charges**	Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for pension products include ongoing charges related to the contract's underlying assets.	Product sheets / websites	**Entry fee**	Entry fees are fees paid by the investor upon each contribution into a contract.	Product sheets / websites
				Exit fee	Exit fees are charged when the investor buys back his contract (if he does not hold it until maturity).	Product sheets / websites

The following considerations should be taken into account when reading this section:

- Given the diversity and complexity of financial instruments and the various national specificities, this assessment can only be indicative of the costs and charges of a given product and should allow for a general comparison between Member States. The cost projections provided here should not be used as an indication of actually charged costs while investing.

- The way information on fees is displayed (or not) on distributor's webpages strongly depends on the type of product and the Member State. Information on fees for investment funds (money market, bond, equity and mixed funds) was usually easy to gather on the distributors webpages. In roughly 10% of the cases, our researchers had to manually search for the relevant KIID in order to find the information on costs. For ETFs and real estate funds, depending on Member States, information on fees was slightly more difficult to access, with some distributors only displaying partial or no information.[29] Furthermore, we found that in specific cases customers would need to gather information from different documents and, in some instances, be able to combine them correctly, e.g. when investing in 3rd party funds customers would need to cover additional custody charges. Fees associated to listed bonds and equities were always disclosed by distributors. Finally, we found that the amount of information on fees for life insurance and pension products was varying very much from one Member State to another. In some Member States information on fees for life insurance and pension products could not be found on any distributors' website. Furthermore, if costs for life insurance and pensions products were displayed, it is difficult for a retail investor to discern whether the indicated fees include the costs for any underlying asset.
- The sample size varies strongly between products and across Member States. **Graph 7** gives an indication of the number of products analysed for each category and Member State.

4.1.1 Investment funds

The following steps were taken during the data collection process for investment funds:

- For investment funds, information on costs & charges was gathered from the funds' KIIDs. In most cases, these documents were available on the websites of the distributors. In a few cases the websites did not give access to the KIID and did not display the relevant information, therefore our researchers collected the required data from other sources using the ISIN of the relevant product.
- The different fees were collected at a share-class level. Fees were collected for every share-class displayed by the distributor. In the case that a distributor displayed more than 100 share classes per fund category, a representative sample of 50% of the available share classes was collected, based on underlying investments, geographies, and manufacturers.
- Actively-managed investment funds constitute the vast majority of funds analysed. Passively-managed investment funds[30] are usually below 1% of the products displayed on the webpages of distributors, reaching 5-10% for some Member States at most (for more information, please see section 2.3).

[29] For ETFs, some distributors only disclosed information regarding execution fees and custody charges (that are found on the central tariff sheet of the distributors). Those distributors, while writing information on costs for ETFs in their tariff sheet, did not give the retail investor any list of ETFs (where information ongoing charges could have been found on the KIID) on their webpages.
[30] ETFs are analysed in the following section.

- In this section, the different costs and charges of investment funds are calculated based on costs applicable when purchasing these products through banks.

The following considerations should be taken into account when reading the following sections:

- The exit and entry fees collected represent maximum fee values potentially charged to retail investors since distributors usually disclose the value of each fee as an "up to x%" figure.
- For each type of fee/charge i.e. ongoing charges, entry fee and exit fee, the median value of the fees/charges was computed across all funds of a given type of all distributors in scope in the respective Member State. Median values have been calculated on the basis of those investment products that actually charge this fee type (i.e. a fee value larger than 0%). Thus funds that did not include a certain type of fee/charge were not considered in the calculation of the median.
- For the UK, Spain and Sweden, less than half of the funds analysed actually show entry fees. In these Member States, the analysis shows that in-house funds generally do not display entry fees in contrast to 3rd party funds which usually do.

Note that for consistency and comparability reasons, certain other categories of fees, which had been identified by our researchers, have been excluded from this analysis. For money market funds, the following types of fees were excluded:

- **Performance fees**. In 95% of the sample of funds researched, the funds' KIIDs stated "None" for performance fees. Therefore, they have been disregarded.
- **Custody fees**. As most fund distributors across the 15 Member States analyzed offer mostly in-house funds on their website, custody fees for funds (which only apply to not in-house funds) have been disregarded.
- **Carried interest (for Real estate funds)**. As the Study does not take into account funds performances, they have been disregarded.

4.1.1.1 Money Market funds

The following table summarizes the different fees **presented by distributors** from 15 Member States for money market funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed.

Money market funds								
Member State	Number of share classes analysed	Entry fees[31]		Exit fees[32]		Ongoing charges[33]		
		Median	*Max Min*	***Median***	*Max Min*	***Median***	*Max Min*	
Belgium	7	**0.30%**	3.00% 0.15%	Not applicable		**0.59%**	1.50% 0.20%	
Czech Republic	11	**0.35%**	1.00% 0.10%	**5.00%**	5.00% 5.00%	**0.48%**	1.02% 0.07%	
Denmark	3	**0.09%**	0.09% 0.09%	**0.09%**	0.09% 0.09%	**0.43%**	0.73% 0.17%	
Estonia	5	**1.00%**	1.50% 0.03%	**0.53%**	0.53% 0.53%	**0.45%**	1.11% 0.22%	
France	30	**1.00%**	1.00% 1.00%	Not applicable		**0.10%**	0.50% 0.03%	
Germany	13	**2.00%**	2.00% 2.00%	Not applicable		**0.16%**	0.72% 0.11%	
Italy	15	**1.50%**	3.00% 1.00%	**0.40%**	0.40% 0.40%	**0.48%**	0.83% 0.34%	
Luxembourg	21	**1.00%**	1.00% 0.10%	Not applicable		**0.30%**	0.95% 0.11%	
Netherlands	7	Not applicable		Not applicable		**0.56%**	0.80% 0.10%	
Poland	14	**1.00%**	3.00% 0.23%	**0.45%**	4.00% 0.23%	**0.91%**	1.30% 0.60%	
Portugal	10	Not applicable		Not applicable		**0.43%**	0.88% 0.20%	
Romania	10	**1.00%**	3.00% 0.20%	**2.00%**	3.00% 0.20%	**0.80%**	1.45% 0.50%	
Spain	32	**3.00%**	5.00% 0.50%	**1.00%**	3.00% 0.50%	**0.31%**	1.06% 0.04%	
Sweden	8	**0.05%**	0.05% 0.05%	**0.05%**	0.05% 0.05%	**0.35%**	0.95% 0.30%	
UK	8	Not applicable		Not applicable		**0.25%**	0.63% 0.23%	
Average	-	**1.37%**		**1.25%**		**0.39%**		

[31] **Entry fees** are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged
[32] **Exit fees** are one-off fees charged by a provider when redeeming out of a fund
[33] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Money market funds are generally the cheapest actively-managed funds available to retail investors. Retail investors can buy the cheapest money market funds in France with ongoing charges on average at 0.10%. In contrast, fees displayed by distributors in Romania and Poland are 8 to 9 times higher. Substantial differences can also be seen in terms of entry and exit fees.

4.1.1.2 Bond funds

The following table summarizes the different fees **presented by distributors** from 15 Member States for Bond funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed.

Bond funds								
Member State	Number of share classes analysed	Entry fees[34]		Exit fees[35]		Ongoing charges[36]		
		Median	*Max Min*	***Median***	*Max Min*	***Median***	*Max Min*	
Belgium	71	**2.50%**	3.00% 0.30%	Not applicable		**0.93%**	2.50% 0.50%	
Czech Republic	84	**2.50%**	5.00% 0.10%	**1.00%**	5.00% 1.00%	**0.90%**	2.03% 0.25%	
Denmark	24	**0.31%**	0.80% 0.08%	**0.10%**	0.50% 0.05%	**0.70%**	1.15% 0.20%	
Estonia	41	**3.00%**	5.00% 0.30%	**2.00%**	5.00% 0.17%	**1.35%**	1.95% 0.35%	
France	70	**1.00%**	4.50% 0.15%	Not applicable		**0.98%**	1.67% 0.10%	
Germany	53	**3.00%**	6.00% 1.00%	**1.50%**	1.50% 0.50%	**1.07%**	2.04% 0.21%	
Italy	135	**2.00%**	6.00% 0.50%	**2.20%**	3.50% 0.40%	**1.30%**	2.25% 0.27%	
Luxembourg	86	**2.00%**	4.00% 1.50%	**1.00%**	1.00% 0.50%	**1.08%**	2.24% 0.39%	
Netherlands	64	**3.00%**	5.75% 0.10%	**1.00%**	1.00% 0.10%	**0.68%**	2.33% 0.10%	
Poland	37	**2.50%**	5.00% 0.75%	**2.00%**	5.00% 0.75%	**1.52%**	3.56% 0.67%	
Portugal	26	**3.00%**	6.00% 2.00%	**1.00%**	2.00% 0.50%	**1.10%**	2.35% 0.52%	
Romania	26	**3.50%**	5.00% 1.50%	**2.00%**	3.00% 0.50%	**1.09%**	2.05% 0.60%	

[34] **Entry fees** are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged
[35] **Exit fees** are one-off fees charged by a provider when redeeming out of a fund
[36] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

Spain	184	**5.00%**	6.38% 1.00%	**1.00%**	5.00% 0.20%	**1.03%**	2.61% 0.10%
Sweden	78	**3.00%**	5.00% 0.15%	**1.00%**	1.00% 0.15%	**0.81%**	1.95% 0.11%
UK	92	**3.00%**	5.25% 1.00%	**5.00%**	5.00% 5.00%	**0.66%**	1.44% 0.28%
Average	-	**2.87%**		**1.69%**		**1.01%**	

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Please note that very low values for the minimum values are due to the presence of Index funds in the sample analysed. Those types of funds represent less than 1% of the sample of bond funds analysed but present fees that are substantially lower than actively-managed bond funds.

Bond funds are also typically cheap in comparison to other types of mutual funds (such as equity funds, see below). Bond funds display highest ongoing charges in Poland, Estonia and Italy. In contrast, ongoing charges shown on the distributors' websites are the lowest in the UK, the Netherlands and Denmark. One-off fees are the lowest in Denmark.

4.1.1.3 Equity funds

The following table summarizes the different fees/charges **presented by distributors** from 15 Member States for Equity funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed.

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Please note that very low values for the minimum values are due to the presence of Index funds in the sample analysed. Those types of funds represent less than 1% of the sample of bond funds analysed (with the exception of Sweden and the Netherlands where they represent respectively 10% and 7% of the sample) but present fees that are substantially lower than actively-managed bond funds.

Equity funds are the most expensive subcategory of funds analysed in our study. Like bond funds, distributors displaying the highest ongoing charges are from Poland at 4.03% which is about 4 times higher than for the UK and the Netherlands. Danish distributors show the lowest one-off fees.

Equity funds							
Member State	Number of share classes analysed	Entry fees[37]		Exit fees[38]		Ongoing charges[39]	
		Median	*Max Min*	***Median***	*Max Min*	***Median***	*Max Min*
Belgium	139	**2,50%**	5.75% 2.00%	Not applicable		**1,96%**	3.09% 1.00%
Czech Republic	176	**3,00%**	6.00% 2.00%	**5,00%**	6.00% 5.00%	**1,86%**	2.80% 0.95%
Denmark	40	**0,30%**	3.00% 0.10%	**0,31%**	2.00% 0.10%	**1,54%**	2.80% 0.55%
Estonia	99	**3,00%**	5.75% 1.00%	**1,00%**	5.00% 0.50%	**1,86%**	2.85% 1.26%
France	193	**2,50%**	6.00% 1.00%	**0,75%**	1,00% 0.50%	**1,80%**	3.40% 0.75%
Germany	100	**5,00%**	8.00% 3.00%	**2,00%**	5.00% 1.00%	**1,80%**	2.80% 0.94%
Italy	105	**4,00%**	5.00% 1.50%	**0,40%**	0.40% 0.40%	**2,07%**	2.86% 1.03%
Luxembourg	145	**2,00%**	3.00% 2.00%	**0,50%**	1.00% 0.50%	**1,98%**	3.61% 1.23%
Netherlands	86	**5,00%**	6.38% 0.10%	**1,00%**	3.00% 0.10%	**1,10%**	2.72% 0.45%
Poland	90	**4,50%**	5.50% 2.00%	**4,00%**	5.00% 2.00%	**4,03%**	4.66% 1.72%
Portugal	38	**3,00%**	5.00% 2.00%	**1,00%**	5.00% 0.91%	**2,17%**	3.82% 0.50%
Romania	34	**5,00%**	5.00% 2.00%	**2,00%**	5.00% 2.00%	**2,01%**	4.16% 1.20%
Spain	181	**5,00%**	10.00% 1.00%	**2,00%**	4.00% 0.50%	**2,12%**	3.67% 0.14%
Sweden	191	**5,00%**	5.75% 0.25%	**1,00%**	2.50% 0.25%	**1,66%**	3.30% 0.20%
UK	141	**4,00%**	5.25% 1.00%	**5,00%**	5.00% 5.00%	**0,94%**	1.87% 0.48%
Average	-	**3.65%**		**2.01%**		**1.89%**	

[37] **Entry fees** are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged
[38] **Exit fees** are one-off fees charged by a provider when redeeming out of a fund
[39] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

4.1.1.4 Mixed funds

The following table summarizes the different fees **presented by distributors** from 15 Member States for mixed funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed.

Mixed funds							
Member State	Number of share classes analysed	Entry fees[40]		Exit fees[41]		Ongoing charges[42]	
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*
Belgium	37	**3.00%**	5.50% 1.50%	Not applicable		**1.57%**	2.00% 0.87%
Czech Republic	72	**3.00%**	5.00% 1.00%	**5.00%**	5.00% 2.00%	**1.76%**	2.84% 0.50%
Denmark	17	**0.33%**	1.00% 0.15%	**0.32%**	1.00% 0.05%	**1.36%**	1.97% 0.82%
Estonia	27	**1.03%**	5.75% 0.53%	**1.00%**	1.03% 0.53%	**1.59%**	2.20% 0.70%
France	106	**2.00%**	6.00% 0.50%	Not applicable		**1.49%**	3.23% 0.03%
Germany	98	**5.00%**	8.00% 1.50%	**2.00%**	3.00% 0.50%	**1.70%**	3.57% 0.45%
Italy	48	**3.50%**	4.00% 1.50%	**2.13%**	2.90% 1.75%	**1.87%**	2.65% 1.29%
Luxembourg	71	**2.00%**	3.00% 2.00%	**0.50%**	1.00% 0.50%	**1.78%**	2.93% 0.63%
Netherlands	20	**0.18%**	5.00% 0.08%	**0.11%**	1.00% 0.05%	**0.82%**	1.33% 0.29%
Poland	42	**4.00%**	5.00% 1.63%	**3.25%**	5.00% 1.63%	**3.26%**	4.26% 0.20%
Portugal	23	**2.00%**	5.00% 1.05%	**1.00%**	5.00% 1.00%	**1.60%**	3.30% 0.73%
Romania	20	**5.00%**	5.00% 2.00%	**4.00%**	5.00% 2.00%	**1.76%**	5.20% 0.62%
Spain	248	**5.00%**	6.38% 1.00%	**3.00%**	5.00% 0.10%	**1.21%**	4.00% 0.19%
Sweden	50	**5.00%**	5.75% 1.00%	**1.00%**	2.00% 1.00%	**1.36%**	2.30% 0.20%
UK	110	**5.00%**	5.25% 1.00%	**5.00%**	5.00% 5.00%	**1.02%**	1.91% 0.44%
Average	-	**3.77%**		**2.73%**		**1.51%**	

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

[40] **Entry fees** are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged
[41] **Exit fees** are one-off fees charged by a provider when redeeming out of a fund
[42] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

Please note that very low values for the minimum values are due to the presence of Index funds in the sample analysed. Those types of funds represent less than 1% of the sample of bond funds analysed (with the exception of Spain where they represent ~5% of the sample) but present fees that are substantially lower than actively-managed bond funds.

Polish distributors display the highest ongoing charges at 3.26% for their products compared to the other Member States in scope. In the Netherlands and the UK ongoing charges are the lowest at 0.82% and 1.02% respectively. One-off fees in Denmark are substantially lower than in other Member States.

4.1.1.5 Real estate funds

The following table summarizes the different fees **presented by distributors** from 15 Member States for real estate funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed. In addition, note that "Not available" written in a cell means that no real estate funds were found on the distributors' webpages on a best-effort basis.

Real estate funds							
Member State	Number of share classes analysed	Entry fees[43]		Exit fees[44]		Ongoing charges[45]	
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*
Belgium	5	**2.50%**	5.50% 2.50%	Not applicable		**2.42%**	2.52% 1.71%
Czech Republic	2	**3.25%**	5.00% 1.50%	**5.00%**	5.00% 5.00%	**1.14%**	1.86% 0.42%
Denmark	0	Not available		Not available		Not available	
Estonia	2	**5.00%**	5.00% 5.00%	**1.00%**	1.00% 1.00%	**0.97%**	1.84% 0.09%
France	12	**3.00%**	6.00% 1.90%	Not applicable		**2.09%**	2.90% 1.25%
Germany	27	**5.00%**	6.00% 3.00%	**4.00%**	7.00% 3.00%	**1.01%**	1.86% 0.50%
Italy	0	Not available		Not available		Not available	
Luxembourg	2	**4.00%**	5.00% 3.00%	Not applicable		**1.94%**	1.90% 1.98%
Netherlands	7	**5.00%**	5.00% 5.00%	Not applicable		**0.73%**	1.98% 0.23%
Poland	0	Not available		Not available		Not available	
Portugal	5	**1.50%**	1.75% 0.50%	**2.00%**	2.00% 0.25%	**1.16%**	1.21% 0.35%

[43] **Entry fees** are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged
[44] **Exit fees** are one-off fees charged by a provider when redeeming out of a fund
[45] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

Romania	0	Not available	Not available	Not available
Spain	0	Not available	Not available	Not available
Sweden	5	**0.25%** 0.25% 0.25%	**0.25%** 0.25% 0.25%	**1.50%** 2.01% 0.85%
UK	11	Not applicable	Not applicable	**0.84%** 1.21% 0.74%
Average	-	**3.76%**	**3.20%**	**1.28%**

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Financial institutions in Denmark, Italy, Poland, Romania, and Spain do not disclose real estate funds' fees on their website. Among the Member States analysed, real estate funds are the most expensive in Belgium, France and Luxembourg in terms of ongoing charges. Real estate funds analysed in our sample are the cheapest in the Netherlands the UK and Estonia.

4.1.2 ETFs

The following steps were taken during the data collection process for ETFs:

- For ETFs, information on costs & charges was gathered from the funds' KIIDs. In most cases, these documents were available on the websites; in a few cases, our researchers collected the required data from Morningstar using the ISIN of the relevant product. In addition, ETFs being listed products, distributors also charge an execution fee. Those types of costs were explicitly displayed on central tariff sheets.
- The different fees were collected at a share-class level.
- In this section, the different costs and charges of ETFs are calculated based on costs applicable when purchasing these products through banks.
- The entry and exit fees collected represent maximum fee values potentially charged to retail investors since distributors usually disclose the value of each fee as an "up to x%" figure.
- For each type of fee/charge i.e. ongoing charges, entry, and exit, the median value of the fees/charges was computed across all real estate funds of all distributors in scope in a given Member State.

Note that for consistency and comparability reasons, certain other categories of fees, which had been identified by our researchers, have been excluded from this analysis. For ETFs, the following types of fees were excluded:

- **Performance fees**. In 95% of the sample of funds researched, the funds' KIIDs stated "None" for performance fees. Therefore, they have been disregarded.
- **Custody fees**. As most fund distributors across the 15 Member States analysed offer mostly in-house funds on their website, custody fees for funds (which only apply to third-party funds) have been disregarded.

The following table summarizes the different fees **presented by distributors** from 15 Member States for ETFs. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the share classes analysed. In addition, note that "Not available" written in a cell means that no ETFs were found on distributors' webpages on a best-effort basis.

ETFs					
Member State	Number of share classes analysed	Execution fees[46]		Ongoing charges[47]	
		Median	*Max* *Min*	***Median***	*Max* *Min*
Belgium	76	**1.00%**	1.00% 1.00%	**0.46%**	0.74% 0.07%
Czech Republic	0	Not available		Not available	
Denmark	13	**0.75%**	1.00% 0.54%	**0.53%**	0.60% 0.45%
Estonia	66	**0.25%**	0.40% 0.20%	**0.35%**	1.20% 0.09%
France	91	**1.20%**	1.40% 1.10%	**0.30%**	0.85% 0.12%
Germany	105	**1.00%**	2.19% 1.00%	**0.20%**	0.75% 0.07%
Italy	7	**0.70%**	0.90% 0.40%	**0.39%**	0.48% 0.30%
Luxembourg	56	**1.00%**	1.85% 0.36%	**0.30%**	0.74% 0.01%
Netherlands	79	**0.20%**	0.20% 0.17%	**0.30%**	0.91% 0.09%
Poland	0	Not available		Not available	
Portugal	12	**0.45%**	0.52% 0.20%	**0.14%**	0.45% 0.09%
Romania	0	Not available		Not available	
Spain	112	**0.60%**	0.70% 0.35%	**0.59%**	0.99% 0.05%
Sweden	16	**0.45%**	0.50% 0.45%	**0.41%**	0.70% 0.10%
UK	20	**0.35%**	0.35% 0.35%	**0.23%**	1.00% 0.07%
Average	-	**0.73%**		**0.36%**	

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

[46] **Execution fees:** Fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including ETFs.
[47] **Ongoing charges:** Fees charged on a regular (annual) basis including management fees of the ETF, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.

In three Member States included in our sample, not a single distributor in the sample actively discloses their fees for ETFs on their websites (Poland, Czech Republic and Romania).

Countries where investing in ETFs through banks is relatively inexpensive are Portugal and Germany, with ongoing charges of 0.14% and 0.20% respectively. ETFs distributed in the Netherlands and Estonia, while more expensive; typically bear very low one-off charges (e.g. 0.20% as execution fees for the Netherlands).

4.1.3 Listed bonds & equities

The following steps were taken during the data collection process for listed bonds & equities:

- For listed bonds & equities, information on costs & charges was gathered from central tariff sheets.
- For each type of fee/charge i.e. execution and custody, the median value of the fees/charges was computed across all listed bonds & equities of all distributors in scope in a given Member State.

4.1.3.1 Listed bonds

The following table summarizes the different fees **presented by distributors** from 15 Member States for listed bonds.

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Listed bonds are among the least expensive products of our sample. It is important to note that for listed bonds, the recurring fees shown include custody fees, and the one-off fees include execution fees.

Substantial differences across Member States appear in terms of custody fees. Distributors in the UK and the Netherlands are displaying the lowest custody fees. On the other hand, Spain is by far the most expensive Member State for retail investors willing to invest in listed bonds.

Listed bonds					
Member State	Number of distributors analysed	Execution fees[48]		Custody fees[49]	
		Median	*Max* *Min*	***Median***	*Max* *Min*
Belgium	5	**0.40%**	0.50% 0.09%	**0.15%**	0.15% 0.15%
Czech Republic	5	**0.15%**	0.53% 0.04%	**0.30%**	0.60% 0.15%
Denmark	7	**0.15%**	0.30% 0.04%	**0.27%**	0.38% 0.17%
Estonia	6	**0.20%**	0.20% 0.10%	**0.20%**	0.84% 0.10%
France	8	**1.38%**	1.44% 0.54%	**0.29%**	0.30% 0.16%
Germany	7	**0.50%**	1.25% 0.50%	**0.16%**	1.50% 0.13%
Italy	7	**0.30%**	0.60% 0.20%	**0.40%**	0.80% 0.35%
Luxembourg	5	**1.00%**	1.09% 0.50%	**0.20%**	0.25% 0.15%
Netherlands	3	**0.17%**	0.17% 0.08%	**0.13%**	0.13% 0.13%
Poland	2	**0.67%**	0.99% 0.35%	**0.42%**	0.60% 0.24%
Portugal	7	**0.43%**	0.65% 0.20%	**0.30%**	0.37% 0.20%
Romania	3	**0.12%**	1.00% 0.10%	**0.19%**	0.19% 0.19%
Spain	10	**0.60%**	2.00% 0.35%	**0.70%**	1.00% 0.13%
Sweden	6	**0.48%**	0.50% 0.10%	**0.45%**	0.84% 0.05%
UK	3	**0.41%**	0.58% 0.29%	**0.10%**	0.10% 0.10%
Average	-	**0.50%**		**0.32%**	

[48] **Execution fees:** Fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including bonds.
[49] **Custody fees:** Fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safekeeping of the assets of an investor.

4.1.3.2 Listed equities

The following table summarizes the different fees **presented by distributors** from 15 Member States for listed equities.

Listed equities					
Member State	Number of distributors analysed	Execution fees[50]		Custody fees[51]	
		Median	*Max* *Min*	***Median***	*Max* *Min*
Belgium	5	**1.00%**	1.00% 0.35%	**0.24%**	0.24% 0.24%
Czech Republic	5	**0.40%**	0.80% 0.11%	**0.24%**	0.72% 0.06%
Denmark	7	**0.75%**	0.75% 0.25%	**0.25%**	0.38% 0.16%
Estonia	6	**0.20%**	0.35% 0.20%	**0.25%**	0.84% 0.12%
France	8	**1.38%**	1.44% 0.54%	**0.29%**	0.30% 0.16%
Germany	7	**1.00%**	1.80% 1.00%	**0.16%**	1.50% 0.13%
Italy	7	**0.35%**	0.90% 0.20%	**0.40%**	0.80% 0.35%
Luxembourg	5	**1.00%**	1.85% 0.45%	**0.20%**	0.25% 0.15%
Netherlands	3	**0.17%**	0.17% 0.08%	**0.13%**	0.13% 0.13%
Poland	2	**0.68%**	0.95% 0.40%	**0.42%**	0.60% 0.24%
Portugal	7	**0.45%**	0.65% 0.20%	**0.29%**	0.37% 0.20%
Romania	1	**0.40%**	0.40% 0.40%	**0.19%**	0.19% 0.19%
Spain	10	**0.60%**	0.70% 0.60%	**0.70%**	1.00% 0.13%
Sweden	7	**0.45%**	0.50% 0.05%	**0.45%**	0.84% 0.20%
UK	3	**0.35%**	0.41% 0.29%	**0.10%**	0.10% 0.10%
Average	-	**0.64%**		**0.32%**	

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

[50] **Execution fees:** Fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including listed equities.
[51] **Custody fees:** Fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safekeeping of the assets of an investor.

Like for listed bonds, the most expensive distributors for listed equities are located in Spain, where custody fees are comparatively high at 0.70%. On the other hand, the UK is the cheapest Member State to invest in both listed bonds and equites thanks to relatively low custody fees at 0.10%.

4.1.4 Life insurance products

The following steps were taken during the data collection process for life insurance products:

- Life insurance fees were collected using the same methodology as previously described for bonds & equities. Our researchers found that life insurance providers usually presented their product details in a downloadable sheet, where information on costs was also displayed. If an actor offered multiple life insurance contracts, an average of the different fees was computed, differentiating capital guaranteed policies from policies without a capital guarantee when possible. In most cases life insurance products could not be bought directly on the company's website but interested retail clients were redirected towards an affiliated intermediary. Note that all fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that retail investors have when conducting their own research. As a result, in some cases, the cost and charges data represented in this report may not capture the entire costs associated with the different products if the information provided was not complete.
- The exit and entry fees collected represent maximum fee values potentially charged to retail investors since distributors usually disclose the value of each fee as an "up to x%" figure.
- For each type of fee/charge i.e. ongoing charge, entry and exit fees, the median value of the fees/charges was computed across all life insurance products of all distributors in scope in a given Member State.

Note that for consistency and comparability reasons, certain other categories of fees, which had been identified by our researchers, have been excluded from this analysis. For life insurance products, the following types of fees were excluded:

- **Arbitrage fees**. They are disclosed by distributors in some Member States and have been collected. However, as no assumption was made regarding the number of arbitrages occurring over the period, we can't categorize them as one-off or recurring. In addition, this fee is usually charged after the first arbitrage (meaning that the first arbitrage is free of charge).

- **Biometric risk premiums**. Such fees were not disclosed for life insurance products with an investment component.

4.1.4.1 Life insurance with guaranteed capital

The following table summarizes the different fees **presented by distributors (banks and insurance companies)** from 15 Member States for life insurance with guaranteed capital. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the products analysed. In addition, note that "Not available" written in a cell means that no life insurance with guaranteed capital was found on distributors' webpages on a best-effort basis.

Life insurance with guaranteed capital							
Member State	Number of data points	Entry fees[52]		Exit fees[53]		Ongoing charges[54]	
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*
Belgium	10	**2.50%**	4.50% 1.00%	Not applicable		**0.18%**	1.50% 0.09%
Czech Republic	3	**1.50%**	1.50% 1.00%	Not applicable		**0.27%**	0.50% 0.04%
Denmark	0	Not available		Not available		Not available	
Estonia	0	Not available		Not available		Not available	
France	16	**4.00%**	5.00% 2.00%	Not applicable		**0.80%**	0.96% 0.60%
Germany	0	Not available		Not available		Not available	
Italy	9	**2.75%**	4.00% 1.50%	**2.00%**	2.15% 1.05%	**1.79%**	3.85% 0.17%
Luxembourg	3	**3.00%**	3.00% 2.00%	Not applicable		**1.20%**	1.20% 1.20%
Netherlands	0	Not available		Not available		Not available	
Poland	0	Not available		Not available		Not available	
Portugal	10	**2.00%**	2.50% 1.50%	**1.25%**	1.50% 1.00%	**1.00%**	1.20% 0.50%
Romania	2	**2.60%**	2.60% 2.60%	**4.00%**	4.00% 4.00%	**0.70%**	1.10% 0.30%
Spain	0	Not available		Not available		Not available	
Sweden	0	Not available		Not available		Not available	
UK	0	Not available		Not available		Not available	
Average	-	**2.88%**		**1.83%**		**0.88%**	

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

In the case of guaranteed capital life insurance products, it is important to note that the collected information on the webpages of distributors usually does not allow to assess whether cost and charges related to an underlying assets are included or not. The costs presented above are the ones displayed in the products' information sheet, where the costs on underlying assets are not specified and only one value is given for the different

[52] **Entry fees:** Fees paid by the investor upon each contribution into a life insurance policy.
[53] **Exit fees:** Fees charged when the investor buys back his contract (if he does not hold it until maturity).
[54] **Ongoing charges:** Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for life insurance products include ongoing charges related to the policy's underlying assets. Such Member States have been listed in the Study.

types of fees incurred. Please also note that variation of fees can be explained by relative low sample sizes, since in some Member States only very few actors disclose cost data for guaranteed capital life insurance products.

Considering the above limitations, Czech Republic and Belgium present the lowest ongoing fees for life insurances with guaranteed capital (respectively 0.27% and 0.18%). Italian distributors disclose much higher ongoing charges (1.79% on average).

Please also note that for several Member States included in our sample, not a single financial institution in the scope of our study actively discloses guaranteed capital life insurances' fees (Sweden, United Kingdom, Estonia, Germany, Denmark, the Netherlands, Poland and Spain).

4.1.4.2 Life insurance without capital guarantee

The following table summarizes the different fees **presented by distributors (banks and insurance companies)** from 15 Member States for life insurance without guaranteed capital. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the products analysed. In addition, note that "Not available" written in a cell means that no life insurance without guaranteed capital was found on distributors' webpages on a best-effort basis.

Life insurance without guaranteed capital								
Member State	Number of data points	Entry fees[55]		Exit fees[56]		Ongoing charges[57]		
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*	
Belgium	12	**2.50%**	5.00% 1.00%	**1.00%**	1.00% 0.60%	**1.03%**	2.00% 0.12%	
Czech Republic	40	**0.69%**	3.00% 0.16%	**0.38%**	0.38% 0.13%	**0.90%**	1.85% 0.05%	
Denmark	0	Not available		Not available		Not available		
Estonia	0	Not available		Not available		Not available		
France	15	**4.00%**	5.00% 2.00%	Not applicable		**0.95%**	1.00% 0.70%	
Germany	0	Not available		Not available		Not available		
Italy	21	**2.00%**	5.60% 0.74%	**0.95%**	2.10% 0.54%	**2.35%**	4.50% 1.08%	
Luxembourg	12	**3.00%**	5.00% 1.00%	**2.00%**	2.00% 2.00%	**1.00%**	1.20% 0.70%	
Netherlands	6	**0.50%**	0.50% 0.50%	**0.50%**	0.50% 0.50%	**0.65%**	0.92% 0.25%	
Poland	26	**2.50%**	3.00% 2.00%	Not applicable		**2.14%**	4.37% 0.99%	

[55] **Entry fees:** Fees paid by the investor upon each contribution into a life insurance policy.
[56] **Exit fees:** Fees charged when the investor buys back his contract (if he does not hold it until maturity).
[57] **Ongoing charges:** Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for life insurance products include ongoing charges related to the policy's underlying assets. Such Member States have been listed in the Study.

Portugal	14	**1.00%** 1.50% 0.25%	**1.00%** 3.00% 0.50%	**0.90%** 2.00% 0.01%
Romania	17	**5.00%** 5.00% 1.00%	**2.20%** 2.20% 1.00%	**1.75%** 3.50% 0.35%
Spain	0	Not available	Not available	Not available
Sweden	2	Not applicable	Not applicable	**1.09%** 1.64% 0.55%
UK	0	Not available	Not available	Not available
Average	-	**2.22%**	**1.03%**	**1.38%**

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

As for life insurance products without capital guarantee, the product sheets in most Member States do not clearly indicate whether or not the fees for the underlying assets are included. It is our understanding that fees relative to the underlying assets are most likely charged on top of what is disclosed to investors. However, the situation is different for Italy, Poland and Romania where the ongoing charges disclosed also include ongoing charges related to the policy's underlying assets. Based on the information provided by the distributor, it was not possible to separate wrapper fees from fees relative to the underlying assets. Typically, underlying assets of life insurance contracts are investment funds, and most of the time mixed funds (however this depends on the risk profile of the investor).

Considering these limitations, Dutch and Czech insurers display the lowest ongoing charges regarding life insurances without capital guarantee (0.65% and 0.90% respectively). Swedish distributors are the only ones not disclosing one-off fees. Those fees can be contrasted with the high level of ongoing charges (ranging from 1.75% to 2.35%) in Poland, Romania and Italy, which include, as stated above, the ongoing charges linked to the policy's underlying assets.

In several Member States, no financial institution actively disclosed fees for non-guaranteed capital life insurance policies (UK, Estonia, Germany, Denmark and Spain).

4.1.5 Pension products

The following steps were taken during the data collection process for pension products:

- Pension products fees were collected using the same methodology as previously described for bonds & equities. Our researchers found that pension products' providers usually presented their product details in a downloadable sheet, where information on costs was also displayed. If an actor offered multiple pension products, an average of the different fees was computed, differentiating capital guaranteed policies from policies without a capital guarantee when possible. Note that all fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that retail investors have when conducting their own research. As a result, in some cases, the cost and charges data represented in this report may not capture the entire costs associated with the different products if the information provided was not complete.

- The exit and entry fees collected represent maximum fee values potentially charged to retail investors since distributors usually disclose the value of each fee as an "up to x%" figure.
- For each type of fee/charge i.e. ongoing charge, entry and exit fees, the median value of the fees/charges was computed across all pension products of all distributors in scope in a given Member State.

Note that for consistency and comparability reasons, certain other categories of fees, which had been identified by our researchers, have been excluded from this analysis. The list of such fees (for pension products) are:

- **Arbitrage fees**. They are disclosed by some Member States and have been collected. However, as no assumption was made regarding the number of arbitrages occurring over the period, we can't categorize them as one-off or recurring. In addition, this fee is usually charged after the first arbitrage (meaning that the first arbitrage is free of charge).

4.1.5.1 Pension products with guaranteed capital

The following table summarizes the different fees **presented by distributors** from 15 Member States for pension products with guaranteed capital. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the products analysed. In addition, note that "Not available" written in a cell means that no pension products with guaranteed capital were found on distributors' webpages on a best-effort basis.

Pension products with guaranteed capital								
Member State	Number of data points	Entry fees[58]		Exit fees[59]		Ongoing charges[60]		
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*	
Belgium	13	**5.00%**	7.00% 5.00%	**3.50%**	3.50% 3.50%	**0.18%**	1.20% 0.07%	
Czech Republic	1	Not applicable		Not applicable		**1.00%**	1.00% 1.00%	
Denmark	4	**2.50%**	3.00% 2.00%	Not applicable		**0.81%**	0.95% 0.67%	
Estonia	2	Not applicable		**1.00%**	1.00% 1.00%	**1.45%**	1.45% 1.45%	
France	7	**4.75%**	5.00% 3.50%	Not applicable		**0.96%**	1.55% 0.70%	
Germany	4	**1.50%**	1.50% 1.50%	Not applicable		**0.25%**	0.25% 0.25%	

[58] **Entry fees:** Fees paid by the investor upon each contribution into a contract.
[59] **Exit fees:** Fees charged when the investor buys back his contract (if he does not hold it until maturity).
[60] **Ongoing charges:** Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for pension products include ongoing charges related to the contract's underlying assets.

Italy	3	**1.68%** 2.50% 0.30%	**0.05%** 0.05% 0.05%	**1.00%** 3.50% 0.82%
Luxembourg	3	**3.00%** 4.50% 1.50%	Not applicable	**1.20%** 1.20% 1.20%
Netherlands	3	**2.75%** 3.00% 0.50%	**1.50%** 1.50% 0.65%	**0.48%** 0.48% 0.48%
Poland	1	**0.11%** 0.11% 0.11%	Not applicable	**0.54%** 0.54% 0.54%
Portugal	3	**0.88%** 0.88% 0.88%	Not applicable	**1.63%** 2.00% 1.25%
Romania	0	Not available	Not available	Not available
Spain	30	Not applicable	Not applicable	**1.10%** 1.50% 0.07%
Sweden	2	Not applicable	**4.00%** 4.00% 4.00%	**1.18%** 1.25% 1.11%
UK	0	Not available	Not available	Not available
Average	-	**3.40%**	**2.62%**	**0.87%**

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

The collected information on the webpages of distributors usually does not allow for assessing whether cost and charges related to underlying assets are included or not. The costs presented below are the ones displayed in the products' information sheet, where the costs on underlying assets are not specified and only one value is given for the different types of fees incurred.

The sample size for pension products with guaranteed capital was low across Member States in comparison to other types of investment products. In two Member States not a single actor included in our sample actively disclosed fees for capital-guaranteed pension products, Romania and the UK. In Germany, Poland and Czech Republic, only one product could be identified for which fees were disclosed. In Denmark 2 products could be identified and in Italy only 3.

Considering these limitations, **no conclusions can be drawn** based on the above table.

4.1.5.2 Pension products without capital guarantee

The following table summarizes the different fees **presented by distributors (banks and insurance companies)** from 15 Member States for pension products without guaranteed capital. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the products analysed. In addition, note that "Not available" written in a cell means that no pension products without guaranteed capital were found on distributors' webpages on a best-effort basis.

Pension products without guaranteed capital								
Member State	Number of data points	Entry fees[61]		Exit fees[62]		Ongoing charges[63]		
		Median	*Max Min*	***Median***	*Max Min*	***Median***	*Max Min*	
Belgium	12	**3.00%**	3.00% 6.00%	**0.50%**	0.50% 0.50%	**1.25%**	1.35% 0.89%	
Czech Republic	40	Not applicable		Not applicable		**1.00%**	1.00% 0.40%	
Denmark	12	**1.85%**	2.00% 1.70%	Not applicable		**0.71%**	1.07% 0.06%	
Estonia	3	**1.00%**	1.00% 1.00%	**1.00%**	1.00% 1.00%	**1.50%**	1.50% 1.00%	
France	15	**4.38%**	0.96% 0.80%	Not applicable		**0.96%**	5.00% 3.50%	
Germany	0	Not available		Not available		Not available		
Italy	21	**2.08%**	2.68% 0.26%	Not applicable		**1.46%**	2.00% 0.19%	
Luxembourg	12	**4.00%**	4.50% 1.50%	Not applicable		**1.20%**	1.20% 1.20%	
Netherlands	0	Not available		Not available		Not available		
Poland	26	**1.75%**	3.15% 0.18%	Not applicable		**2.00%**	2.99% 0.42%	
Portugal	14	**2.00%**	2.50% 1.50%	**1.38%**	1.50% 1.25%	**1.13%**	2.00% 0.50%	
Romania	17	**0.19%**	0.50% 0.17%	Not applicable		**2.96%**	4.01% 1.95%	
Spain	104	Not applicable		Not applicable		**1.50%**	1.60% 0.19%	
Sweden	10	**2.49%**	2.98% 1.00%	Not applicable		**1.08%**	1.92% 0.06%	
UK	6	**0.70%**	0.70% 0.70%	Not applicable		**1.62%**	4.51% 1.27%	
Average	-	**2.19%**		**0.97%**		**1.45%**		

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

The available information does not allow to assess whether the costs related to underlying assets are included in the products' information sheet. Underlying assets are not specified and only one value is given for the different types of fees incurred on such products.

[61] **Entry fees:** Fees paid by the investor upon each contribution into a contract.
[62] **Exit fees:** Fees charged when the investor buys back his contract (if he does not hold it until maturity).
[63] **Ongoing charges:** Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for pension products include ongoing charges related to the contract's underlying assets.

Danish distributors of pension products without capital-guarantee disclosed the lowest ongoing charges at 0.71%. Retail investors face the highest charges in Romania and in Poland, with ongoing charges at 2.06% and 2.00% respectively.

Please also note that in Germany and the Netherlands, no financial institution disclosed fees for pension products without capital-guarantee.

4.1.5.3 Pension mutual funds

The following table summarizes the different fees **presented by distributors (banks and insurance companies)** from 15 Member States for pension mutual funds. Please note that "Not applicable" written in a cell means that no values were found for the particular fee for all the products analysed. In addition, note that "Not available" written in a cell means that no pension mutual funds were found on distributors' webpages on a best-effort basis.

The value highlighted in bold is the **median value**, and the two values on the right are the maximum and minimum figures recorded during data collection. The values displayed in the last row are average fee values across the Member States.

Pension mutual funds							
Member State	Number of data points	Entry fees[64]		Exit fees[65]		Ongoing charges[66]	
		Median	*Max* *Min*	***Median***	*Max* *Min*	***Median***	*Max* *Min*
Belgium	17	**3.00%**	3.00% 3.00%	**5.00%**	6.00% 5.00%	**1.05%**	3.00% 0.30%
Czech Republic	0	Not available		Not available		Not available	
Denmark	3	**1.70%**	1.70% 1.70%	Not applicable		**0.40%**	1.45% 0.15%
Estonia	8	**1.00%**	1.00% 1.00%	**1.00%**	1.12% 1.00%	**1.15%**	1.50% 0.30%
France	0	Not available		Not available		Not available	
Germany	0	Not available		Not available		Not available	
Italy	9	Not applicable		**0.52%**	0.52% 0.20%	**1.00%**	2.10% 0.96%
Luxembourg	7	**2.50%**	2.50% 2.50%	**1.00%**	1.00% 1.00%	**1.14%**	1.42% 0.78%
Netherlands	22	**0.75%**	0.75% 0.75%	**0.75%**	0.75% 0.75%	**0.19%**	1.51% 0.15%
Poland	57	**3.83%**	3.83% 3.83%	Not applicable		**2.00%**	3.10% 0.20%
Portugal	21	**2.50%**	3.50% 1.00%	**2.25%**	2.50% 2.00%	**1.44%**	2.00% 0.10%

[64] **Entry fees:** Fees paid by the investor upon each contribution into a contract.
[65] **Exit fees:** Fees charged when the investor buys back his contract (if he does not hold it until maturity).
[66] **Ongoing charges:** Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for pension products include ongoing charges related to the contract's underlying assets.

Romania	0	Not available	Not available	Not available
Spain	0	Not available	Not available	Not available
Sweden	45	**1.00%** 1.00% 1.00%	**1.00%** 1.00% 1.00%	**0.53%** 1.51% 0.01%
UK	0	Not available	Not available	Not available
Average	-	**2.30%**	**1.65%**	**1.15%**

4.1.6 Competition on costs & charges of investment products

Although retail investors have in principle access to a large variety of investment products and distributors, the current low level of transparency in terms of fees prevents the customer to fully understand how much he will end up paying for his investment. In addition, this retail investor will find it difficult to compare fees across different distributor in his home country. While the level of fees is not the only criterion to take into account when choosing a product and a distributor, it is certainly an important element in the decision making.

Therefore we assess the level of competition on cost and charges between local distributors, by computing the difference between the cheapest and the most expensive distributor (in our sample) per product type in a given Member State thus providing a view on whether a retail investor will encounter large (or small) differences in terms of fees of distributors. Fee values have been collected from the webpages of distributors. The difference is computed separately for recurring fees and one-off fees.

Table 6 displays the difference between the cheapest and the most expensive distributor for each product by Member State. The colour coding indicates the level of spread per product type, e.g. the darker the value for a Member State, the higher the spread for this product in that Member State. Taking the example of bonds, the largest spread between distributors in terms of the recurring fee is found in Germany, with a spread of 1.36 percentage points. Conversely, the lowest spread between distributors for the same product and the same type of fee is found in Belgium with a spread of only 0.05 percentage point.

For cells marked grey, no value could be calculated as either no products of this type could be found on the webpages of distributors (displaying the particular fee type) or only a single product could be found that displayed fees.

The order of Member States reflects whether the spreads across products are generally small (top) or large (bottom).

One can notice that the Luxembourgish and Dutch distributors present a spread on their recurring fees across the different product types which is on average substantially lower than for Member States such as Romania or Poland. The Luxembourgish or Dutch market can therefore be interpreted as more homogeneous and competitive markets where the actors tend to be more aligned with their prices.

Estonia is also among the Member States with highest spreads across its distributors in terms of recurring fees for several products. This is the case for several types of funds such as bond funds, equity funds and money market funds. German distributors show the largest spread for bonds, equities and ETFs. Spanish distributors do so for the mixed funds, and Italian's for the products with capital guarantee (life insurances and pension products). The largest spread for life insurance without capital guarantee is found in Romania with a spread of 3.62 percentage points, and for non-guaranteed capital pension products and pension mutual funds, it is found is Poland with spreads of 2.57 and 3.47 percentage points respectively.

Table 6: Overview of the spread between the highest and the lowest recurring fee values disclosed by distributors, per product type and across Member States, in percentage points

	Bonds	Equities	ETFs	Bond Funds	Equity Funds	Global or Mixed funds	Money Market Funds	Real estate funds	Life Insurance guaranteed	Life Insurance non-guaranteed	Pension Products guaranteed	Pension Products non-guaranteed	Pension Products mutual funds
Belgium	0,05%	0,14%		0,64%	0,78%	0,37%	0,87%	0,61%	1,41%	1,75%	1,13%	0,72%	0,23%
Czech Republic	0,45%	0,66%		1,15%	0,47%	0,68%	0,75%	1,44%	0,33%	1,48%		0,60%	
Denmark	0,21%	0,22%		0,23%	0,94%	0,76%	0,43%				0,38%	1,03%	1,13%
Estonia	0,84%	0,82%	0,59%	1,60%	2,87%	2,39%	1,80%	1,75%				0,50%	1,15%
France	0,14%	0,14%	0,30%	0,85%	0,91%	0,93%	0,50%	1,65%	0,36%	0,30%	0,85%	0,16%	
Germany	1,36%	1,36%	1,66%	1,53%	1,59%	1,52%	1,50%	0,30%					
Italy	0,45%	0,78%	0,45%	1,07%	0,89%	0,84%	1,05%		3,68%	3,43%	2,68%	1,79%	1,48%
Luxembourg	0,10%	0,10%	0,22%	0,58%	0,66%	0,86%	0,61%	0,23%	0,00%	0,50%	0,00%	0,00%	0,64%
Netherlands			0,13%	0,61%	1,17%	0,82%	0,25%	0,10%		0,07%			0,41%
Poland	0,71%	1,31%		1,05%	1,89%	1,88%	0,09%			3,38%		2,57%	3,47%
Portugal	0,17%	0,17%	0,27%	1,09%	1,66%	1,16%	0,68%	0,46%	0,70%	1,99%	0,81%	0,25%	1,87%
Romania				0,88%	1,56%	1,20%	0,76%		0,77%	3,62%		2,14%	
Spain	0,87%	0,87%	0,80%	0,79%	1,29%	2,45%	0,41%				0,81%	0,39%	
Sweden	0,79%	0,64%	0,16%	0,48%	0,39%	0,87%	0,30%	0,48%		1,10%	1,74%	2,11%	0,68%
United Kingdom			0,60%	0,48%	0,30%	0,34%	0,39%					1,87%	

Source: Intermediaries' websites (2017), Deloitte analysis (2017

Differences for one-off fees are displayed in **Table 7**. These spreads are especially important for investment funds, where the largest spreads can go up to more than 9.00 percentage points in Spain for the global or mixed funds, whereas the lowest spread is equal to only 1.16 percentage points in Belgium.

Conversely, for products that are publicly traded such as bonds, equities or passively-managed funds, those spreads remain lower across most Member States, rarely going beyond 1.50 percentage point.

Luxembourgish distributors display the largest spreads in terms of one-off fees for equities and ETFs. Spanish distributors disclose the largest ones for bonds, bond funds, and mixed funds, whereas British distributors present the largest ones for equity funds, Romanian distributors for money market funds, and Czech distributors for real estate funds.

Interestingly, Belgian distributors disclose much larger differences in terms of one-off fees than in terms of recurring fees for life insurances and pension products, and display the highest spreads for these products except for life insurance without capital guarantee. For this product type, the highest spread is displayed by Italian insurers with a gap of 6.64 percentage points.

Table 7: Overview of the spread between the highest and the lowest one-off fee values disclosed by distributors, per product type and across Member States, in percentage points

	Bonds	Equities	ETFs	Bond Funds	Equity Funds	Global or Mixed funds	Money Market Funds	Real estate funds	Life Insurance guaranteed	Life Insurance non-guaranteed	Pension Products guaranteed	Pension Products non-guaranteed	Pension Products mutual funds
Belgium	0,41%	0,65%		2,32%	1,82%	1,16%	2,85%	3,00%	3,51%	4,00%	7,50%	3,00%	3,00%
Czech Republic	0,49%	0,69%		5,46%	5,50%	5,75%	4,90%	8,50%	0,50%	2,23%			
Denmark	0,26%	0,50%	0,46%	0,61%	1,87%	1,28%					1,00%	0,30%	
Estonia	0,14%	0,15%	0,15%	6,09%	6,55%	4,25%	1,00%						1,12%
France	0,91%	0,91%	1,40%	3,00%	2,61%	2,08%	0,77%	2,63%	3,00%	3,00%	1,50%	1,50%	
Germany	0,75%	0,80%	1,19%	1,79%	1,44%	5,23%		1,59%					
Italy	0,60%	0,90%	0,70%	3,23%	1,93%	3,08%	3,09%		3,45%	6,64%	2,25%	2,92%	0,32%
Luxembourg	0,59%	1,40%	1,49%	3,25%	2,50%	2,50%	3,40%	2,00%	1,00%	3,00%	3,00%	3,00%	0,00%
Netherlands	0,09%	0,09%	0,03%	4,52%	5,81%	5,97%					3,75%		
Poland	0,64%	0,55%		7,75%	5,46%	6,20%	4,83%			1,00%		2,97%	
Portugal	0,45%	0,45%	0,32%	4,43%	5,86%	4,29%		3,50%	2,00%	4,00%			2,50%
Romania	0,90%			5,00%	5,33%	6,00%	5,25%			4,20%		0,33%	
Spain	1,65%	0,10%	0,35%	7,80%	3,64%	9,27%	0,04%						
Sweden	0,40%	0,45%	0,05%	4,00%	4,06%	4,00%	0,00%	1,08%				1,98%	
United Kingdom	0,29%	0,12%		6,21%	6,61%	6,39%							

Source: Intermediaries' websites (2017), Deloitte analysis (2017)

4.2 Costs and charges when investing online

Customers in all Member States, especially the generation of Millennials, are increasingly taking advantage of online platforms dealing with their financial matters. With the advent of online banking portals, fund supermarkets and online brokers, a growing share of retail investors are investing without relying on advisors, be it IFAs or non-independent advisors at banks or insurance companies. We therefore assess the costs and charges an investor encounters when investing online. A detailed description of the data collection method is given in Annex 1.

The assessment of the different costs and charges disclosed by online distributors is based on two main types of actors proposing investment services through online channels to retail investors:

- Banks and their online platforms;
- Fund supermarkets (including D2C platforms and online broker). For a more detailed description of these online platforms please refer to section 8.1.

Generally, our research found that the fee structure of fund supermarkets is quite complex. A retail investor will find it difficult to understand the fees associated with a particular investment and correctly calculate on his own the total amount of fees charged over the investment horizon.

Today, many users of online services rely on comparator websites in order to compare offers of different providers. This is also true for investment products. A variety of comparator sites compare online services of banks, fund supermarkets and online brokers. Nevertheless, the information provided by comparators needs to be taken cautiously as comparators might be linked to a given service provider and, as a result, the offer of this service provider might be favoured. Some of the comparators provide a static overview of investment products and their associated fees per available product category. Other comparators provide a dynamic view where the interested investor indicates the amount to invest, the type of investment products, the number of transactions, etc. before receiving a ranking of the best offers. When comparing fees for a given investment product, a user of such a comparator needs to carefully assess the assumptions made by the algorithm in order to calculate the total amount of fees and check whether these assumptions actually correspond to the information of the individual fund supermarket.

4.2.1 Investment funds

Below, we distinguish between one-off fees (entry and exit fees) and recurring fees, which are charged on a recurrent (usually yearly) basis.

Across the 15 Member States in the scope of this Study, slightly more than half of them host fund supermarkets according to our research (France, UK, Germany, Belgium, Italy, Spain, the Netherlands, Sweden and Poland). The level of development of this type of channel varies significantly across Member States. Only a few of the Member States have a large number of funds supermarkets such as the United Kingdom, Germany and France whereas investing into funds through online platforms remains more difficult in the remaining Member States of our sample.

But in all the Member States in which they are present, the majority of the online distributors enable retail investors to gain access to funds at lower costs compared to offline (telephone or agency) purchase.

Entry and exit fees for investment funds

According to our research, banks, in the vast majority of cases, charge the same entry or exit independent of whether the investor decides to purchase funds through a branch (or by phone) or through the online platform of the bank.[67]

For many fund supermarkets, entry and/or exit fees of the particular fund are either reduced or not charged at all. This is the case for example for all the investment funds proposed by some fund supermarkets in Italy, Poland or Spain. In France, the situation is also similar, with most fund supermarkets entering into partnerships with a selection of funds, enabling the client to have lower entry and exit fees. In Germany, reduced entry fees are quite frequent and can reach 50% for a 10,000 EUR initial investment. In some other cases, the fund supermarkets also choose to only select particular investment funds which do not charge any entry and exit fees.

Recurring fees for investment funds

Again, as for the entry and exit fees, banks charge the same recurring fee (i.e. the management fee of the asset manager) independent of whether the investor decides to purchase funds through a branch (or by phone) or through the online platform of the bank.[67]

In general, this is also the case for fund supermarkets. Nevertheless, a small number of platforms offer discounts on the annual management fees of the funds ranging from 0.035 percentage points to 0.50 percentage points.

In some instances, a retail investor investing will also have to pay a service charge to the fund supermarket. **Table 8** gives an overview of Member States where service fees have been encountered regularly.

Table 8: Service fees disclosed by fund supermarkets

Country	*Service fee*
France	0.79%
Netherlands	0.20%
Poland	0.15%
UK	0.30%

Source: Deloitte analysis (2017)

4.2.2 ETFs, bonds and listed equities

In this section, we investigate the execution fees for the online distribution of ETFs, bonds and listed equities. Fees have been extracted from the same institutions, and following the same procedure, as for the analysis of the costs and charges in section 4.1. The tariff sheets of most banks indicate different fees according to whether the investor decides to proceed the transaction online or through the regular channels available (an agency or over the phone).

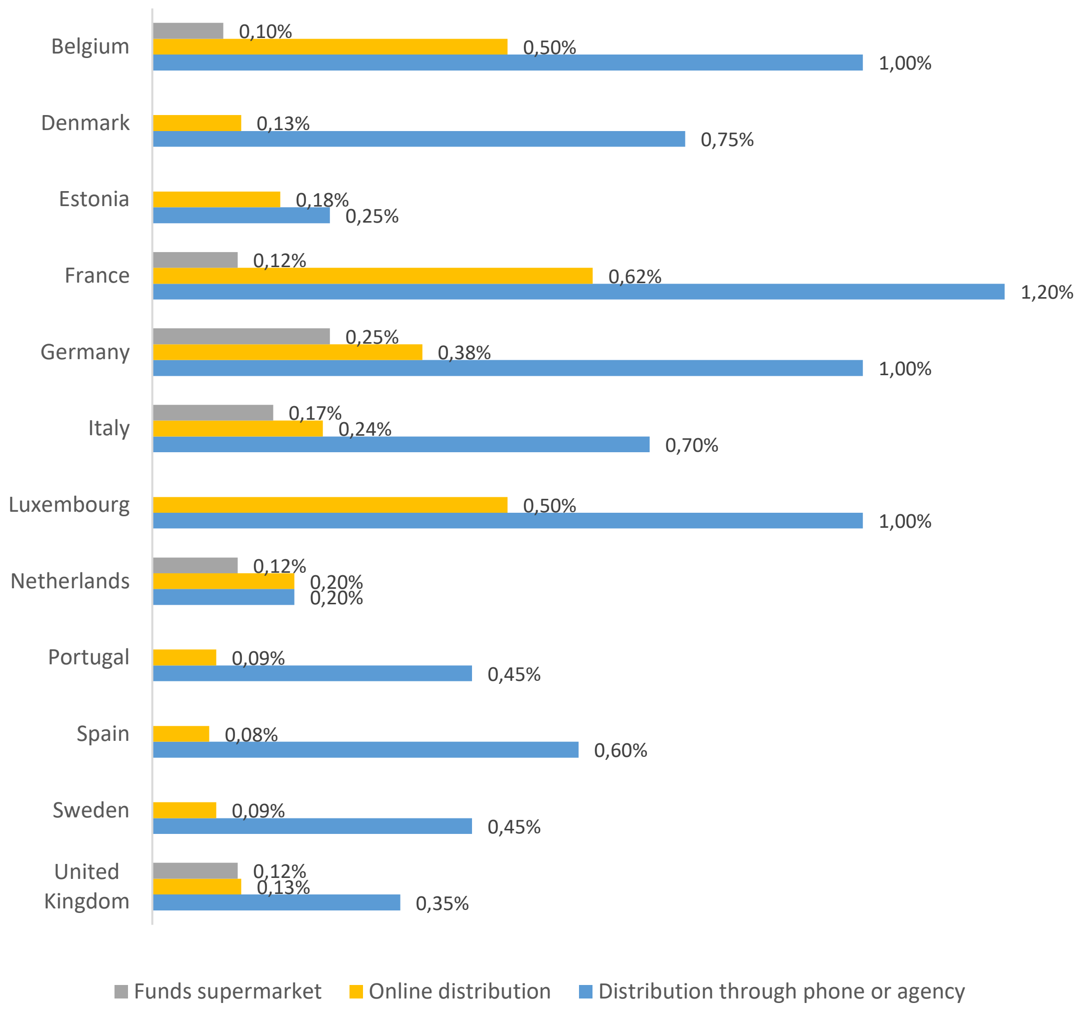
[67] Promotional campaigns, which are limited in time, have been excluded from the results.

ETFs

It is also the case for ETFs that retail investors face lower execution fees when trading ETFs through online platforms of banks. Differences are quite significant, except for Estonia. As a matter of fact, execution fees decrease only by 0.07 percentage points when using online channels in Estonia. For Denmark or Spain, the execution fees decrease more substantially and go from 0.75% and 0.60% to 0.13% and 0.08% respectively. Nevertheless, note that only one online distributor of ETFs disclosed execution fees in Denmark and Spain. Moreover, three Member States included in our sample do not host any ETFs distributors which actively disclose their fees and have therefore been removed from **Graph 20** (Poland, Czech Republic and Romania).

Funds supermarkets generally display even lower costs than online channels of banks. The differences are especially significant in France and Belgium.

Graph 20: Execution fee values per defined distribution channel for ETFs



Source: Deloitte analysis (2017)

Listed bonds

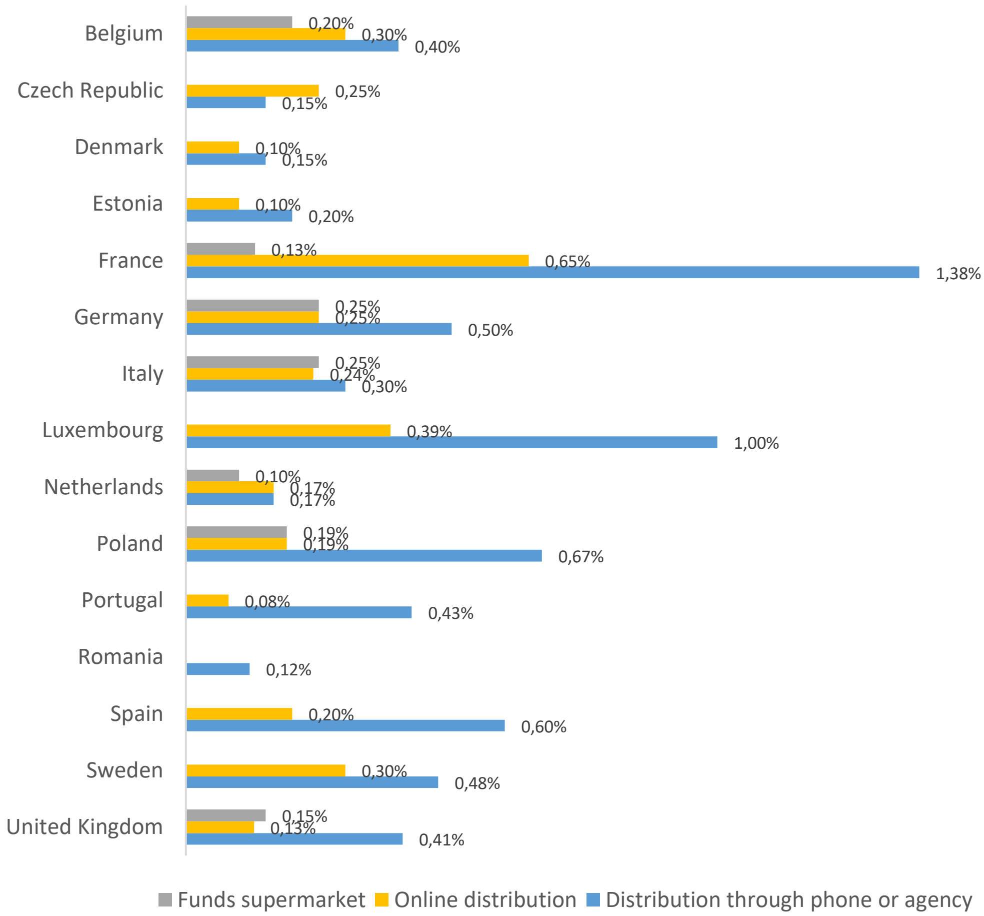
Graph 21 provides an overview of the execution fees recorded at fund supermarkets, online channels of banks and "offline" channels of banks, i.e. purchasing through phone or at an agency. The execution fees presented by online platforms are for every Member State (except for the Czech Republic) less expensive than the ones faced when investing through phone or directly at an agency.

On the one hand, Member States such as Portugal or Poland present execution fees for their online channels that are more than three and four times lower than for the offline channels. Execution fees charged by distribution channels in Poland go from 0.67% to 0.19% and from 0.43% in Portugal to 0.08%. On the other hand, for some Member States which already display quite low execution fees for the offline channels such as Denmark or Estonia, the differences remain fairly low with a slight decrease of only 0.05 and 0.10 percentage points on the execution fees.

Only distributors in Czech Republic display fees for online distribution that are higher than for distribution through offline channels. However, it should be noticed that this is mainly due to the fact that some distributors charge a nominal fee for the offline distribution, and a fee expressed in percentage for the online distribution. Therefore, when the nominal fee is translated into a percentage with regards to a 10,000 euros investments, this results in a very low percentage which biases the comparison.

The fees displayed by fund supermarkets remained relatively close to the ones displayed by bank's online platforms: However, Belgian's fund supermarkets display a fee equal to 0.20% compare to the one of 0.30% of the online platforms of banks. The difference is even more significant in France, with online brokers displaying an execution fee almost five times lower than the one shown by the online platforms of banks.

Graph 21: Execution fee values per defined distribution channel for listed bonds



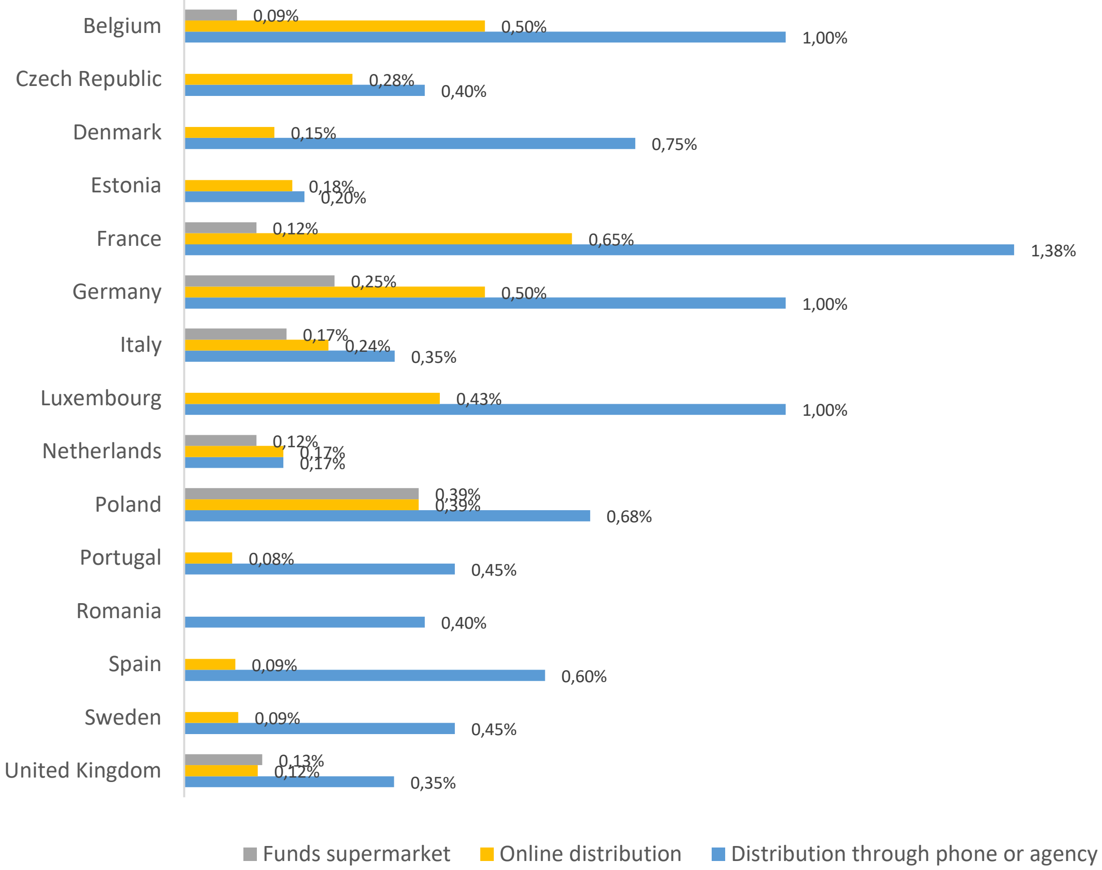
Source: Deloitte analysis (2017)

Listed Equities

When trading equities, retail investors face lower execution fees by trading through online distribution channels than when they trade offline. The spread in terms of execution fee is rather quite large for certain Member States according to the channel chosen. Indeed, in Spain or Denmark where distributors charge only 0.90% and 0.15% when clients use banks' online platforms, the distributors charge 0.60% and 0.75% when clients use the phone or go to the agency. However, these differences are smaller for other Member States. For instance, in Czech Republic or in Estonia, the execution fees drop from 0.40% and 0.20% to 0.28% and 0.18% respectively when investors choose to go online.

Regarding fund supermarkets, the differences of fees with banks' online platforms vary also strongly across Member States. In Belgium, Germany and France, the differences are particularly significant. Differences remain relatively low for retail investors choosing fund supermarket over banks' online platforms in Italy, Poland or the UK.

Graph 22: Execution fee values per defined distribution channel for Listed Equities



Source: Deloitte analysis (2017)

4.2.3 Life insurance and pension products

In general, direct selling of life insurances and pension products through online channels remains marginal in most of the Member States.

There are two notable exceptions. In France, some of the distributors enable investors to have access to life insurances online due to the popularity of these products on the French market. The fees disclosed by the online platforms proposing life insurances are once again slightly lower (0.75% as ongoing charges) than the ones displayed when purchasing offline (0.85%).

In the UK and Sweden, pension products are easily accessible online. Indeed, every fund supermarket in the UK enables retail investors to have access to Self-Invested Personal Pension (SIIP), which offers tax reductions to investors saving for retirement. The fees shown in those cases by online platforms of banks and by fund supermarkets are also lower than the ones displayed when purchasing offline, amounting to 1.08% against 1.62%.

4.3 Findings

Transparency of fees

- The investment products in the scope of this Study are complex by nature and require a substantial level of financial literacy for a customer to understand the product specificities, its associated risks and the fees displayed over the investment period.
- On top of this inherent complexity, the way information on fees is displayed on distributor's webpages requires a customer to gather information from different documents and, in some instances, be able to combine them correctly e.g. when investing in 3rd party funds customers would need to cover additional custody charges.
- The way information on fees is displayed (or not) on distributor's webpages strongly depends on the type of product and the Member State. Information on fees for investment funds (money market, bond, equity and mixed funds) was usually easy to gather on the distributors webpages. In roughly 10% of the cases, our researchers had to manually search for the relevant KIID in order to find the information on costs. For ETFs and real estate funds, depending on Member States, information on fees was slightly more difficult to access, with some distributors only displaying partial or no information. Fees associated with listed bonds and equities were always disclosed by distributors. Finally, we found that the amount of information on fees for life insurance and pension products varied very much from one Member State to another. In some Member States, information on fees for life insurance and pension products could not be found on the website of any distributors. Furthermore, if costs for life insurance and pensions products were displayed, it is difficult for a retail investor to discern whether the indicated fees include the costs for any underlying asset.
- Again, in relation to life insurance and pensions products, it is difficult for a retail investor to discern whether the indicated fees include the costs for any underlying asset. This can be highlighted for insurance products without capital guarantee. While the documentation provided explicitly mentions that fees for the underlying asset are included in Italy, Poland and Romania, it is not clear based on the provided information, whether the fees for the underlying assets are included in other Member States. The comparatively low total fees in these Member States, due to low ongoing charges tend to indicate that the fees for the underlying asset are not included.
- While there is no obligation for distributors to display fees to non-clients through webpages, a retail investor will very likely not be able to collect comprehensive information on fees and correctly interpret the information provided. As a consequence, he will not be able to compare fees across different products and distributors. He would need to talk directly with a bank advisor to receive the necessary information and the associated explanations. This in turn raises the efforts a retail investor needs to spend in order to compare different products and different distributors. As a result, he might refrain from investing at all in any investment product or he will simply choose among the products provided by the bank or insurance company that he is already a client of, thus preventing him from shopping around.
- The feedback by Consumer Protection Agencies (CPA) and Alternative Dispute Resolution agencies (ADR) collected through an online questionnaire, clearly indicates that an opaque fee structure is the subject of regular complaints. Retail investors often feel misinformed by their advisors or the information on product

sheets on the fees that are related to a given investment product. According to the respondents, investors complain about either the costs being too high or that costs were hidden (e.g. costs of the underlying investment fund in life insurance products).

- Upcoming regulations will certainly increase the transparency on fees and help investors take informed decisions.

Fees by product type across Member States

- For each type of investment funds, large differences in terms of displayed costs can be found across Member States. As stated in Section 2, the vast majority of funds offered to retail clients are in-house products, thus differences in fees across Member States might be explained through differing pricing strategies of the distributors as well as potentially other local specificities.
- On average, distributors in the Netherlands and the UK seem to display the lowest ongoing fees for all types of funds (except for money market funds). This is potentially related to the ban on inducements which the consumer being better informed about what he pays for, has led intermediaries to abandon advice and offer more low-cost options to consumers through their execution-only online channel.
- On the other side of the spectrum, distributors in Poland, Italy, Romania and Spain seem to display the highest average ongoing fees across the various fund types.
- ETFs seem to be most expensive in Spain, Denmark, Belgium and the UK while ETFs in Portugal are the cheapest.
- ETFs are on average almost 60% cheaper than actively managed investment funds across our sample of 15 EU Member States.
- For bonds and listed equities, substantial discrepancies are found across Member States. Investing in bonds and listed equities is potentially the most expensive in Spain and Italy and while the lowest fees are displayed in the UK, the Netherlands, Romania and Luxembourg.
- **Results for life insurance and pension products need to be interpreted with caution.** Firstly, only a small set of the distributors in scope displayed the costs for these products thus reducing the sample size. On top, the information provided per product on the distributor's webpage is in many cases unclear as to whether all fees are included, especially those related to the underlying assets.
- Our data shows that a retail investor is potentially exposed to large differences in terms of fees between the various local distributors. Differences vary substantially across Member States and product types.

Purchasing investment products online

- Not taking into account promotional campaigns which are limited in time, banks usually do not offer discounts when purchasing investment funds through their online platform. Thus, the investor has to pay the same one-off and recurring fees as when purchasing through telephone or at an agency.
- When purchasing investment funds at a fund supermarket, investors may regularly benefit from reduced entry and exit fees. In some cases, investors may even benefit from discounts on recurring fees, i.e. reduced fund management

fees. On the other hand, fund supermarkets in some Member States charge a service fee on top of the recurring fee for the fund.

- For ETFs, bonds and listed equities, fees are usually substantially lower when purchasing online compared to purchasing at a bank agency or through phone. Fund supermarkets and online brokers are on average the cheapest way to invest.
- In general, selling of life insurances and pension products through online channels remains marginal in most of the Member States. But if possible, e.g. life insurance in France and pension products in the UK, investors are better of online compared to purchasing over phone or at an agency.
- Concerning the transparency and comprehensibility of fees, there is little difference between online websites of banks and insurers, fund supermarkets and online brokers. A retail investor will probably find it difficult to identify and understand all the fees associated with an investment.

5 Outcomes of different types of advice

Advice is an important tool to guide retail investors in their investment decisions. In principle, it should enable customers to consider a wider set of investment products, better understand their features and buy products that better match their individual profile. Different types of investment advice exist today in Europe:

- Non-independent advice is whereby the advisor is allowed to receive inducements from the manufacturers of the product that is recommended. This type of advice is still the most common across Europe, with the exception of the Netherlands and the UK.
- Independent advice is from an Independent Financial Advisor in Member States with a ban on inducements (the Netherlands and UK). IFAs in the Netherlands almost exclusively offered discretionary mandates to our mystery shoppers, thus they did not provide advice as such. We included them in the analysis below for the sake of completeness.
- Robo-advice platforms provide investment recommendations through an algorithm that analyses the users' responses to a questionnaire.

In this Section, we investigate how different types of advice take into account the profile and investment needs of a retail investor and matches them with the features of the investment products recommended.

Through this exercise we particularly aim to compare the quality of:

- Independent advice in the Member States with a 'ban on inducements' (e.g. the UK and the Netherlands) versus non-independent advice. Data on non-independent advice has been gathered from Member States with a 'ban on inducements' and the remaining eight Member States.
- Face to face advice versus robo-advice (in the Member States where robo-advisors are available).

Limitations and challenges

The mystery shopping exercise that will be detailed below, was executed in such a way that it mimics the behaviour of a retail investor who is not familiar with investment products and is seeking first guidance on this topic. While this exercise has been planned to analyse in the best way the advisory process and the product suitability, mystery shopping in the financial services industry is an inherently complex process with a number of operational challenges which are detailed in Annex 1.

Considerations on robo-advice

The risks and benefits of robo-advice are detailed in Section 8.2. Nevertheless, we would like to highlight here some important differences between face-to-face advice and robo-advice:

- As described above, face-to-face advice through banks and insurance companies is usually provided during one or several physical meetings where the investor has the possibility to ask for additional explanations on relevant topics, e.g. risks associated with a given investment product. Additionally, the advisor is able to provide specific information he deems relevant and he is in principle able to assess the level of experience of the customer in relation to investment products.

- In contrast, a robo-advisor provides a pre-defined set of quite simple questions that the customer can complete in a few minutes. Although for some questions, the platform might provide additional information through pop up explanations or illustrative examples. It is obvious that the information gathered through an average of 10 close-ended questions cannot be as complete as a full-fledged conversation with an advisor.
- For each of the criteria analysed in this section, we provide examples of how robo-advisors gather information on this topic in order to provide insight on how questions on suitability are posed to the customer.

Please note that in the following pages, the term "Robo-advisors EU" shown in the different graphs refers to an average of all robo-advisors analysed in our sample (32 for each investor profile), in the 10 Member States where we conducted mystery shops.

Structure of the analysis

In line with our approach to mimic the behaviour of a financially less sophisticated investor, we decided to investigate the different types of advice through a mystery shop exercise rolled out across 10 Member states.

More precisely, we investigated how the general suitability of products has been established by distributors during the mystery shops. Due to the lack of a coherent definition of suitability checks across all investment products under scope, our methodology is based on general considerations (through expert advice and a literature review) on how to check the suitability of the investment products in scope, MiFID requirements and alignment with the methodology of other mystery shops that have been performed at national or European level. We divided the information to be collected and provided as part of the advice process into 4 categories. These categories are shown in the table below and will be used to structure the analysis of the mystery shops later on.

The table served as a basis to develop so-called "contact reports" documenting the points raised and the product data obtained as part of the interaction with the advisor. Mystery shoppers had to complete a contact report for each meeting with human advisors (either a non-independent advisor or an IFA) or when going through the process at a robo-advice platform. Mystery shoppers could provide additional comments when deemed necessary. For additional details regarding contact reports, please refer to Annex 1.

To better reflect the diversity of individuals within the population of European retail investors, two distinct profiles have been set up for shoppers to adopt. Each profile was given a specific background, which varies in terms of age, profession, financial resources and commitments, investment objectives, investment amounts, investment horizon, risk appetite, and level of experience with financial products:

- Profile A: a young, risk-averse teacher with 10.000 EUR to invest and no investment experience;
- Profile B: a 50 year old freelancer with 100.000 EUR to invest, medium risk-appetite and limited investment experience.

Unless mentioned otherwise, numbers shown on the graphs in this section are aggregates of the data collected by both investor profiles in each Member State. Note that unless mentioned otherwise, in each Member State profiles A and B were used in an equal number of mystery shops. For additional details about the investment profiles used, please refer to Annex 1. In the next sections, we show the results for all of the above mentioned categories individually.

Type of questions asked by the advisor in view of assessing suitability
1. Information to assess the client's investment objectives, which should include the client's: - Desired duration of the investment - Risk profile and preferences regarding risk taking - Investment purpose
2. Information to assess if the client has the necessary experience and knowledge to understand the complexity and risks involved in the transaction: - Experience with investments: types of services, transactions and financial instruments with which the client is familiar - Client's level of education - Client's profession
3. Information to assess if the client is able financially to bear the investments consistent with his objectives: - Source and extent of client's regular income - Client's current financial situation in terms of assets: liquid assets, investment and property - Client's current financial situation in terms of regular financial commitments - Ability to bear losses Note that gathering information on the client's ability to bear losses is a requirement of the MiFID II regulation, reinforcing the existing MiFID I requirements on the assessment of suitability. As this regulation was not yet in force when conducting the mystery shops, this criterion was merely tested in anticipation of the new regulation.
Information on product(s) provided by advisor
4. **Level of product information** provided by advisor: - The number of products offered by advisors in each Member State - The quality of the explanation advisors provided regarding the risks of the products they offered - The information provided on product's costs and charges

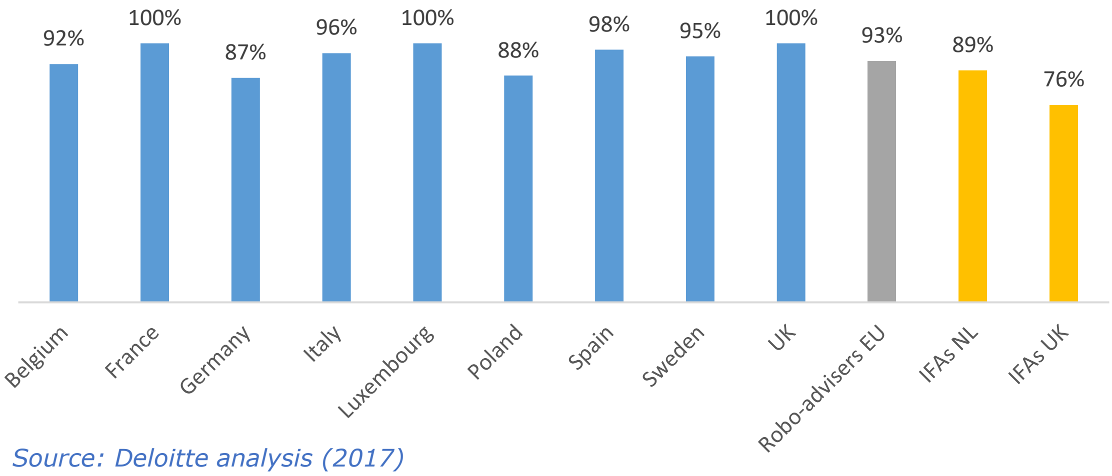
5.1 Assessment of the client's investment objectives

5.1.1.1 Desired duration of investment

The investment duration is a question almost all non-independent advisors asked in the Member States in scope. There are no major differences between Member States for non-independent advisors here (except Germany and Poland, where slightly lower than 90% of bankers & insurers asked this question). However, this question is less frequently asked by IFAs in both the Netherlands and the UK, but the difference is marginal. There are no clear differences across investment profiles either: both profiles are asked about their investment horizon almost systematically. Note that in the few Member States where this question is less systematic, investor B is generally asked more often about his investment horizon than profile A, e.g. Poland (A: 75%, B: 100%) and UK IFAs (A: 67%, B: 100%).

The intended duration of the investment is requested by more than 90% of robo-advice platforms.

Graph 23: Did the advisor ask you about your desired duration of investments? (% of "Yes" answers)



Source: Deloitte analysis (2017)

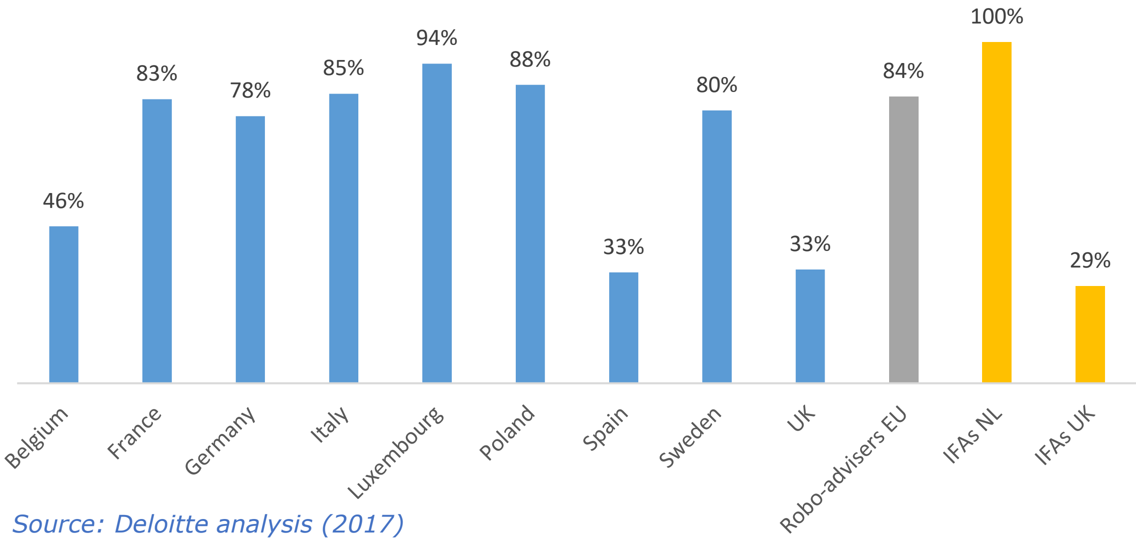
5.1.1.2 Risk profile

There are major differences when it comes to the creation of a risk profile by an advisor. As illustrated by **Graph 24**, slightly more than 30% of Spanish and British non-independent advisors created a risk profile for their potential future customers. Conversely, almost all Luxembourgish and Polish advisors created risk profiles. IFAs in the Netherlands all created a risk profile for their investors mainly because they almost exclusively offer discretionary mandates, and allocate their pre-made portfolio to several risk levels, therefore performing a risk profile every time with their potential client. On another hand, only 29% of British IFAs made a risk profile with their investors, this result being almost the same as for the non-independent advisors. In terms of investment profiles, a risk profile assessment was generally conducted more often for investor B than for investor A. This difference is particularly important in France (A: 67%, B: 100%) and Spain (A: 0%, B: 65%). The only clear exception to this trend is UK IFAs (A: 67%, B: 18%), where the situation is reversed.

The vast majority of robo-advice platforms request information about the risk profile of the customer:

- How would you react if your investments go down? [4 options];
- How much are you ready to temporarily lose in a year? [Percentage value].

Graph 24: Did the advisor perform a risk profile? (% of "Yes" answers)



Source: Deloitte analysis (2017)

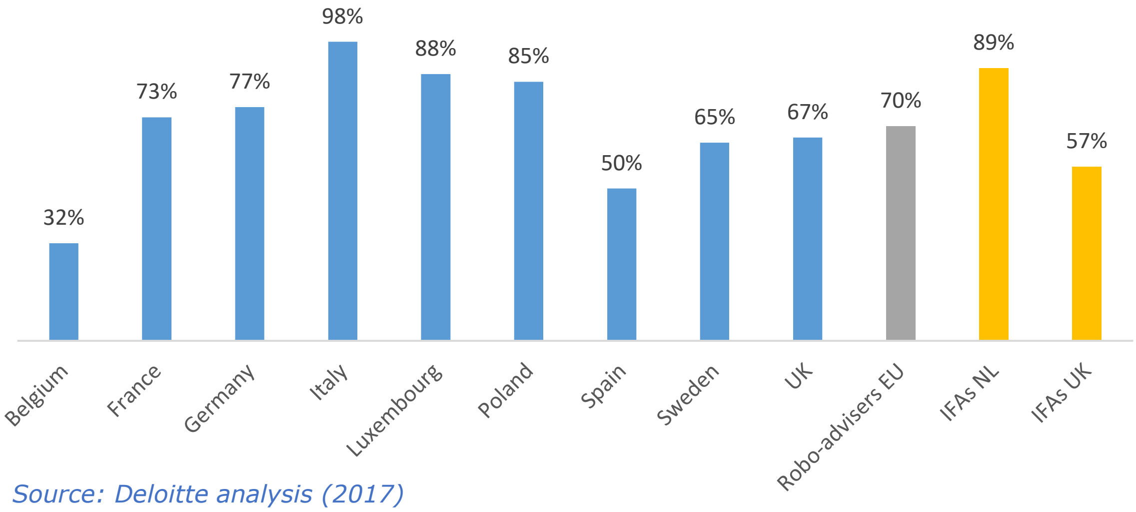
5.1.1.3 Investment purpose

Across Member States, advisors did not necessarily look at long-term savings objectives, e.g. only 32% of Belgian advisors and half the Spanish advisors asked about the investors' investment purpose. This is potentially due to the way that the shopper presented his profile during the discussion potentially revealing his investment purpose unintentionally. As a consequence, the advisor did not have to ask specifically. On the contrary, almost all Italian advisors asked about the investment purpose when meeting with the investors. 89% of Dutch mystery shoppers were asked about their goals by Dutch IFAS, while only 57% of British investors were asked about their goals.

Robo-advisors requested information about the investment purpose in 70% of the cases:

- Objectives [12 options];
- What goal do you pursue with your investment? [4 options with explanatory text];
- What is your primary reason for investing? [4 options].

Graph 25: Did the advisor ask you about investment purpose? (% of "Yes" answers)



Source: Deloitte analysis (2017)

5.2 Assessment of the client's experience and knowledge

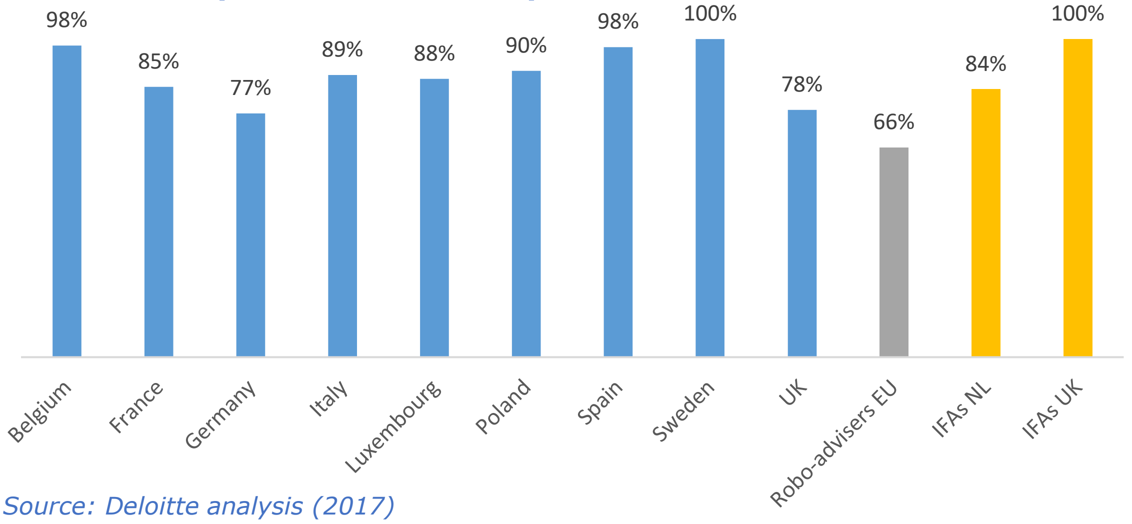
5.2.1.1 Experience with investments

The assessment of the client's knowledge and experience is important for the advisor in order to evaluate the general ability of the client to understand the product types and the risks related to the recommended transactions or in the management of the portfolio. Almost all the non-independent advisors (> 85%) asked about the experience with investments in most of the Member States in scope. Only in Germany and the UK was this percentage slightly less than 80%. All the British IFAs asked the investors about their experience with investments; more than 80% of Dutch IFAs did also. Investor B was generally asked more often about his investment experience than investor A. This difference is particularly important in France (A: 70%, B: 100%) and for UK IFAs (A: 67%, B: 100%).

Conversely, 66% of all robo-advisors analysed in our Study asked about the customer's experience with investments:

- Did you purchase a life-insurance, a securities account or a savings plan based on shares? [Y/N];
- In the past, have you come to regret important financial decisions? [5 options];
- How would you rate your understanding of investment matters? [5 options].

Graph 26: Did the advisor ask you about your experience with investments? (% of "Yes" answers)

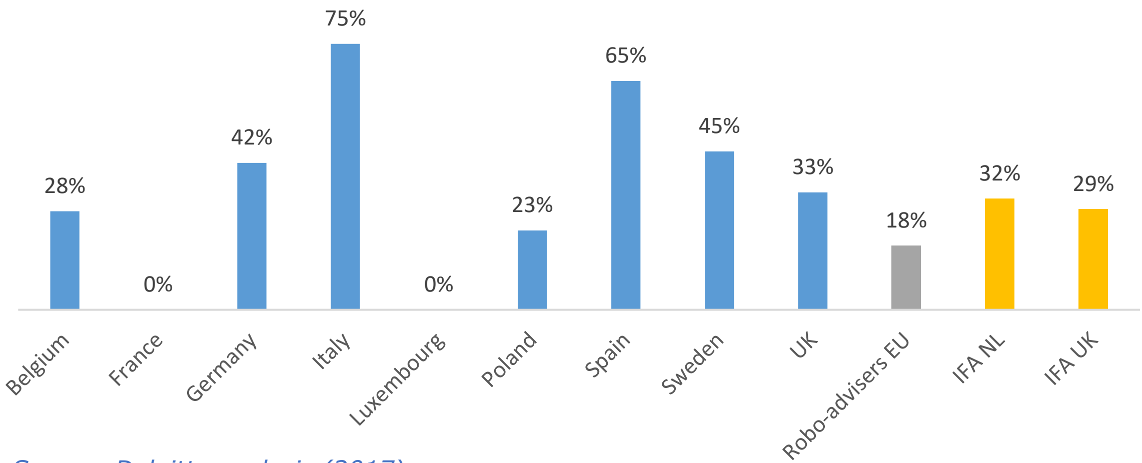


Source: Deloitte analysis (2017)

5.2.1.2 Client's level of education

Graph 27 shows whether the advisors asked the investor about their level of education which is deemed relevant in order to assess the client's general ability to understand. There are significant discrepancies between Member States. Indeed, 75% of Italian advisors asked retail investors about their level of education in our Study, whereas none of the French and Luxembourgish advisors did. Overall, non-independent advisors asked this question more frequently than Dutch and UK IFAs (respectively 32% and 29% of them asked retail investors about it) and robo-advisors analysed in our sample (18%). Looking at the split between profiles, profile A investors were more frequently asked this question (89%) than profile B investors (60%) in Italy.

Graph 27: Did the advisor ask you about your level of education? (% of "Yes" answers)

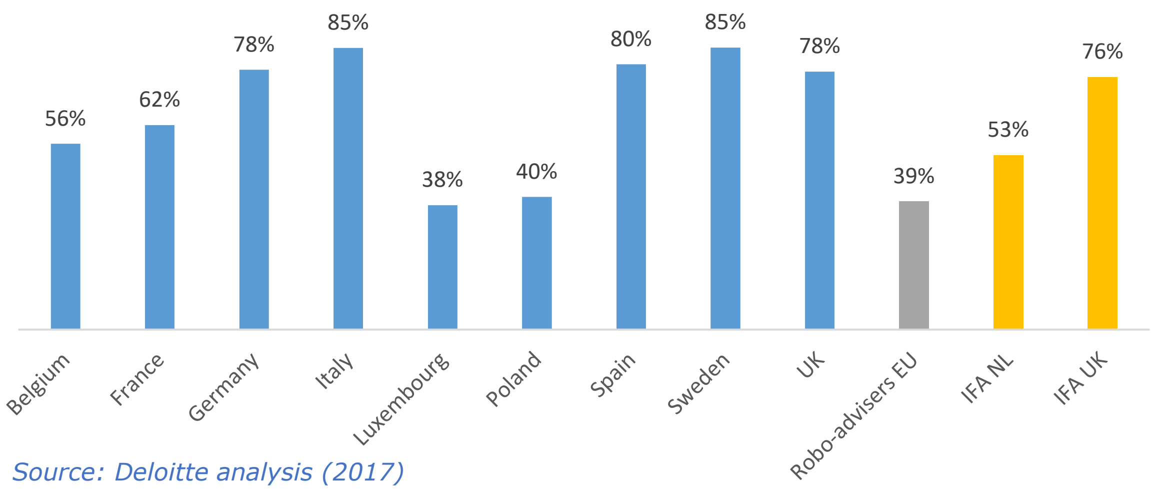


Source: Deloitte analysis (2017)

5.2.1.3 Client's profession

Advisors are, according to MiFID, required to ask a question about the profession or the relevant former profession of retail investors. Some Member States are similar in terms of frequency, i.e. German, Italian, Spanish, Swedish and UK non-independent advisors asked about the profession of their prospective client. IFAs in the UK follow the same pattern, as 76% of them asked this question to retail investors (While slightly more than half the Dutch IFAs did ask this question). On another hand, only 39% of robo-advisors analysed in our sample asked their future client about their profession, similar to Luxembourgish and Polish advisors (respectively 38% and 40% of the cases). Spanish advisors asked about the profession to 100% of profile A investors and 60% of profile B investors.

Graph 28: Did the advisor ask you about your profession or relevant former profession? (% of "Yes" answers)



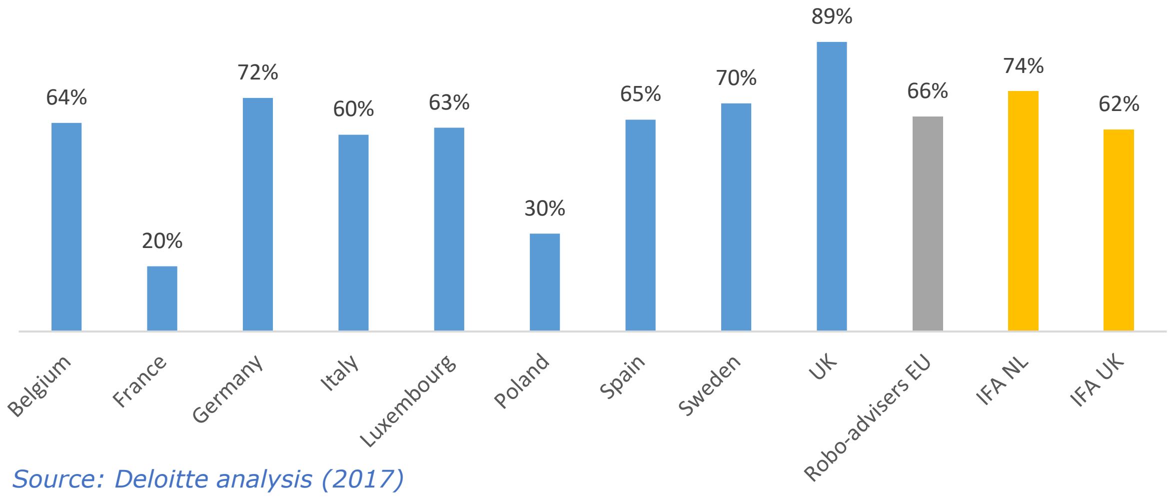
Source: Deloitte analysis (2017)

5.3 Assessment of the client's ability to bear the investment

5.3.1.1 Source and extent of client's regular income

Another question the advisors should ask concerns the source and extent of the regular income of retail investors. Again, there are many differences across Member States. For example, only 20% and 30% of French and Polish advisors asked investors about their income. Conversely, almost all retail investors in the UK were asked about their source of income by non-independent advisors. Dutch IFAs tend to ask more frequently this question (nearly 75%of them) than UK IFAs (62% of them). German and Swedish advisors also ask frequently about the source and extent of retail investors' income (more than 70% of them).

Graph 29: Did the advisor ask you about the source and extent of your regular income? (% of "Yes" answers)



Source: Deloitte analysis (2017)

5.3.1.2 Client's current financial situation in terms of assets

Graph 30 shows whether the advisor asked the investors about their financial situation in terms of assets (e.g. bank savings, investments, liquid assets, real estate). The graph shows that in more than 75% of the cases, the French, German, Belgian, Polish, Swedish and British advisors from banks and insurers asked the investors about their financial situation. The same holds true for IFAs from the Netherlands and the UK.

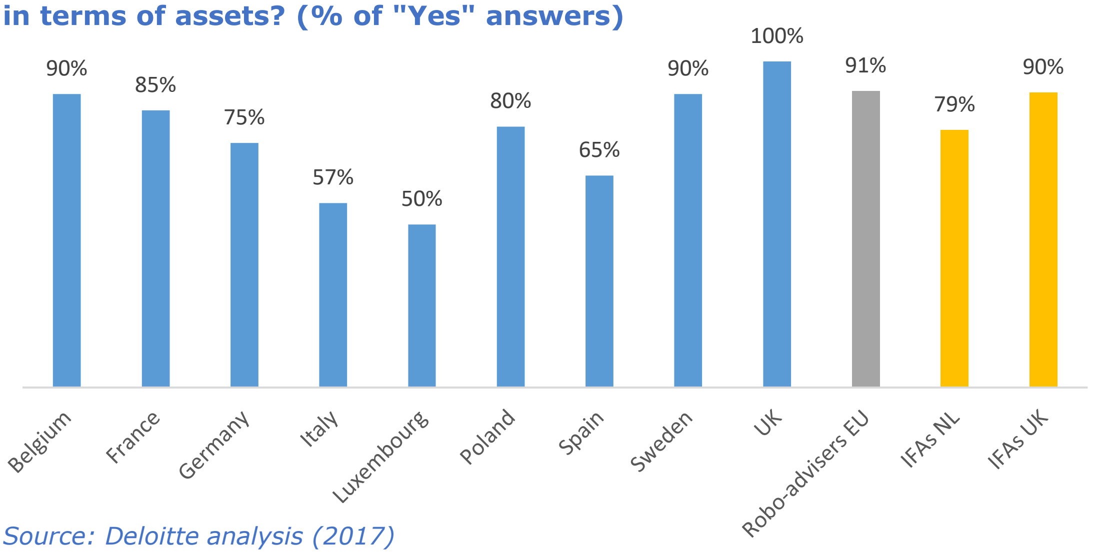
On the other hand, we found out that only 50% and 57% of the advisors in Luxembourg and Italy respectively asked about the current financial situation in terms of assets during our mystery shopping exercise.

In terms of differences between investment profiles, investor B was generally asked less often about his financial situation in terms of assets than investor A. This difference is particularly important in Spain (A: 100%, B: 30%) and Italy (A: 86%, B: 24%). The only clear exception to this trend is Germany (A: 60%, B: 90%), where the situation is reversed.

More than 90% of robo-advisors asked about the current financial situation in terms of assets, with typical questions as below:

- What is the value of your total assets, excluding primary residence? [5 options];
- Financial assets [total figure, with the option to provide more detailed information according to several asset categories];
- Are you the owner of your residence? Y/N:
- What is the total amount of your real estate? [total figure after deducting remaining loans].

Graph 30: Did the advisor ask you about your current financial situation in terms of assets? (% of "Yes" answers)



Source: Deloitte analysis (2017)

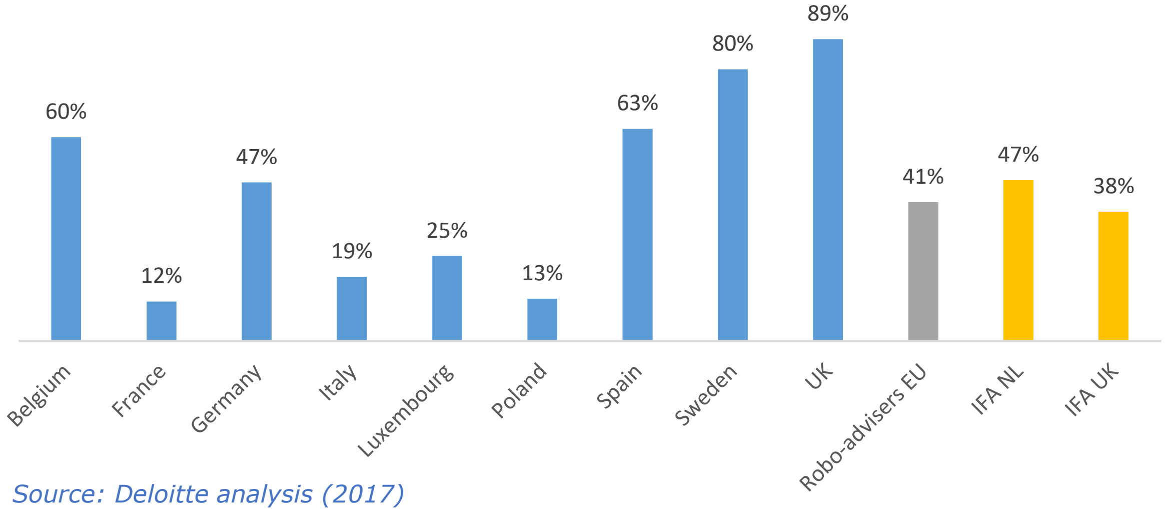
5.3.1.3 Client's current financial situation in terms of regular commitments

The advisors asked about the current financial situation in terms of regular commitments of investors (e.g. mortgage payments, household costs, child support and financial security). Only British and Swedish non-independent advisors asked more than 8 times out of 10 about a client's current financial situation. The other advisors did not ask this question in many occasions, i.e. 12% and 13% of French and Polish advisors respectively asked the investors about their financial situation in terms of regular commitments. Less than half of IFAs in the UK and the Netherlands investigated the customer's current regular commitments. Investor B was generally asked less often about his financial situation in terms of regular commitments than profile A. This difference is particularly important in Spain (A: 95%, B: 30%) and for UK IFAs (A: 67%, B: 36%).

Slightly more than 40% of robo-advisors gathered information about regular commitments, e.g.:

- What is the rent of your main residence? [monthly amount];
- How many dependent children do you have? [None, 1, 2, 3 or more];
- Monthly expenses [average monthly expenses, with the option to provide more detailed information according to several asset categories];
- What amount is free for you every month as soon as all invoices are settled? [4 options].

Graph 31: Did the advisor ask you about the current financial situation in terms of regular commitments? (% of "Yes" answers)



Source: Deloitte analysis (2017)

5.3.1.4 Client's ability to bear losses

Graph 32 shows to what extent the advisors asked the shoppers about their ability to bear losses. As mentioned previously, gathering information on this criterion is a requirement of the MiFID II regulation only, which was not in force when this study was carried out. The question was merely tested in anticipation of the new regulation.

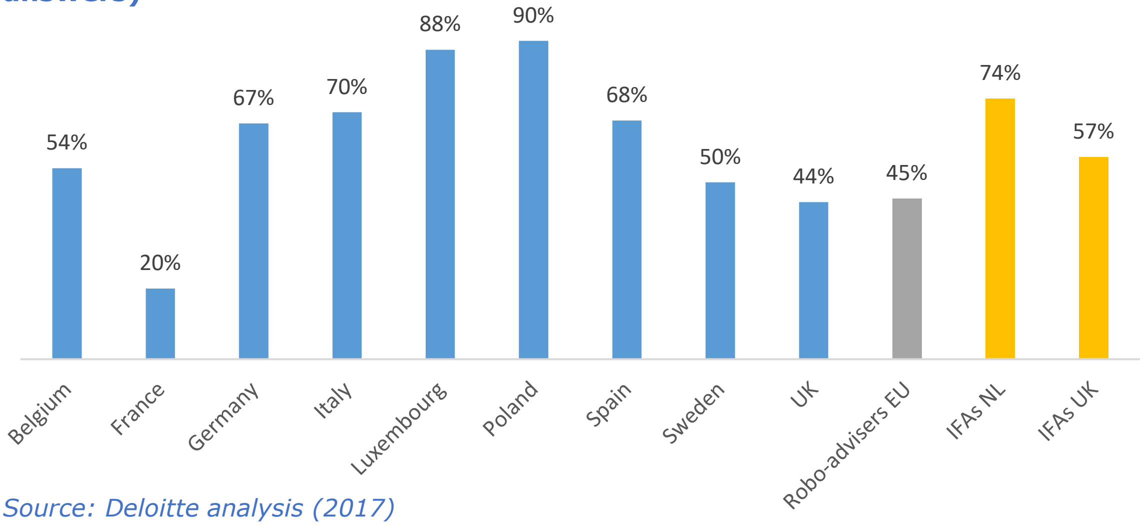
Usually the advisor explained the different levels of loss/return that may occur depending on the level of risk taken or to other relevant situations. Although it has been found that sometimes people have difficulties in understanding percentages (especially small ones), the advisors usually used percentages to investigate the ability to bear losses of the shopper. Shoppers reported that both robo-advisors and human advisors seldom used graphical visualizations of different possible market scenarios in which the development of the assets was shown over time in order to assess the client's ability to bear losses.

The ability to bear losses was raised by almost all the advisors in Poland (90%) and Luxembourg (88%). A majority of IFAs (74%) in the Netherlands asked the investors about it and slightly more than half of British IFAs. In contrast, only 20% of the French advisors questioned the investors about their ability to bear losses. In terms of investment profiles, investor B was generally asked more often about his ability to bear losses than investor A. This difference is particularly important in Germany (A: 53%, B: 80%), Belgium (A: 40%, B: 68%) and for UK IFAs (A: 33%, B: 64%). The only clear exception to this trend is Italy (A: 89%, B: 48%), where the situation is reversed.

The result for robo-advisors is quite poor on this criteria (45%). Typical questions cover:

- Capital markets are vulnerable to fluctuations. What loss of value makes you nervous? [percentage of loss with additional illustrative example];
- If you invest 10,000 EUR over 5 years, what potential gain / potential loss are you ready to take? [4 options].

Graph 32: Did the advisor ask about your ability to bear losses? (% of "Yes" answers)



Source: Deloitte analysis (2017)

5.4 Level of information availability

5.4.1.1 Number of products offered

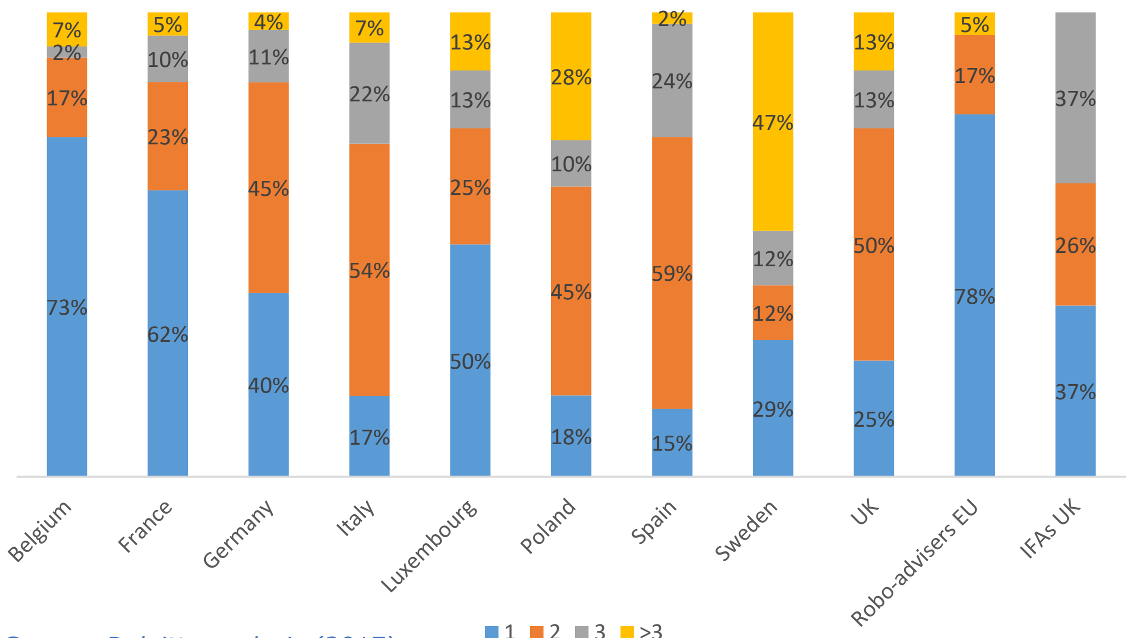
Graph 33 provides an overview per Member State of the number of products proposed to shoppers in each one of their interactions with the advisors. As mentioned previously, the overwhelming majority of products offered through non-independent advisors were the distributor's in-house products (investment funds, insurance policies and pension products are the most commonly-proposed product categories).

Please note that as Dutch IFAs only offered discretionary mandates, no product details are shown in this section.

The large majority of Belgian (73%) and French (62%) non-independent advisors offered only one product. Shoppers were offered two products in the majority of cases in Italy (54%) and Spain (59%). In the UK, 37% of the IFAs proposed three products when giving advice. Sweden is the only Member State where more than three products were presented to retail investors in almost half of the cases (47%).

In contrast to human advice, 8 out of 10 robo-advisors proposed only one product to their potential clients.

Graph 33: How many different products were proposed to you?



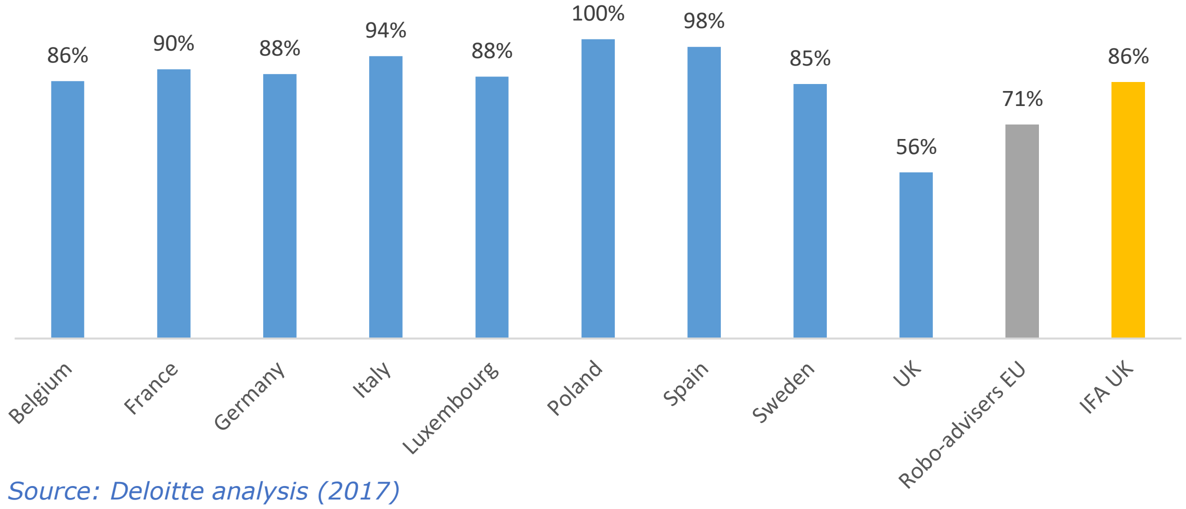
Source: Deloitte analysis (2017)

5.4.1.2 Risks inherent to products offered

Graph 34 shows whether the risks associated with the specific investment product were mentioned by the financial advisors. In most of the Member States in scope, risks were explained very frequently. In the UK, it is interesting to note that almost all IFAs (86% of them) explained the associated risks for the proposed investment products whereas only slightly more than 50% of non-independent UK advisors did.

Robo-advisors explained the risks of their products less often than the non-independent advisors (except for the UK), with slightly more than 7 robo-advisors out of 10 providing information on the products' risks.

Graph 34: Did the advisor explain to you the associated risks for the proposed investment products? (% of "Yes" answers)

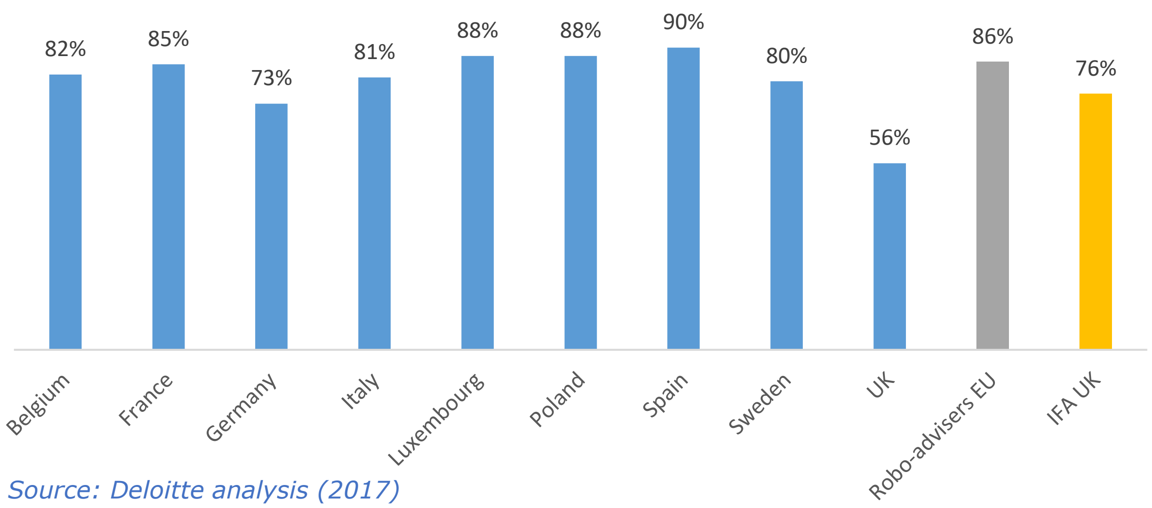


Source: Deloitte analysis (2017)

5.4.1.3 Costs and charges information

Graph 35 displays the frequqeny with which costs and charges were explained during the interaction with the advisor. While Spanish, Luxembourgish and Polish non-independent financial advisors explained the different costs & charges in almost all the cases (respectively 90% and 88% of the cases), only slightly more than half the British non-independent advisors explained the corresponding costs of their products. More than 7 British IFAs out of 10 and more than 85% of robo-advisors mentioned products' fees.

Graph 35: Did the advisor provide you with the conditions, in particular costs & charges? (% of "Yes" answers)



Source: Deloitte analysis (2017)

5.5 Findings

- There are substantial differences between how the general suitability was established by the different types of advisors across the Member States under study against the set of criteria that was specifically developed for this study.
- Concerning the client's investment objectives, the intended investment duration is covered to a high degree across the board independent of the type of advice. In contrast, substantial discrepancies appear across Member States and types of advice for the criteria of investment objectives as well as to the risk profile of the investor.
- In relation to the client's experience and knowledge, the customer's prior experience with investments is covered to a very large extent by all types of advisors and across all Member States. In contrast, the degree to which the client's profession is asked varies strongly across Member States. Across the board, the level of education of the investor was very rarely touched upon.
- With regards to the client's ability to bear the investment, i.e. be financially capable of handling an investment, advisors very frequently inquired about the customer's current financial situation in terms of assets. On the other hand, they seem to care significantly less about the client's income and regular commitments.
- The ability to bear losses is not a requirement under the current regulation. While the rates vary widely for this criterion, advisors in some Member States frequently inquire about it.
- While the results between independent and non-independent advisors seem to be globally comparable across and within Member States, independent advisors seem to ask more frequently questions on the ability to bear losses than non-independent advisors.
- In terms of differences between profiles, there is evidence that advisors tend to ask less questions on financial situations (e.g. resources, source of income, assets, and expenses) to clients wishing to invest larger amounts (such as profile B: 100,000 EUR to invest and willingness to take risks). As such clients seem more valuable customers in the eyes of a financial institution than clients with less capital, it may be that distributors typically choose to adopt a more commercial approach with them, less centred on potentially intrusive questions and more focused on product marketing and investment objectives. This is also reflected in the fact that clients with more capital are overall asked more questions on investment experience, horizon, objectives and risk-appetite than the ones with less capital. It should be noted, however, that although they are asked less resource-related questions, clients looking to invest larger amounts are also asked much more often about their ability to bear potential losses than clients looking to invest less capital.
- The number of products proposed as a result of the advisory process is between 2 and 3 for most of the Member States and types of advice. The most notable exception is robo-advice, where only 1 product was proposed in 8 out of 10 mystery shops.
- It is important to note that most shoppers had the impression that, in both independent and non-independent advice settings, the impact of the discussion (more specifically the "suitability" questions) on the actual product(s) proposed was quite limited. In some occasions, advisors explained that the institution's team of investment experts constructed ex-ante a small portfolio of in-house products that, to a large extent, are suitable to cover the different needs of retail

investors, in terms of knowledge and experience, financial situation, investment horizon, objectives and risk tolerance. The job of the advisor merely consisted of picking product(s) out of this limited portfolio which he deemed the most suitable for the specific shopper. While this approach, on one hand, potentially reduces the risk of the customer to be exposed to unsuitable products, it highlights on the other hand the often reported bias of non-independent advice due to the incentive schemes in place.

- Concerning risks disclosure, there are no substantial differences between independent and non-independent advice at EU-level. Focusing on Member State level, British IFAs tend to explain more risks to retail investors than non-independent advisors.
- No significant discrepancies are to be noted for the explanations of fees or the details of the recommended investment products (i.e. underlying asset classes, maturity and required holding period) between the three different advice categories. Shoppers reported that their advisor usually showed the past performance of the product. A projection of a potential future performance was shown much less often.

For robo-advice:

- It is difficult to compare the performance of the robo-advisors with human advisors due to the inherent limitations of the pre-defined set of multiple choice questions. While the results in terms of percentage values might seem comparable for any of the above criteria, one needs to keep in mind that each criteria was covered by only 1 to 3 basic questions by a given platform.
- While most robo-advisors presented additional clarifications on many criteria (through pop up explanations or illustrative examples), all automated platforms in our sample provide the possibility to rely on assistance through human although the level of intervention is not immediately clear. Most robo-advisor platforms provide explicitly the possibility to be put in contact with a human advisor through a hotline (generating costs) or a chat to receive further information and guidance. This option is clearly visible during each step of the advice process. In contrast, other platforms only provide the possibility to contact a "technical" helpdesk which does not complement the advice process. In this case, like for many other websites, a "Contact" link is provided.
- In general, shoppers had the (subjective) impression that questions were worded objectively.
- When the shopper indicated to be completely novice to investment products, about half of the robo-advisors did not allow shoppers to finish the advice process and suggested either that a human advisor could further assist in the process or that robo-advice is not suitable. A customer in such a situation could either choose any of the two options proposed or go back in the advice process (or launch a new process) and adapt his responses to be able to complete the process nonetheless.
- A major concern for robo-advice relies in the self-assessment of the customer in terms of current financial situation, experience with investment products and risk appetite. Overconfidence of the investor or unreliable information provided by the investor might lead to the proposition of an unsuitable product at the end.

6 Challenges for consumers with regard to investment products

The Consumer Markets Scoreboard,[68] which monitors how markets are functioning from the perspective of consumers, clearly indicates that financial services are consistently ranked among the poorest performing service markets in Europe. Combined with a general low level of financial literacy, the average retail investor in Europe has little confidence in his own financial decision making as well as in financial institutions in general. Nevertheless, the latest trend suggests that the efforts of public and private stakeholders are starting to pay off, consumers now have more trust in their banks, private pensions and investment funds.[69]

We investigate more specifically 2 issues in this section:

- Based on a review of existing scientific literature and studies, we explore how consumers perceive the benefits and risks of different types of investment advice and how they value these in terms of willingness to pay.
- Based on the feedback of Consumer Protection Agencies and Alternative Dispute Resolution agencies, we paint a picture of the most frequent problems encountered by retail investors in relation to investment products.

6.1 Perception and understanding of the benefits and risks of the different types of investment advice

In this section, we explore how consumers perceive the benefits and risks of the above different types of investment advice under study, e.g. advice through non-independent advisors at banks and insurance companies, advice through independent financial advisors and advice through robo-advice platforms. Furthermore, to the extent possible, we investigate their willingness to pay for these various types of advice.

Financial decision making

Financial decision making is fundamental to financial and investor education as educated consumers are better equipped to choose financial products for their needs and are better protected against financial risks and fraud. **Graph 36**[70] shows the key building blocks of financial decision-making:

- Financial information: today financial information on the types of available investment products, their associated risks, their access, etc. is largely available to all people with internet access. 38% of Europeans use online sources to retrieve information to guide their investment decisions.[71] In fact, the amount of

[68] http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/12_edition/index_en.htm
The findings are based on a large scale survey on consumers' experiences and perceptions regarding the functioning of key good and services markets in the 28 Member States of the European Union, as well as Iceland and Norway. The 2016 Scoreboard screens 42 markets, of which 29 services markets and 13 goods markets, accounting together for 45 % of consumer expenditure. Market Performance is measured by the Market Performance Indicator (MPI), a composite index made of 5 components: comparability of offers, trust in businesses to respect consumer protection rules, the extent to which markets live up to what consumers expect, choice of retailers/suppliers and the degree to which problems experienced in the market cause detriment.

[69] http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/12_edition/docs/factsheet_consumer_markets_scoreboard_2016_en.pdf

[70] Building Blocks for Industry Driven Investor Education Initiatives, EFAMA 2014

[71] Blackrock 2017 Investor Pulse survey (2017)

available information is rather overwhelming to a standard retail customer who is less financially sophisticated. Particularly, such customers find the information on costs and charges for various investment products difficult to understand.

- Financial advice: A standard retail investor is likely to look for advice in their investment decisions. Advice should enable customers to consider a wider set of investment products, better understand their features and buy products that better match their individual profile. Different types of investment advice exist today in the European markets based on both the European and national legislations in force. For instance, there is a clear distinction between independent advice (with a ban on inducements) and non-independent advice (where the advisor is allowed to receive inducements from the providers of the product that is recommended). Lately, automated advice through robo-advice platforms have seen increasing interest, albeit remaining quite rare across Member States.

- Financial guidance: a process of determining an individual's financial goals, purposes in life and life's priorities, and after considering his resources, risk profile and current lifestyle, to detail a balanced and realistic plan to meet those goals. Financial guidance provides a detailed strategy tailored to a client's specific situation, for meeting a client's specific goals covering various aspects of personal finance which includes cash flow management, education planning, retirement planning, investment planning risk management and insurance planning, tax planning, estate planning and succession planning but excludes the recommendation to purchase a particular financial product.[72]

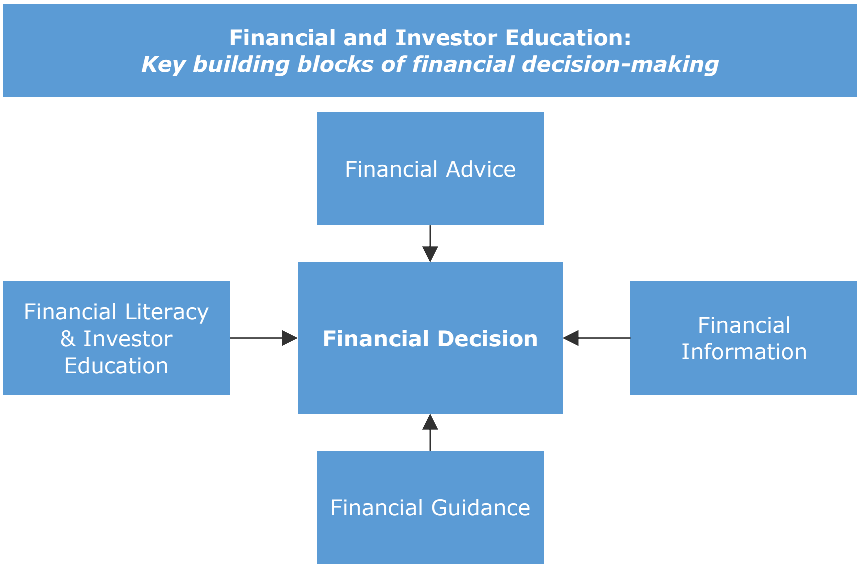
- Financial Literacy: this focuses on the ability to manage personal finance matters in an efficient manner and includes the knowledge of making appropriate decisions about personal finance such as investing, insurance, real estate, budgeting, retirement and tax planning.[73] A lack of financial literacy may lead to making poor financial choices that can have negative consequences on the financial well-being of an individual.

  Financial literacy is mainly achieved through financial education, defined as the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities. Financial literacy allows them to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being.[74]

  More specifically of interest for this Study, investor education refers to the learning and improvement of skills and knowledge that people need to know for making sound investment decisions, selecting among different saving and investment products, and planning for education and retirement.[75]

[72] https://ec.europa.eu/info/file/55556/download_en?token=3K0_lWIU: Financial guidance – Financial Services User Group
[73] http://www.investopedia.com/terms/f/financial-literacy.asp#ixzz4uYJ7akGa
[74] Recommendations on principles and Good Practices for Financial Education and Awareness, OECD 2005
[75] Building Blocks for Industry Driven Investor Education Initiatives, EFAMA 2014

Graph 36: Building Blocks for Industry Driven Investor Education Initiatives



Source: EFAMA (2014)

Financial literacy is a skill that is necessary to make sound financial decisions across a lifetime even in a world of abundant financial information and with the help of advice. A review of studies and surveys on financial literacy across many Member States shows that the level of financial literacy among the population is low[76] and that it does not improve over time.[77] Research suggests that many factors influence financial literacy:

- Age: financial literacy is lowest for younger and older consumers with the difference that older consumers tend to give themselves very high self-assessed knowledge scores.[78] [79]Gender: Generally, men are financially more knowledgeable than women across all age groups. This holds true even for well educated women, suggesting that women acquire financial literacy differently.[80]
- Education: Unsurprisingly, financial literacy depends on the level of education. Nevertheless, financial literacy remains low even at the highest level of schooling.
- Family background: the young who are financially literate are disproportionately more likely to have parents who have college degrees.[81]

While most of the studies refer to basic knowledge of financial matters, the same lack of knowledge appears in studies that investigate more advanced concepts related to investment decisions. Only one quarter of a representative sample of the Dutch population understood the basic relationship between bond prices and interest rates thus underlining that most consumers have a limited understanding of risk

[76] Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective and the recent consumer vulnerability study
[77] The Economic Importance of Financial Literacy: Theory and Evidence, Annamaria Lusardi and Olivia Mitchell, 2014
[78] Debt Literacy, Financial Experiences, and Overindebtness. Lusardo and Tufano, 2009
[79] Financial Literacy around the World: An Overview. Lusardi and Mitchell, 2011
[80] Building Blocks for Industry Driven Investor Education Initiatives, EFAMA 2014
[81] Financial Literacy Among the Young. Lusardi, Mitchell and Curto. 2010

diversification[82] and do not know the function of the stock market or what mutual funds do. In contrast, more financially literate individuals are more judicious about choosing mutual funds, including those with lower fees.[83] [84] [85]

While the general financial literacy of the average retail investor is low, this does not entail that they will not need to take investment decisions at some stage of his life. **Table 9** shows the sources of information a retail investor in Europe consults before taking an investment decision.[86] 41% and 23% respectively rely on their bank or a financial advisor to guide their decision-making. Almost 40% rely on the internet as a source of information while 28% consult their family and friends. The written press as well as TV and radio follow closely. It must be noted however that the age of the respondents strongly skews this distribution. Younger people are more susceptible to consult their family and friends and rely more frequently on information sourced through the internet. In contrast, older respondents show a stronger tendency to rely on their bank or a financial advisor to guide their decisions.

Table 9: Sources of information consulted by European retail investors before making investment decisions (% of survey respondents)

Banks	Internet	Family, friends	Financial advisors	Press	Radio, television	Insurance companies	Asset managers	Employers	Other
41%	38%	28%	23%	20%	10%	8%	8%	4%	6%

Source: Blackrock 2017 Investor Pulse survey (2017)

A FAMR report[87] found that people often do not seek help with important financial decisions because of a range of factors, such as limited confidence and engagement in their financial affairs, combined with a lack of trust stemming from historic mis-selling or a sense that financial advice is 'not for them'. Furthermore, 28% of those people who had not received regulated financial advice in the last 12 months but whose circumstances suggest there might be a need for financial advice, felt able to make their own decisions. Indeed, 20% of UK adults indicated to have purchased investment products without advice.[88]

There is a rich body of literature showing that (overconfident) self-directed investors trade actively, speculatively and to their detriment:

> *They trade frequently and have perverse stock selection ability, incurring unnecessary investment costs and return losses. They tend to sell their winners and hold their losers, generating unnecessary tax liabilities. Many hold poorly diversified portfolios, resulting in unnecessarily high levels of diversifiable risk, and many are unduly influenced by media and past experience. Individual*

[82] Financial Illiteracy and Stock Market Participation, Van Rooij, Lusardi and Alessie, 2011
[83] Financial Literacy, Information, and Demand Elasticity: Survey and Experimental Evidence from Mexico. Hastings and Tejeda-Ashton, 2008
[84] How Financial Literacy and Impatience Shape Retirement Wealth and Investment Behaviors. Hastings and Mitchell, 2011
[85] Fees, Framing, and Financial Literacy in the Choice of Pension Managers. Hastings, Mitchell, and Chyn, 2011
[86] Blackrock 2017 Investor Pulse survey (2017)
[87] Financial Advice Market Review, Baseline report, 2017
[88] YouGov 23-24 January 2017, Deloitte analysis. Sample: 2,046

investors who ignore the prescriptive advice to buy and hold low-fee, well-diversified portfolios, generally do so to their detriment.[89]

In many Member States, financial education programs have been set up but the actual impact of these programs seems generally limited as the overall financial literacy of the European population remains low. As a complement to financial literacy, the concept of financial guidance is gaining traction. According to FSUG[90], financial guidance is completely disconnected, either directly or indirectly, at any time, from any sale of financial products. In contrast, financial advice providing potentially similar elements of information will eventually lead to the recommendation of one or more financial products. Therefore, financial guidance could enable consumers to make informed financial decisions as they could rely on qualified persons who do not have a direct self-interest in selling financial products to them. As financial guidance providers will likely not recommend too complex investment products, the dissemination of simpler and better suited products will be facilitated. As a result, retail investors benefitting from financial guidance will eventually be able to either make self-directed investment decisions or challenge the recommendations of an independent or non-independent advisor for their own benefit. But today, financial guidance is not common yet. Although some financial institutions provide some elements of financial guidance to their customers, only two bodies fully meet the definition given by FSUG: The German consumer association (VZBV) and a service implemented by British public authorities (Money Advice Service). Other Member States put tools on their websites to provide consumers some knowledge on financial guidance but according to FSUG, it is yet not sufficient in most cases to help them in their decision-making process.

Risks and benefits of Financial Advice

Nevertheless, advice remains an important and frequently used tool to guide retail investors in their investment decisions but only few people take advantage of advice. Financial advice is often considered by consumers as free of charge and no alternatives exist yet. While only 15% of the population in the UK consult an advisor in general, 6% of them (or 3.2 million people) received financial advice on investments in the last 12 months.[91] Numbers are consistently low across Member States with 22% for France and 18% for the Netherlands and for Germany. However, there seems to be a positive correlation between wealth and advice-seeking, as this share increases to 30% for wealthier investors in Germany. This result is not surprising, since those with greater resources have the most to gain from advice.

Whether financial experts' intervention benefits investors remains up for debate[92] [93] [94] since the incentive scheme of the advisor has a strong influence on the investor's benefit. Using a dataset from a large retail bank, it could be shown that advisors recommend the bank's own mutual funds which are most profitable for the bank.[95] This is a finding which is corroborated by our own mystery shop exercise, whereby non-independent advisors tend to propose in-house products in a vast majority of cases. The

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[89] The behavior of individual investors. Barber and Odean, 2011
[90] https://ec.europa.eu/info/file/55556/download_en?token=3K0_lWIU: Financial guidance – Financial Services User Group
[91] Blackrock 2017 Investor Pulse survey (2017)
[92] Bergstresser, D., J.M.R. Chalmers, and P. Tufano, 2009, "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry", Review of Financial Studies 22, 4,129-4,156
[93] Hackethal, A., M. Haliassos, and T. Jappelli, 2012, "Financial Advisors: A Case of Babysitters?" Journal of Banking and Finance 36, 509-524
[94] Kramer, M.M., 2012, "Financial Advice and Individual Investor Portfolio Performance", Financial Management 41, 395-428.
[95] Financial Advice and Bank Profits. Hoechle, Ruenzi, Schaub, Schmid, 2017

same study further finds that advised clients achieve a significantly worse net performance than independent clients, concluding that advisors put their employer's rather than their clients' interest first. Indeed, non-independent advisors seem to support strategies that result in more transactions and higher fees.[96] [97]

Additionally, there is uncertainty and confusion in retail investors' knowledge of the way the main financial professional involved in the purchase process is incentivised. While a significant proportion of purchasers recognise that independent financial advisors and brokers earn a commission on sales (and that the commission is usually not contingent on the future performance of the investment), more than four in ten purchasers either do not know about the financial incentives of their advisor, or believe that the advisor has no financial incentive to encourage purchase. This share is much higher when the main contact is with an employee of a bank, insurance company or other investment provider, resulting in the wrong assumption of many retail clients that this type of advice is for free. The same study points out that around half of retail investors believe that the incentive scheme of the financial professional did not influence their confidence in the information or advice received in contrast to the above-mentioned literature.

Nevertheless, risk-adverse individuals who should value the advice that reduces potential wealth losses are less likely to consult any type of financial professional for advice across all types of financial services.[98]

The relationship between advice-seeking propensity and financial literacy is ambiguous. In a choice experiment, less sophisticated people were more likely to take advice (Hung and Yoong's (2010)) while investors who rely more on financial advice perceive themselves as less knowledgeable. Georgarakos and Inderst (2011) suggest that advice matters most for households with low financial capability and trust in advice. Hackethal et al. (2012) Inderst and Ottaviani, 2009) confirm that investors who rely more on financial advice perceive fewer conflicts of interests. In contrast, Van Rooij et al. (2011a) find that people who are less financially literate rely more on informal sources of financial advice, such as friends and family.

On the other side of the spectrum, respondents who considered themselves more financially literate preferred more autonomy in their pension decisions (Van Rooij et al., 2007). Guiso and Japelli (2006) also find that investors who spend more time acquiring financial information delegate their financial decisions less. On the other hand, Bucher-Koenen and Koenen (2011) state that more literate investors make more use of advisors because they can induce advisors to provide better advice. In addition, investors that are more financially literate might have higher advice-seeking propensities because of their higher opportunity costs of time.

In summary, the exact relationship among financial literacy and the propensity to seek professional financial advice is still unclear. Part of the explanation for the ambiguous results is related to overconfidence. The model from Guiso and Japelli (2006) predicts that overconfident investors are less willing to rely on information provided by financial advisors, banks or brokers and more likely to collect information directly because they believe that self-collected information is of better quality than it actually is. As a result,

[96] Mullainathan, S., M. Nöth, and A. Schoar, 2012, "The Market for Financial Advice: An Audit study," The National Bureau of Economic Research Working Paper. Available at SSRN: http://ssrn.com/abstract= 2028263.

[97] Financial Advice and Bank Profits. Hoechle, Ruenzi, Schaub, Schmid, 2015

[98] The demand for financial professionals' advice: The role of financial knowledge, satisfaction and confidence. Robb, Babiarz and Woodward, 2012

overconfident investors tend to perform less well. In the study by Von Gaudekker (2014), most losses from insufficient diversification are obtained by overconfident investors, which are neither financially literate nor go to financial advisors. Several studies also highlight possible resistance to financial counselling or planning services among men. This may not be surprising if men are more likely to be overconfident of their ability to direct their own financial decisions.[99] The impact of overconfidence is underlined by an experiment where unbiased and theoretically sound advice was offered to customers of a brokerage company. Only about 5% of the customers accepted the offer for advice. Within this study, researchers also investigated whether the advice was followed by the investors. Surprisingly, among those who accept the offer, the advice is rarely followed as these clients over perceive their own investment skills pointing again at some degree of overconfidence.

In addition, the finding that education is positively associated with paying for financial advice is counterintuitive but may also suggest that some level of knowledge is needed to increase recognition of the benefits from hiring an expert to provide financial assistance as well as to differentiate between different types of advice. It is possible that many who have less formal education and less exposure to finance-related coursework are underserved due to an inability to assess whether the potential benefits of advice outweigh the cost and to choose the suitable type of advice. Results indicate that the wealthy are the most likely to receive professional assistance when making financial decisions, a trend that not only increases with the level of education but also with the level of wealth. While this result is not surprising, since those with greater resources have the most to gain from this advice as well as being for financially rewarding clients to advisors, it highlights the need for professional advice among lower-wealth households who may be among the most vulnerable to making poor financial decisions.

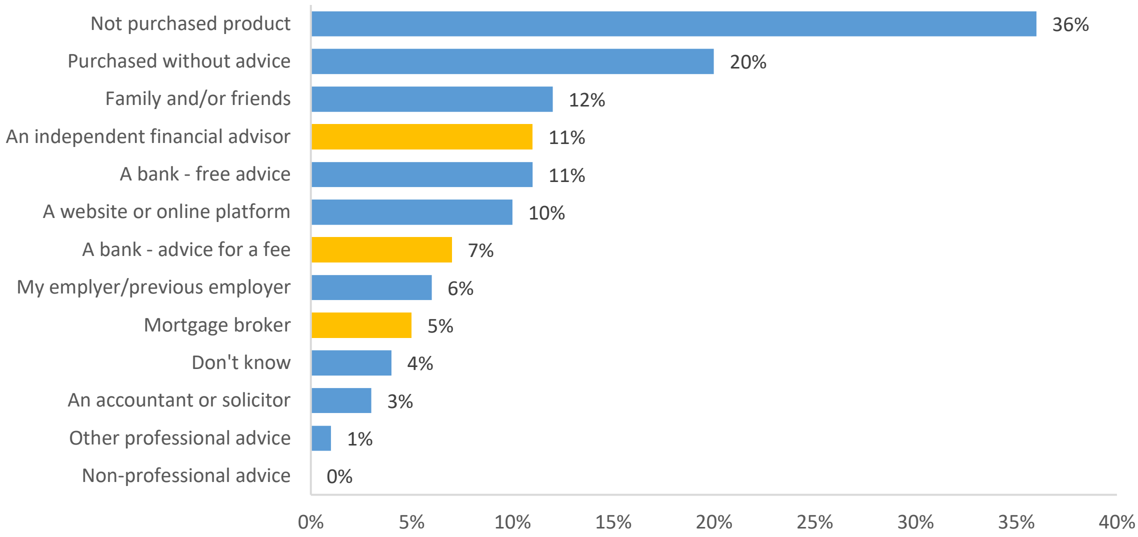
When purchasing directly from a financial professional, uninformed investors are more likely to purchase from a non-independent advisor, while in contrast, more self-directed purchasers are more likely to purchase from an independent advisor. This type of purchaser is twice as likely to purchase remotely from an independent website or telephone service.[100] The same study suggests that retail investors failed to identify a conflict of interest of the advisor due to his incentive scheme resulting in biased advice.

Willingness to pay

Little public knowledge is available about the consumer's willingness to pay for the different types of advice available. As described above, most people do not make use of advice and if so, they do not necessarily rely on paid-for advice. **Graph 46** shows the usage of different types of advice among UK adults with paid-for advice being marked in blue demonstrating their low willingness to pay for advice.

[99] Financial Advice: Who Pays: Michael S. Finke, Sandra J. Huston, and Danielle D. Winchester, 2011
[100] Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective and the recent consumer vulnerability study

Graph 37: Usage of advice on product purchases among UK adults, 2014-16



Source: Blackrock 2017 Investor Pulse survey (2017)

The Financial Lives survey explored the extent to which consumers in the UK said that they are willing to pay for advice (including automated advice). The results show that just under half (46%) of UK adults would be willing to pay for regulated financial advice if the costs were 'reasonable'. The willingness strongly depends on the past usage of advice thus on the overall understanding of the benefits and disadvantages of advice. A large majority (81%) of those who had received advice in the previous 12 months were willing to pay for advice whereas this figure is substantially lower for those who did not benefit from advice. Of those who did not recently make use of advice, less than a fifth would be willing to pay more than 500 GBP. Whereas, out of those who did benefit from advice, the majority (72%) thought the fee they had paid for advice was about right, whilst 21% thought it was too expensive. Less than half (47%) of respondents in the UK are satisfied with the fees they pay for advice.[101]

In Sweden, 35% of adults state that they may consider paying an annual fee for financial advice amounting to an average of 1.1 percent of the value of the investment.[102] The willingness to pay depends on:

- Gender: 44% of men state that they may consider paying a fee, compared with 22 percent of women.
- Age: 59% of those aged 24-34 can think of paying an annual fee.

Experiments suggest that when investors became aware of a conflict of interest of their advisor (non-independent advice), they were substantially less willing to pay for advice or to follow a recommendation to invest.[103] More particularly, a quarter of investors upfront payments were considered as an immediate loss as the payment has to be made regardless of whether a purchase was made subsequently.

Robo-advice platforms offer lower-cost and more accessible advice options that may be attractive to those who do not currently seek financial advice through bans and insurers. The Financial Lives Survey indicates that only about 20% of respondents would pay for

[101] Blackrock 2017 Investor Pulse survey
[102] Blackrock 2017 Investor Pulse survey
[103] Consumer Decision-Making in Retail Investment Services: A Behavioural Economics Perspective and the recent consumer vulnerability study

automated online investment advice, strongly depending on the age of the respondent with the younger generations more inclined to pay for automated online advice.

6.2 Overview of consumer complaints on retail investment products

As part of the Study, we collected feedback by Consumer Protection Agencies (CPA) and Alternative Dispute Resolution agencies (ADR) through an online questionnaire. 8 CPAs and 15 ADRs participated in the survey and provided substantial insights into their experience in dealing with consumer complaints in relation to retail investment products.

Depending on the size of the Member State and the uptake of investment products in the retail sector, CPAs and ADRs receive between a dozen and a few thousand of complaints a year in relation to investment products. Among these, the respondents raised the following issues as to being the most detrimental to retail investors and consumers within the distribution of investment products:

- **Mis-selling**

In 2013, the Financial Services Authority (of which country) defined mis-selling as "a failure to deliver fair outcomes for consumers", including providing customers with misleading information or recommending that they purchase unsuitable products. In the UK, FCA issued fines for 298 million GBP for mis-selling activities, including bank accounts, consumer loans, investing and insurance. More specifically, in relation to investment products, mis-selling covers:

  - **Insufficient or unclear information about the risks associated with the investment product.**
    Understanding of risk and risk diversification is essential and affects financial decision making, but research shows that only a minority of individuals has a good grasp of risk diversification.[104] This finding is remarkably similar across Member States.

  - **Insufficient or unclear information about the product in which the customer invested in.**
    Respondents repeatedly mentioned that investors do not understand the information provided during the purchase of an investment products. This is partly due to the low financial literacy of retail investors. Indeed, investors do simply not read the terms and conditions before signing or relevant information is packed into a very large set of documents provided to them. One respondent mentioned:

    > *Also, the sheer amount of coexisting information which has to be provided to consumers in this field might already overstrain consumers to acknowledge or even comprehend them (informational overload) and makes it difficult for consumers to properly assess its relevance for an educated investment decision.*

[104] Heinberg, Hung, Kapteyn, Lusardi, and Yoong (2010); and Heinberg, Hung, Kapteyn, Lewis, Lusardi and Samak (2012) for examples of visual tools that can be used to improve the knowledge of risk diversification.

- **Investment products being advised and sold that are unsuitable for the needs of the investor or do not comply with his risk profile.** Conflicts of interest may not appropriately be divulged or the advisor might be acting on his own interest, offering products that are not the most adequate for the needs and characteristics of the client but those that are more profitable for him or his employer.

- **High and/or hidden fees**

An often opaque fee structure frequently leads to retail investors not understanding the fees that are related to a given investment product. According to the respondents, investors complain that either the costs are too high or that costs have not been disclosed before the purchase (e.g. for life insurance products, the (hidden) costs related to the underlying investment fund).

- **Financial literacy and guidance**

Respondents regularly mention the low financial literacy of the common retail investor as a major source of detriment. A review of studies and surveys covering 12 Member States, among which the Netherlands, Germany, Italy, Sweden and France, which are covered by this Study, show that the level of financial literacy among the population is very low, thus impacting their ability to make sound financial decisions. Moreover, financial literacy does not seem to be improving over time. As financial illiteracy is both widespread and particularly severe among specific demographic groups, it has consequences for both individuals and society as a whole.[105] As some respondents foresee that the upcoming regulations will lead to an exclusion of less wealthy consumers from (any type of) advice, financial guidance could become of increasing importance to support financially less sophisticated consumers in their decision-making by providing comprehensible information and adequate guidance on available investment products.

Related to this is the ability of retail investors to **understand the potential benefits and risks of the different types of investment advice**, i.e. independent and non-independent advice. Respondents stressed that an investor's ability to make this distinction and understand its implications strongly depends on the financial literacy of the individual in question. Considering that financial literacy in Europe is quite low, CPA and ADR feedback indicates that most retail investors do not understand the difference between independent and non-independent advice.
Related to the above, participants to our survey were asked to rate the frequency of a pre-defined set of issues within complaints they receive from retail investors:

- More than half report frequent or occasional complaints about:
  - "Products not suitable to investor needs/inappropriate advice" (frequent: 53% / occasional: 33%)
  - "Advice not clear" (27%/27%)
  - "Costs and charges too high" (14%/36%)
  - "Financial return too low" (13%/40%)

- Mentioned to a lesser extent where the following:
  - "Biased Sales and/or conflicts of interests"

[105] Building Blocks for Industry Driven Investor Education Initiatives, EFAMA, 2014

- "Costs and Charges not transparent"
- "Terms & Conditions not transparent"

In terms of type of investment products that retail investors complain about the most, survey responses seem to reflect the market share of the different products within the retail sector:

- Frequent complaints about "Mixed funds" and "Life Insurance"
- Occasional complaints about "Bonds" and "Equities"
- "ETFs" seem to appear rather seldom in complaints

In Germany, "Riester pensions", which are based on investment funds are regularly the subject of complaints mainly due to the information on charges for private pension products being rather hard to obtain and often non-transparent for individuals.[106]

Generally, respondents believe that the average retail investor is only modestly aware of his rights with regards to investment products. As a consequence, they recommend strengthening efforts to increase the financial literacy of the wider public, which would allow the average retail investor to take better informed decisions but also to be aware of his rights. Furthermore, they suggest to continue to improve the system of legal help in the mediation/arbitration process.

None of the respondents believed that there is a need to further regulate market practices to protect the consumer when purchasing retail investment products. However, regulations such as MiFID II, the PRIIPs Regulation and the IDD, have not yet taken effect. Once they come into force, they will have a significant impact on the transparency of costs and charges, which seems to be one of the central topics of consumers' complaints. Respondents believe that before considering additional policy measures concerning the protection of the consumer when purchasing retail investment products, the legislator should await the consequences deriving from the new regulations and analyse its effects intensively. One respondent mentions:

> *Furthermore, in the field of consumer protection there is already a huge number – both national and European – regulations in place. This has already had negative consequences on the market such as a significant reduction of market participants offering kinds of retail investment products. Therefore, this – regulatory driven – development already has negative implications on the customer by reducing the market spectrum. One example is the ban of inducement-based investment advice e.g. in the UK. Customers get advice only if they invest at least 50,000 GBP, in some cases even more. Therefore, the result was not better advice, but the exclusion of customers with low-income.*

6.3 Findings

- Today, an average consumer is overwhelmed by the sheer complexity of, and uncertainty associated with, investment products even more so as the general familiarity with basic financial concepts and terminology is low across Europe. Consequently, most households do not invest at all or do so very infrequently across their lifetime.

[106]http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_report_2016_For_Web_-_Final.pdf

- If they do invest, retail investors frequently complain about the mis-selling of products due to the provision of insufficient or unclear information about the product, its associated risks or the product being not adapted to their risk appetite. Retail investors also frequently complain about the fees associated with the investment products they purchase, claiming that fees actually charged are higher than those explained during the advice process.
- When facing an investment decision, retail investors rely on advice in a face-to-face setting either through a non-independent financial advisor of a distributor or through independent advisors. Due to the technological and societal changes of the digital age, the share of self-directed investors among the younger generation is increasing.
- Generally, the average retail investor does not understand the incentive scheme of their non-independent advisor and frequently perceives that this type of advice is free. As a result, he is unlikely to understand the benefits and risks of independent vs non-independent advice.
- Research suggests that financially less literate and less wealthy investors rely, to a large extent, on advice to guide them in their financial decision making. In addition, they seem to be less knowledgeable about the benefits and risks of different types of advice keeping them from challenging unsuitable recommendations from advisors.
- In addition, advisors tend to target their services at clients with significant levels of wealth, making it harder for 'mass market' consumers to find advice.
- On the other side of the spectrum, more wealthy and informed investors also make use of advice in order to complement their own knowledge and further support their own decision-making. Overconfidence in their own decision capability in financial matters leads (mainly young and male) self-directed investors to ignore advice and make poor investment choices to their own detriment.
- Investors' willingness to pay for different types of advice is generally low and depends strongly on gender and age. This low willingness to pay highlights again the low level of awareness of incentive mechanisms in traditional distribution models where the distributors receive a commission for selling the product to an investor.
- Although rapidly gaining in popularity among the younger generation, only a minority of retail investors today are willing to pay for automated advice through robo-advice platforms.

Considering that retail investors frequently believe advice to be free of charge, objective and show a low willingness to pay for advice, other options have been proposed:

- Financial education remains an important element in people developing the ability to improve their financial decision-making, lowering their overconfidence and valuing the risks and benefits of different types of advice. It is nevertheless questionable whether financial education programs will effectively change customers' behavior at a larger scale.
- Financial guidance, providing consumers with objective and easily comprehensible information in order to support sound financial decision making, is not widespread yet but should be considered as an important complement to financial education, advice and information.

- Other options, such as simpler products, e.g. a Pan-European Pension Product[107], and carefully designed default options, have been proposed in order to simplify the choice of investment products for financially less sophisticated investors.

[107] https://ec.europa.eu/epsc/publications/strategic-notes/pan-european-pension-product_en#h-4

7 Initiatives to guide the distribution process of retail investment products

In this section, we highlight initiatives at national and European level that could guide and improve the distribution process of investment products to retail investors. We focus on initiatives by National Competent Authorities (NCAs) and consumer associations.

NCAs are considered as key actors in the financial marketplace ensuring that the various financial actors are licensed to conduct business in the territory of the relevant country; that these financial entities are regularly supervised as well as focusing on ensuring that the financial products they distribute are suitable for not only the marketplace and the different investor types but are also distributed in accordance with relevant European and local legislation.

Another major aspect of the duties and responsibilities of these NCAs is securing an appropriate degree of protection for all retail investors. Hence, as part of the Study, various telephone interviews were conducted with the majority of the National Competent Authorities of those countries in scope. The interviews lasted approximately one hour; a list of possible questions was drawn up to lead the discussions and it was left to the interviewer to assess which questions were most relevant depending on the responses provided by the interviewees during the call. Out of the 15 countries in scope of the Study, three NCAs did not participate and two NCAs submitted written responses by email rather than agreeing to conduct a telephone interview.

For the 12 National Competent Authorities that were interviewed or that provided written responses, key regulations such as UCITS, AIFMD, MiFID and PRIIPS have generally been transposed into national legislation without any major implementation of gold-plating requirements. Many mentioned that it was not their aim to introduce additional requirements without valid reasons. In terms of distribution, some NCAs confirmed they had introduced gold-plating requirements for UCITS investment funds but, that in all cases, these requirements were considered not to be major barriers to entry into their territory but are nevertheless required to ensure that a strong level of investor protection was maintained by all actors present in that segment. Examples of such gold-plating include the requirement by the *Austrian Finanzmarktaufsicht*, the French *Autorité des marchés financiers (AMF)* and the German *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin), to pay their regulatory fees up-front prior to the submission of the passporting notification to the home member state authority of the UCITS and to provide proofs of the payments as part of the notification package. Another often-cited example is the mandatory requirement to use the DEPROF system of the Italian *Commissione Nazionale per le Società e la Borsa* on share class level to handle passporting notification filings to allow the distribution of UCITS investment funds to retail investors, which adds considerable complexity and effort to what is a relatively straightforward process.

In terms of incidents of misconduct and/or misspelling, the majority of NCAs indicated a similar trend in the three types of incidents, namely that the retail investor was under the impression that:

a) The product they had been sold was not suitable as they had lost money;
b) That they had not been made aware of the detailed costs and charges associated with investing in that particular product; and
c) That they perceived that the professional who had sold the product was not necessarily acting in the best interests of the investor.

However, it is worth restating that the above mentioned types of incidents can be perceived as being very subjective from the point of view of the retail investor. In all cases, the NCAs mentioned that if they had received any complaints, then they are generally passed onto their local financial ombudsman for resolution but the NCAs are advised of the outcomes. During the discussions with the NCAs, it also became clear that there was no single particular sector of the financial industry that received more complaints from retail investors than another.

Following the discussions with the NCAs together with the results obtained for the mystery shopping exercise, it has become apparent that seeking advice from banks and insurers appears to be the most common distribution route taken by retail investors except in the UK and the Netherlands, where advice is difficult to obtain from banks and insurers since the introduction of bans on inducements. Advice from banks and insurers results in relatively similar investment recommendations across Member States in terms of products (with the exception of the UK and the Netherlands). Our research also showed the overwhelming majority of non-independent advisors only proposed in-house products.

For the UK, the landscape is very different to that of other Member States, largely due to the introduction of the Retail Distribution Review (RDR) in 2012. The five key objectives of this review were that a) independent advice is in actual fact independent and reflects the retail investors' needs; b) that the potential investor can clearly identify and understand the service that is being offered to them; c) that any potential commission bias is removed and any recommendations / investment advice provided to the retail investor is not influenced by any product manufacturers; d) investors are informed up-front of the cost of the advice and how this will be charged and e) qualifications for all investment advisors were upgraded.

Following the introduction of RDR, the UK's Financial Conduct Authority (FCA) commissioned a post-implementation review, which was published in 2014.[108] The review concluded that overall RDR was on track to deliver its objectives, for example, in reducing product bias from advisor recommendations, creating a more level playing field in terms of products on offer, evidence of product prices falling and more advisors reaching the minimum standard qualifications. The UK's FCA was due to undertake a further review of the impact of RDR in 2017 but this has now been delayed until 2019. The reason for the delay is to combine the RDR review with the impact of the 2015 Financial Advice Market Review (FAMR) reforms and to effectively allow the market time to react to the various regulatory changes resulting from FAMR and MiFID II. The combined impact report on RDR and FAMR is anticipated early 2020. Our sample mystery shops indicated that investors with less than EUR 100,000 were systematically turned down by banks and insurance companies that led such investors to seek the services of Independent Financial Advisors (IFA), who are able to provide advice. Our results also showed that the initial consultation/advice is generally free, while subsequent investments made through the IFA are typically subject to a fee, expressed as a percentage of the invested amount. In the Netherlands, the *Woekerpolissen* scandal of 2006 within the Dutch insurance market is widely credited as having provided the political impetus for the Dutch *Autoriteit Financiële Markten* (AFM) to act against mis-selling. Various initiatives were tried by the AFM including requiring more transparency on commissions or caps on the amounts of commission to be paid before the final decision was taken to ban inducements. The ban came into effect in 2014 and only applies to services provided to non-professional investors i.e. retail investors. This

[108] https://www.fca.org.UK/publication/research/post-implementation-review-rdr-phase-1.pdf

effectively means that retail investors do not receive advice anymore from either traditional distributors or IFAs. From a positive perspective, this has led to more consumer awareness in relation to costs charged for advice and taking more informed choices for themselves. In addition, advisors/intermediaries are also becoming more responsive to the needs of the retail clients with more tailored business models arising. Conversely, this situation has also led some retail clients to refrain from investing, to potentially using the services of discretionary portfolio managers, or, for the least risk-averse, to invest (online) by their own means (execution only). The most recent country to consider banning inducements is Ireland. The Central Bank of Ireland (CBI) has recently launched a consultation paper containing proposals to "enhance the protection for consumers when seeking advice from financial intermediaries."[109] The consultation paper does not propose to issue a blanket ban but a partial ban to eliminate any potential bias that could arise as a result of inducement arrangements. The closing date for responses to this consultation paper is 22 March 2018.

As regards to the subject of the technological advances relating to Fintech, at the time of writing this Study, only the UK's FCA has formally launched a "regulatory sandbox" in June 2016. The intention of this regulatory sandbox is to encourage innovative ideas to reach the market and eventually the retail client. The sandbox is designed for businesses to test their products and services with a limited number of real "end" consumers/investors whilst being supervised by the FCA. The UK's FCA, received 146 applications, of which 55 were accepted into two cohorts of testing, each lasting six months. The accepted firms were then permitted to test their innovative products, services and business models in live market environments, with appropriate safeguards in place. Examples of firms permitted to test within the sandbox include Bud[110] (an online platform allowing users to manage their financial products, with personalised insights, on a single dashboard) and AssetVault (enabling consumers to catalogue all their assets in a secure online register and better understand their total value. AssetVault then works with insurance providers to protect the consumer and their assets with appropriate insurance products). Although the current entities participating in the sandbox are more financial services oriented rather than financial product oriented, both services and products can participate.

The first year of operation showed that the UK FCA's sandbox had been successful in meeting its overall objective: around 90% of the firms accepted into the first cohort have progressed towards a wider market launch. A significant benefit of the sandbox is that it permits firms to test consumer uptake and commercial viability, and to adapt if necessary. Consequently, around a third of firms in the first cohort significantly pivoted their business model ahead of launch in the wider market. Furthermore, the sandbox helped innovators secure funding, with at least 40% of the first cohort receiving investment during or after their sandbox testing due to the higher level of confidence investors had in firms taking part in the testing. However, the majority of the NCAs that were interviewed confirmed that they had set up internal working groups/divisions relating to the advent of Fintech and that some were considering implementing a similar sandbox structure. In all cases, the NCAs were keen to stress that they were very open to having discussions with new financial actors prior to the licensing application and the launch of new financial products in their respective territories.

[109] https://www.centralbank.ie/publication/consultation-papers/consultation-paper-detail/cp116---intermediary-inducements---enhanced-consumer-protection-measures
[110] https://www.fca.org.UK/firms/regulatory-sandbox/cohort-1

Another view shared by all NCAs was that any new entrants into the financial sector, be they traditional type of companies or Fintech, are all subject to the same existing licensing requirements and that no new licensing category has been created for Fintech companies. One of the reasons expressed by the NCAs for having taken this decision is that innovation in terms of financial products is not limited to the new Fintech actors but that also the more traditional players are entering this new sector hence the wish to maintain a level playing field across all players. For the moment, as this segment is in its infancy, the NCAs did not comment on any specific perceived risks from these new entrants but all confirmed their openness in having dialogue with the new financial actors including robo-advisors to help understand and alleviate any potential future risks.

To strengthen their roles in securing investor protection, all NCAs mentioned that in collaboration with their EU counterparts, they regularly issue alerts to the general public when they discover products and services that infringe statutory and/or regulatory requirements. Generally, such alerts are published on the websites of the NCAs. Two most recent general alerts include "Beware of boiler rooms!"[111] published by the Belgian FSMA on 27 November 2017 warning consumers against fraudulent investments and a warning from the UK FCA published on 29 November 2017 in relation to the cloning of authorised firms.[112] Databases are made available for the general public to encourage investors to systematically check not only that their intended product for investment is authorised for sale in the country of residence but also that the intermediary in question is duly licensed. Although many NCAs provide databases of regulated entities, the UK's FCA recently introduced ScamSmart[113], an electronic database helping investors detect potential scams not just in the financial sector but more widely ranging from investments in bamboo, through to parking and even wine. The investor can either answer three simple questions using the drop down fields (proposed investment sector, source of proposed investment and whether pension money may be involved) or directly search the UK FCA's warning list to see if the proposed investment opportunity may be considered a scam.

Some NCAs have also begun to take actions to discourage non-suitable investment products from being sold in their territories. Belgium, France, the UK and the Netherlands, to name but a few, are introducing laws to limit the products that they have classified as toxic. In addition, various NCAs have issued regulations and guidance to be followed when distributing complex products.

In April 2011, the Danish National Bank issued an Executive Order on Risk-Labelling of Investment Products (EO 345).[114] This Executive Order requires all financial intermediaries that distribute or provide advice on investment products to retail investors to effectively "label" the products using a traffic light system i.e. red, yellow or green. Red products are those where retail investors could lose more than their original investment amount or those which may be difficult to understand; examples according to the Executive Order include, amongst others, non-UCITS, structured bonds, contracts for difference, credit default swops and Exchange Traded Funds. Products classified as yellow are those where there is a risk of wholly or partly losing the amount invested and that it is not difficult to understand; these include amongst others, UCITS and shares/corporate bonds admitted to trading on a regulated market.

[111] https://www.fsma.be/en/warnings/beware-boiler-rooms-0
[112] https://www.fca.org.UK/news/warnings/michael-ullrich-hartmann-clone-eea-authorised-firm
[113] https://www.fca.org.UK/scamsmart
[114] http://www.danskebank.dk/PDF/PRISER-VILKAAR-FAKTAARK/Homepage-UK/Privat/Investment/ExecutiveOrderRiskLabelling-InvestmentProducts.pdf

With regards to green products, these include Danish government bonds, treasury bills and government bonds issued by euro countries in Euro or Danish Krona. During the interview, the Danish *Finanstilsynet* mentioned they are currently considering revising this Executive Order in light of the UCITS KIID / PRIIPS KID but for the time being the status quo remains.

Another similar traffic light initiative[115] was established in January 2013 by the Portuguese *Comissao do Mercado de Valores Mobiliarios* (CMVM), whereby a specific key information document[116] must be drawn up for complex financial products with a minimum investment amount of EUR 100,000. In addition, this document and related advertising materials are also required to include both a coloured warning symbol and notice for investors. The definition of complex financial products includes derivative financial instruments and derivative securities, structured bonds, unit-linked insurance plans and other debt securities. Green may only be assigned to products with guaranteed income when issued by an EU based supervised entity; yellow is used for products with guaranteed income which are not issued by an EU based supervised entity. Orange is used where there is a possibility of recording a capital loss greater than 10% but less than 100% of the invested amount and finally red is assigned when there is a possibility of recording a capital loss greater or equal to 100% of the invested amount.

In both France and the Netherlands, toxic products are considered to be binary options and Contracts for difference without a guaranteed stop loss. As far back as August 2011, the Belgian *Autorité des Services et Marchés Financiers (FSMA)* introduced a moratorium on the distribution of complex structured products to retail investors in Belgium[117] unless specific criteria are met including the requirement to submit marketing materials for the relevant products for FSMA approval prior to commencing any marketing materials. For the purposes of this moratorium, structured products have been deemed to be products that have a derivative component regardless of the form of the product in which they are sold. Affected products include undertakings for collective investment, insurance contracts, notes or deposits. The FSMA has determined four criteria to assist with the categorisation on whether the product is considered complex: 1) whether the underlying value is sufficiently accessible and transparent for the investor; 2) if the investment strategy is not overly complex; 3) complexity of yield calculations and 4) whether there is sufficient transparency in relation to costs, credit risk and market value. To date, it is understood that the majority of distributors have signed up to this voluntary moratorium. Following the introduction of the Sapin 2 law in France earlier this year, the number of illegal advertising has decreased by around a quarter. With the introduction of MiFID II in January 2018, NCAs will have the possibility of imposing stricter requirements on products they consider as high-risk for retail investors. In June 2016, ESMA issued a press release [118] effectively warning about the dangers of investing in contracts for difference, binary options and other speculative products. The release was issued due to a marked increase in the number of investor complaints in such products having been brought to the attention of NCAs.

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[115] http://www.cmvm.pt/en/Legislacao/National_legislation/Regulamentos/Pages/reg2012_02.aspx?v=

[116] Please note this key information document is separate to and should not be confused with the UCITS Key Investor Information Document

[117] https://www.fsma.be/en/news/moratorium-distribution-particularly-complex-structured-products

[118] https://www.esma.europa.eu/sites/default/files/library/2016-1166_warning_on_cfds_binary_options_and_other_speculative_products_0.pdf

Concerned by the lack of financial education, many of the NCAs provide retail investors with a range of tools on their websites as well access to various educational publications including factsheets, guidebooks, frequently asked questions. Some additionally offer access to helplines available for assistance and recourse in case of mis-selling. DG FISMA recently commissioned a separate study[119] on access to comprehensive financial guidance for consumers across seven[120] countries. In this context, financial guidance was taken to mean the process to determine a person's financial goals in relation to the personal circumstance and provide a strategy to meet these goals. This separate study found that in general, the provision of financial guidance was more widespread and/or extensive in Australia, the Netherlands and the UK, where financial advice that has effectively been financed by the sale of products (commissions) is no longer permitted. The analysis showed that in contrast, in Belgium, France and Denmark, non-industry provision is at quite a low level with Germany being an exception due to the large network of local consumer associations playing a key role. In terms of the actors providing such financial guidance, this varied between countries. In two countries, namely Australia and the UK, the local financial services regulator and local government play a key role. For the UK, there are three additional national providers – the Money Advice Service, the Pensions Advisory Service and PensionWise. For the other countries in scope, the role of the local financial services regulator and local government is more limited. In Belgium, the FSMA has created a website to provide such financial guidance. For Denmark, the government has created the *Penge-og Pensionspanelet* (The Money and Pensions Panel) website whereas in France, it is *L'union Retraite* that provides guidance on pensions and retirement planning. In the Netherlands, it is the Dutch Treasury that has created an independent body *Wijzer in Geldzaken* (Money Wise). From this separate study, it appears that only in Germany, there is no direct involvement from the government although the BaFin has information available on its website.

In addition to transposing the various EU Directives, the NCAs issue additional guidance in the form of regulations, doctrines, guidelines, circulars or similar. These generally take the form of enhancing the local legislation and to act as best market practice in multiple areas of the financial sector. A good example of such additional legislation comes from Germany. Since 2010, the German BaFin issued the obligation that all companies providing investment services are required to keep written minutes of all investment advice given to retail investors (*Beratungsprotokoll*). The underlying key reason for the introduction of this measure in 2010 was to strengthen investor protection and therefore clients' rights; previously no formal records necessarily existed for such meetings making it very difficult to prove any potential mis-selling/mis-information. Another reason for the *Beratungsprotokoll* is to make it easier for the German BaFin to supervise investment advice during their regular on-site checks. Appointed auditors are also required to check during regular audits whether the investment services companies have implemented organisational measures to properly take investment advice minutes and to make these available. In the case of material irregularities, the German BaFin can take appropriate measures and, if necessary, issues administrative fines.

Effectively, these investment advice minutes provide a standardized record of the discussion between the financial intermediary and the retail investors. Details noted in these minutes include, amongst others, the reason for the investment advice, how long the session lasted, details of the potential investors' personal situation together with information on the advice that was provided and the reasons therefore. Once the session

[119] HYPERLINK "https://ec.europa.eu/info/file/55554/download_en?token=z733mogF" https://ec.europa.eu/info/file/55554/download_en?token=z733mogF

[120] Six of the seven countries are in scope of this separate study (Belgium, Denmark, France, Germany, Netherlands and UK); the seventh country was Australia.

has finished, the financial intermediary is required to sign the form and pass them to the retail investor. In 2012, following this initiative, the German BaFin introduced its Employees and Compliants Register, a list of all individuals entitled to give investment advice. In addition to being registered, such individual must also meet strict minimum standard requirements to perform such tasks.

Fees is the single word that touches the heart of the investment management industry from asset managers, to service providers, right through to the end investor. It is our understanding that no European regulator has tried to prohibit entry fees, nor are they likely to consider such a drastic move in the future. However, such a measure was successfully introduced outside Europe by the Indian Securities and Exchange Board who introduced a ban on entry fees in 2009.[121] The closest that any European regulator has come to such a similar decision is the Spanish *Comisión Nacional del Mercado de Valores (CNMV).* According to Royal Decree 1082/2012[122], management, entry and exit fees charged by financial investment funds are capped. The prospectus must disclose the calculation method for the management fees as well as maximum limits, details of the fees that will actually be applied and the entity receiving the payment. In terms of entry and exit fees, neither the subscription and redemption fees nor the sum of both may exceed 5% of the net asset value of the units. With the introduction of PRIIPS on 1 January 2018 however, more transparency in terms of costs and especially their impact on the investment performance should prove beneficial to retail investors in the long term.

As part of their supervisory duties, many of the NCAs regularly conduct their own investigations and inspections on financial actors whilst working closely with other local and foreign authorities. Various reports are also issued on a regular basis by the NCAs on the workings of their internal markets. During the discussions with the various NCAs, it became clear that for many NCAs, mystery shopping exercises do not form part of potential initiatives to measure not only the quality of the services provided by the financial sector but also compliance with regulations. Only the French AMF, the Irish CBI and the UK FCA have publically acknowledged that they conduct/commission mystery shopping exercises. The reasoning behind conducting such mystery shops as part of the supervisory approach is effectively to evidence a small snapshot of the day-to-day reality that investors face when taking financial decisions on their investments. Such activities help in identifying potential risks to customers as well as aid in assessing quality of service, compliance with regulation and being a means of gathering specific information. Adding these types of exercises to the list of initiatives undertaken by the NCAs will likely enhance not only the quality of information made available to retail investors but also assist with the general positive development of the financial marketplace.

Without exception, all the NCAs stressed that with the introduction of MiFID II and the advent of PRIIPS as per 1 January 2018, the financial marketplace for the protection of retail investors will be strengthened even if these new regulations are considered burdensome and administrative for the actors concerned.

The views of several leading consumer associations were collected through a series of interviews. BEUC and Better Finance stressed several measures which could spark competition in a proper single market, bringing prices and charges down for individual

[121] https://www.ft.com/content/ff5269e6-219a-11e6-9d4d-c11776a5124d
[122] http://www.boe.es/buscar/act.php?id=BOE-A-2012-9716

investors and facilitate access to the best products and services thus restoring retail investor trust again:

- **Having simple, transparent and comparable products to choose from**
  This holds true for all types on retail investment products but in particular for pension products. The growing reliance by Europeans on individual pension products is not matched by an adequate supply of value for money pension savings vehicles. Multiple fees and charges have a very detrimental impact on the (real) return of pension products.[123] [124] Moreover, weak disclosure practices add to the opacity of often very complex personal pension products. Also, the lack of proper financial advice and the absence of an aggregated overview of different pension pillars are making it difficult for European consumers to make good and informed choices.

  While improving disclosure practices is a first essential step, more supply-side regulation, along with improved governance and aligned incentives for providers will be crucial in fundamentally improving consumer outcomes. One way forward in this perspective is the promotion of default products and auto-enrolment options in pension provision, which has a big potential towards achieving a better market outcome for those disengaged consumers unable to make active choices.[125]

  The "Simple Products Initiative" in the UK[126] could improve the access to basic good-value financial products for those consumers who do not manage to deal with the complexity of the market.

- **The provision of unbiased advice and transparent information**
  The widespread use of commissions and fees conflicts with a need for neutral advice to consumers across Europe.[127] Accordingly, consumer associations demand a ban on inducements in order to tackle the conflicts of interest, which will erode investor trust only further in the future. First assessments in countries which have adopted such a ban (UK[128] and NL[129]) are providing evidence for its necessity. In those countries, prices of products have decreased considerably due to the increasing competition and putting client's interest first.
  Existing and future regulation should be assessed with regards to improving the provision of information on performance and costs with the goal to provide relevant and comprehensible information to retail investors in an easily comprehensible way.

[123] "Towards an EU single market for personal pensions An EIOPA Preliminary Report to COM ", Eiopa, 2013, p 81.
[124] "Pension Savings: the real return" ,Better Finance, 2013 http://www.betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pensions_Repo rt_2014_FINAL_-_EN_FOR_WEB.pdf
[125] "Better pensions", Which?, 2015 http://www.staticwhich.co.uk/documents/pdf/better-pensions-report--march-2015-397468.pdf
[126] https://www.gov.uk/government/news/simple-financial-products-a-step-closer
[127] http://www.beuc.eu/publications/beuc-x-2015-046_gve_green_paper_building_a_capital_markets_union.pdf
[128] "Post-implementation review of the Retail Distribution Review – Phase 1", Financial Conduct Authority, 2014 http://www.fca.org.uk/your-fca/documents/post-implementation-review-of-theretail-distribution-review-phase-1
[129] http://www.gfk.com/nl/news-and-events/press-room/press-releases/paginas/consument-bespaart15-door-provisieverbod.aspx / http://www.afm.nl/nl-nl/professionals/nieuws/2014/nov/speech-tkrovisieverbod

- **Further combat mis-selling of financial products**
  Consumer associations regularly criticize the mis-selling of savings, investment and mortgage products and request improvements in the enforcement of conduct of financial business rules. In a recent briefing paper[130], Better Finance suggests, among other recommendations, the development of a Pan-European collective redress mechanism, modelled on the best practices in Europe as individuals are not equipped to assess their own detriment, and even less equipped to obtain redress in court on their own: it is very often too technical, too costly for them and takes too much time. In addition, contrary to consumer goods such as drugs and cars, most financial products are not pre-tested by Public Authorities. Therefore, abuses should be even more effectively identified and sanctioned, and the victims properly indemnified.

- **Develop the potential of new technologies**
  In terms of robo-advisors[131], Better Finance believes that they can lead to significant benefits for EU citizens as savers and individual investors, through significantly lower and more transparent fees, a better alignment with their clients' interests (since they are mostly fee-based rather than commission-based) and better value for money by combining low overall pricing with the use of index ETFs which, on average, have over-performed a majority of active funds over the mid- and long-term.

Findings

- The majority of NCAs and consumer associations indicated that complaints from retail investors usually cover three areas: mis-selling of unsuitable products, the level of fees exceeding the expectations of the investor and biased advice.
- Across the Member States we identified a number of national initiatives that aim at protecting the retail investor beyond the key regulations such as UCITS, AIFMD, MiFID and PRIIPS:
  - The regulators in the UK and the Netherlands introduced specific regulations, which among others, introduced a ban on inducements. These regulations have had a substantial impact on the national investment landscape and led to a shift in investor behaviour from obtaining advice through banks and insurers to retail investors either taking investment decisions on their own through online investment platforms or getting advice through IFAs. Generally, local investors have become more cost-sensitive and better informed about investment products.
  - The UK FCA has formally launched a "regulatory sandbox" with the intention to encourage innovative ideas to reach the market and thus eventually the retail client.
  - In collaboration with their EU counterparts, NCAs regularly issues alerts to the general public when they discover products and services that infringe statutory and/or regulatory requirements. NCAs discourage non-suitable investment products from being sold in their territories either through legislation or voluntary moratoria.

[130] http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Misselling_of_Financial_Products_in_the_EU_-_Briefing_Paper_2017.pdf
[131] http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Robo_Investing_Report_070617.pdf

- Quite frequently, NCAs support initiatives aimed at strengthening the financial education and knowledge of retail investors. On the other hand, initiatives by NCAs on financial guidance are still quite rare but have the potential to effectively support the retail investor in their decision making.
- In view of improving its supervision of investment advice, the German BaFin introduced the obligation that all companies providing investment services are required to keep written minutes of all investment advice given to retail investors.
- Upper limits on entry and exit fees have been introduced by the Spanish CNMV.
- NCAs also conduct their own investigations and inspections on financial actors as well as current practices. In particular, mystery shops are used by some NCAs, notably France, Ireland and the UK to assess compliance of market practices with regulation.

- Consumer associations advocate:
    - The development of simple, transparent and comparable investment products.
    - The need to further support the provision of unbiased advice and transparent information, in order to guide the retail investor without being exposed to conflict of interest or misleading or incomplete information.
    - To strengthen the combat against mis-selling of financial products.
    - To further develop the potential of new technologies, in order to provide retail investors with suitable low-cost products.

8 Impact of online platforms and new Fintech solutions on retail investment distribution

In this section, the objective is to analyse and describe business and distribution models proposed by online investment platforms in Europe and beyond. Specifically, the in-depth analysis includes the most successful fund supermarkets, robo-advisors and social trading platforms across Europe. The information providing the basis for the analysis originates from desk research, data collected during previous tasks as well as interviews with market players. Upon gathering the information, comparisons are drawn between regions and Member States in which the fund supermarkets, robo-advisors and social trading platforms are operating. For each type of online platform, we investigate the business model in terms of target client segments, products and services and the distribution strategy. Subsequently, the level of development of online distribution is assessed in terms of market penetration and accessibility for average retail investors covering an overview of costs and account minima. When analysing the level of development, particular attention has been attributed to online distribution platforms in EU Member States where they are developing the fastest. In the next section, we identify the risks and benefits of online platforms for average retail investors. In the last section, we list suggestions of market players to improve policies and creating the right regulatory environment to fully profit from new possibilities while managing any new risks that might be created for consumers.

8.1 Fund supermarkets, online brokers and banks' online platforms

There are several types of online investment platforms, which offer execution-only services that are available for retail investors in Europe. The most common types of these platforms are fund supermarkets, online brokers and banks offering their own online platform. A fund supermarket is an online platform that allows an investor to invest in a wide range of funds from many different fund providers using just one account. An online broker, on the other hand, is another type of order execution broker that generally targets highly sophisticated and self-directed investors and in many cases, primarily focuses on complex products while providing little research or guidance service. Retail investors also have another option to access online investment platforms thanks to a number of banks offering their own online platforms for investment. In the following section, 'online investment platform' will refer to all three platforms (fund supermarkets, online brokers and banks' online platforms), otherwise the platforms will be referred to specifically.

8.1.1 Target client segments

In Europe, the main fund supermarkets, online brokers and the banks' online platforms employ the B2C business model, targeting self-directed individuals that are knowledgeable enough to trade by themselves. Fund supermarkets and banks' online platforms have a broader client range and target both younger investors around the age of 30 as well as more mature investors in their fifties and beyond. In addition, our research suggests these customers often invest for the longer term. In the UK, their investment size varies widely but are influenced by the diffusion of ISAs. ISAs are "Individual Savings Accounts", which are a tax efficient way to invest money up to a certain amount. When assessing a 50-year old investor with no previous investments, the average size of the portfolio is equal to around 4,600 GBP, contains an average of 2.7 funds through, essentially, ISAs. In other Member States with a significant presence of fund supermarkets and banks' online platforms, such as Germany and France, a predominant investment size could not be identified.

With regard to online brokers, based on our research and the interviews conducted with the companies' executives, the average client profile of such platforms involves tech-savvy, self-directed investors that are around 40 years old, mostly male,[132] invest an average of 3,000 EUR to 5,000 EUR annually and typically trade as a hobby without a profit-making goal.

A few fund supermarkets and online brokers also focus on the B2B market and offer liquidity as well as their technology to institutional customers. Especially in the UK, 93% of Independent Financial Advisors (IFA), utilize online investment platforms to trade and invest on.[133] In terms of the technology, B2B online investment platforms offer both front end and back office technology either by white-labelling it or by licensing software.

8.1.2 Products and services

Online investment platforms consist of web-based broker platforms that offer self-directed investors a wide range of investment products to be bought and sold online. Fund supermarkets and banks' online platforms generally focus on investment funds, shares and depending on the Member State, life insurance and pension products as well as country-specific products for the average retail investor. Moreover, fund supermarkets and banks' online platforms often offer additional services like investor education, research and other informative content. Some leading fund supermarkets and online platforms offered by banks additionally offer guidance from the moment the client starts out to the moment funds are chosen, followed by overall advice on managing money as well as staying informed. This translates into specific services such as an account selector tool, charts to compare funds, calculators to help reach goals, educational videos as well as a variety of publications. On top of that, some fund supermarkets even complement their offer with investment advice that can be received by contacting Independent Financial Advisors. Banks' online platforms have the ability to leverage the banks other services to bundle additional services to customers.

Online brokers mainly offer CFDs (contract for difference) which mirror the movements of certain underlying assets of asset classes like shares, bonds and commodities, to name a few. This is due to their inherently high flexibility in terms of contract sizes, market depth and liquidity for the purpose of short-term trading. Due to the inherent risk of CFDs, a variety of online brokers offer additional features such as loss protection systems that consist in a stop-loss tool, allowing the investor to set a limit for incurred deficits. Once this limit is reached, the platform liquidates the investments to avoid greater losses.

Despite these broad patterns, the offering varies from Member State to Member State. Generally, Germany and the UK offer the broadest range of online investment platforms. Nevertheless, there are number of niche online investment platform offerings in different Member States across Europe. In Spain and the Czech Republic, for example, users can trade cryptocurrencies, while in Portugal, users can buy stocks sold through Initial Public Offerings (IPO). In other Member States, such as Germany, France and the UK, one can

[132] The State of Online Brokerage Platforms, Celent (2015)
[133] DeVere Group (2011)

buy almost any product since the user only needs to provide the International Securities Identification Number (ISIN).

8.1.3 Distribution strategy

The distribution model of the online investment platforms is naturally focused on the online channel, including applications for smartphones and tablets as well as webpages, and customer service is made mostly via online chat, email or phone call. Some platforms also have an offline presence represented by a network of representative offices. The online investment platforms tend to focus their marketing efforts mostly on online channels by placing advertisements on digital financial newspapers, on search engines and on social media. Most of the advertisements are specifically targeted at users who have showed past online activity related to an interest in online investment. Offline media is also used but to a lesser degree, with some online investment platforms marketing their offerings through, for example, advertisements in the financial press.

8.1.4 Level of development

In terms of geographical coverage, online brokers can be found in almost all European Member States, as many of them use the European passport provided with their license to offer their services across borders. In addition, the online brokers often have an international presence in Asia. On the contrary, the majority of US brokers tend to focus on the local market. The reason behind the limited availability of (international) online brokers in the USA is mainly regulation. Indeed, CFD trading is not permitted to US residents due to restrictions by the Securities Exchange Commission (SEC) on OTC financial instruments.

Fund supermarkets in Europe are less present than online brokers. While the UK, Germany and France have the greatest number of fund supermarkets, with around 15, 6 and 8 respectively, the other European Member States do not appear to have more than a couple of fund supermarkets.

Publicly available consolidated data on the trading volumes across Europe and the specific Member States are not available. As such, it is not possible to discern the level of development of fund supermarkets and online brokers based on the investment flows.

Generally, one can say that Germany and the UK are the most developed Member States in terms of online investment platforms in Europe. An estimated total of 50 million securities transactions are executed by German retail investors each year and 136,000 transactions are concluded each day. Moreover, 61% of German retail investors use online investment platforms to trade with securities and 2.2 million individuals are trading stocks and securities on the internet. While fund supermarkets are not new in the UK, their significance has grown rapidly in recent years. Assets under administration (AUA) in UK fund supermarkets increased from 108 billion GBP in 2008 to 592 billion GBP in 2016, and now account for over 50% of annual sales of funds to retail investors.[134]

[134] Best buys and own brands: investment platforms' recommendations of funds, FCA (2017)

8.1.5 Costs and account minima

The aim of online brokers, in terms of pricing, is to position themselves amongst the cheapest options in the market in the hope of attracting as many users as possible. While the commission (spread) is usually specific to every kind of CFD making, it is difficult to compute average spreads. There is a widespread agreement that online brokers are facing downward price pressures in order to remain competitive.[135] [136]

Fund supermarkets tend to offer a greater numbers of service offerings than online brokers, ranging from tailored advice to execution-only services, each with different pricing models. However, fund supermarkets also face pricing pressures. Particularly at the bottom end of the price spectrum. This pricing pressure can be especially strong in mature markets with many online investment platforms such as the UK, Germany and France.

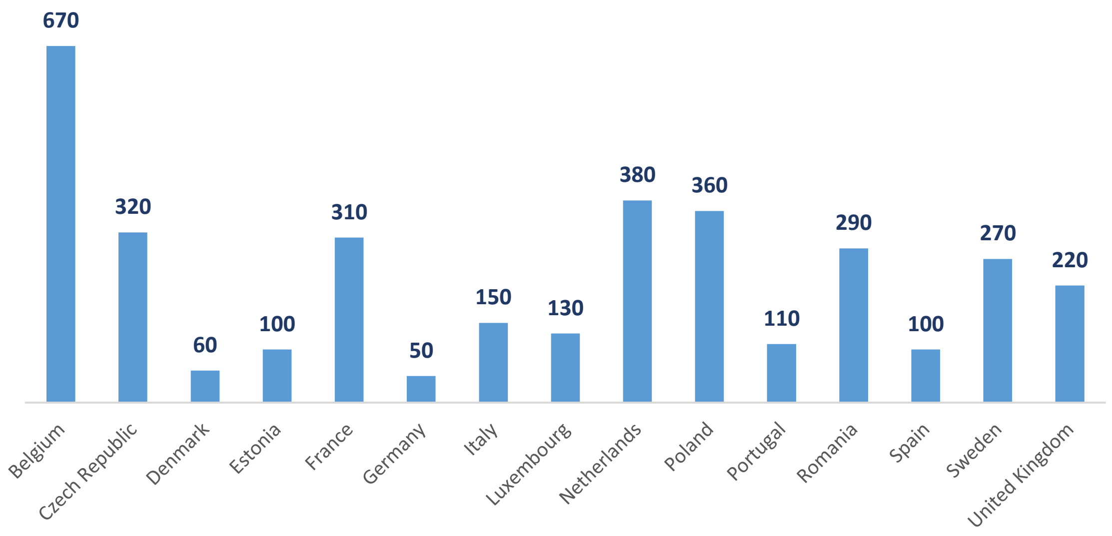
The fees that these online investment platforms charge are principally broken down into brokerage fees and management or custody fees, with most platforms using either one or the other, and some using a combination of both. The brokerage fees are often under 5 EUR, sometimes as low as 1 EUR, especially for investments of under 2,000 EUR, with prices going up only by a few euros for higher investments, and for those orders of significant sums (generally over 50,000 EUR) a small percentage charge of around 0.05-0.25% is the norm. In relation to management fees and fees for using an online investment platform, these fees are also generally scaled as a percentage of the amount invested. Despite the fact that the percentage decreases as the amount invested goes up, even small-scale investors with a few thousand euros face fees of around 0.20-0.40%, or sometimes flat fees for little more than 10 EUR a month.

It is worth noting that many of these platforms have additional fees which are less clear. There are often various administrative fees for investment orders which are not the most basic or not done over the internet; some charge fees 6 or 7 times higher when placing an order over the phone rather than online. Additionally, some platforms actively offer their low order fees yet have minimum monthly fees, as well as occasionally fees for inactivity and withdrawal of funds.In most cases, the minimum amount of capital needed to begin investing through online investment platforms is low; platforms attempt to attract investors with very low account minima, generally ranging from 0 EUR up to 500 EUR.

In general, fund supermarkets, online brokers and banks' own platforms are widely accessible in Europe. One can differentiate the platforms geographically by defining one group as the international platforms and another as the local ones. Most international companies operate throughout the EU as well as in some Asian countries with more than 100 offices all around the world. As such, all Member States have at least one online broker that provides its services to the Member State's citizens. Besides online brokers, certain Member States also have local fund supermarkets and online brokers. While local online brokers are present throughout almost all European Member States, fund supermarkets often solely exist in the UK, France, Germany, and the Netherlands as well as to a lesser degree in Italy and Spain.

[135] Fidelity, Charles Schwab Slash Online Trading Commissions, Wall Street Journal (2017)
[136] Cheapest-ever broker lets you trade shares for less than 2 GBP, Telegraph (2017)

Graph 38: Average account minima of online brokers (in EUR, per Member State)



Source: Deloitte analysis (2017)

8.1.6 Suitability and appropriateness checks

The majority of online investment platforms are subject to MiFID, which requires distributors to conduct suitability and appropriateness tests depending on the type of advice. These assessments are performed to ensure that investors do not face mis-buying or mis-selling risks. This holds especially true for the average retail investors, who generally do not have the necessary financial knowledge to make investment decisions by themselves. The appropriateness checks performed by execution-only online investment platforms were assessed by investigating whether questions were asked about the client's knowledge and experience with investment products. If the investment platform only provides access to non-complex products, it is exempted from the requirement to execute an appropriateness check.

After assessing a variety of fund supermarkets, online brokers and banks' online platforms across the Member States under scrutiny, the analysis yielded that only a very small portion of these entities perform appropriateness checks before requiring the client to make an initial payment and have access to the platform services. As for those entities that perform appropriateness checks prior to opening an account or investing, they are mostly online brokers, which focus on highly volatile and risky financial products such as CFDs. The average amount of questions asked by these entities equals 17 and mostly refer to the current financial situation in terms of financial assets and past investing experience. One online broker stuck out due to the level of detail of the questions. For example, one of the questions was:

> *The GBPUSD forex pair is trading with a sell price at 1.2850 and a buy price at 1.2855. You decide to buy 0.1 lot with margin requirement of 0.50%. After some negative UK GDP data, the latest sell price is 1.2750 and buy price is 1.2755. Excluding any overnight financing costs and other applicable commissions, what would your profit or loss be?*

- *A loss of 105 GBP*
- *A loss of 105 USD*
- *A profit of 100 USD*

These findings suggest that online brokers generally perform online appropriateness checks, although with varying degrees of thoroughness. In contrast, fund supermarkets focusing on non-complex products do not execute online appropriateness tests as they are not required to.

8.1.7 Benefits and risks

8.1.7.1 Benefits

The major benefit of these online investment platforms for retail investors is the low cost of investing(see section 4.2). For ETFs, bonds and listed equities, fund supermarkets and online brokers are on average the cheapest way to invest. When purchasing investment funds at a fund supermarket, investors may regularly benefit from reduced entry and exit fees. In some cases, investors may even benefit from discounts on recurring fees, i.e. reduced fund management fees. On the other hand, fund supermarkets in some Member States charge a service fee on top of the recurring fee for the fund.

Another significant advantage of online investment platforms is the ease of access to a wide range of products and information. Some fund supermarkets are offering access to thousands of products (of various types) combining high risk and low risk funds, largely outnumbering the average online and offline offering of banks and other traditional distributors. In addition, fund supermarkets usually provide access to funds from a much larger variety of different fund manufacturers. Search tools based on the basic characteristics of the investment product help investors narrow down the choice of suitable products.

The additional services provided by the most developed online investment supermarkets, allow a novice investor with an Internet connection to learn the basics of financial services and products, know the real time stock quotes, historical stock price trends, have a handle on market events, access vast amounts of economic and market analysis, perform research on firms, and interact with other investors via forums or chat rooms. This, in combination with time, can transform even the most novice investor with an active interest in investments into an increasingly knowledgeable investor.

These online investment platforms provide a portfolio monitoring tool and a consolidated statement, enabling the investor to view all purchases online and monitor his investments over time. Usually orders can be placed by a variety of methods, e.g. online, over the telephone or via paper.

When available, independent online comparison tools enable customers to compare the services, product ranges and fees of fund supermarkets and online brokers allowing them to choose the online investment platform that is best suited to their needs.

An additional benefit for the investor is the greater level of security afforded by these new online investment platforms. Historically, clients were often sceptical to deal online because of security reasons. Now, however, these fears can be put to rest thanks to the enhanced encryption technologies that these platforms use. All major online investment platforms are intrusion-tested and provide the highest levels of encryption across their service offering. Ultimately, consumers can trade online with significantly more confidence thanks to these online investment platforms.

Furthermore, fund supermarkets, online brokers and banks' own platforms all decrease the time for total completion of a trade from the regular T+3 days to a matter of minutes.

8.1.7.2 Risks

Due to the nature of online investment platforms providing execution-only services, a financially less sophisticated investor is at risk in multiple ways:

- **Choice of platform:**

  Fees, product ranges and additional services vary widely from one actor to another. A retail investor might thus find it difficult to choose the platform that best suits his needs. A further risk is associated with online comparison tools, which in many cases are not independent and provide biased information and rankings of platforms. A customer who does not carefully check the accuracy of the provided data might be misled in his choice of a platform.

- **Mis-buying:**

  Our research shows that many platforms only employ very basic suitability and appropriateness tests, thus allowing potentially financially illiterate customers to invest substantial parts of their savings into financial products with basic characteristics they are not able to understand.

  Even though many fund supermarkets provide fund selectors as well as extensive information and guidance on investment products, retail investors may not correctly understand the information or may simply be overwhelmed by the sheer amount of available information. If this is the case, the customer runs the risk of investing in a product that is not the best choice for his needs.

  Some platforms provide guidance services to help retail investors take investment decisions, e.g. an overview of how investors with similar characteristics and investment objectives invest. This guidance goes so far as to mention the explicit titles of investment products that are overrepresented in a group of investors with similar characteristics. Although clearly stated that both types of guidance shall not be considered as advice, a financially less literate investor is potentially not able to make the distinction between guidance and advice and thus trusts the provided information, potentially leading to the purchase of an unsuitable product.

- **Transparency of fees:**

  Especially for online platforms with a wide variety of investment products, a retail investor might find it difficult to collect all relevant information on fees and correctly understand the fees he will be paying after his purchase. While the service fee for the platform is usually openly displayed, we found that, in particular, ongoing charges of funds and ETFs are sometimes not explicitly disclosed.

Moreover, despite the significant advances in security, the technological nature of online investment platforms exposes retail investors to risks. As with any online-based service, fund supermarkets and online brokers are subject to cybersecurity threats.

8.1.8 Findings

- Although fund supermarkets and online brokers are rapidly increasing their market share, the level of development of fund supermarkets varies strongly across Europe with the UK, France, Germany and the Netherlands leading followed to a lesser degree by Italy and Spain. Fund supermarkets exist in other Member States, but are less-developed. The ban on inducements has been a strong driver for fund supermarkets and online brokers as well as for online investment platforms of incumbents.
- Generally, fund supermarkets and online brokers display lower cost for investing. Nevertheless, due to the complex structure of costs shown on the websites of fund supermarkets and online brokers, a retail investor needs to carefully check whether he has identified all relevant costs and charges.
- Users need to perform appropriateness checks before accessing online brokers although the level of thoroughness of these checks varies substantially. As fund supermarkets generally focus on non-complex products, they are not required to execute appropriateness checks when the investor decides to invest on his own without relying on advice.
- Suitability and appropriateness checks seem to be quite basic for most online investment platforms with some notable exceptions of online brokers where future customers need to pass a complex test, requiring a very high level of financial knowledge before being able to actually purchase products.
- Although being execution-only platforms, the average retail investor might not be able to understand the difference between the guidance provided by the platforms (where the responsibility stays with the investor) and actual advice by an advisor. Therefore, he is exposed to a certain risk of mis-buying.
- Online brokers who mainly offer CFD and Forex are less suitable for average retail investors due to the complexity of products on offer.[137]
- Fund supermarkets are at the crossroads, as they may cater to retail investors through their larger product range focusing on funds, ETFs and, depending on the Member State, life insurance and pension products. Although they provide guidance and educational material aimed at helping a retail investor with choosing a suitable product, they still require a certain level of financial literacy.

[137] https://www.esma.europa.eu/press-news/esma-news/esma-issues-warning-sale-speculative-products-retail-investors

8.2 Robo-advisors

Robo-advisors leverage client survey data into complex algorithms that produce customized financial plans and asset allocations. They digitalize and automate client on boarding, investor risk profiling and investment allocation through algorithm-based assessments, and providing online investors on-demand access to financial advice. During the last few years, a large number of robo-advisors have developed in Europe as shown in **Graph 39**, demonstrating the increasing interest in retail and institutional clients in automated advice.

Graph 39: Snapshot of robo-advisors across Europe

8.2.1 Target client segments

Essentially, robo-advisors target retail investors through 2 models: a direct-to-consumer (D2C) model and a business-to-business (B2B) model. While the direct-to-consumer model involves targeting retail investors through an online platform that is inherent to the robo-advisor, the business-to-business model entails the white-labelling of a robo-advisory platform to traditional financial institutions such as banks and asset management companies. Ultimately, both models target retail investors, although existing financial institutions may market the white-labelled solution to their wealthier clientele too. In general, one can state that robo-advisors target self-directed investors with an investible amount that can reach 1,000,000 EUR, while the global average lies at 8,000 EUR.[138]

When engaging with retail investors across the world, the demographics and cultural habits vary starkly from region to region. Yet, depending on the geographical location, certain patterns can be observed. In Europe, the target clients are quite homogeneous. Investors are usually male, have a monthly net household income of around 4,000 EUR, are university graduates and are moderately financially literate.[139] Millennials, a generation born between the 1980s and 2000s,[140] have long been advertised as the early adopters, yet in Europe, the current clients are generally around 40 to 50 years old.[141] Average account sizes vary depending on the robo-advisor. Some of the robo-advisors manage an average portfolio of 100,000 EUR while others reach up to 1 million EUR. While we envision a broadening of the client segment, we believe that it will happen as soon as well-known financial institutions deliberately actively offer robo-advisory offerings to their retail banking clients.

While customer segments across the world may differ, the clients of B2B business models do not. Across the world, our research yielded that almost all robo-advisors offer a white-labelled product to incumbent financial institutions, including banks, asset management companies and, increasingly, insurance companies.

However, a third business model is currently gaining traction. Robo-advisors are now entering in partnerships with corporate companies, which encompasses the promotion of robo-advisory services for a fraction of the price. Currently, robo-advisory firm MoneyFarm and Uber have entered in such a relationship that involves offering discounted pension planning services to Uber drivers.[142]

8.2.2 Products and services

Robo-advisors offer two types of services: discretionary and advisory-based investment management.

Discretionary investment management is a form of investment management in which the investment manager (in this case the robo-advice algorithm) decides what products to buy and sell on behalf of the customer, based on a mandate agreed with the customer. In contrast, the advisory-based model is based on giving recommendations to a person on the merits of taking an action (e.g. buying, selling) in relation to a specific financial product. Ultimately, the customer still needs to take affirmative actions to execute transactions (in this case through the robo-advice platform).

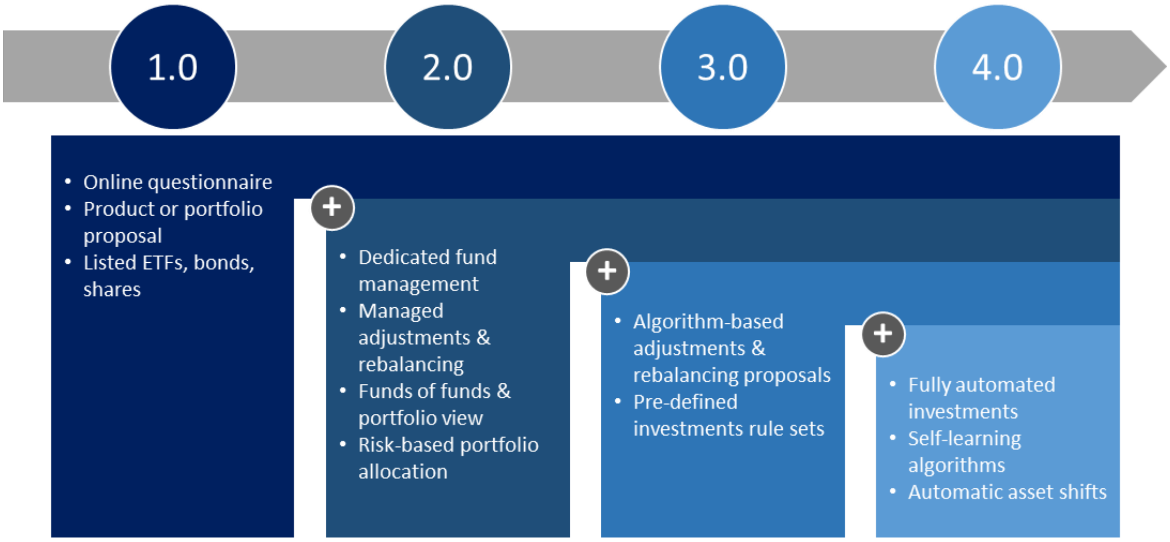
Both of these types of services can be delivered with varying degrees of human interaction, ranging from fully automated advice, through hybrid models to face-to-face advice assisted by an algorithm. Fully automated advice involves customers who normally solely interact with a website. They may still be able to speak to a human if they need to resolve any IT issues, make a complaint or clarify terms and conditions.

[138] Deloitte analysis
[139] Robo-advice – a true innovation in asset management, DB Research (2017)
Report on financial investments of Italian households, Consob (2016)
Deloitte analysis
[140] A new understanding of Millennials, Deloitte University (2015)
[141] Robo-advice – a true innovation in asset management, DB Research (2017)
[143] The expansion of Robo-Advisory in Wealth Management, Deloitte (2016)

In the case of hybrid models, customers interact with a website but may also interact with a human (e.g. via a web chat or by phone), for example if customers have questions or the firm needs to ask for additional information. In the case of face-to-face advice that is assisted by an algorithm, customers interact with a human, who uses a computer algorithm to generate advice, investment decisions or information (depending on the service provided) but can override the algorithm if needed.

Emerging Fintech companies essentially focus on fully automated advice or hybrid models, leveraging online questionnaires, pre-defined portfolios according to risk profiles and algorithm-based adjustments and rebalancing proposals. Through our research, we have identified a four-step evolution of the features and services of robo-advisors.

Graph 40: The robo-advisory evolution



- <u>Robo-advice 1.0:</u>
  - Clients receive single-product proposals or portfolio allocations based on listed investment products after answering a questionnaire to filter suitable options. Most firms operate via web-service or smartphone app. There is no bank- or broker-API managing the execution. Clients have to buy and manage a real product-based portfolio on their own by using their own accounts, and also manage future adjustments. Product variety includes stocks, bonds, ETFs and other investment vehicles.

- <u>Robo-advice 2.0:</u>
  - Investment portfolios are created as a fund of funds, and setting up investment accounts as well as direct order execution is part of the service. The asset allocation is managed on a manual basis by dedicated investment managers. Questionnaires are not only used to filter suitable products but to allocate clients to a handful of pre-defined risk-allocated portfolios. Real investment managers take care of investing and adjusting client portfolios. The realization is semi-automatic as investment managers oversee the investment algorithm and define rule sets.

- <u>Robo-advice 3.0:</u>

- Investment decisions and portfolio rebalancing proposals are based on algorithms which monitor and satisfy pre-defined investment strategies. Final oversight is provided by professional fund managers. Some services enable their clients to follow or neglect proposed portfolio adjustment decisions in order to individualize their portfolios.

- Robo-advice 4.0:
    - Sophisticated risk management and profiling questionnaires lead to direct investments via self-learning artificial intelligence (AI) investment algorithms. They shift between different asset classes based on changing market conditions and individual investment needs such as profit, risk appetite, and liquidity aspects, monitor and adjust single client portfolios in real time to keep on track with their selected investment strategy.

Today, about 80% of European, Asian and American robo-advisors have 3.0 capabilities with an increasing trend to automation and service offerings.[143] We observed that robo-advisor 3.0 capabilities currently include a wide range of low to high end technology depending on the robo-advisor's chosen strategy. Some offerings tend towards a fixed investment strategy built on a specific investment theory's key performance indicators, others choose to include market movements and trends in their automated portfolio rebalancing proposals. The large majority of the robo-advisors that were analysed, develop and maintain their algorithms entirely internally. In general, the platforms' websites are clear at articulating to what extent their algorithms are involved in the investment processes, although there is still room for greater clarity regarding the specifics of the process – especially since transparency is commonly considered a defining characteristic of Fintech.

Independently of the precise capabilities, robo-advisors package their service offering in a practical and user-friendly way. Robo-advisors provide an end-to-end service that is delivered through multiple devices. Starting with the onboarding, a variety of European robo-advisors feature a simple process, where the client's risk profile is assessed through a set of relatable closed-ended questions that yield the subsequent asset allocation. The online questionnaires vary with respect to length and the types of information requested. Section 6 contains a more thorough assessment of the suitability questions of the investigated robo-advisor platforms. The portfolio is then presented in a consolidated overview with dynamic charts as well as short and concise explanations that facilitate the comprehension of financial matters. After the portfolio allocation, most robo-advisors formally onboard the customer through Know-Your-Customer (KYC) procedures. Here, the client's identity is generally verified through an online video chat taking less than a few minutes. After the identity is verified, the concluded contract and account information is sent to the customer via e-mail. All in all, the whole onboarding process usually takes around 15 minutes. Customers benefit from various forms of assistance ranging from explanatory visualizations, videos, hotlines to comprehensive FAQ sections.

In terms of the investment products underlying the portfolios, robo-advisors are usually focused on Exchange-Traded Funds (ETFs).[144] Due to the ETFs passive investment

[143] The expansion of Robo-Advisory in Wealth Management, Deloitte (2016)
[144] Exchange traded funds attract record inflows in first quarter, Financial Times (2017)

approach, which contrasts with e.g. mutual funds, they are considerably less expensive to run. In addition, ETFs are diversified and mitigate the risk of single-security price changes. While, roughly 6 in 10 robo-advisors base their investment approach exclusively on ETFs[145], others offer stocks, commodities, insurance, cash and bonds. Certain particularities can be observed in France and the UK, where the products are wrapped in a tax-efficient manner. In France, the portfolios are packaged into life insurance products ("assurance-vie"), a very common account form, harbouring 40% of all savings in France.[146] In the UK, customers can invest through tax-efficient Stocks & Shares ISAs (Individual Savings Account).[147] The widening of the product range in the most developed Member States is partly due to market pressures that require robo-advisors to differentiate themselves from the competition, allowing a more personalized asset allocation. Investify, a robo-advisor operating in Luxembourg and Germany offers its clients to invest in specific "themes" such as cybersecurity, water, or disruptive technologies. As these themes cannot be executed solely with ETFs, Investify adds different investment products to the portfolio.

Regarding the levels of human support alongside the robo-advisors, there are some common elements that can be identified. Firstly, all of the platforms offer free human support to some degree to their users regardless of investment size. All platforms offered complimentary technical support to assist with the set-up and maintenance of investing. Diverging results were identified in the degree of help in making investment decisions. Generally, in the UK and France, it is possible to speak to a member of the team (via chat, e-mail or phone) and receive support in choosing your investment product. Customers can query the recommendations given by the robo-advisor and receive information on which investment products they might wish to select. Indeed, further financial advice was occasionally included in the platform, such as advice on how much to contribute regularly and rebalancing over time to meet certain investment goals. In some instances, in the UK for example, no financial advice would be given at all, and clients would need to speak to (and pay for) an independent financial advisor if they wished to learn more about the investment products available to them. This was principally due to regulatory restraints as to who can provide regulated financial advice.

8.2.3 Distribution strategy

European platforms offer their services in one or several Member States. Not only can users abroad open an account on these websites but they can also access the platform in their own language. German and Luxembourgish customers can invest and trade on Investify while MoneyFarm makes its website available in English as well as in Italian for UK and Italian customers. There is a notable exception with a particular robo-advisor available in 32 countries. Based on our interviews and research, regulations and marketing costs are considerable hurdles for robo-advisors. All our interviewees have cited the differences in the regulatory status of robo-advisory firms as well as the variance in applicable rules such as the Markets in Financial Instruments Directive as a key concern. In addition, European Member States widely differ in terms of cultural habits. Thus, entering a market with scarce resources to invest in marketing in order to customize the branding poses a non-negligible issue to emerging robo-advisors.

The marketing strategy of robo-advisors is straightforward: they mainly rely on online marketing to advertise themselves. Robo-advisors usually use programmatic advertising

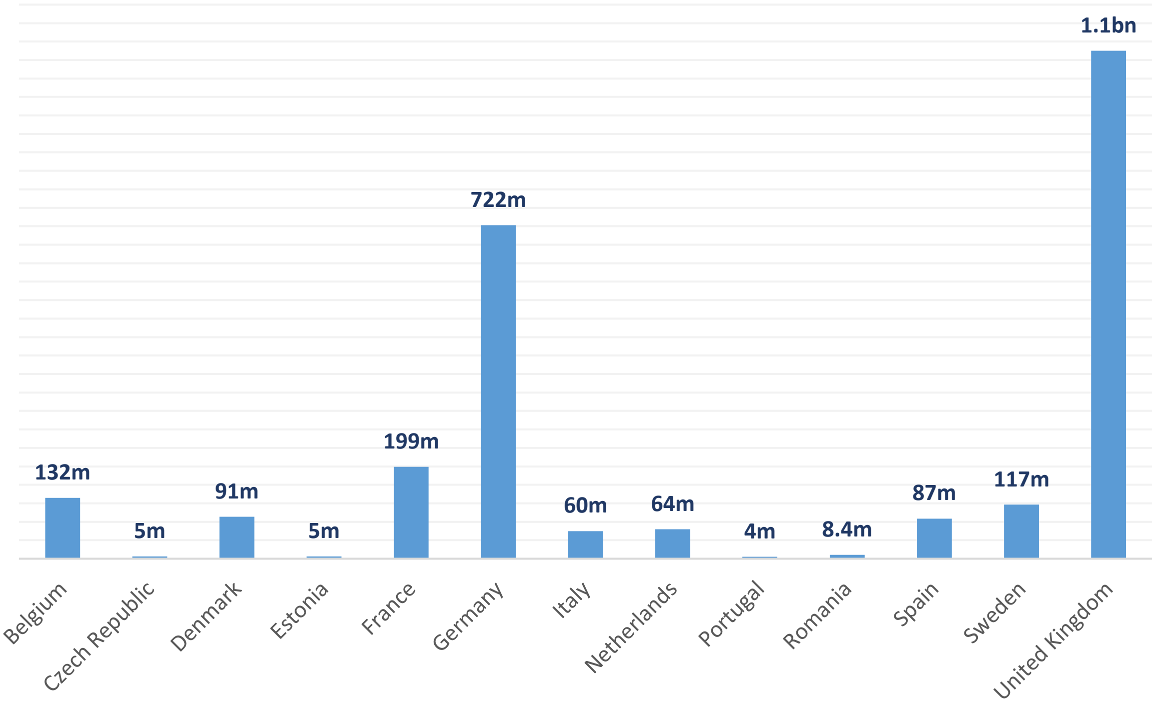
[145] Robo-advice – a true innovation in asset management, DB Research (2017)
[146]www.lefigaro.fr/impots/2013/11/12/05003-20131112ARTFIG00607-assurance-vie-nouveau-coup-dur-pour-les-gros-patrimoines.php, Le Figaro (2013)
[147] www.gov.UK/individual-savings-accounts/, UK Government (2017)

encompassing search engine optimization, paid banners on search engines as well as advertisements on social media. More rarely, radio advertisement and placed ads are used by robo-advisors to actively offer their services.

8.2.4 Level of development

To determine investment flows, Assets under Management (AuM) in the robo-advisory segment are compared for each Member State in **Graph 41**.

Graph 41: Investment flows of robo-advisors (in EUR, per Member State in scope of Study)



Source: Deloitte analysis (2017)

In terms of assets under management, the European robo-advisory market is particularly developed in the UK and Germany. Especially, the UK offers a rich opportunity for automated advice with 22 players. As such, there is a significant "advice gap", driven by the high cost of advice, impact of RDR, low financial literacy, low engagement and a lack of trust following past instances of mis-selling.[148] [149] With individuals being increasingly tasked with managing their own pension provision, and in the context of a relatively low state pension, automated advice can play a key role in generating low-cost solutions. These factors are fostering the increase in AuM of UK

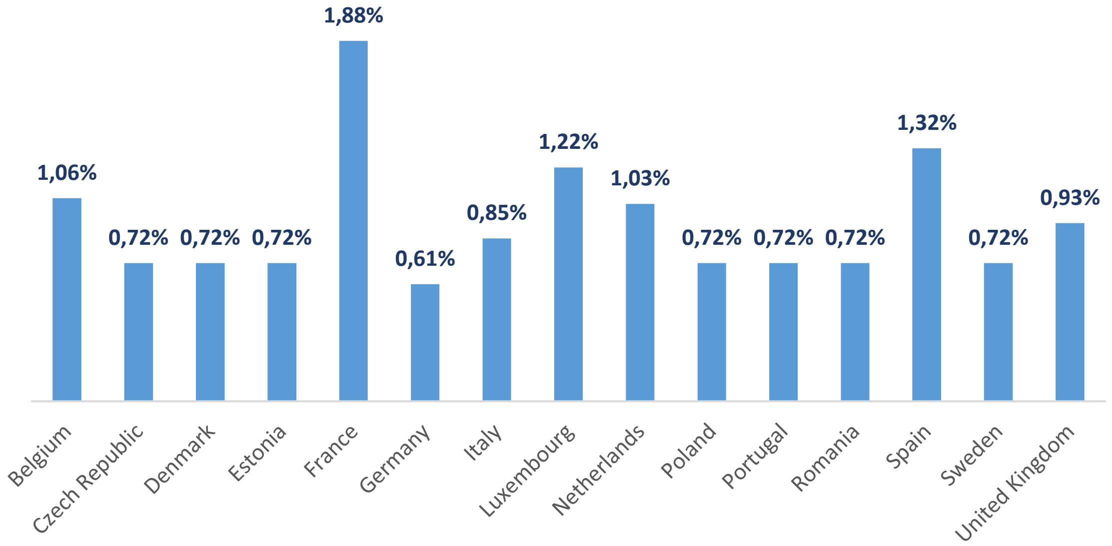
[148] The Financial Advice Market Review Final Report, HMT & FCA, 2016
[149] Bridging the advice gap, Deloitte, 2012

robo-advisors. Indeed, Nutmeg[150], the largest UK robo-advisor stated to have 661m EUR AuM on behalf of 250,000 customers end of December 2017 although its AuM amounted to 441m EUR in August.[151] Another competitor, Money on Toast[152], recorded a total number of Assets under Management of 165m EUR in 2015. In Germany, the market is quickly embracing and fuelling the new trend of robo-advisors. As of now, 38 different robo-advisors operate in Germany[153] with total AuM of 722m EUR. Nevertheless, less than 0.03% of the population currently use these services in Germany. But the forecasts look promising: The number of clients is expected to triple by 2021 and both Deutsche Bank and Oliver Wyman believe the AuM of German robo-advisors will reach between 20 and 30 billion EUR. Expected annual growth rates of AuM in Europe are particularly impressive beyond just the UK and Germany. Indeed, they vary between 50% in France and 100% in Estonia.[154] Markets such as Estonia benefit widely from the online provision of public services as well as the population's skilfulness in using digital technologies and internet services, which makes the country a European champion in the space as well as a member of the High performing cluster of Member States.[155]

8.2.5 Costs and account minima

Generally, robo-advice fees include an annual portfolio management fee as well as a fee based on the underlying investment funds. The annual portfolio management fee can range from 0.61% on average in Germany to 1.88% in France with an average of 0.94% per year, see **Graph 42**. Management fees are often subject to a volume discount pricing model.

Graph 42: Average management costs of robo-advisors (in %, per Member State)

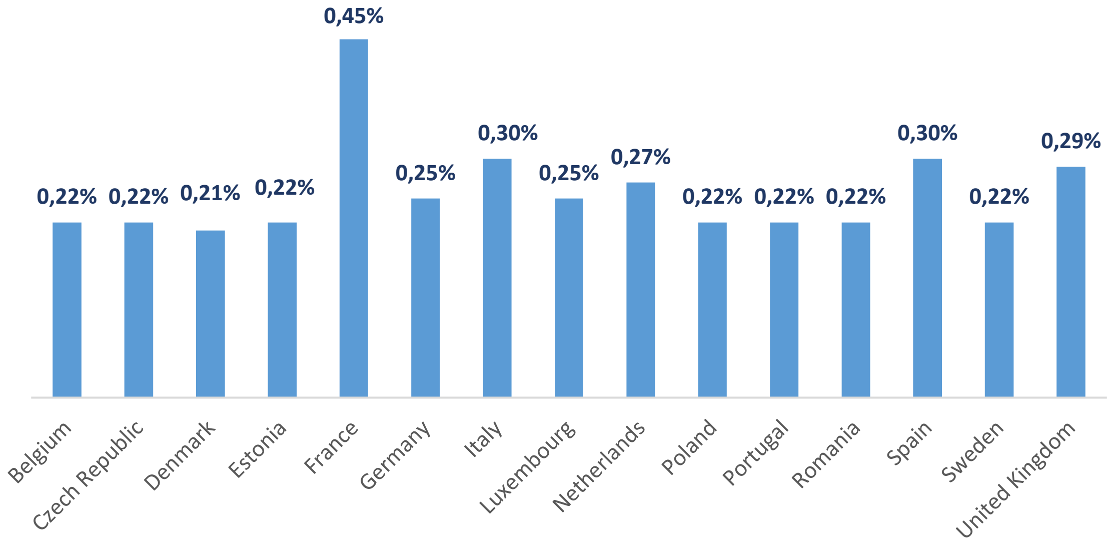


Source: Deloitte analysis (2017)

[150] Nutmeg is based in the UK and regulated by the Financial Conduct Authority
[151] http://UK.businessinsider.com/nutmeg-review?r=US&IR=T & http://UK.businessinsider.com/nutmeg-review?r=US&IR=T
[152] Money On Toast is based in the UK and regulated by the Financial Conduct Authority
[153] Deloitte (the sample of surveyed robo-advisors consists of 50% non-German entities)
[154] Statista
[155] Europe's Digital Progress Report (EDPR), European Commission, 2017

On top of that, most robo-advisors charge investment fund fees based on the underlying ETFs or other funds ranging on average from 0.21% in Denmark to 0.45% in France. Some robo-advisor solutions allow for actively-managed investment funds to be included in a more personalized portfolio. The related fees usually exceed 1% but cover only a small part of the portfolio.

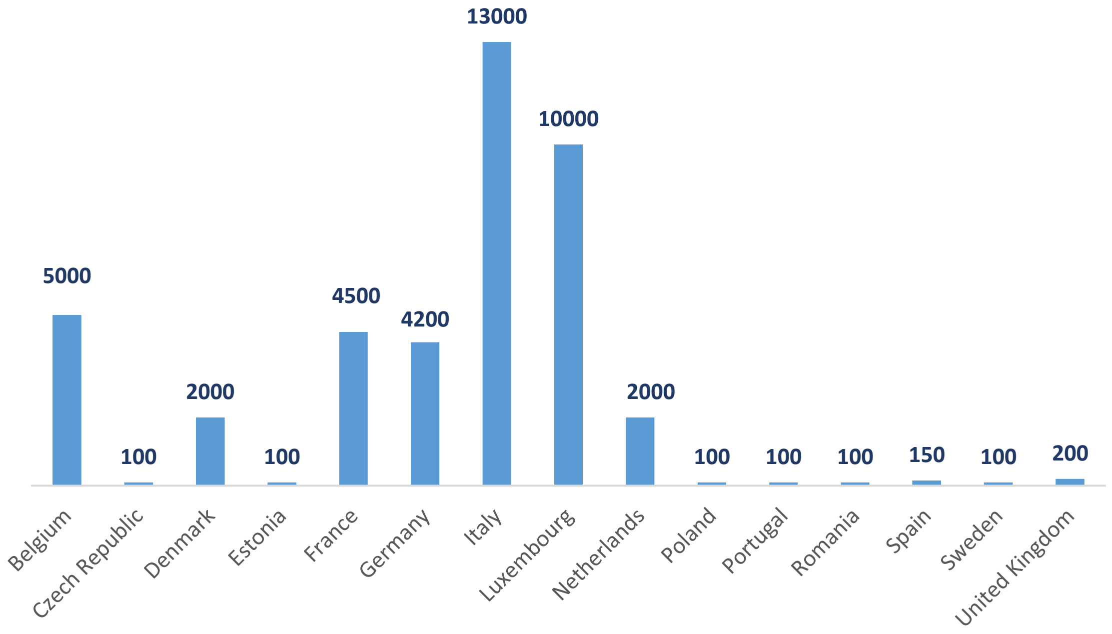
Graph 43: Average ETF costs of robo-advisors (in %, per country)



Source: Deloitte analysis (2017)

Robo-advisors require relatively low account minima ranging from an average of 100 EUR in Member States such as Czech Republic and Romania, to 13,000 EUR in Italy. On average, robo-advisors in the Member States under scrutiny require an average account minimum of 2,700 EUR. In Italy, the high average account minimum is due to the early adopters being wealthier investors than in the remaining European Member States. In other Member States such as Romania, Poland and Estonia, the account minima are low at 100 EUR due to the presence of solely one robo-advisor which covers 32 European countries. Other Member States, such as Spain and the UK have low average account minima, which may be due to competitive pressure from the many providers in both Member States. Decisions around setting account minima are mainly shaped by two factors: whether the robo-advisors charge a fee per trade and the target client. In case fees per trade are charged, many robo-advisors adapt the account minima in order to make sure to adequately diversify an investor’s portfolio and to minimize trading costs. When targeting retail investors, the account minima often depends on the target age range, investment objectives, financial literacy as well as the relative wealth of the target customer. One robo-advisor interviewed in the framework of this Study pointed out that the account minimum might be reduced in the wake of a significant cooperation with a retail bank in order to expand the customer base beyond its originally wealthier clientele towards the less well-off clients of the retail bank.

Graph 44: Average account minima of robo-advisors (in EUR, per Member State)



Source: Deloitte analysis (2017)

8.2.6 Benefits and risks

8.2.6.1 Benefits

Robo-advisors offer their services at comparatively lower prices than traditional wealth managers. Indeed, our research suggests that in Europe, most providers charge an annual management fee that normally ranges between an average of 0.60% and 1.30% of the assets under management, with the notable exception of France at 1.88%. In addition, clients are charged about 0.30% for the underlying investment funds, amounting to a total average annual fee of 0.90% to 1.60% of assets under management. Traditional wealth managers, according to their own price lists, charge about 2.00% to 3.00% in fees. The significant difference highlights that the variance in pricing may enable increased affordability of robo-advisors to a wider population that has become more cost sensitive. Indeed, for less wealthy investors, the affordability of financial advice is central. Taking the UK as an example of the most developed Robo-advice market in Europe, UK adults are certainly willing to pay for investment advice, around 80% would be willing to pay at most 1% for an investment amount of 50,000 GBP.[156] This is in the range that European robo-advisors propose but below the range of fees charged by traditional wealth managers.

A third benefit is related to the practicality and overall user-friendliness of robo-advisors. Through their internet-based nature, robo-advisors provide an end-to-end service that

[156] FAMR Baseline Report, HM Treasury (2017)

is delivered through multiple devices. In addition, robo-advisors provide added convenience to their clients by being available 24 hours a day and 7 days a week. Indeed, robo-advisors are renowned for attractive user front-ends that change roles and allow clients to sit in the driving seat, while giving necessary support and information to make them comfortable. Some set themselves apart from the crowd with very intuitive dashboards, analysis tools with comprehensive visualizations and many options for customer support, where hotlines are supplemented by chat clients and bots.

Thanks to full automation, robo-advisory services could allow for improved compliance and record keeping[157] that provide advice consistent across clients with a full auditable trail[158] holding them accountable for providing misleading, incomplete or otherwise inadequate advice.

8.2.6.2 Risks

The risks partially mimic the benefits of robo-advisors. Indeed, while client onboarding may prove to be intuitive and time effective, risks arise around an over-simplification of the process. A number of potential shortcomings exist in the first step, which is the risk in profile assessment. The questionnaires that robo-advisors make use of usually elicit basic client information without a comprehensive view of a user's finances. For example, other potential sources of wealth and detailed monthly expenses could easily be overlooked in a fully automated questionnaire, but financial planning still needs to take into account the investor's global financial situation. Additionally, standardized questionnaires may not provide sufficient focus on certain aspects.[159] For example, if two investors want to take out precautionary savings, one could have a potential salary reduction in mind while the other wants to save for health-related risks and unavoidable expenditures. Putting both in one basket may lead to the same portfolio allocation although the saving targets are different. Moreover, questionnaires assume in advance that investors with similar underlying characteristics will respond to subjective questions similarly. Yet, the subjective answers of individuals may involve a certain "response bias", which could prove itself misleading for algorithms. For example, if there are two investors with factually similar understandings of ETFs, one may think that one investor has "some" understanding of ETFs, while the other describes that same understanding as "good" due to overconfidence which is quite frequent as seen in section 8.2. Thus, wrong assumptions or incomplete data, which cannot be recalibrated by algorithms, could lead to inadequate financial advice.[160] These deficiencies can be reduced by using longer and more detailed questionnaires or by involving a human advisor at some point in the process (hybrid-model).

Another risk is associated with the algorithm at the core of asset allocation. While automation can reduce certain issues of conflict of interest and provide greater transparency, it is also technically possible to program the underlying algorithm to direct investors towards a specific range of investment products or intermediaries for which the platform or its affiliates may receive higher commissions or other forms of compensation.[161] In addition to an intentionally detrimental programming of the algorithm, the programming itself may already be unintendedly faulty. Failing to understand the methodology implanted in the algorithm and whether the algorithm

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[157] Digital disruption, Medcraft (2015)
[158] The future of automated financial advice in the UK, Deloitte (2017)
[159] Report on Digital Investment Advice, FINRA (2016)
[160] Research Report on Financial Technologies, IOSCO (2017)
[161] Research Report on Financial Technologies, IOSCO (2017)

aligns with a firm's anticipated approach, could lead to systematic mis-selling of investment products to clients, or to the algorithm making suboptimal investment decisions such as, for example, from a tax planning standpoint.[162] Additionally, a number of studies observed that different robo-advice platforms, guided by different algorithms, yielded widely different advice even for identical investor profiles.[163]

A recent study[164] of 15 UK online investment services including robo-advice platforms found that costs and charges were poorly communicated, often misleading and difficult to find. They were typically disclosed in a way that made it difficult for financially less literate and less tech-savvy consumers to understand how much they would be paying and what for. This finding is corroborated by our own research.

As robo-advisors like all online platforms, try to minimize human intervention, there is a risk that a less sophisticated investor will not understand the language used and might be misled by the explanations without a human advisor providing additional explanations where necessary.

Robo-advisors are subject to a set of technological risks beyond those owed to algorithms. The design of an automated platform must implement the appropriate compliance policies and procedures required to keep all activities within regulatory guidelines. Also, its controls must be up to the task of keeping the algorithm resilient and compliant over the long term. In practice, however, many firms dedicated to the robo-advisory business are start-ups that may not invest sufficiently in building strong governance and compliance frameworks. As such, their controls for data integrity, resiliency, and capacity may not be adequate enough to handle adverse market conditions and prevent system failures. In addition, online platforms are subject to cybersecurity threats.

8.2.7 Comparison with robo-advisors domiciled in North America and Asia

Robo-advisory solutions have first emerged in the USA during the financial crisis. Betterment and kaChing (later rebranded to Wealthfront) started rebalancing investor assets within target-date funds, while giving investors a modern, online interface. Upon starting out, US-based robo-advisors profited greatly from a new generation of retail investors who trust technology to delegate important tasks, yet are knowledgeable enough to realise the importance of saving even with lower wealth levels.[165] While early adopters in Asia, who are also described as highly employed as well as risk-taking and knowledgeable investors[166] are rather similar to the U.S., the initial customers of European robo-advisors significantly differ. More explicitly, European clients were usually around 40 to 50 years old males with moderate financial knowledge and greater wealth.[167] According to recent statistics, these individuals make up a growing segment of robo-advisors globally and contribute to the continued growth with their propensity to invest larger amounts that verge on 100,000 USD.[168] Besides targeting a standard customer profile, North American robo-advisors are now seeking out different customer niches by offering investment management services directed towards females and socially responsible customers.

[162] Report on Digital Investment Advice, FINRA (2016)
[163] Putting Robo Advisors to the Test, Wall Street Journal (2015)
[164] https://www.fs-cp.org.UK/sites/default/files/final_panel_position_paper_online_investment_and_advice_services.pdf
[165] https://www.cnbc.com/2015/06/21/millennials-and-robo-advisors-a-match-made-in-heaven.html
[166] Hype vs. Reality: The Coming Waves of "Robo" Adoption, A.T. Kearney (2015)
[167] Robo-advice – a true innovation in asset management, DB Research (2017)
[168] Robo-advice – a true innovation in asset management, DB Research (2017)

The significant demand for robo-advice in the U.S. has propelled a variety of robo-advisors to significant heights. Betterment boasts more than 10 billion USD in AuM, Personal Capital customers invest 5 billion USD and Wealthfront counts more than 7.5 billion USD in assets under management. Asian and European robo-advisors are catching up but remain at a significant distance from North American robo-advisors, having started out considerably earlier than their peers across the ponds. Specifically in China, a key deterrent to robo-advisory growth is the lack of ETFs. Indeed, only 789 billion RMB are invested in ETFs, compared to 4 times as much in Europe and 20 times as much in the United States.[169] In addition, the nascent industry faces additional challenges including tight government controls on capital flows and an uncertain regulatory environment that could lead to a government crackdown.[170]

Moreover, differences between geographies arise in the way the service is distributed. While in North America traditional financial services companies such as Charles Schwab rapidly caught up with stand-alone robo-advisors, European banks and asset managers have been more reluctant to cooperate with robo-advisors. In Asia, very few traditional financial services companies are offering robo-advisory services. Besides being composed of corporate and independent robo-advisors, the ecosystem also comprises third parties such as Uber. After initially partnering with Betterment in the UK to provide individual retirement accounts (IRA) to its drivers, MoneyFarm has inked a similar partnership, providing both retirement and investment accounts to Uber drivers.[171] This complements an already common offering from most U.S.-based robo-advisors, which entail 401k retirement plans for corporate customers.

While traditional financial institutions and stand-alone robo-advisors still make up most of the market, technology companies and online brokers are entering the space too. Tencent, the company developing messaging platform WeChat, has launched Licaitong, a robo-advisor that can be accessed through the app. In addition, 8 Securities, a Japan and Hong Kong based broker, has recently added "Chloe" to its offering; an artificial intelligence based advisor that can educate and help users in their investment discovery process.

The Chinese market also displays the particularity of being increasingly attractive to foreign robo-advisors. 8 Securities from Japan and Robinhood from the U.S. are both aggressively going after U.S. citizens in Hong Kong and Chinese citizens in mainland China to leverage their 50,000 USD allowance per person for investments in the U.S. market.[172]

The heterogeneity of the Asian robo-advisory market makes it difficult to compute the average costs charged by Asian robo-advisors, but the US and Europe provide a good basis for comparison. Robo-advisors from both geographies have similar pricing, generally composed of an annual portfolio management fee as well as a fee based on the underlying investment funds. In addition, management fees are often subject to a volume discount pricing model; as the investment amount increases, management fees decrease. In Europe, the range is particularly wide. Robo-advisors charge a portfolio

[169] http://www.ey.com/gl/en/industries/financial-services/asset-management/ey-global-etf-survey-2016
[170]https://UK.reuters.com/article/us-china-wealth-roboadvisors/rise-of-the-machines-chinese-investors-flock-to-robo-advisors-idUKKCN10S2GT
[171] Moneyfarm chosen as Uber's latest UK partner, MoneyFarm (2017)
[172]https://financial.thomsonreuters.com/content/dam/openweb/documents/pdf/financial/digital-wealth-management-asia.pdf

management fee varying from 0% to around 2.60%, with an average of 0.90% according to the countries researched in the scope of the Study. In the U.S., the management fee is significantly lower with an average of 0.31%.[173] The same picture can be drawn for fund-related fees. While in the U.S. these fees average at 0.11%[174], European robo-advisors charge more than twice as much: 0.26%.

As for the investment products underlying the portfolios assembled by robo-advisors in the U.S., Europe and Australia, most robo-advisors use ETFs as the primary investment product with the largest of them diversifying with alternate investment products such as tax-loss harvesting and retirement funds. As written above, France sticks out through the packaging of its portfolios into life insurance products, while in the UK, customers can invest through tax-efficient Stocks & Shares ISAs. In Asia, especially in emerging economies like India, robo-advisors tend to offer a broader range of investment options including stocks, debt products and hybrid products.[175]

8.2.8 Findings

- Robo-advisors leverage client survey data into complex algorithms that produce customized financial plans and asset allocations. They digitalize and automate client onboarding, investor risk profiling and investment allocation through algorithm-based assessments, and providing online investors with on-demand access to financial advice.
- Robo-advisors leverage their technological solutions for both B2C and B2B clients. B2C clients are currently composed of retail investors, who make use of the automated portfolio allocation tool. They are digitally savvy, relatively knowledgeable in financial matters, and invest low investable amounts. While these clients are considered to be early adopters, we expect the robo-advisory client spectrum to widen. B2B customers of robo-advisors are essentially retail banks, asset managers, family offices, full-service investment banks and, increasingly, insurance companies.
- Although the market share of robo-advice is strongly increasing across Europe over the last years, only a tiny fraction of retail investors rely on such platforms, with the UK and Germany leading in terms of current user adoption.
- Robo-advisor usually focus on portfolios composed exclusively of ETFs due to the associated low costs. Some platforms allow complementing the ETF portfolios with stocks, commodities, insurance, cash and bonds.
- While the algorithm proposing or deciding on the asset allocation to a specific client is the centerpiece of a robo-advisor, they also provide various degrees of human assistance ranging from pure technical assistance to support in investment decisions. The latter is of particular importance, as a retail investor might need to discuss the proposed investment portfolio or might have questions about specific product features that are not explained through the website.
- On average, robo-advisors are cheaper than traditional wealth management with total annual fees ranging between 0.90% and 1.60% of assets under management. The fees are often difficult to find on the webpage and displayed

[173]https://investorjunkie.com/42668/true-costs-robo-advisors/; https://www.valuepenguin.com/comparing-fees-robo-advisors
[174] https://investorjunkie.com/42668/true-costs-robo-advisors/ ; https://www.valuepenguin.com/comparing-fees-robo-advisors
[175] http://www.burnmark.com/wp-content/uploads/2017/Burnmark%20Report%20April17.pdf

in a complex way, making it hard for an average retail investor to understand the fees he will be paying.

- In view of upcoming regulations, robo-advisors seem to have significant potential to develop themselves faster and cater to a large potential client base.

8.3 Social trading platforms

Social trading platforms, also referred to as "copy trading" platforms allow novice traders to mimic the strategies of more experienced investors. The premise is simple: if a trader decides to "copy" another professional and the latter bets, for example, on the pound rising against the dollar, then so will the novice trader. Today a large number of social trading platforms exists with a high diversity of products and services offered.

8.3.1 Target client segments

In general, customers of social trading platforms can be split into two main groups: signal providers and signal followers:

1. The first group corresponds to professional traders who wish to make additional revenues by letting other investors copy their trades in order to receive a commission.
2. The "followers" group is composed of two types of traders:
   The first type involves traders who want to trade by themselves but at the same time wish to leverage on the information from other people's trading to make their own investment decisions. The second type relates to traders who do not want to devote the time and effort necessary to search for good investment opportunities and prefer to automatically copy the trade of well performing traders.

Based on the interviews conducted with C-level executives of social trading platforms, the average client profile of signal followers self-directed investors between 19 and 38 years old, with low to medium education levels (school diploma) and an average annually income of 30,000 EUR. Clients can originate from all kinds of countries, as social trading platforms are available across Europe, Asia and the U.S. However, depending on the country, restrictions arise on certain investment products, as highlighted in the following section.

8.3.2 Products and services

Social trading builds on the concept of "collective wisdom" by connecting traders and investors through a platform where they can share their views and trades in real-time. Social trading platforms have a copy trading feature that allows clients to automatically execute user-generated investment ideas while providing a platform to share their insights about market trends. According to the platforms, it is an attractive option for inexperienced yet self-directed investors, who have the opportunity to leverage on crowd knowledge to mitigate their investment risks.

Social trading platforms can operate as brokers or networks. The majority of the platforms function as brokers, opening accounts for clients and dealing with the

brokerage themselves instead of using external brokers. Historically, these social trading platforms used to solely be brokers and added a social trading feature in order to attract new customers who before may have been uncomfortable trading on Forex markets but feel more comfortable by copying the trades from more experienced traders. These platforms essentially make money from the spread on every trade (i.e. difference between the buy and sell price). As such, their aim is that these social trading features ultimately increase the number of trades going through their platform.
Other platforms may function as a network only, positioning themselves only as a marketplace where clients can join through their account with partner brokers. The platforms essentially make their revenue from deals they negotiated with the brokers that investors use to execute the trades. This normally involves a cut from the spread the broker makes per trade but can also include a sign-up bonus.
The platforms can also function as both brokers and networks, allowing clients to open an account with the platform itself or to link an existing account with one of the partner brokers of the platform. As such, the platforms receive the full spread if the client uses the proprietary broker, whereas they only receive a percentage of the spread if the client uses a partner broker.

In terms of investment products, social trading platforms typically offer over the counter (OTC) trading with contracts for difference (CFD). A CFD is a short term total return swap on the returns of an underlying asset versus an interest rate, i.e. the buyer of such a swap receives the difference between the current value of an underlying asset and its value at contract time and pays an interest to the seller. It is also possible to hold short positions in CFDs. In this case, the buyer realizes a profit if the value of the underlying asset declines after contracting. Unlike futures, CFDs do not have a fixed expiry date or contract size. The high flexibility in terms of contract sizes allows for a fractional mapping and hence ensures a precise proportionality between the signal provider's and follower's account.[176] Since the counterparty usually closes out the position once the initial margin is used up, CFDs are solely offered on underlying assets with an appropriate market depth and liquidity.[177] Thus, the investment universe on social trading platforms is constrained to foreign exchange (Forex), equity indices and major single stocks, commodities and bond indices.

Accordingly, it is not surprising that among the entities that were researched in Europe, US and Asia, the most common product offering is Forex, followed by commodities and indices. In addition, in Europe all main social trading platforms offer cryptocurrencies and Sharia-compliant accounts. Nevertheless, a key differentiator in the US is the lack of CFDs. Indeed, CFD trading is not permitted to US residents due to restrictions by the Securities Exchange Commission (SEC) on OTC financial instruments.

8.3.3 Distribution strategy

Depending on whether the social trading platform operates solely as a network, whether it integrates a proprietary broker or whether it does both, different distribution channels can be observed. The common basis of all types of social trading platforms is the online-based acquisition of customers. Due to social trading catering to a niche sector of customers, they are often already familiar with the platforms. As mentioned by an interviewed C-level executive, most first-time clients access the website by directly

[176] Next Generation Hedge Funds, Doering, Heyden & Surminski (2013)
[177] Market Risk Analysis Volume III: Pricing, Hedging and Trading Financial Instruments, Alexander (2008)

inserting the name of the platform in the browser bar. Others reach the site through search engines or targeted online ads.

Now, depending on the business model, different channels are used. In the case of network-only social trading platforms, most of them market their services online or through their partner brokers. On social trading platforms with integrated brokers, users of the underlying broker are encouraged to have a look at the social trading feature. Regarding the social trading platforms that have a proprietary broker as well as different partner brokers, both distribution strategies apply.

The platforms are online based and so is their marketing strategy. Online marketing tools are widely used to attract new clients, making use of paid search and online advertisements. These marketing operations do not vary depending on the Member State.

8.3.4 Level of development

Most social trading platforms are available throughout Europe, allowing any European citizen to use their services. On top of being available throughout Europe, these platforms operate in an average of 185 countries and are generally headquartered either in Cyprus or in the UK.

Comparable public data on the number of transactions concluded on social trading platforms is not available across European Member States. However, one can highlight the development of social trading platforms in certain Member States. Germany-based social trading platforms have encountered rapid growth over the last years. In 2015, the total traded assets in this sector reached 190 million EUR, which is 68% more than the year before. A majority of the market is shared by the three market leaders: German Ayondo, Austrian Wikifolio and British eToro.[178] eToro has more than 6 million users worldwide and at least 25,000 in Germany.[179]

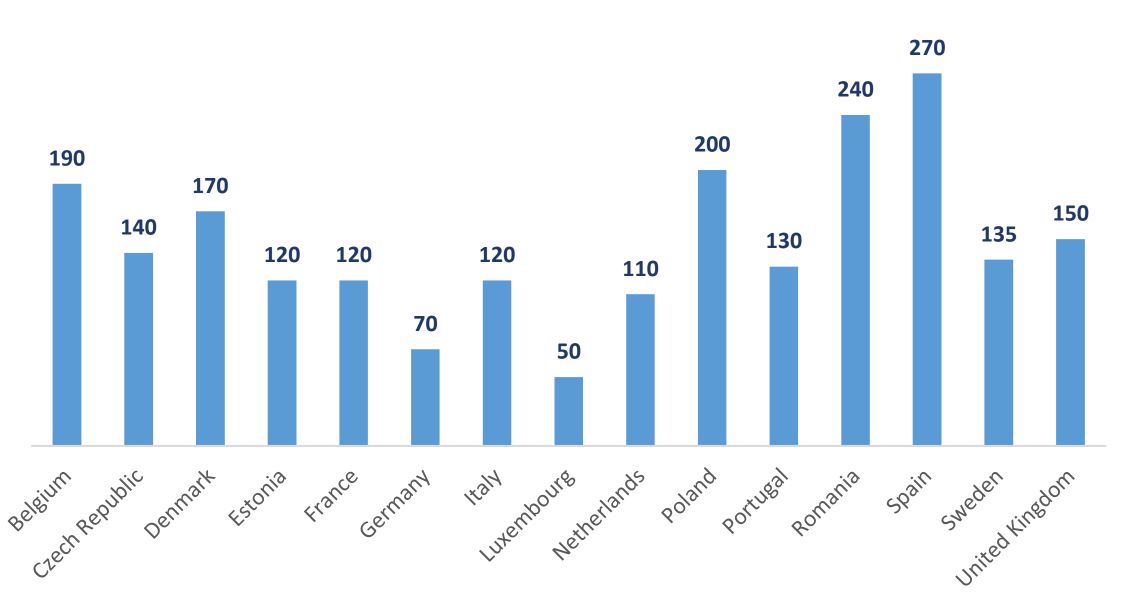
8.3.5 Costs and account minima

Customers can mainly trade CFDs and Forex, yet some platforms such as eToro or LiteForex offer customers to trade additional products such as commodities, stocks, and cryptocurrencies. The product range of social trading platforms is relatively small compared to other investment platforms. For instance, eToro which is the social trading platform with one of the broadest offerings, only has a limited number of about 1,000 different investment products.

Even though most of the platforms require minimum deposits, these are quite low, and range from 5 EUR to a maximum of 1,000 EUR while the average lies at around 200 EUR. Thus, social trading platforms are rather affordable.

[178] Bundesfinanzministerium - Fintech-Markt in Deutschland
[179] www.finanztreff.de/news/social-trading-marktfuehrer-etoro-mit-trader-baskets/11645219, Finanztreff (2016)

Graph 45: Average account minima of social trading platforms (in EUR, per Member State)



Source: Deloitte analysis (2017)

In terms of costs, social trading platforms essentially charge a spread that depends on the underlying asset but can reach up to two price interest points (pips). On top of the spread, clients of social trading platforms are often charged withdrawal fees, entry fees and inactivity fees.

8.3.6 Benefits and risks

8.3.6.1 Benefits

Social trading networks allow investors to subscribe to one or more signal providers, whose trades are then executed within the investor's brokerage account proportionally and in real-time. Besides providing the technology for trade mirroring, the platforms mainly act as intermediaries between investors and signal providers, providing them with services that enable the social nature of the platform. For example, social platforms offer real-time track records of the signal providers, allowing investors to visualize the trades, their outcomes as well as the overall trading strategies. A financially literate investor can thus determine whether the approach is suitable for mirroring. In addition, these platforms provide complementary elements such as rankings, search functions and discussion forums, which investors can leverage to take investment decisions. Accordingly, social trading platforms provide a relatively high degree of transparency and information to retail investors.[180] In addition, the social nature of the firms may

[180] A Primer on Social Trading Networks, Doering, Neumann & Paul (2013)

prove to be attractive to Millennials who are keen to use social media in their day-to-day life.

8.3.6.2 Risks

In some cases, the signal providers, who may or may not have any bona fide expertise, are sometimes employees of the firm who actively trade derivative products for their own account and receive a split of the firm's commissions generated by the clients that mirror their trades. These people are usually knowledgeable but cannot necessarily guarantee reliability and proficiency in the long run, which the average retail investor may not be aware of. In addition, signal providers may be biased towards specific products due to associated benefits that they may receive.

In addition, the social nature of these trading platforms leads to behavioural biases of retail investors. Indeed, less sophisticated customers may overlook risks associated with seemingly well-performing investment strategies and potentially develop unrealistic expectations of gains. In addition, they may feel excessively confident in the signal provider, resulting in undue or unreasonable reliance on signal providers.[181] Finally, due to a lower tolerance to short-term poor performance, customers may switch too often between investment strategies, leading to suboptimal returns and incentivising bad behaviour amongst signal providers. [182] As such, the use of social trading platforms by retail investors may result in investment portfolios unsuitable to their needs.

Furthermore, social trading platforms pose a risk to retail investors in offering access to highly leveraged products such as CFDs. Two regulators in particular are alarmed about the operation of OTC derivatives, which include CFDs as well as forex and binary options, on trading platforms where clients are encouraged to copy the trades of a signal provider.[183] Due to the products being complex and highly speculative, it would make them suitable solely for a small number of very sophisticated clients. In many cases however, they are marketed to unsophisticated retail investors using aggressive marketing tactics.

As any other online platform, social trading platforms are subject to cybersecurity threats.

8.3.7 Findings

- Today there is a number of social trading platforms, also referred to as "copy trading" platforms, which allow novice traders to mimic the strategies of more experienced investors. Social trading platforms might be operating as brokers or networks.
- In terms of investment products, social trading platforms typically offer complex products and target retail investors who are digitally savvy, knowledgeable in financial matters, and invest low amounts. As a consequence, social trading platforms are less adapted to the average retail investor with little knowledge on financial products in search for a simple investment.

[181] Research Report on Financial Technologies, IOSCO (2017)
[182] The Future of Financial Services, World Economic Forum (2015)
[183] Update to the Report on the IOSCO Automated Advice Tools Survey, IOSCO (2016)

- Followers on social trading platforms very much rely on the performance of their signal providers' strategies and combined with the complex nature of the offered products, exposes a less sophisticated investor to substantial risk.

8.4 Views of stakeholders regarding online investment platforms

In this section, the goal is to list suggestions provided by market players in order to improve the policy and regulatory framework surrounding online investment platforms. More specifically, the objective is to gather views on how to create the right regulatory environment to fully benefit from the new possibilities offered by these advances in technology while managing any new risks they may create for consumers and ensuring a high level of investor protection. As such, the recommendations are both oriented towards optimizing the market for consumers as well as online investment firms, where success factors as well as potential barriers for their expansion across the EU are analysed. The views originate from suggestions made by market players such as platform providers, Fintech companies, consumer and retail investor organisations as well as industry associations.

- The lack of harmonization and homogeneity of the regulatory requirements for financial services across the Member States is a common point among all the Fintech platforms who were interviewed in the context of this Study. The companies see it as a factor hindering competitiveness and business expansion across borders. The fact that the Single Market might face some issues related to the harmonisation of regulations in the context of cross-border business is also pointed out by EBA's discussion paper launched on August 2017, with regards to EBA's approach to financial technology (Fintech) (EBA/DP/2017/02). Rules should also tend towards simpler and more consistent disclosure requirements across the product landscape. In this context, some market players suggest the following:
    - To release more regulations that can be implemented with no adaptations or different interpretations to all Member States, instead of texts as directives that can be adapted into the Member States local laws or principles that are not mandatory to follow;
    - Study the difference among the Member States markets with regards to regulatory requirements for financial markets and how they could be brought to the same level of specifications;
- A topic that was mentioned in all interviews that were conducted for this Study is the European Union regulatory environment's complexity and the lack of adequacy to different business models and company sizes. Small sized companies of the financial market, such as some Fintechs, do not have the same size and business complexity as incumbent banks, yet still have to meet the same regulatory requirements in many cases. The majority of the interviewed companies classified the European Union's financial regulatory landscape as a factor that hinders the Fintech market in reaching its full potential as well as hinders the further development of their business.

  Fintechs bring to the market new business models that might not fit in the already existing regulatory models yet are obliged to comply with requirements that are not made for that specific business model, which might force them to comply with requirements that damage their business model. In addition, small companies have a smaller structure and number of employees, and tend to focus on their primary business. However, the compliance processes become more laborious for them and shift the focus from business development and innovation to compliance. The interviewees mentioned the efforts spent to comply with the complex regulatory landscape as a big challenge for their business.

  In this context, the Fintech market players suggest:

- Creating proportionality principles for its regulatory requirements that would allow less complex and smaller companies to have lighter regulatory requirements than more complex and bigger companies. Business model, size of the organisation and geographical reach could be taken into consideration for such proportionality principles.
- Ensuring the proper consideration of innovative technologies and new business models in regulatory texts. This would allow to regulate new Fintech businesses, including their use of new technologies, in a manner to foster the development of the market, at the same time as understanding better how they can contribute to the further development, soundness and security of the European financial markets.

In addition, it would be interesting to consider a strategy to maintain an open communication channel with the all the players on the market, regardless of its size, so the dialogue with different perspectives could enrich the outcome of discussions around market and regulatory development.

- A 'digital passport' that once completed and validated by a single provider would allow a consumer to open securities accounts or purchase other investment services – including UCITS – with more providers (even in different Member States) and individually manage his/her digital account in a consolidated manner. This digitalization of savings solutions will necessarily be adapted to fit both execution-only products, as well as those requiring investment advice.[184]

- A recurring issue raised by the interviewees and surveyed entities of this Study is the lack of financial education of the overall population. In general, individuals do not receive formal education on financial topics such as savings, investments and financial instruments. While, most of the online investment platforms invest on educating their customers by making available on their website a dedicated section with financial education material in text and video, thus making an important contribution to the overall financial literacy, they request further support by the authorities. On one hand, the government agencies could assess potential policy actions to ensure that financial education programs are strengthened targeting the most vulnerable customer segments. On the other hand, authorities should investigate means to support retail investors through financial guidance providing retail investors with objective and comprehensible information to support their financial decision-making (see section 6.1).
- Several regulators and consumer protection agencies insist on the need to complement automated advice through human interaction with a qualified advisor when there is a need. This could help provide investors with additional information and mitigate the risks associated with the fact that online platforms rely on the investor's self-assessment to provide relevant information in terms of suitability. Moreover, an additional human component could alleviate the risks of a faulty algorithm allocating unsuitable products to a (potentially large) set of customers.
- Due to the rise of different types of online investment solutions (e.g. fund supermarkets and robo-advisors) and the patchy framework of consumer protection in retail investment, consumer associations[185] warned about the blurring boundaries between:

[184] http://www.efama.org/Publications/Public/EFAMA%20response%20to%20EC%20CMU%20Mid-Term%20Review%20 consultation%20-%2017%20March%202017.pdf
[185] http://www.beuc.eu/publications/beuc-x-2017-73_Fintech_a_more_competitive_and_innovative_eu_financial_sector.pdf

- execution-only (where the customer shoulders the responsibility)
- discretionary portfolio management and
- business models where "regulated" advice is provided and the robo-advice companies bear the responsibility for the suitability of the product sale.

This situation creates uncertainty for consumers and might lead to a rising number of legal disputes due to unclear allocation of responsibility. When using online platform across borders, customers should be made aware of the applicable national legal framework including consumer protection laws.

- When investing through online investment platforms, retail investors will depend on a high level of transparency in terms of cost in order to understand the fees associated with an investment product. According to a recent study[186], costs and charges were poorly communicated, often misleading and difficult to find on online investment platforms. Only one of the 15 consumers who used the investigated websites was able to calculate correctly what the total cost of a £1,000 investment would be.
- Market players also raised the importance of controls and testing during the development and maintenance of the algorithms calling for regulatory oversight of these algorithms guiding consumers through the advice process.[187] Platforms should develop appropriate systems and controls to ensure the overall consistency of the information collected from clients and to minimize the potential for customers to overstate (willingly or unwillingly) their experience with investment products. This is of particular importance as a faulty algorithm could lead to mis-selling on an unprecedented scale. Thus, regulators should develop the capacities to test and control algorithms used by online investment platforms.
- Comparison tools (CT) nowadays are wide-spread across many types of products and services covering also different types of online investment service providers and financial products, e.g. fund supermarkets, D2C platforms, online brokers and robo-advisors. A certification scheme for such comparison tools of financial products could ensure that certified platforms effectively guide the retail investors to the service provider and investment product responding to his needs, e.g. the cheapest provider in relation to a specific investment scenario. In order to serve the investors needs such a certification scheme should cover the following aspects:
  - CTs should be transparent about their business and financing models, including owners, shareholders and relationships with manufacturers, sellers or providers of the goods and services featured.
  - Comparison should be impartial and not be affected by any contractual relationship with the sellers, manufacturers or providers. Sponsored links and advertisements should be clearly indicated to the consumer.
  - CTs should clearly explain the way in which they source data, their coverage as well as the frequency with which it is updated.
  - Criteria used for the rankings should be clearly and prominently indicated, as well as, where relevant, any specific methodology used.

[186] Online investment and advice services – the consumer experience Consumer Panel Position Paper; Financial Services Consumer Panel
[187] http://www.beuc.eu/publications/beuc-x-2016-025_gve_automation_in_financial_advice.pdf

- Information provided by CTs should be relevant for assessing and comparing offers from a consumer perspective and be displayed in a uniform manner to ensure comparability. It should be written in simple language, avoiding complex legal and technical terms.
- CTs should publish the full and final purchase price including any applicable charges, taxes etc. in accordance with existing legal obligations – and where such obligations do not apply, to the extent possible. Full prices, particularly those which may enter into force for services after any discounts, should also be clearly stated with full prominence.
- Main terms of purchase should be specified, including main contract terms and special clauses etc.
- CTs should comply with existing financial regulations, consumer protection legislation as well as data protection legislation.
- CTs should have a complaint handling policy in place.
- CTs should provide consumers with information on available redress mechanisms.

Additionally, other voluntary public-private initiatives aiming at educating people and delivering transparent and comprehensible information could be explored, e.g. public databases on key information of investment products.

9 Annex 1: Detailed Methodology

9.1 Description of scope

9.1.1 Countries in scope

The tender specifies the following criteria to define the geographical coverage for this Study:

- The geographical scope strikes a balance between
  - Small and large EU Member States;
  - Member States that have joined the European Union before the year 2004 and those that joined later; and
  - Member States having already taken measures to improve the functioning of their retail distribution systems and the others.
- The scope represents a diversity in terms of policy framework in terms of
  - Rules banning inducement policies;
  - Stringent provisions regarding the information provision to retail investors;
  - Specific redressing procedures for retail investors.

As a result of this analysis, the following 15 Member States were chosen and should thus be representative of the European Union: Belgium, Czech Republic, Denmark, Estonia, France, Germany, Italy, Luxembourg, the Netherlands, Poland, Portugal, Romania, Spain, Sweden and the UK. The following table explains why we chose those countries:

	Size (pop. 2015)		Households investment rate (2016Q1)		Gross saving rate (2015)		Geography				Joining EU		Policies to protect retail investors		
	> 10M	< 10M	> 7	< 7	> 10%	< 10%	Eastern	Northern	Southern	Western	< 2004	> 2004	Ban on inducements	Info provision	Redress procedures
Austria			7.41		13.3										
Belgium			10.3		12.3										
Bulgaria			-		-										
Croatia				4.66	12.3										
Cyprus			-		-7.9										
Czech Republic			7.79		10.3										
Denmark			7.03		13.8										
Estonia			-		11.6										
Finland			-			6.8									
France			8.56		14.8										
Germany			8.92		17										
Greece			-			-1.4									
Hungary			-		11.8										
Ireland			7.21			9.5									
Italy			8.38		10.4										
Latvia			-			2.3									
Lithuania			-		-										
Luxembourg			-		15.3										
Malta			-												
Netherlands			12.38		13.6										
Poland				5.17		2.9									
Portugal			-			4.2									
Romania			-			-15.4									
Slovakia			-		10.3										
Slovenia			-		14										
Spain				4.58		9.4									
Sweden				5.10	18.4										
United Kingdom				6.93		4.2									
	13	15	*Source: AMECO*				10	3	7	8	16	12	*Based on our internal sources*		

9.2 Definitions

For the sake of this Study the following definitions are used:

9.2.1 Retail investor, execution-only, discretionary management and investment advice

- 'Retail Investor': the Study will focus on the customer segment of retail investors. Retail investors will be defined within the definitions provided by the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Text with EEA relevance. The Directive states that retail investors are clients, who are not considered professional clients under the criteria laid down in Annex II of the Directive. Further, in the scope of the mystery shopping, we focus on investors, which the UK Financial Services Authority referred to as "high-street" advice seekers, who have assets to invest in the shop below 150,000 EUR, and who will not be redirected towards advice services for wealthier customers.
- 'Execution-only' refers to selling of financial instruments without advice. The service usually consists of receiving and transmitting orders (RTO) or executing orders on behalf of clients and are provided by investment firms/banks, online platforms or securities brokers. Due to its nature, execution-only does not provide any advice component and has thus not been covered in the mystery shopping exercise.

- 'Discretionary management' refers to a form of investment management in which the investment manager decides what products to buy and sell on behalf of the customer, based on a mandate agreed with the customer. In contrast, the advisory-based model is based on giving recommendations to an investor on the merits of taking an action (e.g. buying, selling) in relation to a specific financial product and, ultimately, the customer still needs to take affirmative actions to execute the transaction.
- 'Advice': According to MiFID, investment advice means 'the provision of personal recommendations to a client, either upon his request or at the initiative of the investment firm, in respect of one or more transactions relating to financial instruments' (Article 4(4)). That recommendation must be presented as suitable for that person or must be based on a consideration of the circumstances of that person (Article 52 of the MiFID Implementing Directive).

9.2.2 Products

The Study focuses on six key categories of investment products: Investment Funds, listed Bonds, listed Equities, Insurance products with investment components, Pension products and structured products. We understand the product categories to be defined as described below.

Investment funds: An investment fund is an investment vehicle managed by finance professionals that raises capital by selling shares (often called units) in a diversified and balanced set of securities to the public. An investment fund's capital is invested in a portfolio of stocks, bonds, short term money market instruments, other securities or assets, or some combination of these instruments. The Study will include domestic, foreign and round-trip funds.[188] Within the scope of the Study will be the following subtypes:

i. ***Money market funds:*** A money market fund is considered as a type of fixed income investment fund that invests in high quality, short-term debt securities. These investments are considered as cash equivalents.
ii. ***Bond funds***: A bond fund is a type of fixed income investment fund that invests in bonds. It can contain one type of bond only or a combination of bond types.
iii. ***Equity funds:*** Equity funds invest predominately in equities, otherwise known as stocks or shares. The investment strategies of equity funds generally aim towards long term growth through capital appreciation and/or receiving income from underlying equities, in the form of dividends to reinvest or pay out.
iv. ***Mixed funds:*** A mixed fund (also referred to as hybrid or balanced) is understood as a type of investment fund that is made up of a mix of stocks and bonds, which can vary proportionally over time or remain fixed.
v. **Exchange traded funds (ETFs):** An ETF is an investment fund investing in a basket of securities and commodities generally designed to track the performance of an underlying index. They are listed on stock exchanges and can be traded in the same way as common stocks. Different ETFs exist

[188] In the Study, the following definitions apply. A domestic fund is defined as an investment fund sold in the Member State where it is domiciled; a foreign fund is an investment fund that is sold in other Member States and a round-trips fund is defined as an investment fund domiciled in one Member State but where the asset manager is located in Member State of marketing

depending on their regulatory structure, management style, investment objective and indices tracked. Within the scope of the Study will be the following subtypes: Index, Equity, Fixed income, Commodity, Currency. As far as possible (depending on information availability), it will be indicated whether synthetic replication ETFs or physical replication ETFs are concerned. Physical replication ETFs are considered as those where the ETF manager simply purchases the underlying assets of the index whether they are stocks, bonds, or even gold bars, whereas ETFs applying synthetic replication, are considered to be those where the ETF manager enters a swap contract with an investment bank that agrees to pay the index return in exchange for a small fee and any returns on collateral held in the ETF portfolio.[189]

vi. ***Real estate*****:** A real estate fund is a professionally managed portfolio of diversified real estate holdings. Most real estate funds invest in commercial, corporate or rental properties, although they may occasionally invest in residential properties. This type of fund can invest in properties directly, or indirectly through real estate investment trusts. Real estate funds can invest domestically, overseas or both.

Both UCITS and AIFs potentially sold to customers are considered within the scope of this report. UCITS are considered as Undertakings for Collective Investment in Transferable Securities, as initially identified in EU Directive 85/611/CE of 20 December, 1985, and which describe "collective investment schemes (UCI) that invest in securities (such as shares and bonds) quoted on a recognised stock exchange. Furthermore, UCITS must be open ended, so that the investor can redeem their holdings at any time. The investment policy must also respect a number of rules relating to portfolio diversification, asset liquidity and the use of hedging".[190]

An AIF is defined as "any collective investment undertaking, including investment compartments thereof, which raises capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors and which does not require authorisation pursuant to the UCITS Directive. Both open-ended and closed-ended vehicles and listed and un-listed vehicles can be AIFs for the purposes of the Directive. The definition captures a broad range of vehicles that would be regarded as "funds", including all non-UCITS investment funds, wherever established."[191]

Listed Bonds: Government bonds and notes, as well as corporate bonds are included in the scope of this Study.

i. Government (sovereign) bonds: Governments borrow money by selling bonds. In return the government will periodically pay interest (coupon) over the life of the bond and at maturity will pay the last coupon plus the amount

[189] Morningstar Education, Physical Replication vs. Synthetic Replication, available at http://www.morningstar.co.UK/UK/etfs/etfsolutions.aspx?docid=324200
[190] Definition of UCITS, Luxembourg for Finance, available at http://www.luxembourgforfinance.com/en/products-services/investment-vehicles/ucits
[191] Definition of AIF under the AIFMD directive, Linklaters, available at: http://www.linklaters.com/Insights/20100218/Pages/03_Scope-AIF.aspx

borrowed back to bond holder. Maturity dates of bonds can be a few months to 30 years or more.

ii. Corporate bonds: A corporate bond is issued by a company to help fund its activities and future investments. These bonds pay coupons over their duration and return the face value and the last coupon to the bond holder at maturity.

Listed Equities: Listed Equities refers to listed stocks or any other listed securities representing an ownership interest into a company.

Insurance Products which include an investment component: Life Insurance products are defined as products providing assurance on survival to a stipulated age only, assurance on death only, assurance on survival to a stipulated age or on earlier death, life assurance with return of premiums. Life insurance products offer a wide range of investments based on the following categorisation:

- Guaranteed return products, with or without discretionary profit sharing;
- Non-guaranteed products linked to investment funds that may be set up through external funds (shares in undertakings for collective investments issued by third parties) or internal funds (aggregated individualized assets of an insurance undertaking, whether collective or dedicated).
- A combination of non-guaranteed and guaranteed return products.

Note that for our data collection on costs & charges, only products listed under the "Life insurance" section of intermediaries' websites were taken into account. Additionally, only products with an investment component were considered (death and other risk insurance, although listed under the "life" section of websites, are out of scope). A distinction between guaranteed capital policies and non-guaranteed capital policies is made when possible. Note that unless mentioned otherwise, the level of return guaranteed by policies in the "guaranteed" category is 0% (capital protection). The cost and charges data collected does not include biometric risk premiums. Finally, please note that the life insurance policies analysed across Member States have a minimum holding period of 5 to 15 years (average around 10 years) depending on local fiscal policy.

Pension products: Only pillar III voluntary individual pension schemes are included. In the interest of reflecting the view of the average retail investor, only products listed under the "pension" section of intermediaries' websites are considered for the data collection on costs & charges. They include pension savings contracts as well as mutual funds marketed as supplementary pension products. Pension savings contracts provide regular payments to an individual after they have retired from work. The individual makes regular payments over many years, prior to their retirement. The money is invested accordingly to provide retirement payments. Note that in the case of pension savings contracts, a distinction between guaranteed capital policies and non-guaranteed capital policies is made when possible. Additionally, policies that did not allow for lump sum contributions were not taken into account, since they did not fit the needs of retail investor profiles A and B as part of the mystery shopping section of the Study (see mystery shopping methodology below).

Structured Products: Various structured products, including certificates, contracts for difference (CFD), options, financial futures, structured bonds and structured deposits will be considered.

Note that structured products were neither included in the mapping of retail investment products distributed by financial institutions through the internet, nor in the analysis of cost data, due to their limited popularity as an asset class for retail investors across Europe. Based on our research, although they are relatively common retail investment products in Germany and Italy, the outstanding volume of Structured Products across EU-28 Member States amounts to less than 0.7% of EU-28 households' total financial holdings. In addition, information related to structured products was overall scarce on distributors' websites across Member States and did not allow for proper comparisons.

9.2.3 Distribution channels

In view of the Study's focus on retail investors, the definitions of the various distribution channels covered have been drafted with retail investors in mind.

Banks: A bank is a regulated financial institution. Banks can broadly be classified in two groups: Commercial/retail banks and investment banks.

- **Retail banks**: A retail bank will normally serve individuals and small to medium enterprises. Their services include: current and savings accounts, loans, credit cards, mortgages, lines of credit, financial advice, wealth management and pension planning.
- **Investment banks**: An investment bank provides specialist services to companies and wealthy investors that include: underwriting/advising on securities, capital raising, mergers and acquisitions and trading on capital markets.

The Study's focus on retail investors results in a main focus on retail banks for the mystery shopping and product availability desk research, rather than investment banks.

Insurance companies: An insurance company provides financial protection against potential loss. The insured will enter into a contract with the insurance company, which will provide financial protection in exchange for a one off or regular payment (premium) in return. Should the potential loss become realised, the insured will make a claim against the company to cover the loss.

Independent Financial Advisors (IFAs): IFAs are professionals who offer independent financial advice and plan financial investments to individual's needs and aspirations. Such advisors are independent from product manufacturers, and therefore are able to propose products from all firms across the market, and have to give unbiased and unrestricted advice.

Non-independent financial advisors / Traditional advisors: Non-independent financial advisors, also called traditional advisors in this Study, are professionals who also offer financial advice and planning but are linked/tied to a particular company or group of companies and offer products of this company/group.

Fund supermarkets/Online brokers: A fund supermarket is a platform that allows an investor to invest in a wide range of funds from many different fund providers using a single account. For the sake of this Study, so-called D2C platforms, which are run by a particular fund provider and propose only in-house funds of this specific provider, are included in the definition of fund supermarkets as the basic functionalities offered to a retail client are similar. Often the fund supermarket will provide research and information to help investors make a decision that best suits them. An online broker is another type of fund supermarket - more specifically an order execution broker only – that, in general, will not provide any research or advice. Hence, they can make deals on clients' behalf for a smaller fee than full service brokers.

Robo-advisors: Robo-advisors are automated investment services that use algorithms to manage and allocate people's assets. Algorithms are a set of rules/calculations used to find solutions. Robo-advisors will provide digital asset management services to its customers, carrying out suitability checks and managing assets in their name, but do not provide advice to their customers. Automated financial advice provided by a robo-advisor is an online tool on which a consumer completes a questionnaire with their personal details dependant on what kind of product they seek advice on. Details could include risk appetite; investment goals when looking for investment funds or personal income and outgoings when looking for a bank loan. According to our current understanding, robo-advisors only provide digital asset management, in contrast to advice.

Social trading platforms: A social trading platform is an online platform that allows traders/investors to see what investments other investors are making, normally in "real time". This allows other investors to replicate those trades. Traders and investors can use the platforms to exchange data, strategies and ideas.

9.3 Objectives and methodologies used

This section details the methodologies used in the elaboration of this report and their objectives.

9.3.1 Desk research & literature review

The desk research and literature review of retail investment product distribution systems represents an important part of the data collection activities within the scope of this Study. The objectives of these two activities were as follows:

Desk research - The desk research resulted in the compilation of a list of data sources and data, which were used in the literature review, the mystery shopping and the data analysis phases. The result of the desk research were:

- A list of sources describing the **retail investment landscape** on a European level, as well as in the target Member States;
- A target list of **financial providers** to research;
- Information on **products provided and distribution channels**.

Literature review – The literature review provided a structured overview of the current available literature regarding the distribution systems of retail investment products across the European Union. The outcomes of the literature review helped to prepare the data analysis phase, the mystery shopping and online survey phases. Furthermore, we conducted specific literature reviews for each research question in order to complement the results of the various data collection exercises. Depending on the topic the literature encompassed publications by national or EU authorities, industry reports, scientific publications and other types of documents of relevance.

9.3.2 Online surveys & interviews

The main goal of these surveys and interviews was to collect data and to enrich the findings from the desk research, literature review and the mystery shopping. The main objectives can be summarised as follows:

- **Completion of the previous data collection,** especially in those areas where the desk research, literature review and the mystery shops have identified omissions or in areas where we would like to have a particular focus.
- **Enrichment of collected data through ground-level input** - This can be particularly important in two ways. Firstly, it helps to capture nascent trends which have not yet become established enough to have been reported in other channels. Secondly, in cases where no reliable statistics are available, the qualitative data findings from surveys can serve as a substitute.
- **Investigation of possible explanations for findings identified in the desk research**, the literature review and the mystery shopping, as well as any questions raised during those phases.
- **Understanding regarding judgement of policy frameworks** by identifying potential obstacles and barriers to policy instruments.

A total of 12 interviews has been conducted with NCAs across the Member States in scope. In addition, 23 financial sector consumer protection agencies and dispute resolution bodies have been surveyed across Member States as part of this Study.

9.3.3 Collection of information on retail investment products

The objective of this collection of information was to provide data for an analysis of the distribution systems for retail investment products across all of the Member States in scope, as well as within individual Member States. The data analysis team carried out an extensive data collection exercise on the websites of the most important distribution channels across the 15 Member States under Study. This exercise had a twofold aim:

- Measure the number of investment products actively distributed to retail investors
- Collect and compute the associated fees

All information including on cost and charges was collected on intermediaries' websites by mid-2017. The following steps were taken during the data collection process:

- A list of banks, insurance companies, fund supermarkets, online brokers and social trading platforms was created during the inception phase of the Study. The list was created with the intent to cover 80% of the retail market in terms of assets under management as well as the most relevant online platforms. Depending on the country 8 to 15 of such entities were identified to be part of the scope of the Study.

- Our researchers visited the webpages of said institutions and in a first step looked for central tariff sheets. Fees such as custody fees and execution fees are generally directly mentioned in these tariffs sheets. The values for each type of fee were then inserted into a global database. Some tariff sheets also disclosed information about fees related to investment funds. Such information was also added to the database.
- Then researchers went to the pages/sections dedicated to retail investors. Here they recorded all individual investment products, including type of product (according to the above-mentioned definition) under which they were marketed.
- The next step of the methodology was to identify costs for all that were not listed in the central tariffs sheets. In the vast majority of cases, three products groups were offered whilst not being specifically mentioned in the tariff sheets: investment funds, life insurance products and pension products.
- For investment funds, information on costs & charges was gathered from the funds' prospectuses and UCITS KIIDs. In most cases, these documents were available on the websites; in a few cases, our researchers collected the required data from Morningstar using the ISIN of the relevant product.
- The different fees were collected at share-class level for each type of fund (i.e. equity, bond, money market, mixed, ETFs, real estate). Every share-class was analysed, or, when an actor distributed more than 200 share classes per fund category, a representative sample, based on underlying investments, geographies, and managers, was taken ensuring to include around 50% of the available share classes. The median value of the fees was computed for each type of fee (e.g. ongoing charges, entry, and exit) for each type of fund (i.e. equity, bond, money market, mixed, exchange-traded funds, and real estate funds). This resulting value was used to obtain a specific value for every type of investment fund in a given country.
- Pension products and life insurance fees were collected using the same methodology as previously described for bonds & equities. Our researchers found that life insurance providers usually presented their product details in a downloadable sheet, where information on costs was also displayed. If an actor offered multiple life insurance contracts and pension products, an average of the different fees was computed, differentiating capital guaranteed policies form policies without a capital guarantee when possible. Note that all fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that retail investors have when conducting their own research. As a result, in some cases, the cost and charges data represented in this report may not capture the entire costs associated with the different products if the information provided was not complete.
- Please note that in the few instances where fees were disclosed as absolute EUR amounts (as opposed to percentages), they were translated into percentage points based on a 10.000 EUR investment amount.
- Please note that the fees presented are medians of maximum fee values potentially charged to retail investors, since distributors usually disclose the value of each fee as an "up to x%" figure. Median values have been calculated for those investment products that actually charge this fee type (thus funds that did not include a certain type of fee/charge were not considered in the calculation of the median).
- All fees and values presented in this report are solely based on publicly available data, which is accessible to retail investors; they thus represent the view that

retail investors have when conducting their own research/analysis. Any form of discount limited in time, including but not limited to commercial gestures and promotional campaigns, have been excluded from the results.

The below table gives an overview of the number of financial institutions (banks and insurance companies) in total and per country from which cost data were actually collected. A low number of institutions in a particular country is due to the fact that only a few (or none) institutions in this country did show information on costs for the investigated investment products.

Institutions analysed	Total	BE	CZ	DK	EE	FR	DE	IT	LU	NL	PL	PT	RO	ES	SE	UK
Banks	105	5	6	7	7	8	7	8	5	5	9	7	7	10	8	6
Insurance companies	70	7	6	5	1	8	0	5	7	5	8	1	6	0	3	8
Total	**175**	**12**	**12**	**12**	**8**	**16**	**7**	**13**	**12**	**10**	**17**	**8**	**13**	**10**	**11**	**14**

The following table summarizes the types of fees analysed per product category, as well as the source used to gather related cost data:

	Recurring fees		Source	One-off fees		Source
Investment funds	**Ongoing charges**	Fees charged on a regular (annual) basis including management fees of the fund, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.	KIID	**Entry fee**	Entry fees are one-off fees charged by a provider when subscribing into a fund. Each time an investor buys additional fund units, an entry fee is charged.	KIID
				Exit fee	Exit fees are one-off fees charged by a provider when redeeming out of a fund.	KIID
ETFs	**Ongoing charges**	Fees charged on a regular (annual) basis including management fees of the ETF, expressed as a percentage of the amount invested/held. The value is directly taken from the KIID.	KIID	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including ETFs.	Tariff sheets / websites
Bonds	**Custody fees**	Custody fees are fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safe keeping of the assets of an investor.	Tariff sheets / websites	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including bonds.	Tariff sheets / websites
Listed equities	**Custody fees**	Custody fees are fees charged by a provider (e.g. bank, insurance company) as a fee for the storage / safe keeping of the assets of an investor.	Tariff sheets / websites	**Execution fee**	Execution fees refer to fees charged by intermediaries (such as banks) for each trade executed by the investor, as a percentage of each amount of money invested through them. Those fees only apply for listed products, including listed equities.	Tariff sheets / websites
Life insurance	**Ongoing charges**	Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for life insurance products include ongoing charges related to the policy's underlying assets. Such Member States have been listed in the Study.	Product sheets / websites	**Entry fee**	Entry fees are fees paid by the investor upon each contribution into a life insurance policy.	Product sheets / websites
				Exit fee	Exit fees are charged when the investor buys back his contract (if he does not hold it until maturity).	Product sheets / websites
Pension products	**Ongoing charges**	Fees charged by the insurer on a regular (annual) basis, including management fees of the product, expressed as a percentage of the value of the policy. Note that in some Member States, the ongoing charges disclosed for pension products include ongoing charges related to the contract's underlying assets.	Product sheets / websites	**Entry fee**	Entry fees are fees paid by the investor upon each contribution into a contract.	Product sheets / websites
				Exit fee	Exit fees are charged when the investor buys back his contract (if he does not hold it until maturity).	Product sheets / websites

Note that for consistency and comparability reasons, certain other categories of fees, which had been identified by our researchers, have been excluded from this analysis. The list of such fees can be found below:

Excluded fees for investment funds:

- Performance fees. In 95% of the sample of funds researched, the funds' KIIDs stated "None" for performance fees. Therefore, they have been disregarded.

- Custody fees. As most fund distributors across the 15 Member States analysed offer mostly in-house funds on their website, custody fees for funds (which only apply to third-party funds) have been disregarded.
- Carried interest (for Real estate funds). As the Study does not take into account funds performances, they have been disregarded.

Excluded fees for life insurance and pension products:

- Arbitrage fees. They are frequently disclosed and have been collected. However, like performance fees, they could not be represented over a 10 year investment horizon, as no assumption was made regarding the number of arbitrages occurring over the period. In addition, this fee is usually charged after the first arbitrage (meaning that the first arbitrage is free of charge).
- Biometric risk premiums. Such fees were not disclosed for life insurance products with an investment component.

The availability of products across different channels as well as their respective pricing also allowed to identify the principal distribution strategies of the main market players. The data collected on fees from different distributors across Member States allowed to assess the level of competition among actors in each Member State, particularly on price. It was also be used to compare online channels with traditional channels (purchase at an agency or through phone) in terms of costs.

9.3.4 Mystery shopping

The main goals of the mystery shopping exercise were to collect information on the type of products proposed by the different types of advisors, as well as to assess how suitability checks are carried out by these advisors. Mystery shopping consists of replicating actual consumers' experiences, i.e. the experience of retail investors seeking advice before taking an investment decision. This phase allowed to obtain a set of objective data on retail investment experiences. To better reflect the diversity of individuals within the population of retail investors, two distinct profiles have been set up for shoppers to adopt as part of the mystery shopping exercise. Each profile was given a specific background:

	Profile A	***Profile B***
Marital status	Married professional	Single professional
Age	Early 30s	Mid 50s
Profession	Teacher	Freelancer
Education / Degree	Masters (not Business/Finance)	Masters (not Business/Finance)
Household Composition	Married, 2 children (very young 3 & 5)	Divorced, children (grown up)
Household Salary	Depends on country	Depends on country
Real Estate Property	Ownership	Ownership, mostly paid off
Amount of savings	Depends on country	Depends on country
Monthly household costs	Depends on country	Depends on country
Investment Objective	Children's education (long term)	Additional pension income (short term)
Investment duration	15-20 years	5-10 years

Investment level	10,000 EUR	100,000 EUR
Investment experience	no experience	Low, only life insurance
Current local bank	Depends on country	Depends on country
Perceived / self-determined risk appetite	Low – medium	High
Amount of debt	High, mortgage	Low, mortgage mostly paid off
Ability to bear losses	Low	High
Story	Unhappy with current bank (mortgage), looks for options to invest small, regular amounts for children's higher education in 15-20 years	Mortgage coming to an end, looks for best service to invest to complement his/her pension

Clarification on perceived / self-determined risk appetite:

Profile A shoppers claimed to have a low to medium risk appetite as their character still needs to pay back the majority of their mortgage whilst wishing to save in order to finance their children's higher education. Therefore, it is assumed that profile A has a low ability to bear losses and consequently is rather risk averse. On the other hand, profile B has already mostly paid off the mortgage and no longer has to support children. Consequently, it is assumed that profile B is in a position to bear losses and therefore used a higher risk appetite.

- **Execution of mystery shops**

Prior to mystery shops being conducted, a list of actors to be targeted by shoppers was established in each Member State, based on desk research. The list of institutions aimed to cover the typical points of distribution which would be considered by a retail investor unfamiliar with investment products, who is seeking first guidance on this topic. The list of distribution actors covered banks, insurance companies, asset managers, IFAs (in the UK and the Netherlands), and robo-advisors (where available). The banks and insurance companies targeted in the mystery shops were the same ones as those covered in the collection of cost and charges data. Note that while asset managers were identified in the inception phase of this Study as a potential distribution channel, mystery shops highlighted that for a "typical" retail investor with investment levels of up to 100,000 EUR, this distribution channel is difficult to access.

Appointments were then made with advisors from these institutions. 532 mystery shops were conducted in total, covering the 10 following Member States: Belgium, France, Germany, Italy, Luxembourg, Netherlands, Poland, Spain, Sweden and the UK.

Each mystery shop lasted for 45 minutes on average, and resulted in the production of a "contact report", documenting the points raised and the product data obtained as part of the conversation with the advisor. The report features three core sections: Suitability check, Availability of information, and Overall impression. The template used for the production of these reports is presented below:

1) *Suitability check*

Did the advisor ask about your:
Level of education
Profession or relevant former profession
Source and extent of your regular income
Current financial situation in terms of assets
If yes, what types were you asked about?
Liquid assets (cash)
Investments
Bank savings
Real estate
Others
Current financial situation in terms of regular commitments
If yes, what types were you asked about?
Mortgage payments
Other loans (please indicate type under comments)
Household costs
Child support
Financial security/assurance
Other commitments (please indicate type under comments)
Ability to bear losses
Experience with investments
Desired duration of investment
Investment objectives
If yes, please indicate how this was established
Risk profile
If yes, please state the questions you were asked to establish your risk profile

2) *Availability of information*

Did the advisor provide information on:
The consequences of the risk profile of the proposed investment(s)?
The associated risks for the proposed investment product(s)?
Did the advisor proactively inform you of the risks or did you have to specifically ask?
Did the advisor propose multiple products to you?
How many different products were proposed to you?
Were exchange traded funds (ETFs) proposed to you?
Please provide the name(s) of the proposed investment product(s)
Please indicate what type of products were proposed to you
If the advisor informed you about product details, what details were you provided with?
Required holding period
Investment liquidity
Underlying asset classes
Maturity period and penalties
Conditions, in particular costs and charges
Did the advisor present projections for future performance
Which overall risk level for the proposed investment product(s) did the advisor indicate?

3) Overall impression

Shopper assessment:
Was the information provided clear?
Did the advisor seem biased?
Was the advisor proactive in providing information?
Were you mostly asked open-ended or close-ended questions?
Did the advisor take time to explain how the proposed investments works?
Did the advisor proactively provide information on the fees?
Did the advisor proactively explain to you the different risks related to the investment?
Did the advisor explain how he is compensated/paid for the advice provided
If the advisor was paid by the shopper, what payment options were proposed by the advisor?
Overall assessment of advice received

Finally, the data points collected were stored in a global database to allow for the production of cross-country, cross-profile, and cross-channel comparisons.

- **Mystery shop analysis: focus on the match between investor needs and products offered, for each type of advice**

When analysing the outcomes of mystery shops, a particular focus was put on differentiating and comparing different types of advice:

- Independent advice (in Member States with a 'ban on inducements') against non-independent advice (in Member States with a 'ban on inducements' and several other Member States);
- Face-to-face advice against robo-advice, in Member States where robo-advisors were available

The aim of the exercise was to compare how suitability checks were carried out by each type of advisor, as well as to identify potential differences in the quality of the advice received based on the channel used. Specifically, we investigated how different types of advice channels (i.e. face-to-face independent advice, face-to-face non-independent advice, and robo-advice) influences the match between an investor's profile and needs, and the features of the products he is offered.

Limitations and challenges

The mystery shop exercise was planned in such a way that it mimics the behaviour of a retail investor who is not familiar with investment products and is seeking first guidance on this topic. While this exercise has been planned to analyse in the best way the advisory process and the product suitability, mystery shopping in the financial services industry is an inherently complex process with a number of operational challenges:

- Regarding the advisory process, the information gathered during the mystery shopping exercise cannot be considered as fully objective. Nuances in shoppers' individual judgment, financial knowledge, and investment experience will necessarily influence results. In addition, the duration of their interactions with advisors (45 min on average), makes it difficult to capture all the features of the advice, and may result in shoppers being subject to information overload.

- Given the complexity of financial service offerings and terminology, shoppers may have an inconsistent understanding and interpretation of the mystery shopping requirements. To prevent such variations, briefings and trainings were given to each shopper before starting the different shops and assistance was provided to them on a day-to-day-basis. The briefing material was designed to ensure consistency across Member States.
- In order to convey a realistic portrayal of a non-sophisticated retail investor, shoppers were briefed not to be too probing on issues that require a more developed understanding of financial products, e.g. types of risk associated with specific products or incentive structures of distributors.
- To improve comparability and avoid (as much as possible) the subjectivity of shoppers' interpretation, shoppers had to complete a so-called contact report that provided a list of pre-defined options related to the various categories to be assessed. But as closed-ended questions are not adapted to capture more detailed nuances from the advisory process, shoppers were invited to provide open-ended comments where appropriate.
- The mystery shops covered a first contact and the conclusions drawn from the mystery shops reflect the information and advice given by the agent of the financial institution during this first contact point. In each case, shoppers were invited to reflect on the information and advice provided, and a second meeting was suggested to continue with the investment process. For the sake of this Study, we consider "advice" to be given when the specific name(s) of one or more individual products were proposed as suitable options for the shopper.
- Advisors may not have asked the all the different questions directly (e.g. level of investment experience), if they felt that they could infer the answers to those questions based on the rest of the conversation. Our shoppers, however, only considered a topic covered when it had been specifically raised during the discussion they had with the advisor.
- Please also note that shoppers did not always receive exhaustive information regarding the products, for instance advisors did not always provide the complete documentation related to the recommended investments (e.g. brochures).
- The assessment given by the shoppers can also be slightly skewed by factors that have little importance in terms of suitability of advice but might influence the shoppers' feedback (e.g. the advisor's friendliness).
- Concerning financial products that do not fall under the scope of this Study, e.g. saving plans or other products that do not have an investment component, shoppers were briefed to emphasize that their specific interest was in investment products with a higher return than a savings account.
- At the end of the meetings with advisors, the shoppers had to give their personal evaluation of the advisory process (e.g. whether the provided information was clear or not, if the advisor was proactive in providing some information such as fees and risks). While these kind of information added quality to the advisory assessment, they are very subjective and depend highly on the shopper's judgment. Therefore, any comments on the "Overall assessment" section have to be interpreted carefully.
- When computing and designing the final analysis of the results, sanity checks were put in place to ensure that shoppers' outputs were complete and comprehensible. If need be, further clarifications were requested from shoppers.

10 Annex 2: Additional information on Overview of costs and charges of investment products

This annex provides additional information on the costs and charges of investment products collected. Beyond the median value that is already shown in section 4, the below table also provide the average value and the mode value.

Money market funds													
Member State	Number of share classes analysed	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	7	**0.30%**	**0,64%**	**0,30%**	3,00% 0,15%	Not applicable				**0.59%**	**0,62%**	**0,63%**	1.50% 0.20%
Czech Republic	11	**0.35%**	**0,45%**	**0,10%**	1.00% 0.10%	**5.00%**	**5,00%**	**5,00%**	5.00% 5.00%	**0.48%**	**0,54%**	**0,48%**	1.02% 0.07%
Denmark	3	**0.09%**	**0,09%**	**#N/A**	0.09% 0.09%	**0.09%**	**0,09%**	**#N/A**	0.09% 0.09%	**0.43%**	**0,44%**	**#N/A**	0.73% 0.17%
Estonia	5	**1.00%**	**0,88%**	**1,50%**	1.50% 0.03%	**0.53%**	**0,53%**	**#N/A**	0.53% 0.53%	**0.45%**	**0,59%**	**#N/A**	1.11% 0.22%
France	30	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	Not applicable				**0.10%**	**0,15%**	**0,07%**	0.50% 0.03%
Germany	13	**2.00%**	**2,00%**	**#N/A**	2.00% 2.00%	Not applicable				**0.16%**	**0,25%**	**0,15%**	0.72% 0.11%
Italy	15	**1.50%**	**1,79%**	**1,00%**	3.00% 1.00%	**0.40%**	**0,40%**	**#N/A**	0.40% 0.40%	**0.48%**	**0,54%**	**0,35%**	0.83% 0.34%
Luxembourg	21	**1.00%**	**0,68%**	**1,00%**	1.00% 0.10%	Not applicable				**0.30%**	**0,33%**	**0,17%**	0.95% 0.11%
Netherlands	7	Not applicable				Not applicable				**0.56%**	**0,51%**	**0,56%**	0.80% 0.10%
Poland	14	**1.00%**	**1,04%**	**1,00%**	3.00% 0.23%	**0.45%**	**1,23%**	**0,23%**	4.00% 0.23%	**0.91%**	**0,92%**	**0,90%**	1.30% 0.60%
Portugal	10	Not applicable				Not applicable				**0.43%**	**0,48%**	**#N/A**	0.88% 0.20%
Romania	10	**1.00%**	**1,64%**	**1,00%**	3.00% 0.20%	**2.00%**	**1,88%**	**3,00%**	3.00% 0.20%	**0.80%**	**0,90%**	**#N/A**	1.45% 0.50%
Spain	32	**3.00%**	**3,29%**	**3,00%**	5.00% 0.50%	**1.00%**	**1,36%**	**0,50%**	3.00% 0.50%	**0.31%**	**0,39%**	**0,31%**	1.06% 0.04%
Sweden	8	**0.05%**	**0,05%**	**0,05%**	0.05% 0.05%	**0.05%**	**0,05%**	**0,05%**	0.05% 0.05%	**0.35%**	**0,47%**	**0,35%**	0.95% 0.30%
UK	8	Not applicable				Not applicable				**0.25%**	**0,32%**	**0,23%**	0.63% 0.23%

Bond funds													
Member State	Number of share classes analysed	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	71	**2,50%**	**2,38%**	**2,50%**	3.00% 0.30%	Not applicable				**0.93%**	**0,99%**	**0,89%**	2.50% 0.50%
Czech Republic	84	**2,50%**	**2,28%**	**2,50%**	5.00% 0.10%	**1,00%**	**1,97%**	**1,00%**	5.00% 1.00%	**0.90%**	**0,99%**	**0,80%**	2.03% 0.25%
Denmark	24	**0,31%**	**0,33%**	**0,50%**	0.80% 0.08%	**0,10%**	**0,20%**	**0,05%**	0.50% 0.05%	**0.70%**	**0,73%**	**1,07%**	1.15% 0.20%
Estonia	41	**3,00%**	**2,85%**	**5,00%**	5.00% 0.30%	**2,00%**	**1,76%**	**2,00%**	5.00% 0.17%	**1.35%**	**1,32%**	**1,69%**	1.95% 0.35%
France	70	**1,00%**	**1,39%**	**1,00%**	4.50% 0.15%	Not applicable				**0.98%**	**0,86%**	**0,40%**	1.67% 0.10%
Germany	53	**3,00%**	**3,44%**	**3,00%**	6.00% 1.00%	**1,50%**	**1,35%**	**1,50%**	1.50% 0.50%	**1.07%**	**1,04%**	**0,72%**	2.04% 0.21%
Italy	135	**2,00%**	**2,13%**	**2,50%**	6.00% 0.50%	**2,20%**	**1,93%**	**0,40%**	3.50% 0.40%	**1.30%**	**1,33%**	**1,40%**	2.25% 0.27%
Luxembourg	86	**2,00%**	**2,16%**	**1,50%**	4.00% 1.50%	**1,00%**	**0,76%**	**1,00%**	1.00% 0.50%	**1.08%**	**1,26%**	**0,92%**	2.24% 0.39%
Netherlands	64	**3,00%**	**3,27%**	**3,00%**	5.75% 0.10%	**1,00%**	**0,67%**	**1,00%**	1.00% 0.10%	**0.68%**	**0,75%**	**0,49%**	2.33% 0.10%
Poland	37	**2,50%**	**2,53%**	**3,00%**	5.00% 0.75%	**2,00%**	**2,58%**	**0,75%**	5.00% 0.75%	**1.52%**	**1,70%**	**1,51%**	3.56% 0.67%
Portugal	26	**3,00%**	**3,21%**	**3,00%**	6.00% 2.00%	**1,00%**	**1,13%**	**1,00%**	2.00% 0.50%	**1.10%**	**1,17%**	**1,53%**	2.35% 0.52%
Romania	26	**3,50%**	**3,79%**	**5,00%**	5.00% 1.50%	**2,00%**	**1,90%**	**3,00%**	3.00% 0.50%	**1.09%**	**1,19%**	**0,82%**	2.05% 0.60%
Spain	184	**5,00%**	**4,09%**	**5,00%**	6.38% 1.00%	**3,00%**	**2,59%**	**3,00%**	5.00% 0.20%	**1.03%**	**1,08%**	**1,01%**	2.61% 0.10%
Sweden	78	**3,00%**	**2,63%**	**3,00%**	5.00% 0.15%	**1,00%**	**0,82%**	**1,00%**	1.00% 0.15%	**0.81%**	**0,85%**	**0,40%**	1.95% 0.11%
UK	92	**3,00%**	**2,93%**	**1,00%**	5.25% 1.00%	**5,00%**	**5,00%**	**#N/A**	5.00% 5.00%	**0.66%**	**0,71%**	**0,66%**	1.44% 0.28%

Equity funds

Member State	Number of share classes analysed	Entry fees				Exit fees				Ongoing charges			
		Median	*Mean*	*Mode*	*Max* *Min*	*Median*	*Mean*	*Mode*	*Max* *Min*	*Median*	*Mean*	*Mode*	*Max* *Min*
Belgium	139	**2,50%**	**2,96%**	**2,50%**	5.75% 2.00%	Not applicable				**1,96%**	**1,96%**	**2,01%**	3.09% 1.00%
Czech Republic	176	**3,00%**	**3,78%**	**3,00%**	6.00% 2.00%	**5,00%**	**5,01%**	**5,00%**	6.00% 5.00%	**1,86%**	**1,89%**	**1,70%**	2.80% 0.95%
Denmark	40	**0,30%**	**0,52%**	**1,00%**	3.00% 0.10%	**0,31%**	**0,67%**	**0,20%**	2.00% 0.10%	**1,54%**	**1,70%**	**2,80%**	2.80% 0.55%
Estonia	99	**3,00%**	**3,21%**	**5,00%**	5.75% 1.00%	**1,00%**	**1,95%**	**1,00%**	5.00% 0.50%	**2%**	**2,00%**	**2,80%**	2.85% 1.26%
France	193	**2,50%**	**2,56%**	**2,50%**	6.00% 1.00%	**0,75%**	**0,75%**	**0,50%**	1,00% 0.50%	**1,80%**	**1,80%**	**1,20%**	3.40% 0.75%
Germany	100	**5,00%**	**5,00%**	**5,00%**	8.00% 3.00%	**2,00%**	**2,67%**	**1,00%**	5.00% 1.00%	**2%**	**1,77%**	**1,40%**	2.80% 0.94%
Italy	105	**4,00%**	**3,76%**	**4,75%**	5.00% 1.50%	**0,40%**	**0,40%**	**0,40%**	0.40% 0.40%	**2,07%**	**2,11%**	**2,07%**	2.86% 1.03%
Luxembourg	145	**2,00%**	**2,32%**	**2,00%**	3.00% 2.00%	**0,50%**	**0,65%**	**0,50%**	1.00% 0.50%	**2%**	**1,94%**	**1,98%**	3.61% 1.23%
Netherlands	86	**5,00%**	**3,97%**	**5,00%**	6.38% 0.10%	**1,00%**	**0,74%**	**1,00%**	3.00% 0.10%	**1,10%**	**1,22%**	**1,06%**	2.72% 0.45%
Poland	90	**4,50%**	**4,01%**	**5,00%**	5.50% 2.00%	**4,00%**	**3,46%**	**2,25%**	5.00% 2.00%	**4%**	**3,60%**	**4,03%**	4.66% 1.72%
Portugal	38	**3,00%**	**3,56%**	**3,00%**	5.00% 2.00%	**1,00%**	**1,48%**	**1,00%**	5.00% 0.91%	**2,17%**	**2,15%**	**2,00%**	3.82% 0.50%
Romania	34	**5,00%**	**4,38%**	**5,00%**	5.00% 2.00%	**2,00%**	**3,00%**	**2,00%**	5.00% 2.00%	**2%**	**2,21%**	**1,68%**	4.16% 1.20%
Spain	181	**5,00%**	**4,81%**	**6,38%**	10.00% 1.00%	**2,00%**	**2,05%**	**2,00%**	4.00% 0.50%	**2,12%**	**2,08%**	**1,85%**	3.67% 0.14%
Sweden	191	**5,00%**	**3,87%**	**5,00%**	5.75% 0.25%	**1,00%**	**1,06%**	**1,00%**	2.50% 0.25%	**2%**	**1,66%**	**1,55%**	3.30% 0.20%
UK	141	**4,00%**	**3,64%**	**5,00%**	5.25% 1.00%	**5,00%**	**5,00%**	**5,00%**	5.00% 5.00%	**0,94%**	**1,01%**	**0,93%**	1.87% 0.48%

Mixed funds													
Member State	Number of share classes analysed	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	37	**3.00%**	**2,87%**	**3,00%**	5.50% 1.50%	Not applicable				**1.57%**	**1,55%**	**1,25%**	2.00% 0.87%
Czech Republic	72	**3.00%**	**3,35%**	**5,00%**	5.00% 1.00%	**5.00%**	**4,50%**	**5,00%**	5.00% 2.00%	**1.76%**	**1,72%**	**1,76%**	2.84% 0.50%
Denmark	17	**0.33%**	**0,53%**	**1,00%**	1.00% 0.15%	**0.32%**	**0,50%**	**1,00%**	1.00% 0.05%	**1.36%**	**1,40%**	**1,56%**	1.97% 0.82%
Estonia	27	**1.03%**	**1,97%**	**1,00%**	5.75% 0.53%	**1.00%**	**0,98%**	**1,00%**	1.03% 0.53%	**1.59%**	**1,54%**	**1,00%**	2.20% 0.70%
France	106	**2.00%**	**2,16%**	**1,00%**	6.00% 0.50%	Not applicable				**1.49%**	**1,37%**	**0,95%**	3.23% 0.03%
Germany	98	**5.00%**	**4,46%**	**5,00%**	8.00% 1.50%	**2.00%**	**1,64%**	**2,00%**	3.00% 0.50%	**1.70%**	**1,69%**	**1,77%**	3.57% 0.45%
Italy	48	**3.50%**	**3,04%**	**4,00%**	4.00% 1.50%	**2.13%**	**2,23%**	**2,00%**	2.90% 1.75%	**1.87%**	**1,89%**	**1,88%**	2.65% 1.29%
Luxembourg	71	**2.00%**	**2,31%**	**2,00%**	3.00% 2.00%	**0.50%**	**0,71%**	**0,50%**	1.00% 0.50%	**1.78%**	**1,80%**	**1,71%**	2.93% 0.63%
Netherlands	20	**0.18%**	**1,76%**	**5,00%**	5.00% 0.08%	**0.11%**	**0,20%**	**0,08%**	1.00% 0.05%	**0.82%**	**0,79%**	**0,29%**	1.33% 0.29%
Poland	42	**4.00%**	**3,77%**	**5,00%**	5.00% 1.63%	**3.25%**	**3,38%**	**2,00%**	5.00% 1.63%	**3.26%**	**3,01%**	**4,02%**	4.26% 0.20%
Portugal	23	**2.00%**	**2,18%**	**2,00%**	5.00% 1.05%	**1.00%**	**1,62%**	**1,00%**	5.00% 1.00%	**1.60%**	**1,69%**	**#N/A**	3.30% 0.73%
Romania	20	**5.00%**	**4,50%**	**5,00%**	5.00% 2.00%	**4.00%**	**4,00%**	**4,00%**	5.00% 2.00%	**1.76%**	**1,90%**	**1,76%**	5.20% 0.62%
Spain	248	**5.00%**	**4,54%**	**5,00%**	6.38% 1.00%	**3.00%**	**2,83%**	**3,00%**	5.00% 0.10%	**1.21%**	**1,32%**	**0,62%**	4.00% 0.19%
Sweden	50	**5.00%**	**3,43%**	**5,00%**	5.75% 1.00%	**1.00%**	**1,17%**	**1,00%**	2.00% 1.00%	**1.36%**	**1,29%**	**0,51%**	2.30% 0.20%
UK	110	**5.00%**	**4,40%**	**5,00%**	5.25% 1.00%	**5.00%**	**5,00%**	**5,00%**	5.00% 5.00%	**1.02%**	**1,10%**	**1,05%**	1.91% 0.44%

Real estate funds

Member State	Number of share classes analysed	Entry fees				Exit fees				Ongoing charges			
		Median	*Mean*	*Mode*	*Max* *Min*	*Median*	*Mean*	*Mode*	*Max* *Min*	*Median*	*Mean*	*Mode*	*Max* *Min*
Belgium	5	**2.50%**	**3,70%**	**2,50%**	5.50% 2.50%	Not applicable				**2.42%**	**2,22%**	**#N/A**	2.52% 1.71%
Czech Republic	2	**3.25%**	**3,25%**	**#N/A**	5.00% 1.50%	**5.00%**	**5,00%**	**#N/A**	5.00% 5.00%	**1.14%**	**1,14%**	**#N/A**	1.86% 0.42%
Denmark	0	Not available				Not available				Not available			
Estonia	2	**5.00%**	**5,00%**	**#N/A**	5.00% 5.00%	**1.00%**	**1,00%**	**#N/A**	1.00% 1.00%	**0.97%**	**0,97%**	**#N/A**	1.84% 0.09%
France	12	**3.00%**	**3,35%**	**3,00%**	6.00% 1.90%	Not applicable				**2.09%**	**2,01%**	**2,10%**	2.90% 1.25%
Germany	27	**5.00%**	**5,00%**	**5,00%**	6.00% 3.00%	**4.00%**	**4,50%**	**3,00%**	7.00% 3.00%	**1.01%**	**0,97%**	**0,50%**	1.86% 0.50%
Italy	0	Not available				Not available				Not available			
Luxembourg	2	**4.00%**	**4,00%**	**#N/A**	5.00% 3.00%	Not applicable				**1.94%**	**1,94%**	**#N/A**	1.90% 1.98%
Netherlands	7	**5.00%**	**5,00%**	**5,00%**	5.00% 5.00%	Not applicable				**0.73%**	**0,87%**	**#N/A**	1.98% 0.23%
Poland	0	Not available				Not available				Not available			
Portugal	5	**1.50%**	**1,31%**	**1,50%**	1.75% 0.50%	**2.00%**	**1,65%**	**2,00%**	2.00% 0.25%	**1.16%**	**0,98%**	**#N/A**	1.21% 0.35%
Romania	0	Not available				Not available				Not available			
Spain	0	Not available				Not available				Not available			
Sweden	5	**0.25%**	**0,25%**	**#N/A**	0.25% 0.25%	**0.25%**	**0,25%**	**#N/A**	0.25% 0.25%	**1.50%**	**1,46%**	**#N/A**	2.01% 0.85%
UK	11	Not applicable				Not applicable				**0.84%**	**0,90%**	**0,74%**	1.21% 0.74%

ETFs									
Member State	Number of share classes analysed	Execution fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max Min*	***Median***	***Mean***	***Mode***	*Max Min*
Belgium	76	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**0.46%**	**0,49%**	**0,46%**	0.74% 0.07%
Czech Republic	0	Not available				Not available			
Denmark	13	**0.75%**	**0,76%**	**#N/A**	1.00% 0.54%	**0.53%**	**0,53%**	**#N/A**	0.60% 0.45%
Estonia	66	**0.25%**	**0,28%**	**0,20%**	0.40% 0.20%	**0.35%**	**0,42%**	**0,30%**	1.20% 0.09%
France	91	**1.20%**	**1,18%**	**1,20%**	1.40% 1.10%	**0.30%**	**0,37%**	**0,30%**	0.85% 0.12%
Germany	105	**1.00%**	**1,01%**	**1,00%**	2.19% 1.00%	**0.20%**	**0,25%**	**0,20%**	0.75% 0.07%
Italy	7	**0.70%**	**0,66%**	**0,70%**	0.90% 0.40%	**0.39%**	**0,39%**	**#N/A**	0.48% 0.30%
Luxembourg	56	**1.00%**	**0,84%**	**1,00%**	1.85% 0.36%	**0.30%**	**0,34%**	**0,20%**	0.74% 0.01%
Netherlands	79	**0.20%**	**0,19%**	**0,20%**	0.20% 0.17%	**0.30%**	**0,34%**	**0,20%**	0.91% 0.09%
Poland	0	Not available				Not available			
Portugal	12	**0.45%**	**0,44%**	**0,45%**	0.52% 0.20%	**0.14%**	**0,21%**	**0,12%**	0.45% 0.09%
Romania	0	Not available				Not available			
Spain	112	**0.60%**	**0,52%**	**0,60%**	0.70% 0.35%	**0.59%**	**0,60%**	**0,56%**	0.99% 0.05%
Sweden	16	**0.45%**	**0,46%**	**0,45%**	0.50% 0.45%	**0.41%**	**0,41%**	**0,60%**	0.70% 0.10%
UK	20	**0.35%**	**0,35%**	**0,35%**	0.35% 0.35%	**0.23%**	**0,32%**	**0,49%**	1.00% 0.07%

Bonds									
Member State	Number of distributors analysed	Execution fees				Custody fees			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	5	**0.40%**	**0,38%**	**0,40%**	0.50% 0.09%	**0.15%**	**0,15%**	**0,15%**	0.15% 0.15%
Czech Republic	5	**0.15%**	**0,23%**	**0,04%**	0.53% 0.04%	**0.30%**	**0,31%**	**#N/A**	0.60% 0.15%
Denmark	7	**0.15%**	**0,17%**	**0,15%**	0.30% 0.04%	**0.27%**	**0,28%**	**0,25%**	0.38% 0.17%
Estonia	6	**0.20%**	**0,17%**	**0,20%**	0.20% 0.10%	**0.20%**	**0,29%**	**#N/A**	0.84% 0.10%
France	8	**1.38%**	**1,25%**	**1,40%**	1.44% 0.54%	**0.29%**	**0,26%**	**0,30%**	0.30% 0.16%
Germany	7	**0.50%**	**0,65%**	**0,50%**	1.25% 0.50%	**0.16%**	**0,38%**	**#N/A**	1.50% 0.13%
Italy	7	**0.30%**	**0,38%**	**0,50%**	0.60% 0.20%	**0.40%**	**0,49%**	**0,40%**	0.80% 0.35%
Luxembourg	5	**1.00%**	**0,83%**	**1,00%**	1.09% 0.50%	**0.20%**	**0,20%**	**0,15%**	0.25% 0.15%
Netherlands	3	**0.17%**	**0,14%**	**#N/A**	0.17% 0.08%	**0.13%**	**0,13%**	**#N/A**	0.13% 0.13%
Poland	2	**0.67%**	**0,67%**	**#N/A**	0.99% 0.35%	**0.42%**	**0,42%**	**#N/A**	0.60% 0.24%
Portugal	7	**0.43%**	**0,41%**	**0,45%**	0.65% 0.20%	**0.30%**	**0,30%**	**#N/A**	0.37% 0.20%
Romania	3	**0.12%**	**0,41%**	**#N/A**	1.00% 0.10%	**0.19%**	**0,19%**	**#N/A**	0.19% 0.19%
Spain	10	**0.60%**	**0,84%**	**0,60%**	2.00% 0.35%	**0.70%**	**0,55%**	**0,70%**	1.00% 0.13%
Sweden	6	**0.48%**	**0,39%**	**0,50%**	0.50% 0.10%	**0.45%**	**0,45%**	**#N/A**	0.84% 0.05%
UK	3	**0.41%**	**0,43%**	**#N/A**	0.58% 0.29%	**0.10%**	**0,10%**	**#N/A**	0.10% 0.10%

Listed equities									
Member State	Number of distributors analysed	Execution fees				Custody fees			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	5	**1.00%**	**0,84%**	**1,00%**	1.00% 0.35%	**0.24%**	**0,24%**	**#N/A**	0.24% 0.24%
Czech Republic	5	**0.40%**	**0,43%**	**#N/A**	0.80% 0.11%	**0.24%**	**0,29%**	**#N/A**	0.72% 0.06%
Denmark	7	**0.75%**	**0,68%**	**0,75%**	0.75% 0.25%	**0.25%**	**0,25%**	**#N/A**	0.38% 0.16%
Estonia	6	**0.20%**	**0,24%**	**0,20%**	0.35% 0.20%	**0.25%**	**0,32%**	**#N/A**	0.84% 0.12%
France	8	**1.38%**	**1,25%**	**1,40%**	1.44% 0.54%	**0.29%**	**0,26%**	**0,30%**	0.30% 0.16%
Germany	7	**1.00%**	**1,16%**	**1,00%**	1.80% 1.00%	**0.16%**	**0,38%**	**#N/A**	1.50% 0.13%
Italy	7	**0.35%**	**0,48%**	**#N/A**	0.90% 0.20%	**0.40%**	**0,49%**	**0,40%**	0.80% 0.35%
Luxembourg	5	**1.00%**	**1,04%**	**0,45%**	1.85% 0.45%	**0.20%**	**0,20%**	**0,15%**	0.25% 0.15%
Netherlands	3	**0.17%**	**0,14%**	**#N/A**	0.17% 0.08%	**0.13%**	**0,13%**	**#N/A**	0.13% 0.13%
Poland	2	**0.68%**	**0,68%**	**#N/A**	0.95% 0.40%	**0.42%**	**0,42%**	**#N/A**	0.60% 0.24%
Portugal	7	**0.45%**	**0,42%**	**0,20%**	0.65% 0.20%	**0.29%**	**0,29%**	**0,20%**	0.37% 0.20%
Romania	1	**0.40%**	**0,40%**	**#N/A**	0.40% 0.40%	**0.19%**	**0,19%**	**#N/A**	0.19% 0.19%
Spain	10	**0.60%**	**0,62%**	**0,60%**	0.70% 0.60%	**0.70%**	**0,55%**	**0,70%**	1.00% 0.13%
Sweden	7	**0.45%**	**0,33%**	**0,50%**	0.50% 0.05%	**0.45%**	**0,50%**	**#N/A**	0.84% 0.20%
UK	3	**0.35%**	**0,35%**	**#N/A**	0.41% 0.29%	**0.10%**	**0,10%**	**#N/A**	0.10% 0.10%

Life insurance with guaranteed capital													
Member State	Number of data points	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	10	**2.50%**	**2,56%**	**2,50%**	4.50% 1.00%	Not applicable				**0.18%**	**0,35%**	**0,09%**	1.50% 0.09%
Czech Republic	3	**1.50%**	**1,33%**	**1,50%**	1.50% 1.00%	Not applicable				**0.27%**	**0,27%**	**#N/A**	0.50% 0.04%
Denmark	0	Not available				Not available				Not available			
Estonia	0	Not available				Not available				Not available			
France	16	**4.00%**	**3,84%**	**3,00%**	5.00% 2.00%	Not applicable				**0.80%**	**0,81%**	**0,80%**	0.96% 0.60%
Germany	0	Not available				Not available				Not available			
Italy	9	**2.75%**	**2,56%**	**3,00%**	4.00% 1.50%	**2.00%**	**1,79%**	**#N/A**	2.15% 1.05%	**1.79%**	**1,74%**	**#N/A**	3.85% 0.17%
Luxembourg	3	**3.00%**	**2,67%**	**3,00%**	3.00% 2.00%	Not applicable				**1.20%**	**1,20%**	**1,20%**	1.20% 1.20%
Netherlands	0	Not available				Not available				Not available			
Poland	0	Not available				Not available				Not available			
Portugal	10	**2.00%**	**2,00%**	**#N/A**	2.50% 1.50%	**1.25%**	**1,25%**	**#N/A**	1.50% 1.00%	**1.00%**	**0,93%**	**1,00%**	1.20% 0.50%
Romania	2	**2.60%**	**2,60%**	**#N/A**	2.60% 2.60%	**4.00%**	**4,00%**	**#N/A**	4.00% 4.00%	**0.70%**	**0,70%**	**#N/A**	1.10% 0.30%
Spain	0	Not available				Not available				Not available			
Sweden	0	Not available				Not available				Not available			
UK	0	Not available				Not available				Not available			

Life insurance without guaranteed capital													
Member State	Number of data points	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	12	**2.50%**	**3,18%**	**2,50%**	5.00% 1.00%	**1.00%**	**0,96%**	**1,00%**	1.00% 0.60%	**1.03%**	**0,94%**	**0,96%**	2.00% 0.12%
Czech Republic	40	**0.69%**	**1,32%**	**0,38%**	3.00% 0.16%	**0.38%**	**0,35%**	**0,38%**	0.38% 0.13%	**0.90%**	**0,94%**	**0,85%**	1.85% 0.05%
Denmark	0	Not available				Not available				Not available			
Estonia	0	Not available				Not available				Not available			
France	15	**4.00%**	**3,84%**	**3,00%**	5.00% 2.00%	Not applicable				**0.95%**	**0,90%**	**0,85%**	1.00% 0.70%
Germany	0	Not available				Not available				Not available			
Italy	21	**2.00%**	**2,34%**	**1,00%**	5.60% 0.74%	**0.95%**	**1,21%**	**1,75%**	2.10% 0.54%	**2.35%**	**2,58%**	**#N/A**	4.50% 1.08%
Luxembourg	12	**3.00%**	**2,56%**	**3,00%**	5.00% 1.00%	**2.00%**	**2,00%**	**2,00%**	2.00% 2.00%	**1.00%**	**1,00%**	**1,00%**	1.20% 0.70%
Netherlands	6	**0.50%**	**0,50%**	**#N/A**	0.50% 0.50%	**0.50%**	**0,50%**	**#N/A**	0.50% 0.50%	**0.65%**	**0,62%**	**0,65%**	0.92% 0.25%
Poland	26	**2.50%**	**2,43%**	**2,00%**	3.00% 2.00%	Not applicable				**2.14%**	**2,40%**	**1,50%**	4.37% 0.99%
Portugal	14	**1.00%**	**1,03%**	**1,50%**	1.50% 0.25%	**1.00%**	**1,27%**	**1,00%**	3.00% 0.50%	**0.90%**	**0,76%**	**1,00%**	2.00% 0.01%
Romania	17	**5.00%**	**4,19%**	**5,00%**	5.00% 1.00%	**2.20%**	**1,90%**	**2,20%**	2.20% 1.00%	**1.75%**	**1,87%**	**1,00%**	3.50% 0.35%
Spain	0	Not available				Not available				Not available			
Sweden	2	Not applicable				Not applicable				**1.09%**	**1,09%**	**#N/A**	1.64% 0.55%
UK	0	Not available				Not available				Not available			

Pension products with guaranteed capital													
Member State	Number of data points	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	13	**5.00%**	**4,81%**	**6,00%**	7.00% 5.00%	**3.50%**	**3,50%**	**3,50%**	3.50% 3.50%	**0.18%**	**0,45%**	**0,12%**	1.20% 0.07%
Czech Republic	1	Not applicable				Not applicable				**1.00%**	**1,00%**	**#N/A**	1.00% 1.00%
Denmark	4	**2.50%**	**2,50%**	**#N/A**	3.00% 2.00%	Not applicable				**0.81%**	**0,81%**	**#N/A**	0.95% 0.67%
Estonia	2	Not applicable				**1.00%**	**1,00%**	**#N/A**	1.00% 1.00%	**1.45%**	**1,45%**	**#N/A**	1.45% 1.45%
France	7	**4.75%**	**4,31%**	**3,50%**	5.00% 3.50%	Not applicable				**0.96%**	**0,93%**	**0,70%**	1.55% 0.70%
Germany	4	**1.50%**	**1,50%**	**#N/A**	1.50% 1.50%	Not applicable				**0.25%**	**0,25%**	**#N/A**	0.25% 0.25%
Italy	3	**1.68%**	**1,49%**	**#N/A**	2.50% 0.30%	**0.05%**	**0,05%**	**#N/A**	0.05% 0.05%	**1.00%**	**1,77%**	**#N/A**	3.50% 0.82%
Luxembourg	3	**3.00%**	**3,00%**	**#N/A**	4.50% 1.50%	Not applicable				**1.20%**	**1,20%**	**1,20%**	1.20% 1.20%
Netherlands	3	**2.75%**	**2,08%**	**#N/A**	3.00% 0.50%	**1.50%**	**1,22%**	**1,50%**	1.50% 0.65%	**0.48%**	**0,48%**	**#N/A**	0.48% 0.48%
Poland	1	**0.11%**	**0,11%**	**#N/A**	0.11% 0.11%	Not applicable				**0.54%**	**0,54%**	**#N/A**	0.54% 0.54%
Portugal	3	**0.88%**	**0,88%**	**#N/A**	0.88% 0.88%	Not applicable				**1.63%**	**1,63%**	**#N/A**	2.00% 1.25%
Romania	0	Not available				Not available				Not available			
Spain	30	Not applicable				Not applicable				**1.10%**	**1,04%**	**1,50%**	1.50% 0.07%
Sweden	2	Not applicable				**4.00%**	**4,00%**	**#N/A**	4.00% 4.00%	**1.18%**	**1,18%**	**#N/A**	1.25% 1.11%
UK	0	Not available				Not available				Not available			

Pension products without guaranteed capital													
Member State	Number of data points	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	12	**3.00%**	**3,71%**	**3,00%**	3.00% 6.00%	**0.50%**	**0,50%**	**#N/A**	0.50% 0.50%	**1.25%**	**1,19%**	**1,25%**	1.35% 0.89%
Czech Republic	40	Not applicable				Not applicable				**1.00%**	**0,80%**	**1,00%**	1.00% 0.40%
Denmark	12	**1.85%**	**1,85%**	**#N/A**	2.00% 1.70%	Not applicable				**0.71%**	**0,66%**	**0,86%**	1.07% 0.06%
Estonia	3	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**1.50%**	**1,33%**	**1,50%**	1.50% 1.00%
France	15	**4.38%**	**4,28%**	**3,50%**	0.96% 0.80%	Not applicable				**0.96%**	**0,94%**	**0,96%**	5.00% 3.50%
Germany	0	Not available				Not available				Not available			
Italy	21	**2.08%**	**1,71%**	**2,68%**	2.68% 0.26%	Not applicable				**1.46%**	**1,39%**	**2,00%**	2.00% 0.19%
Luxembourg	12	**4.00%**	**3,50%**	**4,00%**	4.50% 1.50%	Not applicable				**1.20%**	**1,20%**	**1,20%**	1.20% 1.20%
Netherlands	0	Not available				Not available				Not available			
Poland	26	**1.75%**	**1,64%**	**0,18%**	3.15% 0.18%	Not applicable				**2.00%**	**1,88%**	**2,00%**	2.99% 0.42%
Portugal	14	**2.00%**	**2,00%**	**#N/A**	2.50% 1.50%	**1.38%**	**1,38%**	**#N/A**	1.50% 1.25%	**1.13%**	**1,19%**	**#N/A**	2.00% 0.50%
Romania	17	**0.19%**	**0,29%**	**#N/A**	0.50% 0.17%	Not applicable				**2.96%**	**2,78%**	**1,95%**	4.01% 1.95%
Spain	104	Not applicable				Not applicable				**1.50%**	**1,28%**	**1,50%**	1.60% 0.19%
Sweden	10	**2.49%**	**2,24%**	**#N/A**	2.98% 1.00%	Not applicable				**1.08%**	**1,04%**	**1,08%**	1.92% 0.06%
UK	6	**0.70%**	**0,70%**	**#N/A**	0.70% 0.70%	Not applicable				**1.62%**	**2,24%**	**#N/A**	4.51% 1.27%

Pension mutual funds													
Member State	Number of data points	Entry fees				Exit fees				Ongoing charges			
		Median	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*	***Median***	***Mean***	***Mode***	*Max* *Min*
Belgium	17	**3.00%**	**2,50%**	**3,00%**	3.00% 3.00%	**5.00%**	**5,32%**	**5,00%**	6.00% 5.00%	**1.05%**	**1,12%**	**0,96%**	3.00% 0.30%
Czech Republic	0	Not available				Not available				Not available			
Denmark	3	**1.70%**	**1,70%**	**#N/A**	1.70% 1.70%	Not applicable				**0.40%**	**0,67%**	**#N/A**	1.45% 0.15%
Estonia	8	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**1.00%**	**1,03%**	**1,00%**	1.12% 1.00%	**1.15%**	**1,00%**	**1,20%**	1.50% 0.30%
France	0	Not available				Not available				Not available			
Germany	0	Not available				Not available				Not available			
Italy	9	Not applicable				**0.52%**	**0,41%**	**0,52%**	0.52% 0.20%	**1.00%**	**1,25%**	**1,00%**	2.10% 0.96%
Luxembourg	7	**2.50%**	**2,50%**	**2,50%**	2.50% 2.50%	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**1.14%**	**1,16%**	**#N/A**	1.42% 0.78%
Netherlands	22	**0.75%**	**0,75%**	**0,75%**	0.75% 0.75%	**0.75%**	**0,75%**	**0,75%**	0.75% 0.75%	**0.19%**	**0,29%**	**0,15%**	1.51% 0.15%
Poland	57	**3.83%**	**3,83%**	**#N/A**	3.83% 3.83%	Not applicable				**2.00%**	**1,91%**	**1,50%**	3.10% 0.20%
Portugal	21	**2.50%**	**2,35%**	**2,50%**	3.50% 1.00%	**2.25%**	**2,25%**	**2,00%**	2.50% 2.00%	**1.44%**	**1,32%**	**1,44%**	2.00% 0.10%
Romania	0	Not available				Not available				Not available			
Spain	0	Not available				Not available				Not available			
Sweden	45	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**1.00%**	**1,00%**	**1,00%**	1.00% 1.00%	**0.53%**	**0,65%**	**0,01%**	1.51% 0.01%
UK	0	Not available				Not available				Not available			

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