

To: Commissioner Mairead McGuinness
Copy: Executive Vice-President Valdis Dombrovskis

Subject: Retail Investment Strategy

Dear Commissioner McGuinness

As representatives of finance associations in Denmark, Finland, and Sweden we share your ambition of a strong investor protection framework, especially for retail investors in the EU. The core objective of the investor protection regulation is to build retail investors' engagement and trust in EU capital markets. We are therefore committed to finding ways to increase retail participation and at the same time offer a strong and balanced investor protection framework that ensures best possible value for money for retail investors. The upcoming Retail Investment Strategy (RIS) offers an excellent opportunity to ensure competent advice and high value for money for retail investors throughout the Union.

30 January 2023

The structure of retail markets in the EU differ; some markets have a high degree of retail participation and a high level of financial literacy, whereas others are less mature. On the Nordic market, which is characterized by a very high level of retail participation, the needs of retail investors differ. Some retail investors are more sophisticated and use e.g., execution services, whereas others need professional guidance from financial institutions when taking financial decisions, e.g., access to advice. For the well-functioning of the capital markets, it is therefore of outmost importance that the EU regulatory framework **allows for different business models to co-exist**. This means that retail clients should be able to have access to different types of services to serve their needs and that firms should be able to structure their fees according to how the local distribution network is organized. **A regulatory framework that is based on a "one size fits all approach" will in our opinion not create a competitive and efficient EU capital market that serve different types of clients' needs.**

In the Nordic markets, inducements are widely used, and we have a strong retail investor participation and well-functioning retail markets. It should be noted that

Nordic market consistently offers some of the least expensive and best performing investment products in the EU¹.

In our opinion, a **ban on inducements would for many reasons be detrimental to the well-functioning of the Nordic retail investment markets**. First of all, as mentioned above, for many types of retail clients, access to (non-independent) advice is an indispensable part of the investor protection framework. It helps new investors into the market and provides the necessary support for their decisions, and thereby their long-term financial well-being. It should be noted that many types of retail clients want to delegate or seek investment advice since they have little or no knowledge of investing. Secondly, the commission-based model facilitates broader access to third party products compared to a situation where commission would be banned (and banks would limit their product offering to their own products). The competition that this brings is in our experience also important as it can put a pressure for lower fees. Thirdly, we believe that the existing EU-regulation in place on many levels sufficiently handles potential conflicts of interest, supports transparency, and protects investors. What is needed is rather to focus on making these current rules less complex, increasing the supervisory convergence (e.g., as regards "quality enhancement" criteria) and ensuring that fee disclosures become more proportional and easier for retail clients to understand. Finally, it should be noted that "inducements" is a very broad concept and that a ban could have unintended consequences for retail clients (average consumers, sophisticated investors as well as SME-companies), investment firms and the capital market as a whole. A thorough impact analysis is of outmost importance.²

If we look at some facts from the Danish retail investor markets:

- 27 pct. Of all adults in Denmark have invested non-pension assets by end 2021 despite that a significant share of the income is already paid to mandatory pension schemes. The retail participation has been growing fast in recent years and only 5 pct. of new Danish retail investors have disinvested one year after entering the market. Getting new investors engaged has long lasting effects on overall retail participation³.

¹ [esma_50-165-1677_asr_performance_and_costs_of_eu_retail_investment_products.pdf \(europa.eu\)](#)

² For example, there is a discussion if a placing fee and underwriting fee is an inducement/third party payment in relation to end-clients receiving an investment service. If that is the case, it must be considered what would be the effects of a ban. Of course, investment firms need to be able to get paid by their issuer clients for the services provided on the primary market.

³ See addendum

- Most Danish retail investors access investment advice or delegate through full-service banks supported by the commission-based model⁴.
- The number of externally produced products offered through Danish full-service banks is growing every year and so is the share of low-cost index products as well as the share of products without inducements attached. These trends as well as general price pressure and competition lower the overall product costs for Danish retail investors every year⁵.

We see an EU ban on inducements as not only potentially harmful to our retail markets but also as an unproportional measure, when evidence suggests that well-functioning retail markets can be ensured under the existing regulatory framework. We hope that you will consider looking further into strengthening the supervisory convergence as regards application of the current rules instead.

In the upcoming strategy, we hope that you will take due consideration of the well-functioning Nordic markets. The Nordics should inspire an EU-wide framework ensuring quality of advice and value for money for investors in a proportional manner and without compromising access to advice and the long-term financial well-being of retail investors.

We stand ready to provide any further information about our markets and look forward to contributing to the work on the upcoming Retail Investment Strategy.

Kind regards

Ulrik Nødgaard, Chief Executive Officer
Finance Denmark

Taina Ahvenjärvi, Acting Managing Director
Finance Finland

Hans Lindberg, Chief Executive Officer
Swedish Bankers' Association

Urban Funered, Chief Executive Officer
Swedish Securities Markets Association



⁴ See addendum

⁵ See addendum