BEUC The European Consumer Organisation

Press Release

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European Commission proposes insufficient reform to fix broken retail investment market

To tackle the underperformance of financial markets for consumers, the European Commission has proposed a partial ban on inducements to financial advisors in its Retail Investment Strategy (RIS) published today, by preventing financial retailers from charging consumers for advice where none was given.

Inducements – or commission payments, also called 'kickbacks' – are paid to financial providers to push certain financial products, whether they are in consumers' best interests or not. The Commission today proposes to ban inducements for products sold without any advice (often called 'execution-only'). This is progress, however, the Commission stopped short of a total ban, meaning retailers would still be allowed to receive kickbacks for their 'advice' in all other situations, despite inducements causing countless mis-selling scandals throughout Europe.

These scandals are just the tip of the iceberg: the dysfunctional financial advice market leads to consumer frustration and disengagement, to poor quality investment products being sold to consumers. Personal savings are increasingly important in many EU countries. But for this to work for people, a fundamental change to the way investment products are sold is required and to make competent, independent advice the norm. Unfortunately, the proposal falls short of taking this step.

Every year consumers lose billions of euros due to the underperformance and excessive cost of retail investment products. This leads to loss of economic opportunity in life and poverty in old age. The debate on inducements has been entrenched since the global financial crisis, with consumer organisations advocating for a ban and industry lobbying against. Today's half-measure is particularly remarkable because the Commission now shares the assessment of civil society, recognising that a full ban is the most effective measure to reduce conflicts of interest.[1]

BEUC Director General Monique Goyens commented: "This is not what consumers expected. Due to kickbacks paid to so-called advisers, financial advice is, in many cases, nothing more than a sales pitch for consumers. The Commission agrees with our diagnosis but leaves the patient in the waiting room without offering much help because of very heavy lobby pressure from industry. This despite positive feedback from the Netherlands and the UK which have both already banned kickbacks.

"Despite the lack of a ban, this proposal has some potential to improve the dysfunctional financial advice market by limiting the costs consumers will have to pay on their investments, but that is certainly not enough. We now expect the European Parliament and the Member States to introduce more substantial improvements. Only a full ban on inducements will ensure this market finally starts delivering for consumers."

Read more:
BEUC infographic on how poor financial advice is costing consumers a fortune
BEUC campaign: The Price of Bad Advice

[1] The impact assessment concludes that an EU-wide full ban would be the most effective measure to remove or significantly reduce potential conflicts of interest, by reducing an important source of consumer detriment.