RIS: moving to a larger market through quality and competition

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The Retail Investmet Strategy (RIS) is one of the most important and far-reaching legislative initiatives of recent years initiated by the European Commission. The objective pursued is necessary for the revitalization of European capital markets as a flagship measure aimed at deepening the Capital Markets Union: to broaden the retail investor base in the markets.

Despite the heated discussions and different positions it has caused in the industry, the investment community and the EU institutions, legislators have designed a wide range of measures aimed at improving the information that investors receive, making it more suitable for digital distribution and increasing transparency, accessibility and understanding in terms of costs and returns. It also includes measures to improve value for money, improving the quality of advice to clients and skills of advisors, financial education and the communications and dialogue with investors.

The two main issues of discussion focused on the concept of value for money in financial products and the prohibition of inducements in the fund distribution process. However, an important question remains: why is it necessary to regulate prices (to some extent) and rebates? Is competition not sufficient to expel the least competitive producers and distributors and to ensure that only the best and cheapest products and providers survive? Why do we need to intervene products and commercial or management fees? Is competition not working properly? And, if so, why?

Part of the answer relates to complexity for retail investors in diferentiating total costs charged, value for money obtained and in comparing products in a multi-variant fashion. Comparing products is not a one-dimension exercise (volatility, risk, price, fees, liquidity...all of those matter). But the other part of the answer relates to the difficulty of comparing providers and even combining providers. In the European investment distribution model, it is common for retail investors to invest through a single intermediary (in many cases, their general-purpose bank). Changing intermediaries, when a better product is identified, is an operational problem, having to reproduce all the necessary information (KYC, AML, personal profile, experience, suitability) in each and every one of the providers, keep multiple apps and websites and control different tax information sources, with all the attached fuzz. Matters such as a digital portability of the client's profile - in terms of portfolio, investment experience, knowledge and investment profile - or aggregators of investments through multiple intermediaries in a single app or dashboard, are not yet widespread in the European investment services industry. This hampers true and effective competition and may be the reason behind more invasive regulatory measures.

The RIS, fortunately, also contains a set of interesting proposals to redesign the information provided to the client, adapting it to the digitalization era that we are living in. These proposals, which have almost gone unnoticed, should make it possible to lay the groundwork for a healthier relationship between investors and providers and even expand the investment distribution model we currently have, in order to improve the experience of the retail investors, bring more competition and therefore better service and lower fees.

The main focus of the RIS should not be exclusively to expand the retail investor base. Quality of service, fairer treatment of clients, significant cost reductions and improved products should also be a major driver of the legislative proposal. Indirectly, better quality should also attract more investors to the market and strengthen the competitiveness of the European asset management industry, its efficiency and its growth.

Looking forward, when the trialogues conclude, the successful implementation of the new legislation, will greatly depend on the subsequent legislative development of the measures designed. One of them, the definition of benchmarks, will be one of the most complicated. The regulation will have to establish the principles, the comparison methodology and the different product clusters. Also, how to determine what levels of deviation from the benchmark are considered acceptable and what threshold deviations should be justified with a catalog of reasons explaining the deviations. A lot of further work is still needed to make this new regime work.