

1: What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits?

The following response assumes that we are talking about consumers, who would be well advised to engage with capital markets. This means at minimum, consumers who have sufficient income and savings to raise the question in the first place, who are covered on the necessary insurances, who have no outstanding debt that could be paid off first, and who already have a sufficient liquidity reserve that they maintain.

Fundamentally, the decision to invest or not is based on a consumer's evaluation of if its worth it or not. This has several aspects:

- there is an expectation of required effort. Effort includes finding a method to invest such as advice in a bank or a neo broker or other, there is effort in product research and selection, and there is effort in following through.
- There is also an expectation of different outcomes. To counterbalance the effort, it needs to be sufficiently positive.
- Many consumers have either made negative experiences with investments in the past or have heard such stories from their peers. This reduces the expectation and in fact creates one of negative outcomes.

For the balance to shift towards more investment, access must be easier, and average outcomes need to improve, significantly. This needs to be a persistent change, because cultural perceptions of the likely outcomes of investment are shaped through experience over time and it is the expected outcomes that motivate investors.

In essence most of the responses below offer a consumer perspective on how to shift different parts of this equation to make retail investment more attractive to consumers to engage in. Cost and net returns, volatility and confidence, trust, taxation and other factors all play a role in this balance.

Q2a: To what extent do retail investors find investment products too complex or difficult to understand?

Product complexity is a major barrier to investment. The more difficult to understand a product is the more effort consumers need to spend to try to understand it anyway. However, many products are so complex that consumers give up on understanding, which – correctly – increases the expectation that investment outcomes may be negative because it requires consumers to trust the contractual opponent to act in their best interest. The most complex

products are often insurance based. The complexity of these investment products is one of the factors that makes them expensive which also reduces net returns.

The multitude of investment products exacerbates the problem of product complexity: consumers need to choose between active or passive funds, different insurance-based offers, crypto, crowd investment, sustainability etc. This is not manageable for a non-expert with reasonable effort, which shifts the balance further towards hesitation. This is why investment advice is necessary for most potential retail investors, to navigate this complexity. However, bad advice systems have undermined trust by leading to too many bad outcomes, which spread by word of mouth and reduce consumers confidence.

Q2b: For consumer associations: Based on your interaction with retail investors, are there particular types of investment products or product features that retail investors find especially difficult to understand?

As mentioned above, life insurance products are the largest clump of retail investment products that are very difficult for consumers to comprehend. Such products include non-investment aspects, so risk coverage. They offer guarantees which in themselves are highly complicated financial considerations. Such products are largely illiquid, which raises planning difficulties and complicates valuation at any time. When taken out for pension purposes, many such products require the consumer to accept a pensions factor for the payout phase, which is a wide range creating, in essence, a black box for the consumer of how much their retirement savings are actually worth.

Some other offers are also difficult but often are much more niche, such as AIFs. Crypto assets are another worthwhile mention in this context; very few people understand these assets and if more of them did, fewer would choose to invest in this kind of asset.

Q3: Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again?

Yes, negative experiences strongly discourage future investment. Obviously, having suffered a dissatisfactory investment outcome in the past raises awareness of negative (or insufficiently positive) outcomes for future decision-making. However, if the past bad investment was an advised sale, it also reduces trust in those systems which means more effort is required to either avoid or double check them in case of any future engagement.

Last but not least: Negative investment outcomes have an emotional cost. Many consumers feel shame or anger or fear due to such events. Emotional negativity leads to more avoidant behaviour.

Please note that these effects concern the consumer who suffered the bad investment, but it also influences their friends and family, who hear the story, leading to a cultural aversion to capital markets systems over time. On the other hand, positive outcomes also spread and shape culture over time, so such trends are subject to correction if performance improves.

Q4a: Do high fees and costs discourage retail investors from participating in capital markets?

Yes, fees are a major obstacle to investment. Fees reduce net returns while leaving risk untouched. Higher fees therefore mean that the investment product is of worse quality, all else being equal. The lowered returns, and the attached expectations, reduce participation.

Again, on top of the economic argument, there is a behavioural component to this problem: Nobody likes being taken advantage off. Consumers who realise how much they have paid in fees on expensive investment products over years, and who realise how much this has reduced their life savings outcome frequently react with anger and frustration. Many consumer advisors frequently experience this realisation in consumers at consumer centres across Europe.

Q4b: For consumer associations: Do retail investors raise specific concerns about investment costs and fees? If yes, which ones?

This differs because consumers are not a homogenous block. Many consumers are unaware of the impact and volume of costs and fees when they first consider investment. Some discover this in consumer centres or through consumer magazines either early or relatively late. Some consumers realise that their product is not yielding what they expected but fail to understand why.

It may be worthwhile to raise quantitative data and compare the proportions and outcomes on investment behaviour between EU countries on these effects, however, to do so consumer centres would require support and coordination which is outside of the current means available.

Q5a: Have you identified a lack of trust in investment service providers as a factor influencing retail investors' reluctance to invest?

This is a major factor. The observable and somewhat well-founded distrust of investment service providers raises the cost and risk for consumers to invest. If the industry partner is not reliably, the entire weight of information and control falls on the consumer, this is a major deterrent. On the other side, not having reliable, professional support also increases the risk of making poor investment decisions, reducing expected outcomes.

We would like to point out that capital markets usually score at the very bottom of consumer market scoreboards and similar investigations.

Q5b: For consumer associations: What specific concerns, if any, do retail investors raise about investment service providers?

Again, this can differ greatly by country and by consumers inside countries. It can also differ by what stage of the investment process consumers are in. While consumer centres see a lot of

different profiles, we have no quantitative data to provide, currently. However, some profiles seem to emerge:

For example, consumers who come to an advice centre before signing obviously want a second opinion, many people of this profile seem to have read about issues in the advice setting or about poor average market outcomes online and express doubt or distrust.

Some consumers ask for a second opinion after purchasing a product and wondering if it's doing well compared to others, or to ask specifically about alternatives because they have heard of others doing better.

Overall, the most common issues seem to be a lack of trust that advisors have their best interest at heart. Concerns about the competence of advisors or about product selection, such as no passive funds having been advised or offered, among consumers who have done some prior reading by themselves.

Q7: Does investment advice provided to retail clients typically cover all types of investment products (e.g. shares, bonds, investment funds, ETFs), or are certain products rarely advised?

Investment advice, in its current form in most of the EU, focusses on the products that the advisor is supposed to sell. This means that products that are less lucrative for the provider per unit, such as ETFs are not commonly advised. Furthermore, alternatives from other providers are not usually discussed in active distribution. In general product distributors focus on products, not instruments like shares or bonds.

Q8a: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets?

This is a contributing factor, but not the main issue. Lack of financial education means that consumers explore the investment options with less basis, which raises the effort to do so and reduces the likelihood of a positive outcome. However, training consumers to be truly competent in this field is no more viable than it would be to train consumers in medicine to take pressure off the medical system. Consumers are not experts by definition; markets and regulation must be structured in a way to accommodate this fact.

Simpler products would require less financial education to understand; Better advice would require less own knowledge on the consumer's side.

Q8b: For consumer associations: Based on your interactions with retail investors, what are the most common knowledge gaps that affect their ability to make investment decisions? Are there specific topics where more financial education could improve engagement?

Specifically to investment decisions: Many consumers fail to understand the concept of volatility. Accordingly, consumers often avoid more volatile products, even for long term

investment where expected trend would be much more relevant to pay attention to. In a similar vein, many consumers do not understand the basic principle of diversification.

Maybe even more fundamentally, many consumers struggle to understand exponential growth and compounding interest – this will be very difficult to change because it requires stronger mathematical fundamentals. In fact, many adults struggle to calculate or interpret percentages.

Q9: For consumer associations: Based on your interactions with retail investors, do psychological or cultural factors – such as fear of losing money, distrust in financial markets, or a preference for familiar products – play a role in retail investors’ hesitation to invest? If so, which of these factors seem most important?

All of these aspects apply, and they interact in a negative way. Consumers who distrust the markets have an additional reason to be afraid of losing money. Ironically, this sometimes leads to engagement with much higher risk options, such as crypto assets, which may be seen as less ‘rigged’ and therefore ‘less risky’.

Q10: Are there any other significant non-regulatory barriers that discourage retail investors from investing in capital markets?

Taxation is a major issue. Many consumers are unsure about how their investment will be taxed and when. This leads to a perceived additional legal risk and a lack of clarity on what net financial outcomes to expect. The fragmented nature of taxation regimes in the EU makes it difficult for consumers to find the correct answers for a particular situation online. The particularities also make it difficult for consumer organisations to provide such information at scale.

Q11: What role do digital platforms and mobile applications play in shaping the investor journey? Are there digital features or tools that have simplified the investment process or improved investor understanding and decision-making? Conversely, are there aspects that may complicate the experience for some retail investors?

Offers like Neo brokers have improved market access for many consumers. Unfortunately, digital platforms rely on frequent engagement as a business model, which is not in line with an ideal retail investment strategy – day trading is a bad idea. Overall, the impact has been quite positive though.

Some new offers are particularly troubling: Crypto cash back schemes are one such example, where consumers can receive cash when paying with crypto. These schemes usually exist because the provider sells the assets at a significant markdown and keeps the difference, which should violate best execution rules.

Payments from investment accounts are also a new development: In theory this allows consumers to invest all their savings without holding a liquidity reserve, by paying directly from their investment account. This means consumers have no idea how much they are paying because they don't know the current price of the assets they are liquidating to make the payment. BEUC believes that such offers are not suitable for consumers.

Complaints and dispute resolution have become more burdensome for consumers due to the new digital market structure. Many consumers find it difficult to reach their neo-bank in a timely manner, for example.

Finally, while digitalisation has included many consumers it also excludes some. BEUC maintains that offline versions of all financial services must be available at the same terms, to avoid locking groups of people out of access to them.

Q13: What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets?

- While apparently not politically viable, it remains an economic necessity to align distributors incentives with retail investors interests.
- Industry wide standards on the training of financial advisors. Even if financial advice is not independent, it would help if advisors had sufficient training to at least understand different products themselves.
- Several of the measures discussed in the SIU context have the potential to improve retail participation. A standardised investment account that receives any retirements savings subsidies, instead of them being tied to a particular product, would enhance competition for product quality, for example. Auto enrolment and high quality standard offers for retirement savings would also contribute if well executed.
- Regulate influencers. Some do good work, but we need an enforceable standard that holds people accountable. Regulate influencers who distribute particular products as distributors of the product provider. Hold platforms accountable for systematic misinformation spreaders. Establish a framework for legitimate influencers to adhere to, which will help with enforcing the goals above.
- Fight scammers. It was possible to take action against medical misinformation during covid, establishing similar systems for financial issues may be helpful.

Q14a: Do you believe that young investors are more attracted to speculative and volatile markets (e.g., cryptocurrencies) rather than traditional investments (e.g. investment funds)? If yes, what are the main reasons for this?

According to our and our members observations, these seem to be the major factors for why consumers invest in crypto assets:

- The expectation of high returns
- The false perception of lower costs, due to weaker regulation for these assets

- A preference for decentralised, non-intermediated investments (ideology, often stemming from frustration with the mainstream markets or politics)
- Influence from social media and online communities
- Distrust in traditional financial institutions and advisers

Q14b: For consumer associations: Based on your interactions with young investors, what factors most strongly influence their decision to invest in speculative and volatile assets like cryptocurrencies over traditional investment products? Are there particular expectations, misconceptions, or marketing tactics that play a key role? Do any of the following sources play a role in shaping young investors' decisions?

- Specialised journals and periodicals (podcasts)
- Finfluencers
- AI-generated recommendations

Some crypto investors seem to think of their assets as 'digital gold'; meaning the stuff is basically worthless, but enough people want it to make it permanently valuable. This argument overlooks the fact that gold is at least countercyclical with most of the market which is not true for bitcoin for example.

Q15a: MiFID II disclosure requirements aim to provide transparency and support informed investment decisions. In practice, do you believe these disclosures are helping retail investors engage with capital markets, or are there aspects - such as volume, complexity of content, lack of comparability, or format - that may reduce their effectiveness?

While the issues mentioned in the question do reduce the effectiveness of information documents, they are still a positive contribution to transparency. Some BEUC members note that periodical ex-post information seems to be more effective than ex-ante. This is often attributed to consumers being less stressed when receiving the information than at the time of sale.

The European Single Access Point (ESAP) could contribute significantly to consumer information by bundling all available disclosure in one location. The PRIIPS KID could be shorter and simpler, if designed with consumers in mind, instead of being optimised for political feasibility as different industries have different interests to disclose while consumers want the same information from all fungible products for comparability. Any consumer information document should be tested in focus groups, if any changes are made, such testing should be considered an essential step.

Q16a: Do retail investors find the PRIIPs KID helpful in understanding investment products? Please provide details notably on the elements that are the most helpful and on ways to improve them. If not, are there alternative ways to protect retail investors that could be considered, while not increasing the volume of required disclosures.

The PRIIPs KID is generally too difficult for consumers to understand, however, in a time of 'simplification' it bears mentioning that its better the way it is, than not having it.

Future performance scenarios often confer the idea of predictability to the consumer and seem to imply that the moderate scenario is most likely. In general, BEUC prefers disclosing past performance, as this is actual data, over projections. While consumers may find projections more intuitive the issue is that the information conveyed in this way is very often inaccurate.

Any redesign of the KID, or other documents, should be preceded by extensive consumer testing to find out what the audience understands and to gage this against the information prospective investors need.

Q18: Do retail investors find the costs and charges disclosures helpful in understanding the costs of investing? Please provide details notably on the disclosures that are the most helpful (e.g., total costs, illustration of cumulative effect of costs on return) and on ways to improve them. If not, are there alternative ways to protect retail investors that could be considered while not increasing the volume of required disclosures?

See, Q16a.

Q20: Do retail investors find the quarterly statements helpful in keeping track of their investments?

Yes, it provides clear and relevant information because consumers seem better able to absorb this information. We hypothesise that this is due to the fact that consumers are calmer when receiving periodic information rather than when considering a major investment. What is observable is, that some consumers make appointments at consumer centres after receiving these notifications and then start asking the right questions.

Q21a: Do retail investors find the information on every 10% depreciation of leveraged instruments, or the portfolio value in case of portfolio management, helpful in keeping track of their investments?

Mixed views (please elaborate). It is difficult to argue that consumers should be less informed about potential losses just to avoid them taking poorly considered actions in a panic. If the political theory remains that consumers participate in capital markets at their own discretion,

largely as equal partners, then it's not consistent to argue for informational blinders to steer their behaviour.

Some members also pointed out that consumers seem to grow more accustomed to these notices and avoid selling in a dip. However, the bottom line seems to be that this is not the most helpful information.

Q25: To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State?

Taxes add not just cost but also complexity, from an investor's perspective. Different tax treatments exacerbate this issue.

A second and unfamiliar tax regime is a significant additional burden. However, the primary barrier for cross border sales remains in distribution. Since industries remain mostly national and largely decide what to sell to consumers, distribution ends at the same boundaries as a market incumbents' interest.

Additionally, there are widely different incentive schemes for retirement savings products in different countries. These products are often the first need a consumer tries to address and they do not function across national borders, due to their reliance on location-based subsidies.

Q26: For consumer organisations: Based on your interactions with retail investors, do they experience information overload when making investment decisions? If so, what are the main sources of this overload? Do regulatory disclosures, marketing materials and contractual documents support investor understanding, or do they contribute to the confusion?

Information overload is not the main problem. While it exists and should be addressed by simplifying consumer information documents – while maintaining all relevant information – the main issue is unreliable advice, complexity, and unnecessary information such as future performance scenarios, or greenwashed marketing.

As a sidenote, anecdotally but frequently encountered, it seems that investment decisions are very stressful for many consumers. The complexity of the financial system combined with a lack of experience and a high perceived risk are intimidating to many consumers who are also concerned about pensions insufficiency. It seems difficult for many to absorb as much information as they otherwise could under these circumstances.

Q29: To what extent do retail investors find the process of regularly/periodically providing and updating personal and financial information for suitability assessments clear and workable?

The financial circumstances that a consumer works in are essential for decision making. While many people resent bureaucracy, this is work that needs to be done to find reasonable investment decisions, regardless of if it's a legal requirement or not. It's therefore good for the framework to require this, even if it may seem burdensome to some. Adapting strategy to changed circumstances increases the chance of consumers achieving more of the results they were hoping for, thereby contributing to greater acceptance of capital market engagement.

Q32: How do retail investors perceive the integration of sustainability preferences in suitability assessments? How has it impacted the investment advice/portfolio management services they receive?

Summary response to the questions regarding sustainability integration:

- The main issue from the consumer perspective remains greenwashing, which can be intentional or unintentional on the side of the product manufacturer.
- In the context of the SFDR review, BEUC hopes that the current art. 8 & 9 products will be replaced by genuine product standards, that align with consumer expectations. Most sustainability minded retail investors fall into one of two categories:
 - o Those who want their investment to do no harm / to avoid activities they object to
 - o Those who want their investment to make a difference in the world.
- These goals are not the same, the first can be easily met through a divestment strategy, the second requires engagement. When these goals are not differentiated, it is common for consumers to receive products that do not do what they wanted.
- If future categories align to these principles, then it would be much simpler to explain to consumers what their options are.
- Due to the sustainability omnibus, the data underlying any disclosure will be less reliable. This contributes to greenwashing.

Q35b: For consumer associations: Do you think suitability reports are a useful tool for the protection of investors and the prevention of mis-selling?

This depends on the practical implementation of such reports, colleagues at advice centres have reported seeing documents stating, “the product is suitable because it suits the consumer”.

Suitability would also be a much more relevant factor in consumer protection if it included a product quality criterion such as

- “net returns / risk” as a KPI.
- A provision that only “most suitable” qualifies because “any suitable” means it is legal to sell inferior products, which is causing consumer harm.

However, while the principle could be improved, it is a valuable aspect in protecting the interests of retail investors.

Regarding previous questions about consumer experience with suitability requirements and following questions regarding appropriateness: Most consumers are unaware that these requirements exist and would not be able to differentiate one from the other. In general, all of this seems to be experienced as part of the 'advice'. The (lack of) consumer perception should not be the decisive criterion however, as these systems can and do contribute to consumer protection without being fully understood by the consumer.

Q36b: For consumer associations: Have retail investors raised concerns about the appropriateness assessment?

Please see the response to Q35b, for our perception of consumer awareness of these tools.

Q37: Do current appropriateness rules and how they are applied by firms effectively address new types of services that combine payments, savings, and investment features?

BEUC believes that such products are inherently problematic, the fact that they exist on the market is therefore somewhat troubling. Consumers, by definition, are not financial experts. BEUC and its network have long argued, for example, that prospective investors should pay down any outstanding debt before considering investments – consumers are not hedgefunds either.

For the combination of investment and payment, as described above, it is almost impossible for consumers to understand how much they are paying if their assets are being liquidated spontaneously at a register to pay for goods and services. While it is true that many consumers hold excessive liquidity on bank accounts, it remains quite reasonable to hold a liquidity reserve in general. The utility of such offers remains unclear to BEUC while risks seem obvious.

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks?

The regulatory framework is focussed on transparency as a means of retail investor protection, which gives rise to this question. However, this approach assumes that well informed consumers would be able to choose products that are most to their interest even against the sales interest of the industry. Macro data, such as ESMA's own annual report on the cost and performance of retail investment products, demonstrates that this is not the case.

A more effective regulatory framework would focus on aligning the incentives for industry participants with retail investor interests. This, however, is beyond the purview of supervisory authorities to do. That said, different interpretations of level one regulation are possible and in fact common across the EU.

BEUC believes that the retail investors' interest could be better protected by harmonising supervisory practices across the EU, but also by doing so with an eye of aligning incentives for

industry with those of consumers. The reading of MiFID II by the Norwegian supervisor regarding inducements would be a strong example of this.

Q42: Are there any aspects of the retail investor experience – whether related to firm practices or the regulatory framework – that are not sufficiently addressed in this consultation or in the current MiFID II rules?

- Harmonising the interpretations of European law, particularly of MiFID II and IDD across different NCAs would simplify the situation retail investors are confronted with.
- Fully lifting the consumer protection standards in IDD to align with MiFID II standards would also be beneficial to retail investors.
- Even if independent financial advice is not politically achievable, competent and standardised advice would already be an improvement. This would improve the support available to prospective investors and would be one of the most potent ways to improve financial education across the EU by establishing a professional group who can contribute to his goal. BEUC recommends:
 - o Establishing the same training requirements for financial advisors across the EU.
 - o Exploring the difference between guidance, investment advice and full financial advice, also in the regulatory framework and qualification requirements for advisors.
 - o BEUC believes the UK model of financial advisor training is a good template to start with.