Paris, 13 March 2025

Retail Investment Strategy Working Group's Position Paper

Paris Europlace strongly supports the RIS objective of increasing EU citizen's participation in capital markets. However, this initiative does not respond at all to this objective and falls far short of the European Commission's objectives of simplification. Should RIS be kept despite falling short from these objectives, it must be dramatically simplified and reoriented.

At a time when the European Union aims at increasing the competitiveness of its financial markets to further contribute to the financing of the EU economy, decisive action is needed to simplify processes, reduce administrative burdens, and avoid a cost-centric approach by implementing a robust Value for Money. Otherwise, the result will be an impoverished product offering and an incentive for consumers to invest in less regulated but riskier products such as crypto-assets or to finance primarily non-European economies.

To ensure legal certainty, we also call for clear and comprehensive Level 1 proposals, without delegating key aspects to Level 2 and Level 3. While regulatory aspects play a very important role in increasing the participation of retail investors in financial markets, other factors seem equally key, such as: a strong enforcement of existing rules, convergence in supervisory practices as well as a favorable tax environment for retail investors.

I) Administrative and bureaucratic burden, and complexification of the client journey

The accumulation of tests multiplies the potential difficulties of interpretation, significantly slows down the client journey[1] and increases the costs for manufacturers and distributors. These bring little to no value for the retail investors. In the current Commission agenda on simplification and competitiveness, we believe the following improvements are necessary:

- Regarding the best interest test:
    - The notion of "the most cost efficient" (criterion b) is excessively focused on costs whereas the whole value of a product is more than just its cost and includes qualitative elements[2].
    - The notion of "exclusive partnerships" (criterion a) in the Parliament's proposal on the Insurance Distribution Directive could be interpreted as limiting the ability to provide advice based on insurance-based investment products (IBIPs), or investment options offered by a single insurer, to situations of contractual exclusivity between the distributor and the manufacturer. It would thus exclude many intermediaries (for instance brokers, including bancassurance).

[1] An impact assessment carried out by France Assureurs, Agea and Planete CSCA shows that RIS would increase the subscription delay by 80% and the number of related documents by 50%.

[2] *French, their banks and their expectations*", IFOP study made in Feb. 2024, corroborated by an AMF study from 2021, where more than half of persons surveyed prefer a less risky product even if the yield is lower; "French and life insurance", conducted by OpinionWay and commissioned by France Assureurs, Sept. 2021 where French retail investors expect three things from their savings: security (41%), flexibility (40%) and return on investment (13%).

- o As for the proposal to consider that products with "features which are not necessary to the achievement of the customer's objectives" would not be considered as suitable: this requirement is not relevant nor meaningful. The definition of "feature" is very vague. Some guarantees (death cover for example) could be considered as not linked to client's investment objectives even though they are systematically proposed in life insurance[3]. Similarly, this requirement would be detrimental to ESG products or products with a capital guarantee even when offering a better expected performance. This "simplest low-cost product" clause is too cost-focused and should be removed.
  - o Therefore, we strongly advocate for this best interest test to be deleted or at least aligned with the proposal of the European Parliament (i.e. limited to two criteria: the notion of "most efficient" and the "assessment of an appropriate range of financial instruments suited to the clients' needs" but defining clearly the notion of most efficient product as otherwise it can lead to litigation).
- Regarding the appropriateness test, the two additional criteria (i.e., the client ability to bear full or partial losses and its risk tolerance) should be deleted. These two criteria complicate the client's journey, confuse the client with advice service and are a source of disputes. It contradicts the objective of empowering clients to make their own decisions.
- Regarding PRIIPs (Packaged retail and insurance-based investment products), the KID (Key Information Document) should be simplified to be understood by retail investors.
- Regarding ex-post cost and performance reports, we alert on the complexity associated with producing those reports for each individual line of the client portfolio. Ultimately, this will lead to higher fees for these services and exacerbate the problem of information overload faced by retail clients.

II) Inducements

We welcome the removal of any bans on inducements as they enable the distribution and advice on products for all customers. We also oppose any Level 2 empowerments on inducements as it would challenge the delicate balance found at Level 1 between, on the one hand, access, and advice to all, and, on the other hand, cost. **Moreover, the inducement test proposed by the Council adds excessive and unnecessary complexity and should not be retained.**

III) Value for Money and benchmarks

We fully support ensuring that all value chain's participants contribute to delivering the best value for money for retail investors. If introduced, peer-grouping should be flexible and market-driven, allowing firms to define their own policies and criteria, especially qualitative ones. For structured products, a forward-looking approach is essential. A common European fund classification could aid both market participants and regulators in ensuring accountability and effective oversight. Centralized benchmarks, based on costs and past performance, risk distorting investor decisions and reducing product diversity, especially for SMEs and thematic funds (e.g., ESG, Defense). This could also negatively impact long-term retail investments. Furthermore, the accumulation of benchmarks and peer grouping would add unnecessary complexity – paradoxically at a time when the agenda is focused on simplification and competitiveness.

[3] The reverse is not true: an insurance offering a death cover guarantee is not necessarily a life insurance.