Speech bij AFM Board member Hanzo van Beusekom, at the S&D event on EU Retail Investment Strategy, at the European Parliament in Brussels

- Thank you Jonás and Eero for the invitation and welcoming remarks. My name is Hanzo van Beusekom, and I am an executive board member at the Dutch AFM, the conduct of business supervisor in the Netherlands.

- The slogan of the Retail Investment Strategy and the title of today's event are **"markets that work for people."** We welcome a Retail Investment Strategy that works for people and will stimulate pan-European capital markets.

- In order to retain the strengths of our EU capital markets it is important that cooperation between supervisors is improved. Digitalisation has diminished national borders even further while supervision is still caried out by national authorities with different legal interpretations and supervisory approaches. Operationally, it is difficult for home supervisors to adequately supervise institutions doing **cross-border** business and enforce against infringements. We believe increasing host supervisor competences should be increased to guarantee the success of the European retail framework.

- We understand that there is a lot of discussion about whether the Strategy and the proposal should include a ban on inducements. My message to you is that if we really want to put the interest of <u>the ordinary people in Europe first</u>, we shouldn't think twice about banning inducements.

- Before I explain why, let me tell you **three key features about our national ban**.
    - One, it has been in place for ten years and it covers all complex financial products. The ban has been introduced following a serious misselling issue with insurance based investment products in the Netherlands.
    - Two, the current inducement ban does not prescribe how consumers pay for advice, only that payments from third parties to distributors are forbidden, so that advisors can always work in the interest of the client.
    - Three, we opted for a ban after implementation of lesser options – such as more transparency – proved ineffective.

- **The first reason** why banning inducements favours retail investors is that product manufacturers – asset managers and insurers – have to start competing on quality and costs of their products. And no longer on who pays the highest inducement to a distributor., After the ban, we saw ETFs becoming much more popular. Before the ban, they were unattractive to sell because of low inducements. Now, we have the highest penetration of ETFs. According to research from Morningstar and Autonomous Research, the Netherlands and the UK have the highest penetration of ETFs, with 12% and 28%, respectively.

- That brings me to my **second reason**: that a ban erases any doubts about the incentives of the advisor. We know that inducements indeed creates a bias. If a broker or advisor gets paid by the companies whose products they sell, they will choose their interest over the client's. Yes, Dutch consumers were initially surprised at how expensive advice was. But in return for the price of advice they get the trust that an advisor really works for him or her and not someone else.

- It is logical that we ban inducements to remove biases in advice. Take, for example, doctors receiving inducements from pharmaceutical companies to prescribe certain medications. These medications may not be necessary or even beneficial, but the temptation may be too high to withstand. Because of the inducement, the doctor no longer acts in the best interest of the patient, to the patient's eventual detriment.

- **The third reason** is that a ban has also proven to lead to lower costs. This is the result of multiple factors: more competition on costs and distributors that are incentivised in favour of the client. In the Netherlands, we now have among the lowest fees for retail investors in the world. Together with other countries that have a ban, such as the US, UK and Australia. ESMA calculated that the average ongoing costs for a Ucits equity fund in the NL is 0.57%, compared to 1.47% on average in the EU. That is almost three times as much. One percentage point per year may not seem like a lot, but in the long run (like saving for retirement) will make a substantial difference.

- **Critics may say that our experience is not representative** for other countries and therefore should not be copied to the rest of the EU. And we agree that every country has its unique quirks. Aside from our inducement ban, we are also famous for living below sea level. My point is that we have ten years of experience. We recognise some of the concerns. And together with our colleagues at the Ministry and the sector we worked to address those. Ten years after, the financial sector is still healthy and profitable. We have large banks, insurers, and 6,000 independent financial advisors. Retail investing has increased. From where we stand, a lot of the dire warnings used as counterarguments are exaggerated.

- **Critics may also say that a ban hurts retail investors**, by restricting the benefits of free advice. There are two tough misconceptions about "free advice." The first is that it is not free. It is actually very expensive. The Kantar study has found that the average inducement is 0.7%. Per year. That is 45% of the total costs. That is a big bite out of your average person's pension. The second misconception is that free advice is unbiased advise as it is actually a sales pitch pretending to be advice. No advice is better than bad advice.

- **In conclusion, to make capital markets for people,** the Retail Investment Strategy needs to address multiple issues. Costs, complexity and biased advice chiefly among them. We have seen the ban contribute to a solution for all these.