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# Retail Investment Strategy: are we tackling the main issues?

The European Commission is currently in the process of developing a legislative proposal to support its Retail Investment Strategy. One of the key objectives is to promote more transparency, simplicity, fairness and cost-efficiency for retail investment products across the internal market, which EIOPA strongly supports. If insurance products are appropriately designed and distributed, this can be a lever in enabling consumers to participate in capital markets and address growing savings gaps. The main question has been, however: how to best achieve this objective?

So far, the primary focus amongst stakeholders has been on whether the Commission plans to take more stringent measures to tackle conflicts of interest which are damaging to interests of consumers, such as a total ban on the payment/receipt of inducements. This has led to an impassioned debate amongst different stakeholders.

The question raised in this article is "Are we tackling the main issues?": from an EIOPA perspective, we view the current debate as too polarised around the issue of banning or not banning inducements, with a disproportionate focus on the "point of sale". As we stated in our technical advice to the Commission in April 2022, we see the need for more to be done to tackle damaging conflicts of interest arising throughout the product lifecycle of an insurance-based investment product. As an anecdotal example, in a recent public event we held on "Five Years of the Insurance Distribution Directive", an audience poll clearly supported enhancing product oversight and governance (POG) requirements when asked about the IDD provision that can bring the most benefit for consumers if effectively applied.

Banning the payment/receipt of inducements can help to address product bias, but it is unlikely to completely eradicate poorly designed products from the market - it should not be seen as a "silver bullet" solution. One only needs to look at the jurisdictions where more stringent measures on conflicts of interest have been taken, where additional flanking measures have been necessary such as "fair value" measures, enhanced POG obligations, introduction of a consumer duty, a simplified advice regime etc., to see evidence of this.

**Insurance-based investment products should be cost-efficient and offer value for money to consumers.**

EIOPA is firmly of the view that insurance-based investment products should be cost-efficient and offer "value for money" to consumers. "Value for money" is already embedded in the IDD POG regime. On that basis, we have published a Supervisory Statement and a Methodology to be used by NCAs in assessing value for money in the unit-linked market. We are pleased to see a number of national supervisory initiatives following in a similar direction. We are now following up this work by working to determine whether it is possible to have "reference benchmarks" which would aim to guide insurance manufacturers in determining what constitutes a cost-efficient product.

What is crucial from an EIOPA perspective is to fully take into account the heterogeneous nature of the insurance distribution market in Europe and the way that consumers engage in this market. And heterogeneity can present challenges in ensuring that any harmonised approaches apply evenly across all national markets and consumers are treated in a consistent manner: For example, because there are a very large number of small insurance intermediaries which are natural persons and tied agents in the insurance sector, we are of the view that insurance undertakings (who have easier access to cost data) are better placed than insurance intermediaries to carry out a value for money assessment and this can produce far more meaningful outcomes for consumers.

Finally, it is important to note that however significant the reforms made to the regulatory framework for retail investment products, these will only be truly effective if these are bolstered by a strong supervisory framework. Implementation is key. National authorities need to have access to the necessary data and have the required tools, powers and resources to supervise and enforce effectively, which means being able to intervene early to prevent the risk of material consumer detriment arising. This can be done by tackling issues at an earlier stage, "upstream", such as at the product testing phase where the IDD already provides that insurance products should not be brought to the market "if the results of the product testing show that the products do not meet the identified needs, objectives and characteristics of the target market".

In conclusion, if we are to effectively tackle the main issues underpinning the Retail Investment Strategy, we need to adopt a broader focus across the product lifecycle, which places supervisory implementation as much at the centre as addressing any perceived gaps in the current regulatory framework.