Dutch Fund and
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Association

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To: ESMA
From: The Dutch Fund and Asset Management Association (DUFAS)
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DUFAS RESPONSE TO ESMA's CALL FOR EVIDENCE ON THE RETAIL INVESTOR JOURNEY: UNDERSTANDING RETAIL PARTICIPATION IN CAPITAL MARKETS

Q1: What are the key reasons why many retail savers choose not to invest in capital markets and instead keep their savings in bank deposits? Please explain and provide practical examples, or evidence drawn from experience, where available.

In 2024 DUFAS conducted a research into retail investors and their views on investing. (https://www.dufas.nl/site/assets/files/3139/dvj_insights_dufas_-_de_staat_van_onze_financiele_zekerheid_2024_print_29-12-2024_vf.pdf) As part of this research, respondents were asked about the main reasons why they did not invest. The main reasons were: a lack of understanding/knowledge about investing, the risks that investing entails and a lack of financial resources to invest (page 19).

What can we do to remove these barriers?

Financial education:

- It is important to improve education. Financial education is too important to leave entirely to the sector, because in that case it will remain fragmented and dependent on whether a school cooperates. With a 20-hour "money module" in the economics subject, all pupils can learn something about the opportunities and risks of saving and investing, and they can learn about the relationship between risk and return.
- Financial education in schools reaches young people, but accessible services are needed to encourage adults to enter the capital market. Sweden is an example, where investing has become a good habit thanks to a simple and tax advantageous investment account. By allowing individuals to start investing in an accessible way and with small amounts, they can learn about investing by simply doing it (learning by doing).

Investment risks:

Practice shows that the many warnings about investments are a major barrier for retail investors. These warnings suggest that investing is dangerous. Of course, it is important to observe investor protection, but as long as these warnings stay the way they currently are, the attitude of investors will not change. It is inconsistent that no warnings are required when investing in crypto assets, while doing so involves much greater risk. Also, no warnings are prescribed for saving on a deposit account, while the risk is very likely that negative returns will be achieved in the long run, due to inflation and low savings interest rates.

Financial resources:

The DUFAS research (page 38) shows that many respondents have the idea that investing is only for the wealthy. While figures from the AFM show that there are many households that could invest, but do not. (https://www.afm.nl/nl-nl/sector/actueel/2022/maart/meer-nederlanders-beleggen-sparen) For this reason, investing should also be easily accessible for investors who want to invest a small amount. The Swedish investment account is also a good way to provide this opportunity. In this context, financial education is equally important, as it enables consumers to recognise investing as a legitimate and accessible option.

Q2a: To what extent do retail investors find investment products too complex or difficult to understand? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

☐ A major barrier to investment

☒ A moderate concern, but not the main factor

☐ A minor issue compared to other factors

☐ Not a concern at all

This is a very broad question that depends on the type of financial instrument. With a solid basic knowledge and concise and simple information regarding the products, this should not be a problem.

We would like to point out that qualifying financial products in 'risk baskets' can lead to confusion. For example, volatility is not always a determining factor for complexity; if a simple product has low volatility, but the other characteristics are simple, it should not be considered complex, certainly not for long-term investors where volatility plays a more limited role.

Q3: Do past experiences with low or negative returns significantly affect retail investors' willingness to invest again? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ Yes, negative experiences strongly discourage future investment

☒ Somewhat, but other factors (e.g., trust, risk appetite) play a bigger role

☐ No, past experiences with poor returns are not a major factor in investor decisions

As far as we can tell this will play a role. There has been a lot of research done on this, so we propose that these scientific publications be looked at. This is also why financial education is important, in order to understand market cycles and the long-term nature of investing.

Q4a: Do high fees and costs discourage retail investors from participating in capital markets? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ Yes, fees are a major obstacle to investment

☐ Somewhat, but investors consider other factors as well

☒ No, fees are not a significant concern for most retail investors

Due to the ban on inducements, the ongoing costs of investing in funds domiciled in the Netherlands are the lowest in the EU (Source: ESMA TRV Risk Analysis - The scale factor: Impact of size on EU fund cost structures). However, despite the low costs, a lot of money is put into a savings account in the Netherlands, and much less is invested. This could lead to the conclusion that the costs are not decisive.

In addition, one must be careful not to continually point out the costs of investing. Of course, customer's interests must be central and customers should benefit from low costs, but by only pointing out the costs of investing, the investor may overlook that the average returns on investments are also higher than on saving. Overall, the higher costs of investing compared to saving are more than offset by the realized returns. With this, we believe that costs as such do not (or: should not) form a barrier for investing.

Apart from the above, we believe that fair cost levels are the outcome of sound market conditions and that active policy making on this topic could have the negative effect of limiting competition and leading to sub-optimal outcomes in the longer run.

See also our response to Q18 regarding the complexity and comparability of cost disclosures.

Q5a: Have you identified a lack of trust in investment service providers as a factor influencing retail investors' reluctance to invest? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ A major factor

☐ A contributing factor, but not the main issue

☒ A minor factor compared to other concerns

☐ Not a factor at all

The DUFAS research shows that the majority has a neutral or positive view of asset management (12% negative, 53% neutral and 34% positive). However, a lack of trust is most often mentioned (among the negative opinions) as a reason for a negative attitude towards asset managers.

Q6: Do retail investors feel they have adequate access to investment advice and relevant information when they encounter difficulties in understanding investment products? If not, what forms of support would be most helpful? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

In the Netherlands, the ban on inducements has led to less access to free or inexpensive investment advice, in particular for lower investable amounts (for which the costs to be charged to the client do not pay off). We believe that the barriers referenced above (the perception of not having sufficient resources to invest, lacking financial education) can be mitigated by having access to free (or low-cost) advice, which can boost retail investor participation. DUFAS has therefore been advocating a 'light regime' for some time. Including a simplified suitability regime in MiFID II will improve access by retail investors to investment advice (lowering costs), while reducing supervisory and administrative burden for firms because of the simpler customer journey.

Ideally, this suitability test puts the emphasis on customer preferences and less on (detailed) customer characteristics (by ensuring that only non-complex products can be accessed through this form of distribution).

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? If so, please explain which types of instruments are less commonly recommended and why. *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

Q8a: To what extent does a lack of financial education or investment knowledge contribute to retail investors' reluctance to invest in capital markets? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☒ A major barrier to investment.

☐ A contributing factor, but not the main issue

☐ A minor factor compared to other concerns

☐ Not a factor at all

As mentioned in Q1, DUFAS research shows one of the main reasons why people are not investing is a lack of understanding/knowledge about investing.

Q10: Are there any other significant non-regulatory barriers that discourage retail investors from investing in capital markets? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Although we have not conducted an in-depth investigation into this matter, we believe that behavioural factors—such as procrastination and loss aversion—as well as social influences, such as the absence of role models, may be relevant.

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? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

The simpler and more accessible the process, the easier it is to start investing. We see opportunities to provide better accessibility with digital solutions, for example:

- AML processes can be shortened by retrieving data from available (public) digital sources.
- Investment information can be provided in a more suitable manner, for example by using layering techniques, or by providing data in different, more accessible formats.

Q12: How effective do retail investors find the current mechanisms for filing complaints and obtaining redress when issues arise with investment products or services? Do issues with these mechanisms play a role in retail investors' hesitation to invest? If yes, which improvements can be made? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

Q13: What measures - whether market-driven or policy-driven - could help improve retail investor participation in capital markets? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

As mentioned before, we see the following points of attention for improved retail participation:

- More focus on financial education;
- Less warnings regarding investments (compared to for example crypto investments or saving on a deposit account)
- Introduction of an 'light regime' for investment advice or portfolio management

In addition to the above, we see big potential for the introduction of an investment and savings account (ISA), following the example of Sweden. We believe the ISAs could become a big success in boosting retail investor participation if it is set-up as an easily accessible account, subject to a simple and attractive fiscal regime, providing easy access to a large range of non-complex, well-diversified products. Imposing limits to allocation (e.g. the EU) or holding period may on the other hand make the account less appealing, possibly limiting its appeal to retail investors.

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? *Please select one or more of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ The expectation of high returns

☐ The perception of lower costs (e.g., no management fees, low transaction costs)

☒ The ease of access and fewer entry barriers compared to traditional investments

☐ A preference for decentralised, non-intermediated investments

☒ Influence from social media and online communities

☐ Distrust in traditional financial institutions and advisers

☒ Other (please specify)

Speculative markets often have fewer entry barriers compared to traditional investments. Opening an account and trading can typically be done within minutes, with low or no minimum investment requirements.

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? *Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.*

No, we believe that the information is far too extensive and detailed for the average retail investor. Due to its size and complexity, many people do not read the information and if they do, the majority do not understand it. The format (and partly the content) should be more customizable for the type of service/product and the type of investor. Also, techniques such as layering should be possible.

Q15c: For firms: Have firms observed cases where retail investors disengage or hesitate to invest due to the volume, complexity, or presentation of disclosures? If so, what are the main factors contributing to this? Which disclosures and contractual documents do firms consider genuinely necessary, regardless of specific legal requirements under MiFID II or other sectoral

legislation? *Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.*

Yes, we believe the presentation of disclosures could be more flexible. For example the use of simple language and infographics could help investors understand the disclosures. Also layering in the provision of information could help investors understand the disclosures on a higher level, with the possibility to obtain more detailed information if desired, without being overwhelmed by the information provided.

We would welcome a closer alignment of information requirements with the needs and preferences of retail investors. This warrants further research, ideally conducted by ESMA and/or national supervisory authorities.

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*

No, the current format of the PRIIPs KID will not help retail investors understand the investment product. As mentioned before, we believe the presentation of disclosures could be more flexible. For example the use of simple language and infographics could help investors understand the disclosures. Also layering in the provision of information could help investors understand the disclosures on a higher level, with the possibility to obtain more detailed information if desired, without being overwhelmed by the information provided.

Q17: For firms: Do you measure investor engagement with KIDs and digital disclosures (e.g., click-through rates, reading time, or interactive tools)? Are these available in formats adapted to mobile-first environments? *Please explain your reasoning and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

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?*

Despite the legal obligations in cost transparency, we still see many differences between providers. This does not help the retail investor in comparing different providers. We also think that percentages of costs are not always understood by the retail investor. The actual costs are difficult for the retail investor to oversee. Here too, the provision of information regarding costs should be tailored to the wishes and needs of retail investors. We suspect that there may be a greater need for insight into the total costs instead of breaking down the costs.

Also the illustration about the cumulative impact of costs on return does not actually helps clients understand the cumulative impact on returns, while it takes firms a lot of effort to make these illustrations. Removing this requirement from legislation will lead to simplification for the client and a reduction in the burden on the firms.

Q19: Do firms apply layering of information on costs on charges on digital platforms or in mobile applications (e.g., by showing only the total amount and percentage on the order screen, and all required information in a PDF)? *Please provide details, also on the appreciation of retail investors of this application of layering.*

No comment/input

Q20: Do retail investors find the quarterly statements helpful in keeping track of their investments? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ Yes, it provides clear and relevant information

☐ Somewhat, but the frequency could be lower

☒ No, the information is usually readily available to the retail investor online and thus the statements do not have much added value

☐ Mixed views (please elaborate)

Pursuant to Articles 60 and 63 of the MiFID II Delegated Regulation, investment firms are required to provide clients with quarterly portfolio statements via a durable medium. However, this obligation does not apply if the firm provides its clients with access to an online system that qualifies as a durable medium, *and* if the firm can demonstrate that the client has accessed a portfolio valuation or similar statement at least once during the relevant quarter.

In the Netherlands, there is ongoing debate as to whether an online system can be considered a durable medium under these conditions. This issue likely also arises in other Member State Moreover, from a technical perspective, it is particularly challenging—and in some cases highly time-consuming—to prove that a client has actually accessed such a system.

As a result, the practice is to send each client a quarterly statement by default, regardless of whether they access the online platform. In many cases, it is questionable whether clients even read these quarterly statements.
We believe there is a clear opportunity here to reduce administrative burdens, without compromising investor protection. A possible solution could be to remove the obligation to provide quarterly statements if clients are granted access to an online portal that allows them to view and download the relevant portfolio information.

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? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ Yes, it provides clear and relevant information

☐ Somewhat, but the frequency could be lower

☒ No, the information is usually readily available to the retail investor online and thus the statements do not have much added value

☐ Mixed views (please elaborate)

We believe that the 10% depreciation information only creates fear amongst clients in bear markets, which may not lead them to make sensible investment decisions. It could, for example, stimulate 'panic selling' by retail investors. This makes the obligation rather counterproductive.

Q21b: If considered necessary, how could the 10% loss reporting be improved?

It should be removed, as the information is usually readily available to the retail investor.

Q22: To what extent do questions and measures on customer due diligence in accordance with AML/CFT requirements create barriers that prevent retail clients to start investing? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☒ A major barrier to investment

☐ A contributing factor, but not the main issue

☐ A minor factor compared to other concerns

☐ Not a factor at all

Q23: Do questions and measures on customer due diligence in accordance with AML/CFT requirements affect the onboarding experience for retail investors? Are there particular steps in the process that cause delays or confusion? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

The data request is very extensive and there is great fear among financial entities of making mistakes when performing CDD processes. That is why often much more information is requested than necessary. The guidance of the supervisor is also becoming increasingly extensive and the new legislative package will probably leave little room for a risk-based approach.

Q24: For firms and trade associations: to what extent do national tax regimes create barriers to offering investment services and attracting retail investors on a cross-border basis? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

We believe that national tax regimes create a barrier to cross-border investment services. Taxation is a complex topic, and procedures (such as withholding tax relief procedures) are difficult for retail investors. A certain degree of harmonisation would therefore be desirable.

Q25: To what extent do tax-related issues discourage retail investors from investing in investment products issued or manufactured in another Member State? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please see our answer to question 24.

Q28: For firms and trade associations: Which steps do firms take to make investment service agreements (contracts) more accessible and understandable to retail investors? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

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? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

The current process is too extensive, especially for investors who invest with a small amount.

Q31: Are there any steps in the information collection process that could be simplified without compromising investor protection and the objective of this collection which is to propose suitable investments matching client profiles? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

DUFAS has been advocating a 'light regime' for some time. Including a simplified suitability regime in MiFID II will improve access by retail investors to investment advice (by lowering costs), while reducing supervisory and administrative burden for firms because of the simpler customer journey.

Ideally, this suitability test puts the emphasis on customer preferences and less on (detailed) customer characteristics (by ensuring that only non-complex products can be accessed through this form of distribution).

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? *Please explain and provide practical examples, or evidence drawn from experience, where available*

It is considered too complicated and we suggest it to be adjusted in MiFID II. An average retail investor is often unable to provide such detailed information about his sustainability preferences as is requested now.

Q34: For firms and trade associations: Have firms observed cases where clients struggle to express their sustainability preferences in a meaningful way? How have these issues been addressed to help retail investors? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Please see our response to question 32

Q35a: Do retail investors find suitability reports helpful in understanding why a specific investment was recommended? In your view, do these reports add meaningful value for clients? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

Q35c: For firms and trade associations: What steps have firms taken to ensure suitability reports are concise, clear, and valuable to retail investors? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

Q36a: Do you believe the MiFID II appropriateness assessment helps ensure that retail investors understand the risks of the products they invest in? *Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.*

☐ Yes, it is an effective safeguard.

☐ Somewhat, but there is room for improvement.

☒ No, it is not particularly effective.

☐ Mixed views (please elaborate).

The current test has a rather deterrent effect. Instead of the knowledge and experience test (appropriateness test), an interactive e-learning or an informative video could be used, which would be a more accessible way to help ensure that retail investors understand the risks of the products they invest in.

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? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

No comment/input

Q38: Are educational tools used during the onboarding process for retail clients? In your experience, are these tools primarily aimed at improving financial literacy, or are they mainly used to justify client access to complex financial products? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

We see educational tools being used in the onboarding process for retail clients. However, we have no experience with the aim of these educational tools (improving financial literacy or justifying access to complex financial product. However, we believe that both goals can be achieved with the same educational tools.

Q39a: Do you believe the current approach to assessing client knowledge and experience via the appropriateness test (i.e., going beyond self-assessment) creates any barrier to retail engagement in financial markets? *Please explain and provide practical examples, or evidence drawn from experience, where available.*

Yes, as mentioned before, the current test has a rather deterrent effect and different methods (such as an interactive e-learning or informative video) could be more helpful and could improve the knowledge of retail investors.

Q40: Based on your experience, are there aspects of the crowdfunding investor journey that could be improved to better support retail investors, whether in terms of clarity, accessibility, or overall user experience? *If so, please explain which aspects you would amend and why, including any suggestions for improvement.*

No comment/input

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks? *Please explain and provide practical examples, or evidence drawn from experience, where available*.

No, we do not think the regulatory framework strikes the right balance. As stated, many of the legal obligations impose barriers, while adjustments can reduce or avoid these barriers without compromising the protection of the interests of the retail investor.

Many regulations are based on the assumption that investors need to be protected from themselves. This often results in excessive disclosures, complex procedures, and overwhelming warnings—ultimately discouraging investor participation.

Instead, the focus of financial regulation should shift toward strengthening financial self-reliance, rather than promoting inefficient overprotection. The legal framework should explicitly incorporate behavioural science insights to ensure more effective and proportionate regulation.

See our answers to previous questions for proposals we make to lower the barriers.

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? *If so, please explain where changes in rules, or further supervisory attention or guidance may be helpful*.

No comment/input

DUFAS: Dutch Fund and Asset Management Association
Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.