Finanzgruppe
Deutscher Sparkassen- und Giroverband

New rules do not help clients. Study confirms dissatisfaction with MiFID II and PRIIPs Regulation.

- *Scientific study shows that the experience with MiFID II and the PRIIPs Regulation is rather sobering after one year.*
- *Clients are dissatisfied with the new requirements and are withdrawing from capital markets.*
- *In the upcoming review of MiFID and the PRIIPs Regulation, there is an urgent need to remedy the situation by introducing rules that are more customer-friendly.*

The Markets in Financial Instruments Directive (MiFID II) and the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation have been in force since early 2018. They were meant to provide better investor protection and transparency for clients. However, a recent study[1] in which 153 credit institutions and 2,852 clients across Germany participated has shown that the legislator's objectives have clearly not been met.

Sharp decline in telephone business

Since the beginning of 2018, the telephone business has declined by more than half. This development is a direct consequence of the new requirements: Aside from the sceptical stance taken by many clients regarding the voice recording of transactions concluded by telephone (clients feel that the confidentiality of the conversation is jeopardised), there have been significant practical problems (information needs to be transmitted electronically; "switching media" considerably delays the placement of orders). From the clients' perspective, both matters are so serious that half of the clients no longer want to do business by telephone.

Flood of information overwhelmes clients

The study revealed that the additional information required prior to a transaction does not help clients to extract essential information faster. Instead, more than three-quarters of the clients feel overwhelmed by the large quantity of information. For this reason, the vast majority of clients would like to have the option to waive at present mandatory information (opt-out), which they do not perceive as helpful.

Need for thorough review of PRIIPs Regulation

The study has confirmed that there are persistent problems with unrealistic performance scenarios in the new key information documents. Consumer advocacy organisations and the European supervisory authorities (EBA, ESMA and EIOPA) have also drawn attention to this untenable situation. It therefore comes as no surprise that, according to the study, more than two-thirds of the clients surveyed come to the conclusion that the key information documents are not a good basis for making comparisons.

Costs of regulation are borne by clients

On average, the implementation of MiFID II and the PRIIPs Regulation has led to one-off costs of EUR 3.7 million per credit institution. Running costs are not even included in this calculation. This has implications: advisory services on securities are no longer provided on a comprehensive basis in all branches; advisors have to deal with cumbersome documentation instead of providing advice. One particular problem is that, in view of continuing low interest rates, it is more important than ever that clients accumulate assets by acquiring securities. However, according to the study, one-quarter of the clients now plan to gradually withdraw from the capital market.

A swift response to make rules more customer-friendly!

- There is an urgent need for a comprehensive review of MiFID II and the PRIIPs Regulation.
- A distinction needs to be made with regard to client groups: The need for information and protection of professional clients differs from those of retail investors.
- Experienced investors should decide for themselves whether they want to waive information (opt-out) or if they want to receive this information after the conclusion of a securities transaction.
- It must also be possible to waive voice recording.

[1] *Chair of Finance and Banking at the University of Bochum, MiFID II/MiFIR and PRIIPs Regulation Impact Study: Effectiveness and efficiency of new rules against the background of investor and consumer protection, February 2019.*

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