Press release

BVI paper: EU Commission is undermining its retail investor strategy with a ban on inducements

- **No higher returns for private investors**
- **Less participation in capital markets**

Frankfurt – 14 August 2023. A ban on inducements does not lead to higher returns for private investors and even prevents them from participating more in capital markets. This is shown by data from the European Central Bank and the UK's Office for National Statistics, which the German Investment Funds Association BVI has analysed. 'The EU Commission is undermining its own objectives with the proposal to ban inducements,' says Thomas Richter, BVI's CEO. While Commissioner Mairead McGuinness has refrained from a full ban on inducements for the time being, the idea of a ban has not yet been taken off the table. As a first step, inducements in non-advisory sales are to be banned.

The Commission wants to reduce product costs with the ban. It expects that this will increase the return on investors' financial assets (portfolio return). However, the BVI paper shows that this assumption is not correct. In the UK and the Netherlands, portfolio returns have not changed due to the ban introduced there about ten years ago. Obviously, other effects have compensated for the lower costs of commission-free products. There are several possible explanations for the unchanged portfolio return for investors. For example, distribution costs are typically not reduced by a ban of inducements, but only paid separately. In addition, an advisory gap could lead to private households participating less in capital markets, for example with funds. This would mean that they would miss out on return opportunities.

The BVI paper shows that private investors in the UK and in the Netherlands actually have been saving less in funds due to the ban. The BVI estimates the resulting decline at an average of nearly EUR 340 per capita per year. Taken over a 30-year period, assuming performance of 6 per cent per year, the ban results in a decline in return of around EUR 20,000 if instead the money had been placed in non-interest-bearing accounts. 'In the case of funds, bans – not commission-based advice – are what prevent private investors from participating more in capital markets. This contradicts everything the EU wants to achieve,' says Mr Richter.

BVI
Bundesverband Investment
und Asset Management e.V.

Contact
Phone +49 69 15 40 90 0
www.bvi.de

BVI Berlin
Unter den Linden 42
10117 Berlin

BVI Brussels
Rue Belliard 15 – 17
1040 Bruxelles

BVI Frankfurt
Bockenheimer Anlage 15
60322 Frankfurt am Main

Executive Board
Thomas Richter CEO
Rudolf Siebel MD

For its study, the BVI evaluated public data on bank deposits, insurance policies, pension funds, bonds, equities and investment funds for the period from the beginning of 1999 to the end of March 2023. The portfolio return was defined as the quarterly change in financial assets adjusted for transactions. By design of its study, the BVI ruled out that country-specific effects – such as different pension schemes – or different capital market returns before and after the introduction of the inducement bans are falsely counted as a result of bans.