European Commission - Speech

Speech by Commissioner McGuinness at Eurofi High-Level Seminar

Stockholm, 27 April 2023

So, very good afternoon, it's great to be here.

It's a good job I was in the room for the end of that last conversation, which was an excellent conversation.

And what really pleased me is that we can say as Europeans that our banks have been resilient.

On the Retail Investment Strategy, you are going to have to listen very carefully because there are items I will discuss before I get to the all-important Retail Investment Strategy.

But maybe a few points in response.

In terms of the idea of the universal banking model, the issue of dismantling models – I'm in the business of creating, rather than dismantling.

I'm in the business of ensuring that the European system, the European financial system, continues to be strong, resilient and working for people and the economy.

And I'll elaborate more on that as time goes on.

It's great to see so many in the room, and indeed many standing. It shows the vibrancy of this event.

And when we met in Prague just six months ago, we were taking stock again of a rapidly changing landscape around the world.

And indeed, the pace of change has not slowed at all since then.

Quite the contrary.

Today I want to reflect on the current outlook for the economy and the financial sector.

And talk about the EU's policy response to maintain our competitiveness.

And that includes work on Capital Markets Union – such as our efforts to support retail investment and consumer protection in the European Union.

The global financial environment has become more challenging.

We have seen banks failing in the United States and Switzerland.

And again our banking system in the EU has proven resilient.

It reinforces our approach to bank regulation – applying Basel standards to all banks.

But we're not complacent.

The shift in interest rates creates a new environment.

Higher inflation and rising interest rates present different challenges than the past decade or more of very low interest rates.

All of us – regulators, supervisors and the financial sector – have to stay alert.

We have broader changes happening, too.

Technology and innovation are transforming how our financial system works.

We have seen the development of artificial intelligence accelerate.

And I would be really curious to know how you are already using this technology, and I've had good discussions with colleagues on this topic already.

Now sadly Russia's war in Ukraine continues.

Trade patterns and associated financial flows are changing.

Some call it fragmentation – the more I think about this, I would prefer to use the word reconfiguration.

We're ending our reliance on Russian fossil fuels at incredible speed.

The heating season is over – with our gas storage still more than half full.

And Gazprom is considering raising prices in Russia to compensate for the loss of export revenues in Europe.

So our work to break our reliance on Russia is working.

Now we're addressing our over-reliance on certain providers of critical raw materials.

We won't repeat the errors of the fossil fuel era in the net-zero economy.

EU trade around the world is booming – diversifying who we trade with and strengthening relations with our partners.

For example, trade between the EU and Japan increased by more than 13 percent last year.

The climate crisis continues to put pressure on everyone to join the transition to a low-carbon economy.

And indeed in the conversation David you referenced what we are doing around sustainable finance.

And we're going in the right direction, and it is a challenge, but it is a challenge we all have to face, and face up to.

And here we need to take the right action – decisive and bold, but also calm and considered.

It is my absolute view that Europe is capable of strong leadership.

We lead on the response to climate change – particularly on sustainable finance.

This work started three years ago with the European Green Deal.

We plan to cut emissions by 55% by 2030.

And aim to be climate neutral by 2050.

Half the emissions we need to cut by 2050 depend on technologies not yet ready for the market, or technologies that don't yet exist.

Now this is a challenge, but it is also a huge opportunity.

The EU's net-zero start-ups were worth over €100 billion in 2021, twice as much as the year before.

These industries make the clean technologies we need for the transition to a net-zero economy.

Europe's economic competitiveness – and our continued leadership – depends on embracing and financing this transition.

And that's the thinking behind the new Green Deal Industrial Plan, which President Ursula von der Leyen announced in February.

We've been moving quickly to put that plan into action.

We adopted the Net Zero Industry Act in March to scale up the manufacturing of clean technologies.

Alongside this, we adopted the Critical Raw Materials Act to support raw material supply chains in the European Union.

And then of course we need more investment.

The bulk of the money to fund green techs and clean techs will not come from the public purse, but from private investors.

So we need thriving capital markets in the European Union to secure our competitiveness.

The Capital Markets Union is about allowing businesses to access more sources of funding as they start out.

It's about making sure that start-ups born in Europe can scale up in Europe.

It's about giving investors more opportunities to invest in different projects and companies, including green tech and clean tech.

For instance, we recently proposed a new Listing Act.

And this is about making listings on public markets easier and more accessible, especially for smaller companies.

The revised rules on European Long-Term Investment Funds were adopted in March.

These changes will make it easier and more attractive for fund managers to offer these funds, and for investors to access them.

And this will help provide more long-term capital for projects in areas like sustainable energy, transport and social infrastructure.

And we are not shying away from tackling the more difficult, structural issues that are currently preventing integration.

In December we put forward a proposal on insolvency to make the process more consistent, no matter where you are in the European Union.

Alongside capital markets, European banks will continue to play an important role in supporting the European economy.

We want banks to continue to be a reliable and sustainable source of finance for European companies.

Our banking sector has become much more resilient in recent years thanks to the Banking Union.

We have strong common rules for banks.

And we have fully operational central authorities to supervise banks and, when required, to handle their failure.

But as you know Banking Union is still a work in progress.

Last week, we made some more progress – by adopting a proposal to strengthen the EU's bank crisis management and deposit insurance framework.

Our goal here is to ensure a more consistent approach to resolution, so that any bank can leave the market smoothly.

And this will bring greater financial stability, protect taxpayers and improve the confidence of depositors.

And now I take a drink of water before we go to retail investment.

That's in case you weren't fully attentive. Now you are.

It's true that we're great savers. Europeans are great savers. And I think in Covid we all saw the reality of that.

But there's another truth: we don't have the confident or dynamic retail investment culture that you see in other places like the United States.

And indeed I was there recently and I spoke to Rohit Chopra, Director of the Consumer Financial Protection Bureau.

His organisation is dedicated to making sure that consumers in the US get a fair deal in financial services.

And he had three interesting points which I absolutely concur with that are of importance to consumers.

Having, first, access to objective sources of information, being able to raise their hand to get help, and having regulators that defend their rights.

Here in the European Union, we need to recognise that without retail investors, there will be no Capital Markets Union.

And that's why we're looking to address this with the upcoming Retail Investment Strategy.

Now I cannot pre-empt decisions to be taken by the College of Commissioners.

But I do want to speak about some of the key issues the upcoming proposal should address.

Because the Strategy will look at all the different rules and practices in the EU on investment products for retail investors.

One key point is around advice.

Without trustworthy advice, retail investors will not invest more in capital markets.

So earlier this year, I said I wanted to have a conversation around consumer advice.

At the moment, financial advisors often receive benefits or commissions from third parties, typically the manufacturer, for selling their specific products.

And these are what we call inducements.

They mean that financial advisors often have a direct personal financial or in-kind interest in selling these 'induced' products to a client.

Research shows that retail investors are often advised to buy more expensive products and/or products not always suited for their needs.

Retail investors are rarely offered the least expensive products, though these can often perform as well as the more expensive ones.

Costs are passed on to consumers through high and often opaque charges which they pay to financial advisors for investment products.

Consumers very often don't realise how much they are paying for financial products, or how to compare products available on the market.

This area, more than any other in financial services, is one where I really believe that we need to address conflicts of interest around investment advice.

Now I think we all need to acknowledge that we are talking about retail investors – we should not expect them, or us, to be experts in financial services.

And so that makes it all the more important to avoid conflicts of interest in this area.

Consumers deserve decent advice that they can trust, at a decent price.

But biased advice doesn't serve them either.

There are strong, even polarised, dare I say it, views on the question of banning inducements – from very strong opposition to very strong support.

I will be very kind and not ask for a show of hands as to how this room would vote. I think I have three supported on that side.

Anyway – but whether you agree or disagree, it is important that we have this conversation.

It's important that we talk about retail investors, and how important they are for the completion and the success of capital markets.

What I do want to say, regardless of what side you come down on, even if you're neutral if that's possible in this very divisive debate, is a thank you to the many in this room who have actually contributed to that debate.

It's been extremely helpful.

From a very early age I was a strong debater and I believe that strong debates are healthy.

Member States, consumer organisations, Members of the European Parliament, industry representatives – you've all expressed very clearly your views.

I think that there is agreement that there is a problem – that the status quo does not best serve the consumer.

But views diverge strongly on how to address this.

We won't solve this problem overnight, but I think we still should be ambitious.

On balance, we have listened to those who tell us that a full ban on inducements could be too disruptive at this stage.

But we are also listening to those who tell us that consumers are not getting the best advice for their needs, and at a fair price.

And that is why we are also considering other measures, including transparency obligations.

But I would that increased transparency by itself is not enough.

Because we know that retail investors – who we cannot expect to be experts – will continue to rely on the experts in the financial sector when they make decisions.

And that gap in knowledge and understanding won't be addressed just by increasing transparency.

So we do need to go beyond transparency obligations.

We're looking at tightening the conditions under which inducements are allowed.

We're also looking at how we can ensure better value for money in investment products.

And we're looking at how we can make suitable, reasonably priced, easily understood advice available to everyone.

There should be a better breakdown of costs to make it easier for a consumer to compare different options.

And this will also increase scrutiny, including from supervisors.

There should also be a targeted ban on inducements for execution-only transactions.

Because it's not right that inducements are paid even when there is no advice relationship at all with a client.

And there should also be strengthened safeguards around when inducements may be paid – and when they must not be.

Together, these measures will strengthen the rules around advice to ensure that advisors act in the best interests of their clients.

I want to be clear: even if we do not propose a ban on all inducements now, it does not mean a free pass for the financial sector.

Those of you that are in this sector may have to rethink some of your business models and practices, so that consumers get a fairer deal.

In the coming months, I will organise a roundtable with all stakeholders, including industry and consumer associations.

I will challenge you to show me what you are doing on the ground to solve the problems that we've identified, and the timelines to address them.

And I will follow this closely.

And we will have a strong review clause in the proposed legislation.

And that will allow us to bring in a full inducement ban at a later stage if necessary.

I think I'll take another drink of water. That you can absorb.

And I do want to stress the point about the debate.

Because I do want European citizens to be more involved in the financial system, rather than feeling that they are outside takers of information.

So then in closing, just to say that it is – I don't even need to say it – that these are decisive times.

We are taking very strong action to support a resilient and competitive Europe. Your sector is absolutely crucial to that resilience.

It goes across from innovative industries, particularly those in the net-zero transition; from banks and capital markets; from consumers and retail investors.

Thank you.

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