Insideview

Regulation impedes Investment Advice in Shares – A Survey

INTERVIEW WITH CHRISTINE BORTENLÄNGER

Dr. Christine Bortenlänger
Chief Executive
Deutsches Aktieninstitut e.V.

In the aftermath of the last financial crisis, regulation concerning equities investment advice was intensively discussed and once more intensified. In order to better ensure consumer protection, new security measures have been introduced by legislators. What have been the most relevant regulatory changes and what are their aims?

In 2010, the German legislator obliged banks to document investment advice by drawing up minutes. In case of dispute, these minutes shall provide the customer with evidence regarding the investment advice of the bank adviser. The client is not allowed to waive the obligation of the bank, which makes it a very strict requirement. Since 2011, banks are also required by law to provide their investment advisory clients with product information documents (PIBs) in relation to financial instruments they recommend to buy, i.e., for every single share. These documents shall describe the main characteristics of the financial instrument in a short, concise and understandable manner.

What do the regulatory requirements mean for financial institutions?

In order to comply with the requirement of providing investment advice minutes, financial institutions have to invest a substantial amount of financial and human resources into the respective processes. The formalized process to draw up the minutes is also very time-consuming. Consumers which frequently seek advice by banks have difficulties to see the benefit of the tedious documentation procedure. Not being allowed to waive the minutes, they often feel being patronized. Regarding the PIBs, it is expensive to issue respectively purchase those for every single share and they add only little benefit especially for smaller banks with a minor customer base.

Deutsches Aktieninstitut conducted a survey on the impact of the regulation. What was the survey setup and what were the key findings?

We sent out a questionnaire to 1,600 German banks of which 500 responded. Our survey focused on questions regarding the impact which regulation has on investment advice in shares. The main result was that every fifth bank abandoned its service regarding investment advice in shares. Two thirds of the banks reduced their investment advice in shares significantly. Regulation is also the reason why banks retreat from investment advice in other securities like bonds, investment funds and structured products. Among the different regulations, the participants of our survey considered the obligation to record the investment advice and the PIBs as the most critical.

Against this backdrop, what will be the consequences for the consumers?

Bank advice fulfills an important economic function. Clients are informed about the benefits of shares and shown how to handle the risks inherent to shares. Our study shows that regulation is the main reason why banks meet this function less efficiently. This will further decrease the potential interest in shares and share holdings among German retail investors, which is already low compared to other countries like the US or the United Kingdom. As Germans do not invest in asset classes like shares which are more profitable than other asset classes like, e.g. bonds, an opportunity for private wealth building is lost.

If you were asked to improve the regulatory setup, what would you suggest?

The regulation of investment advice must be readjusted in order to address the unintended consequences our study revealed. Experienced retail investors should be allowed to waive the documentation obligation. Other surveys indicate that many customers ask for that possibility. Furthermore, we propose to release the banks from the duty to prepare a product information document for every single share as the information provided by these documents are not really helpful for investors in their decision to buy shares of a company. Much more appropriate is the comprehensive information already provided by the issuer, by research providers, or by the media.

Thank you for this interesting conversation.