

Can PRIIPS patch up European regulatory landscape?

11 March 2011 by Kevin Dean, CEO, Axa Wealth International

The impetus for consumer protection legislation is set to continue.



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Kevin Dean
CEO, Axa Wealth International

Despite the fact that the European Commission's proposals to establish a level-playing field across all Member States between various types of investment products with the packaged retail investment products (PRIIPs) initiative will now only cover product disclosure and will leave the regulation of selling and marketing practices to be addressed through the IMD and MiFID frameworks, the momentum still remains to rectify the current patchwork of regulation across Europe.

Raising standards

The ultimate aim is to raise investor protection standards, which surely for the consumer must be a good thing and will help to regain the trust of retail investors following the recent financial crisis. It is fair to say that all financial institutions have lost a lot of credibility, so restoring confidence between financial institutions and towards them is one of the most important challenges of the post-crisis era.

The PRIIPs initiative focuses on improving pre-contractual product disclosure due to the difficulties retail investors face in understanding, comparing and using information provided to them about investments. A directive, common to the funds, banking and insurance industry, will lay out the high-level principles and in a second stage, a sectoral directive will fine tune according to the specifics of each industry.

More than ever it will be important that the regulation is robust with no loopholes which allow ongoing differences to continue and retail clients to remain confused, with the reputation of the finance industry lowered even further in their eyes.

The industry has had to grow up fast recently so cannot afford to keep seeing 'monsters under the bed' every time new regulations are proposed. Assessing the issues rationally and

working together with the European Commission at the consultation stage is important to every company no matter how large or small in the current climate of enhanced consumer protection.

The Commission has made it clear that the new requirements will be based on the Ucits Key Information for Investors Document (KIID) so for the UK, one would hope, not as onerous a task as for some member states, as we have been 'treating customers fairly' since 2001. The majority of the information can already be found in current key feature documents and significant changes should be no broader than those already introduced in the UK Retail Distribution Review.

Opportunities

As with the introduction of all new regulation, the cost in money and time to the industry for redesign of documents to align to KIID is to be expected and accepted, but it is important to see the opportunities as well as the threats that this can bring. For instance a more consistent regulation may even reduce some costs for firms, particularly where they operate cross-border.

A greater consistency in product disclosure could also spur the development of products that respond to consumer needs, potentially resulting in them actively seeking and buying the product. If someone wants a cream cake it is easier to sell them one rather than persuade them they really want a spinach sandwich.

Providing a coherent regulatory environment with standardized product disclosures should enable the retail client to compare between products with key information in clear and similar formats. If this is joined up with equivalent standards to the selling process, albeit via other regulation, they should certainly benefit for the proposed changes.

Whilst we could argue that a truly level playing field will never exist due to the various taxation regimes and with whispers of developments to separate underlying investment vehicles from tax wrappers, tax harmonization in Europe is something for a future debate.

So will PRIPs have it all sewn up and make the patchwork into a seamless quilt... or will we be stitched up?

One thing for certain is that enhanced consumer protection legislation is here to stay and putting our clients' needs first should always be our main aim if we are to succeed in winning and retaining their business.

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