

Financial education and investor protection in Europe: the role of ESMA

IOSCO World Investor Week – FSMA Conference

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Introduction

- First of all, I would like to thank Jean-Paul Servais (Chairman of FSMA) for inviting me today and the National Bank of Belgium for hosting us.
- I would also like to say that I am delighted to speak today in the context of the IOSCO World Investor Week, a very valuable initiative which, I know, is close to the heart of Paul Andrews (Secretary General of IOSCO).
- This “Week” offers a unique opportunity to regulators across the globe, through a variety of initiatives, to increase awareness on the importance of financial education.
- Today, I will talk about financial education and investor protection: I will notably discuss how these two topics are complementary and interconnected.
- Financial education is an issue for every segment of the population including people with a high level of education.
- A survey on financial literacy ran by the OECD in 2016, which has included 13 Member States of the Union, shows that in 11 of them, less than 40% of the adult population is able to understand very basic principles such as compound interest. In five of these Member States, this figure is equal or below 30%.

Need for financial education in Europe

- This low level of financial education in Europe is concerning in many ways but especially considering that European citizens face, today more than ever, important financial choices.
- Let me illustrate a few elements of context which suggest the need for a serious discussion around financial education:

1. In most Member States, a shift is ongoing between public pension schemes where no financial decision was expected from workers to systems where workers will be required to choose among several privately offered options.
2. In the current sustained low yield environment, a growing number of consumers who were saving exclusively through bank deposits now consider directing some of their savings to financial markets to get a decent yield.
3. This is facilitated, and this is my third point, by the fact that digitalisation has made the access to financial markets easier than ever. This is global trend and certainly it is clearly identifiable also in Europe.

This easier access has benefits and risks to consumers; among the risk the limited financial literacy of many consumers is certainly a concerning factor.

4. A fourth point is the fact that thanks to digitalisation, aggressive marketing of highly speculative products to retail investors may be facilitated.

Again, many of those targeted investors are financially illiterate and do not appreciate the very high risks associated with highly risky and complex financial instruments such as contracts for difference or binary options.

5. One last point I would like to mention here is the importance financial education may play in the building of the Capital Market Union.

The Capital Market Union requires investors to regain confidence in financial markets.

I believe that investors will gain or regain confidence in financial markets if they feel protected and this requires an increase of the level of investor protection.

However, one cannot be truly confident in financial markets without understanding at least their very basics. Hence, efforts to promote financial education may contribute to the CMU.

- ESMA believes in the merits of investor education notably in the long term. Indeed, even the most robust conduct of business rules have limitations if investors do not have at least a basic financial literacy.

- As you know, financial education initiatives can take many forms and reach many target audiences: young people, elderly people or young professionals to name a few
- I am personally convinced that young people should be a priority target and that providing financial education at school is extremely important.
- Indeed, school years is the single best moment in life to give a full age class a basic toolkit on financial matters.
- This basic knowledge will be the foundation on which these young people will be able to build during the rest of their lives.
- By referring to age class, I meant to say that ideally financial education initiatives at school should aim at providing at least basic financial knowledge to all school students before they get out of the educational system and should not be limited to the most academically advanced or privileged ones.

Role of ESMA in the field of financial education and investor protection

- Now moving to the role of ESMA in the fields of financial education and investor protection.
- According to ESMA's founding Regulation, ESMA's role in financial education consists in reviewing and coordinating financial education initiatives launched by competent authorities.
- This role has to be considered in the broader context of ESMA's statutory objectives, among which investor protection plays a key role.
- Based on this scope of action, ESMA focuses therefore on two aspects:
 - Actively promoting an exchange among national competent authorities regarding their experience and feedback on their respective financial education initiatives.
 - Attaching high priority to actions aimed at achieving our investor protection objective.
- On the first aspect, our latest initiative was the organisation of a financial education day a few months ago which has seen the participation of high level representatives of international organisations, supervisors and consumer representatives to exchange views and experiences on how to measure and monitor the effectiveness of financial education initiatives and how to identify target groups for these initiatives and shape consistent action to reach these groups.

- The second aspect of our action is important because we strongly believe in the interconnection between investor protection and financial education. Indeed, strong conduct of business rules promoting investor protection are the most effective way to offer a high and consistent level of protection to investors having varying financial literacy levels.
- Considering that the overall financial literacy of the population is quite low, setting strong investor protection rules is the most effective way to protect investors irrespective of their actual financial literacy. At the same time, the calibration of protections offered by conduct of business requirements allows to take into account different levels of investors' financial knowledge.
- To better illustrate this argument, while any investors may request the assistance of financial advisors in their investments, it is clear that stronger rules regulating advice and suitability will be particularly needed to assist investors with lower level of financial literacy.
- On the opposite side of the regulatory spectrum, execution only services will be appropriate for investors who are able to understand the investments they make. Even in this last case, however, clear information will have to be provided to these investors to facilitate their investment choices.
- This is why I believe that investor protection and financial education are linked and this is one of the reasons why ESMA's action focuses heavily on investor protection.
- During the last years, ESMA has placed a strong emphasis on the elaboration of a strong investor protection-oriented single rulebook. We have notably worked hard to deliver extensive technical advice to the European Commission and to prepare a very large number of technical standards on MiFID II. In so doing, we provided input on some very important investor protection topics.
- Some of these topics were already part of the MiFID 1 package but were strengthened by MiFID II (for instance conflict of interest, suitability and appropriateness or the safeguarding of clients assets).
- Other topics are new under MiFID II such as product governance, and certain aspects of inducements. On all of these we have pushed strongly to make the difference for investors.
- To keep this momentum, after assisting the Commission in the delivery of the single rulebook, ESMA is working on bringing supervisory convergence among national competent authorities. Just to mention some of our recent actions:
 - We published guidelines on knowledge and competence of staff - one can even see this action as a way to increase financial education within firms, an aspect

on which, unfortunately, we have seen several examples of firms' staff falling short

- ESMA published a large number of Questions and Answers aimed at clarifying key investor protection aspects of MiFID II including information to clients, post-sale reporting, best execution, telephone recording.
- We adopted guidelines on complex products and product governance and we are consulting on guidelines on suitability that take into account recent findings of behavioural studies.
- In addition to our work on the heavy MiFID II agenda, we continue monitoring market trends and, when significant investor protection concerns arise, we take action addressed to firms or consumers. This action has recently taken the form of consumer warnings, statements, and opinions.
- This is what we are doing in relation to the worrying trend consisting in the aggressive marketing of highly speculative products such as contracts for differences or binary options.
- We have issued some warnings directed to investors. One of the objectives of these warnings is clearly to raise investors' awareness on the complexity and risk around certain products.
- In parallel, we have issued a number of Q&As addressed to competent authorities concerning the authorisation and supervision of investment firms providing CFDs and other speculative products to retail investors.
- At last, this summer, we issued a general statement indicating that ESMA is in the process of discussing the possible use of its product intervention powers under Article 40 of MiFIR that ESMA will be entitled to use from January 2018.

Conclusion

- ESMA believes in the merit of financial education and supports initiatives aimed at increasing the overall level of financial literacy of citizens of the European Union. Better financial education can improve investors' ability to understand investment proposals, allow them to be less likely victims of frauds, and will force financial firms to police further the way they service their customers. Investors who are more financially literate should be able to take more rational investment decisions and should be less prone to sheep-like behaviours that are also disruptive for the stability of financial markets
- That said, considering the overall low level of financial literacy in the European population and hence the very strong need for protection of European consumers, ESMA intends to continue prioritising its investor protection mandate and stand ready to reinforce its action even further in the coming years.