

# **EPFSF Lunch Discussion**

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## **“Protecting EU retail investors: More to be done?”**

**Speech from Heiko Beck**

**Managing Director and Head of Product Management, Commerzbank**

Dear Members of the EP, dear ladies and gentlemen,

thank you for the kind invitation to this distinguished panel. I am happy to contribute a few reflections on today's topic as a representative of Germany's leading retail bank. I am structuring my thoughts as follows:

### **1. Development of retail-banking in past five years prior the current crisis**

1.1. Impact of overall economic development and capital market growth  
We have seen a very positive development, in particular in Emerging Markets and Central Eastern Europe, which has pushed investors interest on these regions.

1.2. Investors demand for new asset classes and products

Boom of commodities and natural resources boosted through above mentioned development has brought these alternative asset classes and new opportunities on investors radar screen

On the other side, low interest rates and great liquidity have reduced investors return in traditional investments such as money markets, fixed income products and real estate

1.3. Industry reaction to address investors demand

Hence investors and banks wanted to participate in these developments. The banking industry developed many new products such as derivatives, structured investments etc. to give retail investors access to new types of investment. In addition the possibilities of retail investors to invest in asset classes, which have been traditionally in the ball park of institutional investors such as closed ended funds did increase significantly. However, sometimes the embedded risks of these investments have been underestimated or neglected.

### **2. Consequences of current economic and financial crisis in retail banking**

2.1. Negative performance and failure of products

As a consequence of the current economic and financial crisis some of the products sold to investors did not deliver what has been envisaged. The reasons are on the one side, that some regions, sectors and asset classes have been very negatively impacted by the crisis, such as banks, automotive, emerging markets or real estate, on the other side some investments which were distributed as very safe suffered unexpected losses as a consequence of devaluations of financial instruments they were invested in.

## 2.2. Embarrassment and disappointments of investors and banks

In a nutshell there is a perception, that some products did not function as planned and that rather remote risks became reality and that in some cases clients had invested in the wrong product. Retail Banking became very difficult in 2009!

For successful investments and a profitable retail business in banking it is of the essence to have a mutual relationship of trust and integrity. This relationship has been damaged in some cases through the developments of the past eighteen months. It is of the essence that we as bankers make our contribution to improve the situation.

## 3. Lessons learned/ What shall be done?

### 3.1. How shall banks advise investors in the future? What products should be sold to which type of investors?

It is crucial to understand the financial situation of the particular client, get a picture of his near, mid and longterm plans.

Moreover, it is of the essence to develop a sound asset allocation for the investor with a close look to his personal risk return profile. To accomplish that Commerzbank has introduced an annual strategic dialogue with the client plus six standardized risk return profiles. In one of those we put every client.

Finally, it is necessary to monitor the development of the clients investment regarding structure and performance and to adjust when necessary.

### 3.2. Is there a need for additional regulation?

One of the key questions in today's discussion is whether there is a need for additional regulation.

As already pointed out in the briefing paper for today's panel, retail banking is firstly a very domestic and regional business which can not be treated in a one size fits all EU approach, secondly there is a different national level of investor protection in non-harmonized areas which has numerous reasons, and thirdly in particular with MiFID a wave of comprehensive investor protection rules has been implemented. Therefore, one must be very careful with new rules.

Moreover, it is also clear that we are currently confronted with a lack of confidence and mutual trust in the financial industry and economy. This can not be resolved by regulation. The only way is that the markets resume their functions supported by the central banks and national regulators to improve the mutual trust of the market participants.

### 3.3. What can banks and clients do and contribute for further improvements in the customer-bank-relationship?

However one may argue that the current crisis has disclosed deficits in investor protection and I have to admit that this is true in some areas concerning the quality of advice investors got before investing in products. On the contrary, the legal and regulatory framework for retail banking has become very tight regarding the bank-client-relationship through MiFID with comprehensive transparency and documentation obligations, suitability tests best executional rules etc. thus I do not believe a fundamental reshape of the legal framework is

necessary. This is also true for additional legislative measures. I rather believe that the regulators should look at the quality of advice the banks are giving to their customers. This is converging with our very own interest to run our business successful. If we are not regaining the trust of our clients we would damage our business model. Let us work on these issues!

#### **4. Commerzbank approach**

In Commerzbank we have taken several steps to restore and enhance investors confidence. Firstly we have started to implement an annual strategy dialogue with our customers. Secondly, we try to convince our clients to trust in the performance effect of a balanced asset allocation following the individual risk return profile of the investor. Thirdly, we have established a customer advisory council to get clients to have a regular dialogue with our customers on their needs and to get their insight.

Thank you very much for your interest.