BlackRock Spotlight

Simplified advice: Opening the door to financial planning advice for retail investors

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Introduction

Fostering a strong investment culture in Europe is critical to the European Union's (EU's) strategic objective of mobilising savings through the development of a Savings & Investment Union (SIU). Current barriers to the development of such a culture include the high compliance costs of providing financial advice to retail investors, the pace of digital adoption by financial institutions, and low levels of financial literacy. Making it easier for individuals in Europe to invest to meet their future goals and aspirations will benefit individual investors by empowering them to plan more effectively for their futures.

Positive trends and current challenges

We observe a growing interest in investing across Europe, with more investors using digital brokerage platforms offered by neo-brokers and established banking groups. 75% of Exchange Traded Funds (ETFs) investors across Europe are accessing ETFs through digital platforms offered by neo brokers and traditional banks[1]. However, it is equally true that a significant proportion of individuals in Europe still prefer to receive advice when making investment decisions.

The feedback from both retail investors and their advisors is that the current regulatory advice framework has become increasingly disconnected from the goals investors are trying to achieve. The increasing layers of requirements required to assess and onboard customers' needs mean that full investment advice increasingly only makes sense for wealthy clients with more complex portfolios. This creates accessibility issues both economically and psychologically.

Developing accessible financial advice

Innovative financial planning-based advice and tools can address many of the current barriers to accessible advice and support increased retail investor participation. But this requires the EU to evolve the current MiFID advice regime into a more proportionate framework to include a new simplified advice model for non-complex financial instruments.

The benefits of simplified advice include:

- Empowering retail investors, helping them to build confidence to participate in capital markets, to achieve specific financial goals, via the development of financial planning-based advice.
- Rather than being required by regulation to perform a full initial portfolio review, providing financial advisors with a range of new tools to use when working with retail investors, to set and track financial goals, identify investment gaps, while retaining high standards of investor protection and education.
- Improving investor outcomes and offering cost-effective solutions by enabling scaled engagement, mass-customisation, and better risk management with the combination of technology and human advice.

The opinions expressed are as of March 2025 and may change as subsequent conditions vary.

Our policy recommendations

To achieve this outcome, we recommend:

• **Creating a framework for simplified advice**: Adapt the current MiFID framework to better serve retail investors who do not need or want full portfolio advice. A more proportionate approach will facilitate the development of investor solutions at lower cost. This regime should leverage the existing target market regime for both product manufacturers and distributors as many of the suitability elements inherent in advice are already embedded in the product design and distribution processes. This facilitates the rollout of a more simplified advice regime while ensuring high levels of investor protection.

• **Embracing digital advice**: Encourage innovation in the roll out of financial planning advice, providing investors with an accessible and cost-effective way to receive simplified advice.

• **Clarifying boundaries between advice and non-advice**: Review the MiFID definition of advice to provide clarity on when information becomes an implicit recommendation and when a recommendation can tip over into a personal recommendation, and hence advice, to reduce legal uncertainty and encourage market participants to offer additional support and information to investors.

• **Introducing complementary policy measures**: Promote financial education in schools and with adult investors, encourage the use of support and guidance from regulated firms and a broader programme of financial health checks from trusted providers to provide consumers with informed nudges at critical stages in their life.

Our definitions

- **Simplified advice:** A streamlined financial advisory service that makes recommendations based on a restricted set of information from the investor (using a restricted suitability test) and drawn from a limited range of simpler, non-complex financial products, suitable for mass market retail investors.
- **Financial planning advice:** A specific type of simplified advice that provides guidance tailored to the circumstances and financial goals of the investor to help them meet a specific goal, or set up a concrete solution.
- **Guidance**: is the provision of information by the financial expert or the financial entity that helps the investor make informed decisions about their finances without making specific recommendations.
- **Non-advice**: is the lack of advisory service as the financial expert only provides generic and factual information without making any personal recommendations or providing any guidance to the investor.

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01. The importance of increasing retail investor participation in the EU

Retail investor participation in Europe is lagging other developed markets in the U.S. or Asia. According to an industry report[1], only a third of the assets of mass affluent investors[2] in Europe are invested in the capital markets, compared to approximately two-thirds in the U.S. and half in Asia. This gap is disproportionately concentrated among individuals with smaller amounts of money to invest[3]. The term "mass affluent" commonly refers to potential investors that do not meet the minimum threshold for tailored private banking, wealth management or independent financial advice services, but who may still seek and need affordable advice.

Approximately €14 trillion of capital[4] is currently not being invested and put to work in the EU. More importantly, this means that European households are missing out on the opportunity to grow their wealth, diversify their portfolio, and to achieve long-term financial goals, such as retirement, education, or home ownership.

Several factors contribute to this outcome:

- **Financial literacy and confidence**: Many lack the knowledge and skills to make informed and suitable investment decisions and often feel overwhelmed by the variety of financial products and services available in the market, and the perceived complexity of investing. They may also have low trust in the financial system or in their own abilities to manage their finances. 56% of individuals in Europe signal the lack of knowledge and understanding as a reason preventing them from investing[5].
- **The cost and availability of financial advice**: Investors with less to invest or those looking to invest on a monthly basis increasingly either do not meet the minimum asset requirements required for full portfolio advice or are not willing to pay higher fees for advice. Research suggests, for example, that just 32% of surveyed households in Italy are willing to pay for financial advice[6].
- **Inertia and status quo bias**: Many individuals are comfortable with their current financial situation and may not see the need to invest in the capital markets. They may also prefer to use familiar products, such as savings accounts, even if they offer lower returns. Cognitive biases, such as loss aversion or procrastination, may also prevent individuals from taking action. The European Fund and Asset Management Association (EFAMA) shows that EU households maintain €13.9 trillion in cash and bank deposit holdings[7].
- **Participating financial institutions:** Banks and financial institutions often rely on traditional methods of delivering financial services, such as in-person meetings. The cost of providing in-person advice has increased in recent years in line with an expansion of regulatory obligations when providing full portfolio advice. These practices face challenges in adapting to more cost-effective and innovative methods, that digital-only banks e.g. neobanks are employing to successfully engage with customers. However, increasingly, research shows that customer experience enhancement projects are critical for nearly half (43%) of European banks surveyed[8].

02. Respond to investor needs by encouraging the development of financial planning advice

The evolution from providing investment advice on individual products to providing advice on how to invest to meet specific outcomes is helping to overcome barriers to investing and creating greater interest from retail investors. Markets outside the EU, have benefitted from the introduction of investment offerings that align to an individual's financial goals. These offerings are now increasingly built with technology. The propositions are designed with individual investor goals in mind, helping break through the barriers around confidence, knowledge, and accessibility. More traditional business models may not address these barriers as effectively. These developments align with the strong appetite to simplify the process of providing advice to retail investors with a more streamlined and cost-efficient onboarding process.

Financial planning-based advice is suited to investors seeking simplified advice tailored to their circumstances. Unlike fully-fledged financial advice, which requires a comprehensive suitability assessment, simplified advice allows investment recommendations to be offered on a more limited range of financial products.

It is simplified advice that aims to help retail investors by providing them with a set of investment options designed to meet specific financial needs and objectives (e.g. investing for a child's university education).

Figure 1. Financial planning advice within a simplified advice framework. We envisage financial planning advice seating within a simplified advice regime to be added to the existing MiFID II framework.

03. The benefits of offering financial planning services within a simplified advice model

In the EU, retail demand for digital investment tools is rising, as investors seek better decision-making aids and diversified portfolios. In the US, we increasingly see advisors offering financial planning advice through interactive platforms using new technologies and behavioural analytics to provide goal-based solutions. These platforms also provide educational content to enhance financial literacy and engagement.

The benefits of financial planning advice include:

- **Self-confidence**: Boosts investor confidence by providing clear information, guidance, and tailored feedback
- **Financial wellbeing**: Improves financial outcomes by aligning investments with life goals and encouraging good habits.
- **Knowledge**: Enhances financial knowledge through learning opportunities and educational resources.
- **Ease of access**: Lowers barriers to advice, especially for those early in their investment journey or unwilling to pay for traditional full portfolio advice.

Financial planning tools would also benefit EU firms providing financial advice, by providing access to a broader base of investors and customers, with a more proportionate cost-effective service model. To scale up access to simplified advice we consider that all advisers should be able to offer simplified advice, regardless of whether the advice is funded directly the investor or paid for out of product-funded commissions. The ongoing negotiations on the Retail Investment Strategy (RIS) will, of course, need to recognise the characteristics of the simplified advice services when setting out advisers' obligations, notably in the forthcoming value-for-money rules.

04. Evolving the EU regulatory framework for advice

The market is at an inflection point. The economics of traditional advice models focus on higher net worth clients and those with sophisticated tax and estate planning needs. However, new digital capabilities and changing retail investor needs present an opportunity to rethink guidance and complement traditional advisory models. Policymakers should consider several measures to increase overall investor participation:

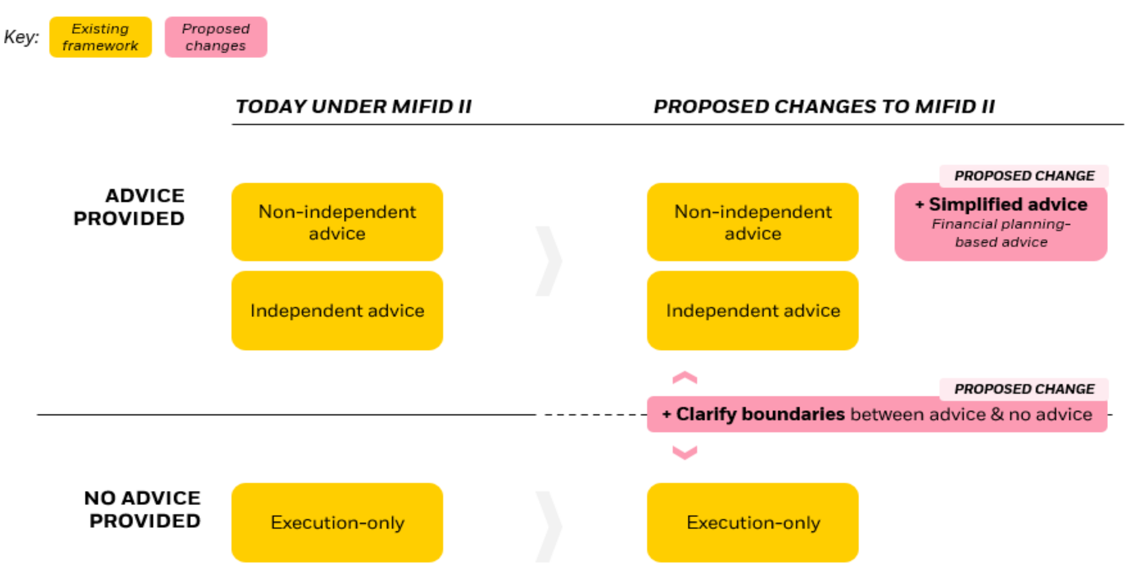
1. **Creating a framework and a definition for simplified advice**. This would allow manufacturers and distributors to offer retail investors financial planning solutions at a lower cost. This requires supplementing the current MiFID framework, which is based on the suitability test, product risk categorisation and detailed product governance rules, to include a more goal-oriented and practical dialogue with investors while maintaining high standards of investor protection.

   Overall, we view **simplified advice as a streamlined financial advisory service that focuses on specific financial needs or objectives, making targeted recommendations based on a restricted set of information from the investor (limited suitability test) and from a limited** range of simpler, non-complex financial products suitable for mass market retail investors. It hence serves as a valuable option for individuals seeking basic guidance on financial matters within the EU regulatory framework, offering a balance between accessibility, affordability, and regulatory compliance.

2. **Clarifying the boundaries between advice and non-advice by reviewing the current MiFID definition and guidance on investment advice.** It is currently restrictive and creates legal uncertainty as to whether the provision of analytical tools constitutes investment guidance . This discourages market participants in some countries from offering additional features and information as part of their advice products and services, in case they inadvertently trigger investment advice. Ensuring a coherent and consistent application of the rules across Europe by National Competent Authorities (NCAs) would encourage the roll out of innovative services at scale to the benefit of investors. We see benefit in encouraging the use of technology to allow firms to offer more accessible guidance and portfolio review tools, empowering savers to make informed decisions and participate in capital markets.

3. **Introducing complementary measures to encourage retail investors to use financial planning tools and services**, such as financial education and financial health checks. These measures would provide consumers with informed nudges at critical stages of their lives and help bridge the education gap. Creating European standards would ensure quality and reliability.

Figure 2. Proposed changes to the existing MiFID II framework



05. Required changes to the policy framework

Policy recommendation 01: Create a framework for simplified advice within MiFID II

The EU MiFID Directive only distinguishes between advice and non-advice. To encourage additional guidance, the MiFID framework should also include the concept of simplified advice.

Simplified advice should streamline existing MiFID compliance obligations, regarding suitability assessments and disclosures, reducing the complexity and cost of rollout. We propose the addition of simplified advice to offer basic guidance on a more limited range of financial products without the extensive analysis and detailed recommendations typical of full advice, reducing the scope of the current suitability assessment. This new simplified advice category within the MiFID framework should be defined by:

A. **Limited scope**: Simplified advice should have a clearly defined scope, focusing on specific financial needs or objectives. It may cover basic topics such as savings, investments, insurance, or retirement planning. The requirement to carry out a MiFID suitability assessment should align to this limited scope, in particular, by not requiring complex whole portfolio assessments.

B. **A predefined range of products**: Simplified advice involves recommendations based on a limited range of financial products suitable for the client's needs and risk profile. Distributors could include non-complex MiFID products and ensure they are designed for mass market retail investors. If both requirements are met, the product should be eligible under the simplified advice regime as these products are simpler and easier to understand than more complex options. By limiting the scope of advice to non-complex financial products designed for distribution to the mass retail market – as defined in the ESMA product governance guidelines[9] - there are opportunities to streamline the advisory process, reducing the administrative burdens and costs for both advisors and investors.

C. **Reduced documentation**: Simplified advice should streamline processes to reduce paperwork and documentation for both the advisor and the client. This aims to lower the administrative burden and costs associated with providing simplified advice. The European industry has developed a utility called the European MiFID template run by FinDatEx for automatic identification of these non-complex and mass market product types so this should not lead to additional IT expense in identifying and categorising eligible products.

D. **Lower cost**: Simplified advice should be more affordable for end investors, compared to full advice; introducing a service with lower costs would contribute to a more inclusive access to investments and financial wellness.

E. **Regulatory compliance**: Despite its simplified nature, advice provided within the EU regulatory framework must still adhere to relevant regulations, such as MiFID II (Markets in Financial Instruments Directive II) and IDD (Insurance Distribution Directive). Advisors offering simplified advice must comply with requirements related to competency, disclosure, and suitability assessments (but without having to conduct whole portfolio assessments).

F. **End investor protection:** EU regulations aim to safeguard the interests of consumers by ensuring that any financial advice, including simplified advice, is suitable for the client's individual circumstances and preferences. Advisors must still incorporate an assessment of the client's needs and risk tolerance to recommend appropriate products but streamlined and largely automated for simplified advice. Given the existing target market regime for both product manufacturer and distributor under MiFID, many of the elements of suitability inherent in advice are already present in product design and distribution processes allowing the rollout of a more simplified advice regime while maintaining high levels of investor protection.

Policy recommendation 02: Amend current guidance on advice definition to clarify the boundaries

When providing guidance to European retail investors, distributors and manufacturers currently face legal uncertainty due to unclear boundaries around the definition of advice. Lack of clarity on when information becomes an implicit recommendation and when a recommendation can tip over into a personal recommendation, and hence advice, discourages firms from offering additional features and information that would help retail investors.

Harmonising the application of this test and guidance across Europe by NCAs would create a level playing field for investors. Currently, inconsistent application leads to varying levels of information depending on the NCA's interpretation. Standardising this would ensure investors receive professional advice and reduce reliance on unregulated influencers, closing the advice gap.

While creating a simplified advice regime - ideally as part of the ongoing Retail Investment Strategy negotiations - is the preferred way to democratise advice, interim changes to ESMA's recommendations could help with the roll out of non-personalised guidance. In particular, we would encourage ESMA to clarify the five-limb test as set out in their supervisory briefing on understanding the definition of advice under MiFID II, specifically:

a. The test does not consider whether the parties explicitly intend to provide or receive investment advice. This should be amended, and the **parties' intent** should be a key consideration when determining whether a service is investment advice.

b. Additional clarity is needed on the level of **personal information** collected which will tip guidance services into investment advice. ESMA should detail what is meant by "the nature and scope of the information and the way questions are presented can be considered as making a recommendation on a consideration of a person's circumstances."

c. The concept of "**implicit recommendations**" is open to interpretation, creating legal uncertainty, deterring certain services. ESMA should clearly define what constitutes implicit recommendations.

d. A firm can have **different business segments** providing different services and receiving different levels of information on personal circumstances from a client. One line of business or previous interactions providing investment advice shouldn't automatically make all succeeding interactions, or all the interactions of the entire legal entity, be considered investment advice. This limits the ability to serve clients in their best interest.

Overall, we believe that greater clarity can be achieved with the following clarifications:

- ESMA should recognise that disclaimers can be helpful and understandable for investors. Currently, the system assumes investors do not read or understand disclaimers, limiting their use. Disclaimers should be allowed when readable and identifiable. For example, firms could inform customers that insufficient personal information has been gathered to determine a suitable investment decision, and therefore any recommendations are not personal and do not constitute investment advice.
- ESMA should recognise that a targeted recommendation issued exclusively to the general public is not personal advice, even if all other elements are met.
- Investor protection could be reinforced by ESMA asking providers to give additional guidelines for investors when advice is not provided. These guidelines should encourage investors to consider questions like: Do I understand the investment and can I easily withdraw my money? Are my investments regulated? Do I have sufficient understanding of the products and risks, or should I seek financial advice?

06. Conclusion

Financial planning-based advice is a promising way to increase investor participation in the capital markets, by providing them with simplified and accessible advice, guidance, and education.

The financial services industry has the potential and the opportunity to develop and offer such tools and services, using data and technology, to help retail investors achieve their financial goals and improve their financial wellbeing.

To enable and facilitate the deployment and growth of financial planning-based advice, some policy changes are needed, such as creating a framework for simplified advice, clarifying the boundaries between advice and non-advice, and introducing complementary measures to encourage and nudge investors to use them.

By addressing existing barriers and encouraging technological development, the EU can create a more inclusive financial ecosystem, particularly for those investing smaller amounts on a regular basis or put off by the potential cost or complexity of advice, while ensuring high standards of investor protection and education.

It is critical for policymakers, financial institutions, and consumer protection groups to work together to implement recommendations and foster a culture of informed and confident investing among retail investors.

Endnotes

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