FIFA

FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

Meeting with The European Federation of Financial Advisors and Financial Intermediaries (FECIF)

Meeting Participants:

1) Mr. Vincent Derudder, Honorary Chairman & President of the Consultative Committee
2) Ms. Christine Brebart, Administrative Officer
3) Mr. Dhruv Mehta, Chairman, FIFA
4) Ms. Roopa Venkatkrishnan, Secretary, FIFA

The European Federation of Financial Advisors and Financial Intermediaries (FECIFT) is based in Brussels is the European Body representing European Financial Advisors and Intermediaries.

It represents 5 lakh Individual practitioners, 24 National Trade Bodies and 16 corporate Entities.

The meeting began with a brief introduction of FIFA and its activities and the important role of IFAs in the Indian Mutual Fund industry.

We also explained that the purpose of the visit was to understand the regulatory changes being effected in Europe with MIFID 2 proposing a ban on commissions to Independent Advisors in Europe from 2018 and its likely impact .

Mr Vincent started by giving a very broad overview on the subject followed by a detailed discussion. His thoughts and views resonated with what we at FIFA have been propagating in India.

He pointed that we must remember that all investors are citizens and they are also taxpayers. So they have right to the appropriate Products , Service and Advise .

📌The governments mistakenly believe that consumers are stupid. Consumers may not be financially literate but are definitely not stupid .

In Europe this mistaken belief has led to excessive regulation post the Global crisis .

For example an offer document running into 135 pages, is meaningless as no investors reads it. Investors want information which is Simple and Straight to the point .

The Intermediary Role : whatever he is called Advisor , Broker or Distributor - is to provide the Right Products, Service and Advise -- in a simple and straightforward manner.

We pointed out that the intermediary also has an important role of hand holding the investor through the whole journey of achieving his financial goals which he fully endorsed.

He also highlighted that unfortunately regulations are made with “One size fits all" which always harms the small investor with the rich and sophisticated investors finding ways around the regulations .

We pointed out that we are experiencing a similar regulatory approach in India and the adverse consequence for the ordinary and small investors.

📌He also referred to the U.K. Experience where RDR has not worked effectively as the average person does not want to pay fees. He hopes that India does not make the same mistake as small people need more protection.

Speaking about the MIFID regulations he said that the regulations have been so excessive that the 5 communist countries regret that having got rid of the Soviet Union they now have the European Union. He emphasised time and again that the regulation have been framed with a Communist and Socialistic mindset instead of having a democratic approach which would give customer the freedom to choose and have access to right information.

📌He believes that MIFID 2 is going to be a disaster. The MIFID 2 Regulations proposed by EU needs to be ratified and implemented by each of the member countries.

📌He pointed out that French and Germans have decided not to implement all the proposals especially those related to Ban on Commission. There is a strong resistance against MIFID 2 as the RDR has not been effective in UK.

In fact one of his regret was that they had failed in getting a Good Basic Principle accepted - that of Co-Regulations - I.e. Regulations are framed by Government , Industry and Consumer representatives.

They have been trying to convince the government for the last 18 years but have not succeeded in convincing the government.

Unfortunately most regulators don't have experience of the ground realities and regulations are framed with people sitting in ivory towers .

We then shared The Findings of our Expense Ratio Study : an exercise of making a fair comparison of total cost to investor across different countries and of the finding that the total cost for investors was higher in countries with a fee based regime than that in commission based regime.

He lauded our efforts and said that he is not surprised by our findings .

We pointed out results of a study done by IFIC , the trade body of Canada , on the cost comparison between costs in US and Canada with total cost for investors same while one is fee based and other commission based .

He pointed out that costs also depends on size of industry . An average MF size in US is $500 Mn while in Europe is $ 50 Mn . Size of US is 10x that of Europe and thus costs would be lower in USA.

We pointed out that theses findings have relevance for all global regulators especially the fact that Investors in Fee based regimes incur higher total cost than those in commission based regimes.

We stressed that this is something that the whole financial community needs to be made aware of especially all global regulators .

He then pointed out that the Consumer Association in Europe have been unhappy with the regulation and he would share these findings with us .

He believes that ultimately consumer pays the adviser - whether commission or fees - because he/she likes you.

Products are similar - A car is a car -- but the consumer - each has his own objective and the intermediary's role is to guide him to the right one.

Regulator must respect Freedom of Choice.

Most advisors are not prepared for MIFID 2, as many believe that it will not happen.

The real reason for RDR in U.K. and excessive regulation in EU has been based on socialistic principles and concept of the "Nanny State " i.e. the citizen is stupid and therefore the State has to decide on his behalf.

We shared our December submission to SEBI on the proposed migration to a fee based regime. They concurred with our conclusions and were aware of the adverse outcomes to retail investors arising in UK with the ban on commission post implementation of RDR.

He emphasised that we must highlight to the government and the regulators that the End Consumer will not benefit .

We shared with him the Indian consumers innate preference for Gold and Bank deposits and low penetration of Mutual Funds as a % to GDP at 12% against a global average of 55%.

He pointed out that in Europe also people feel very insecure and opt for low yielding savings deposit for so called safety

In fact EU is also encouraging investments in equities under the CMU program and is also looking at reorganising the pension system.

According to him in the European Union five countries will not be able to pay the pension in the near future. Mr Vincent promised to send a study on the pension system in Europe.

They have promised to share relevant information in future also.

He has requested us to contribute an article on India and the current status for financial intermediaries for publication in their magazine

We have invited them to visit India.

We agreed to share information and collaborate on an ongoing basis.