

Neuroprofiler

QUANTIFY BEHAVIORS



MiFID II and financial knowledge assessment:

WHY IS FINANCIAL EDUCATION A NECESSITY?



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Historically, financial education was more a part of the financial institutions' CSR policies than of their sales policies.

However, the trend has started to reverse since 2018 with the advent of MiFID II (Markets in Financial Instruments Directive).



This new directive has notably made it mandatory to assess the financial knowledge of retail investors via a knowledge test, and no longer via a self-assessment as it was allowed under the first version of MiF, introduced in 2007.

At present, the advisor must in particular make sure that his client fully understands the risks inherent to the chosen financial instrument, according to his experience and knowledge in this field (article 25 § 3 MiFID II).

Financial knowledge: MiFID II regulatory requirements

Entitled «Assessment of suitability and adequacy and information to customers», Article 25(2) of Directive 2014/65/EU states:

«When providing investment advice or portfolio management services, the investment firm shall obtain the necessary information about the client's or potential client's investment knowledge and experience in relation to the specific type of product or service, his financial situation, including his capacity to incur losses, and his investment objectives, including his risk tolerance, so as to be able to recommend to him the investment services and financial instruments that are suitable for him and, in particular, are appropriate to his risk tolerance and capacity to incur losses.»

«If the investment firm considers (...) that the product or service is not suitable for the client or potential client, it shall warn the client. This warning may be provided in a standardized form.»

If the client or potential client does not provide the information referred to in the first paragraph, or if the information provided on his knowledge and experience is insufficient, the investment firm shall warn him that it is not in a position to determine whether the service or product envisaged is suitable for him. This warning may be provided in a standardized form.»

This assessment of financial knowledge applies to portfolio management, advisory, and order execution services.

However, the level of financial education of individuals remains low. According to a 2021 survey by the Banque de France¹, **69% of French people consider their knowledge of financial matters to be average or poor.**

1. The Banque de France unveils the results of its surveys on the financial culture of the French and managers of companies with less than 50 employees - December 2021

Banque de France is a member of the Eurosystem, which groups together the European Central Bank and the national central banks of all countries that have adopted the euro.

Applying MiFID II makes certain financial products inaccessible to many individuals.

This can represent a **significant loss of profitability for financial institutions**, especially in a low-interest-rate environment that favors unit-linked investments.

Thus, four years after its promulgation, this directive is still only partially complied with, as underlined by the reports of the European regulators.



Firms need to improve their assessment of clients' knowledge and experience, as well as their assessment of their financial situation and investment objectives.»

Central Bank of Ireland, December 2021



However, this is an offense that poses a **significant risk of sanctions** to financial institutions.

For example, in May 2021, a memorandum of understanding worth €150,000 was signed between the Autorité des Marchés Financiers (AMF) and Crédit Mutuel Arkéa³ to put an end to a sanction procedure concerning the lack of financial knowledge assessment for complex financial instruments.

In November 2021, the Polish investment services provider X-Trade Brokers Dom Maklerski was fined **€300,000** due to a **knowledge and experience questionnaire that was deemed deficient**.⁴

What practices should be implemented to comply with MiFID II without significantly affecting sales of complex products?

². Results of the two «riskophobic» and «riskophilic» mystery shopping campaigns conducted under MiFID 2 - AMF - September 2019

³. Administrative composition agreement entered into on May 28, 2021 with Crédit Mutuel Arkea – AM
Crédit Mutuel Arkéa is a major player in banking and insurance in France.

⁴. The AMF Enforcement Committee sanctions a Polish investment services provider for breaches of its professional obligations - November 2021

AMF regulates participants and products in France's financial markets.

1 | SANCTIONS FOR FINANCIAL KNOWLEDGE ASSESSMENT

THE REGULATOR'S WARNINGS

In an initial 2018 report, dedicated to online subscriptions, the AMF warns about the lack of compliance of investment profiling questionnaires, particularly on the issue of financial⁵ knowledge:

“ In terms of collecting information on customer knowledge, online questionnaires could be more didactic. **The questioning, whether online or face-to-face, could be improved on the evaluation of knowledge, which still relies too much on self-evaluation.**»⁶

Of the eight online client suitability assessment processes studied, only five assess customers' financial knowledge. Only one institution asks true/false questions about financial investments, while the other four use self-assessment.

“ *The assessment of the client's financial knowledge should no longer be allowed to lead to an overestimation of the client's knowledge or a misjudgment of the risk profile.*»

One year later, the AMF published a new report comparing the assessment of financial knowledge for "risk-averse" and "risk-loving"⁷ clients.

The assessment of financial knowledge is again considered insufficient:



“ *The experience and financial knowledge of the mystery shopper is rarely questioned by the advisor. Furthermore, questions that lead the mystery shopper to evaluate his or her financial knowledge are to be avoided. (...) There is still room for improvement in terms of questioning about knowledge and experience.* »

⁵. Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021

⁶. Results of the two «riskophobic» and «riskophilic» mystery shopping campaigns conducted under MiFID 2 - AMF - September 2019

⁷. Results of the two «riskophobic» and «riskophilic» mystery shopping campaigns conducted under MiFID 2 - AMF - September 2019

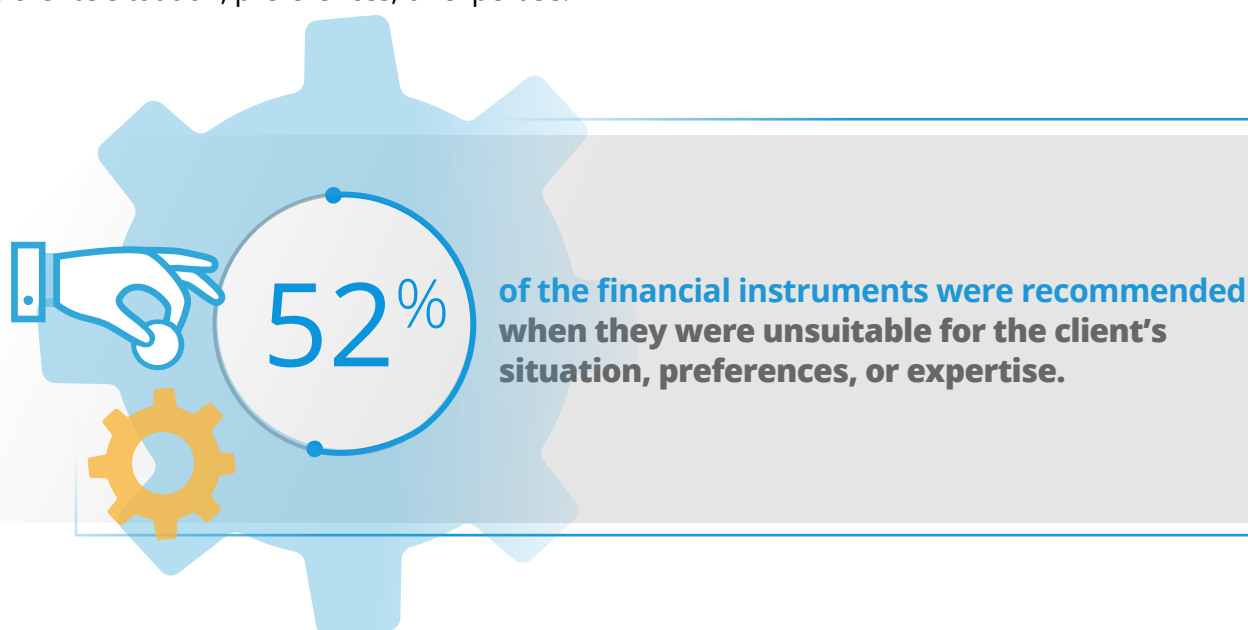
According to the report, only **28% of risk-averse clients are asked about their financial knowledge**, compared to 42% of risk-averse clients. About 20% are asked via self-assessment.



These findings call for improvements that should primarily concern the collection of the necessary information on the client, as well as the evaluation of his knowledge of the financial instrument recommended to him. »

AMF, 2021

As of March 2021, the situation has changed little. According to this latest AMF report, in the institutions audited, 52% of the financial instruments were recommended when they were unsuitable for the client's situation, preferences, or expertise.



THE REGULATOR'S SANCTIONS

As a result of these warnings, sanctions for non-compliance with the guidelines on the assessment of investment profiles, and in particular financial knowledge, have increased in recent years.

Belgium, Luxembourg, France, Portugal, Bulgaria... In 2020, **613 sanctions were pronounced by the competent national authorities of 23 European Union countries for non-compliance with MiFID II regulations.**

The aggregate amount of these fines are more than **8.4 million euros in 2020, compared to 1.8 million euros in 2019.**

8. Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021

9. Report: Sanctions and measures imposed under MiFID II in 2020 - ESMA - Juillet 2021

For example, the BaFin in Germany imposed an administrative fine of EUR 210,000 on Quirin Privatbank AG for **violations of Article 25 (2) of MiFID II**.

“*Quirin Privatbank AG carried out transactions in the context of portfolio management that were not appropriate for clients based on the information obtained, » the German regulator notes in its administrative¹⁰ sanction.*

In Norway, the license of the investment firm Jool Markets AS was revoked by the local financial supervisory authority due to **serious deficiencies in the assessment of the suitability** of investment advice provided to individuals¹¹.

In 2020, the Commission de Surveillance du Secteur Financier (CSSF) imposed five fines ranging from **30,000 to 150,000 euros** on Luxembourg institutions for similar¹² reasons.



¹⁰. ESMA – List of registers

¹¹. ESMA – List of registers

¹². 2020 Activity Report - CSSF - 2020

2 | GOOD AND BAD PRACTICES IN FINANCIAL KNOWLEDGE ASSESSMENT

To assist financial institutions in the difficult implementation of this directive, European regulators have published several reports on good and bad practices in the field of financial knowledge assessment.



BAD PRACTICES

- ✘ **Recommending financial instruments for which the client does not have sufficient knowledge.**¹³ It is important to ensure that the client has a good understanding of the financial mechanisms underlying the investment, including its inherent financial risk.
- ✘ **Use declarative questionnaires and self-assessment.** These methods of assessment do not provide a true measure of customer knowledge. "Firms should take reasonable steps and have appropriate tools in place to ensure that the information collected about their customers is reliable and consistent, without placing undue reliance on customer self-assessment," the European Securities and Markets Authority (ESMA) states in its guidance¹⁴, for example.
- ✘ **Immediately change the customer's wrong answers.**¹⁵
- ✘ **Have clients sign waivers in the event of a mismatch.**¹⁶
- ✘ **Simply ask the client about the list of financial investments already held or purchased.**¹⁷
- ✘ **Provide the client with instructional guides that** contain information to influence responses to questions when presenting the questionnaire.¹⁸
- ✘ **Associate the lexical field of play with an underwriting path** to minimize product risk.¹⁹
- ✘ **Encourage the client to change their answers to the questionnaire.**²⁰
- ✘ **Asking general questions that are not tailored** to each category of financial instrument.²¹

13. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

14. [Guidance on certain aspects of the MiFID II matching requirements - ESMA - 2018](#)

15. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

16. [2020 Activity Report - CSSF - 2020](#)

17. [Results of the «Online investment underwriting» mystery shopping - AMF - June 2018](#)

18. [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

19. [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

20. [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

21. [Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018](#)



GOOD PRACTICES

Upstream of the evaluation

- ✓ Clearly and explicitly inform the investor of the **importance of providing true and complete information** and updating it as necessary.²²
- ✓ **Indicate the steps in the questionnaire** so that the customer can understand its structure.²³

Design a clear, coherent, and accessible questionnaire

- ✓ **Evaluate the coherence of the information provided** while proposing didactic questionnaires thanks to digital tools.²⁴
- ✓ Design **the tree structure of the questionnaire** in such a way as to be able to check the consistency of the answers obtained for each question.²⁵
- ✓ **Avoid using overly technical or approximate language.**²⁶
- ✓ **Use clear examples** to illustrate different scenarios.²⁷
- ✓ **Give preference to multiple-choice questionnaires.**²⁸

Adapt to the customer's profile

- ✓ **Provide the opportunity to answer «I don't know»** for each question.²⁹
- ✓ **Propose a «scalable» assessment** based on the level of knowledge of the client.³⁰
- ✓ **Provide automated blocking mechanisms** in case of a mismatch.³¹

²². [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

²³. [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

²⁴. [Guidance on certain aspects of the MiFID II matching requirements - ESMA - 2018](#)

²⁵. [Results of the «Online investment underwriting» mystery shopping - AMF - June 2018](#)

²⁶. [Guidance on certain aspects of the MiFID II matching requirements - ESMA - 2018](#)

²⁷. [Guidance on certain aspects of the MiFID II matching requirements - ESMA - 2018](#)

²⁸. [Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018](#)

²⁹. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

³⁰. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

³¹. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)



GOOD PRACTICES

Helping the client to become more competent without influencing him

- ✓ **To enable the client to improve his knowledge** of financial products.³²
- ✓ During the knowledge assessment, **provide tooltips** to facilitate the client's understanding.³³
- ✓ **Give the customer the possibility to contact an advisor**, to clarify the purpose of the questions asked.³⁴
- ✓ **Prevent repetition of the questionnaire** in a short period.³⁵

Downstream of the evaluation

- ✓ Provide the client with a finalized questionnaire and a **document summarizing the operation and risks of a complex or risky product**.³⁶
- ✓ **Refusing to provide investment advice to a client who has refused to answer the questionnaire**.³⁷
- ✓ Provide a **maximum validity period** for the personalized recommendation.³⁸
- ✓ Provide for a **periodicity of updates of the knowledge questionnaire**.³⁹

32. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

33. [Results of the «Online investment underwriting» mystery shopping - AMF - June 2018](#)

34. [Results of the «Online investment underwriting» mystery shopping - AMF - June 2018](#)

35. [Summary of the «digital pathways» consumer tests conducted under MiFID2 - AMF - June 2021](#)

36. [Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018](#)

37. [Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018](#)

38. [Summary of spot checks on compliance with MiFID 2 adequacy provisions - AMF - March 2021](#)

39. [Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018](#)

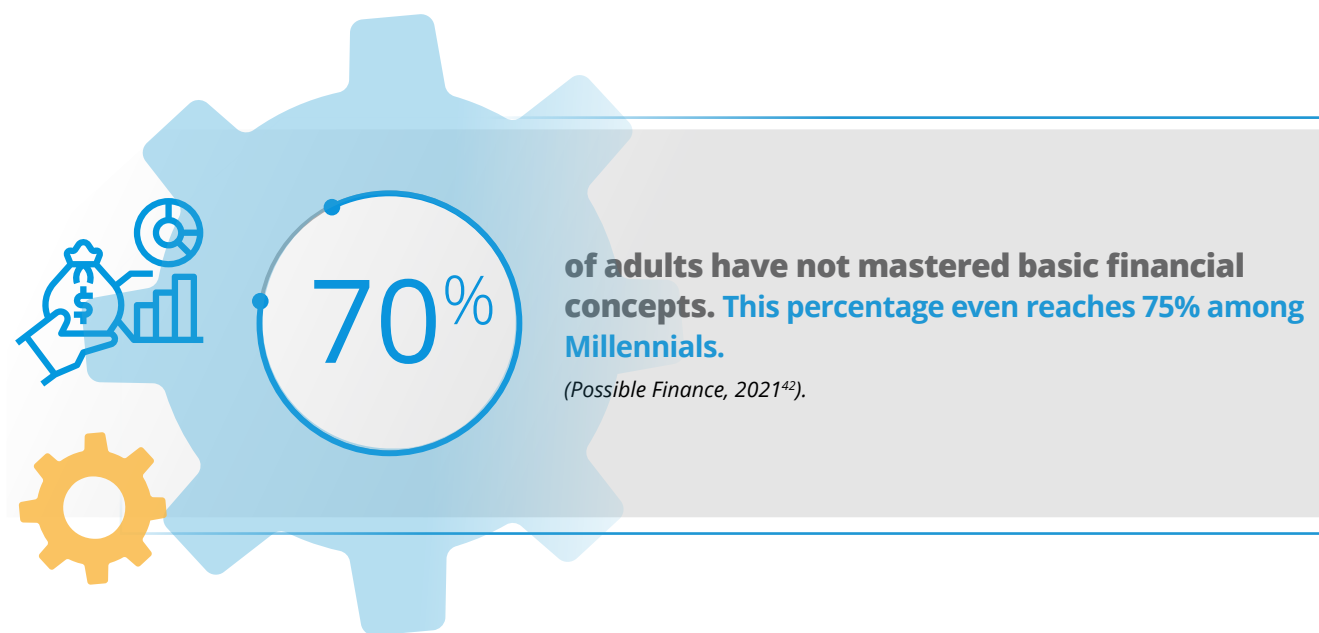
While these reports enlighten financial institutions on the expectations of regulators, they do not address the structural issue raised by this obligation: **how to sell financial products to European individuals whose financial education remains very limited?**

3 | THE LEVEL OF FINANCIAL KNOWLEDGE IN EUROPE

The Organization for Economic Co-operation and Development (OECD⁴⁰) defines financial education as the knowledge and understanding of financial concepts and risks, but also the skills, motivation, and confidence to apply that knowledge to financial decisions.

According to recent studies, the level of financial knowledge among Europeans remains low.

For example, in France, according to the latest 2021 study conducted by the Banque de France⁴¹, **69% of French people consider their knowledge of financial matters to be average or poor.**



According to a survey by the Centre de recherche pour l'étude et l'observation des conditions de vie (CREDOC)⁴³, only one French person out of two knows that €100 invested at 2% per year leads to capital of €102 after one year. One French person out of four manages to find the definition of a bond among three possible answers. Only 45% of respondents know the definition of a mutual fund or 52% know the principles of a dividend.

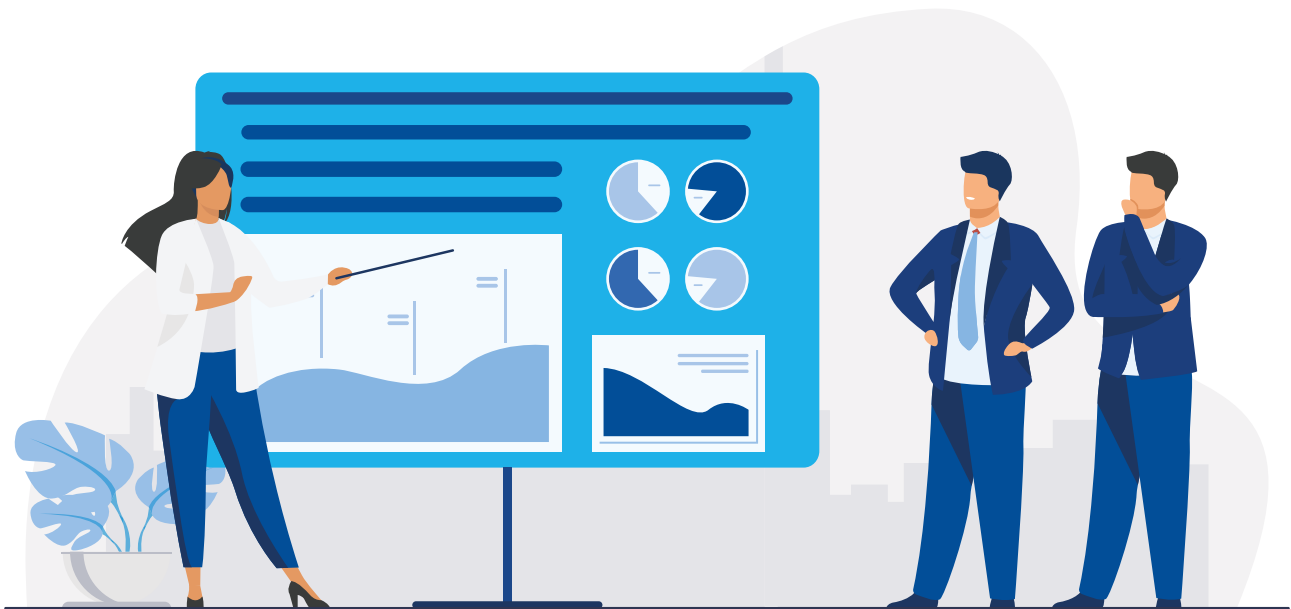
40. Summary of spot checks on MiFID 1 / MiFID 2 customer knowledge and experience - AMF - October 2018.

41. PISA 2012 Results in Financial Literacy - OECD - 2012

42. The Banque de France unveils the results of its surveys on the financial culture of French people and managers of companies with less than 50 employees - 2021

43. The financial culture of the French - Crédoc - 2011.

Crédoc is a study and research body for economic and social life.



In this context, it is difficult to tackle more complex concepts (risk/return, diversification, volatility, etc.).

Beyond the concrete impacts on personal financial management, this lack of financial education represents a considerable brake on investment under MiFID II.

The OECD⁴⁴, the European Banking Authority (EBA⁴⁵), and the European Commission continue to issue reports⁴⁶ warning of the need to improve financial education, starting in school.

Individuals seem to be in favor of it, as shown by a study conducted by the Banque de France in 2021⁴⁷ in which **80% of the French consider that financial education is necessary at school.**

Despite this willingness, the situation seems to be deteriorating. **75% of Millennials do not master basic financial concepts, compared to 70% for the rest of the population,** according to a study by the association Possible Finance.⁴⁸

44. OECD – Financial education

45. EBA Report on financial education – EBA – 2020

46. The Importance of Financial Education - OECD - July 2006

47. The Banque de France unveils the results of its surveys on the financial culture of French people and managers of companies with less than 50 employees - 2021

48. 32 Must-Know Financial Literacy Statistics in 2021 – Possible Finance – 2021

4 | GAMIFICATION, AN EFFECTIVE SOLUTION TO IMPROVE INVESTOR FINANCIAL EDUCATION

With the general level of financial education stagnating and the authorities increasingly determined to enforce stricter regulations, European financial institutions seem to have no choice but to invest in training their customers.

To do so, they have so far encountered:

- **A lack of advisor time.** Familiarizing a novice client with the mechanisms of a derivative or structured product can take several hours.
- **A lack of teaching skills.** While financial institutions have quality financial professionals on staff, this does not always mean that they have the necessary teaching skills.
- **A form of mistrust of individuals towards finance.** According to a survey by the Banque de France, 43% of 25-44-year-olds say they do not have confidence in financial institutions.⁴⁹
- **A lack of time on the part of clients.** Many individuals entrust their savings to advisors due to a lack of time for training. They are therefore not willing to spend several hours training in face-to-face meetings with their advisor.
- **New learning habits.** The traditional teaching aids of financial institutions (thick printed brochures, exchanges with the advisor...) are no longer adapted to Millennials, who are used to learning mainly via digital, intuitive, and short applications, as shown by the success of playful learning sites such as Duolingo or Babel.



⁴⁹. [Between mistrust and ignorance, the French have a complicated relationship with money and banks - La Tribune - 2019](#)

Gamification meets these challenges and offers financial institutions the advantage of being able to deploy it on a large scale, easily, and at a lower cost.

What is gamification?

Attribution of scores and rewards according to the levels reached, use of quizzes, progress bars... Gamification is a marketing technique that consists in using the mechanics and dynamics of games, in totally different domains. By immersing the user in a playful and stimulating universe, gamification allows to encourage the commitment of the participants, by captivating them. In the financial world, gamification allows to give a more attractive image of the bank, to encourage customers to adopt new behaviors, and especially, to improve the financial education of savers.

Several financial institutions (Wells Fargo, Capital One, Ikano Bank...) **are already using gamification to teach young people to better manage their money.**

Financial regulators such as the AMF or the CSSF offer fun financial education applications for the general public.⁵⁰

These initiatives, which highlight the contribution of gamification for financial institutions, do not however provide a complete solution to the MiFID II issue.

It is to address this specific issue that the Fintech Neuroprofiler has developed its EDUprofiler, **an e-learning platform for individuals allowing financial institutions to sell their full range of products**, in full compliance with MiFID II.

⁵⁰. Létzfin

5 | EDUPROFILER: A FUN E-LEARNING PLATFORM TO TRAIN INVESTORS



The EDUprofiler begins with an adaptive knowledge test that allows the course to be personalized to the client's level of knowledge. Composed of infographics and interactive articles, each module, lasting 3 to 6 minutes, corresponds to a financial product. It is validated by a knowledge test that updates the client's MiFID II profile in real-time and gives him access to more products.

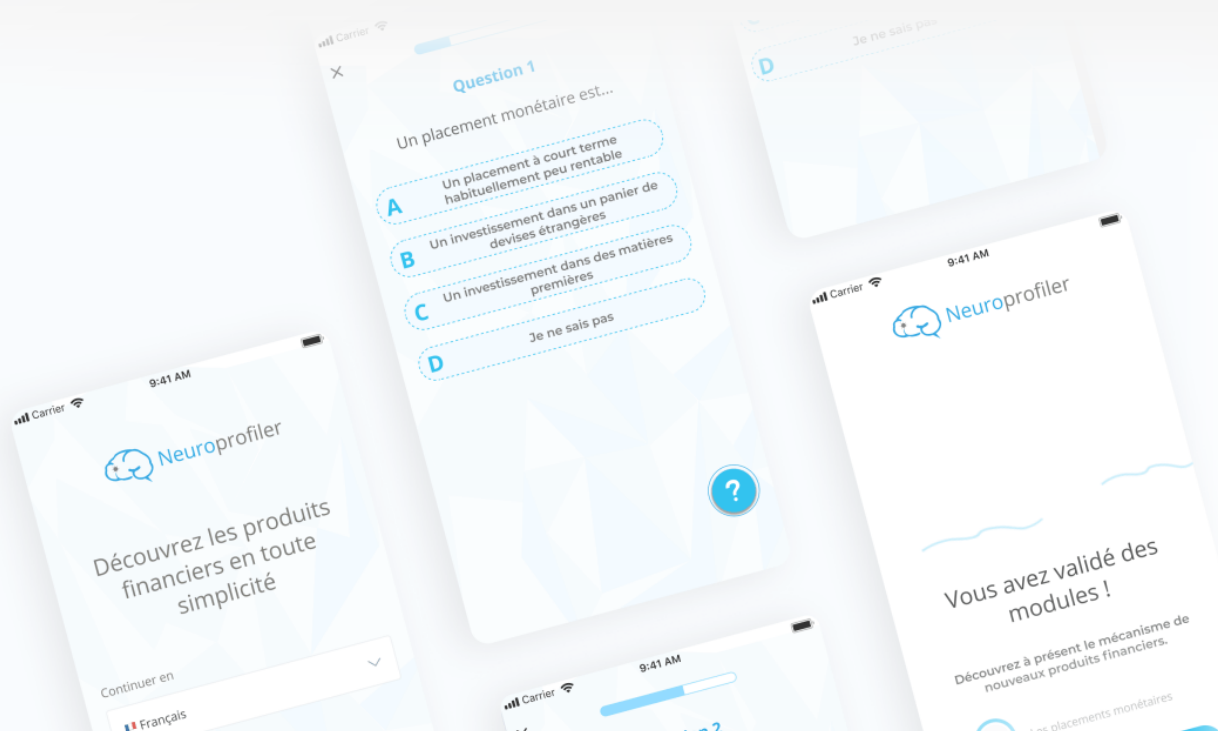
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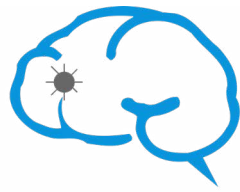
This fun application can be used throughout the year, independently or in the presence of your advisor.

As soon as a module is consulted or validated, the financial advisor is notified, so that he or she can call his or her client if necessary to provide additional information or suggest an appointment.

Neuroprofiler's EDUprofiler, whose knowledge questionnaire has already been audited by the regulators of various Member States, is today mainly used by European financial institutions for:

- **MiFID II compliance**
- **Customer acquisition or reactivation campaigns.** Integrated on a website or a campaign on social networks, it allows to acquire new customers or to reactivate dormant ones. At the end of the module, a link to a website or a request for an appointment with a financial advisor is proposed for lead generation purposes.





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Ready to train your customers via a MiFID II-compliant gamified solution?

Request a demo



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