

Guidelines of the Association of German Banks for Enhancing Retail Investor Confidence

Introduction

Recent developments in the financial markets have resulted in retail clients becoming highly concerned about their financial investments. The German private banks take this development very seriously. They consider it a top priority to maintain a long-term partnership with their clients based on trust. They are aware that their clients expect above all sound, customised advice; investment advice which is tailored to each individual client's short and longer-term plans. The private banks are ready to embrace this responsibility now more than ever. Moreover, they can only be, and remain, successful and profitable if their clients are satisfied with the quality of the services they offer. It is therefore their aim to ensure that quality is maintained at all times.

The Association of German Banks is issuing the following guidelines for its members in order to set standards for work with retail clients in the field of investments, especially when providing investment advice.

These guidelines cover the internal procedures normally followed by the banks in their dealings with retail clients. Many banks already have extensive rules in place governing such procedures. These have been incorporated into the guidelines and refined into a single standard for all private banks.

The Association of German Banks is making these guidelines available to its members as a benchmark against which to measure their work with retail clients. In many banks, organisational procedures and working practices already comply with the guidelines. In the event that further measures are needed at some individual banks, these should be initiated without delay, though their implementation may take some time. This point notwithstanding, customers and their requirements should occupy centre stage for all banks.

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- 1. When organising their retail business, the banks should put their clients centre stage and be judged by their ability to do so.**

When selecting investments, the focus should be firmly on the client's needs and financial situation. The central parameters for organising a bank's retail business should be determined by customer requirements. This should be reflected in the bank's corporate culture and its internal communications.

- 2. Before offering an investment product for the first time, the private banks should carry out an independent internal procedure to analyse and evaluate whether and, if so, to what extent the product is suitable for retail clients.**

Before investment products are offered to retail clients for the first time, the private banks should carry out an independent internal procedure to establish whether and, if so, to what extent they are suitable for retail clients. Particular attention should be paid to the product's structure and risk profile and to how easily understandable the information and promotional material is. It should also be examined whether this material could include a reference to illustrative product descriptions in booklets containing basic information. The findings of this procedure should be documented and serve as a basis for further handling of the product.

- 3. If the bank makes a central decision about a product range, this should take account of its current assessment of the market and target clientele. Whether or not a specific investment is suitable for a specific client should be established in consultation with the client.**

It is a widespread and useful practice for banks to support their advisers by making a centralised decision on the range of investment products they offer. When doing so, the bank should ensure that the decision takes account of its current assessment of the market and that the products are essentially suitable for retail clients. When making recommendations, the adviser should only draw on this product range if the products also suit the particular situation of the client in question.

- 4. The banks should ensure that their personnel management policy does not compromise but promotes customer-oriented advice. Private banks' flexible remuneration schemes should take account of customer satisfaction and the ability to retain clients.**

The remuneration of staff offering investment advice is performance-based at many banks. When assessing these salary components, the private banks should examine the quality and consistency of the employee's performance. Criteria should include the length of the relationship with the client, customer satisfaction and the thoroughness of documentation. Management instructions or recommendations to these staff should not be allowed to conflict with the needs of the client.

- 5. The private banks should draw up an investor profile in cooperation with the client and provide the client with a copy.**

The banks should ask clients about their investment objectives, risk appetite, knowledge and experience, and financial circumstances. This information is the basis of the investor profile. With the help of this profile, the bank can determine which investment product is suitable for a particular client. The bank should give the client a copy of the investor profile. This will enable the client to check the details used by the bank as a basis for the advice and information it provides. The investor profile should be updated regularly in cooperation with the client.

- 6. The private banks should ensure that their advisers have appropriate skills.**

Analysing client needs and opportunities and recommending suitable investment products are core services and features of high-quality investment advice. The private banks should train staff providing customer advice in such a way as to ensure that they have appropriate and demonstrable skills and are aware of the relevant legal rules and regulations.

7. Easily understandable product information should provide clients with balanced data about the characteristics, rewards, risks and costs of different types of investment.

If private banks actively offer their clients structured investment products, such as certificates, they should make available specific product information. This should explain succinctly and without cross reference to other documents how the product functions and what the main risks and opportunities are. The information should also contain details of the product's potential performance and the associated costs.

8. The private banks should regularly review their procedures to ensure that client interests are protected.

Retail banking procedures should be regularly monitored by an independent internal unit to determine whether client interests are being protected and legal requirements observed. Irregularities should be followed up without fail.

9. The private banks should offer consumers an out-of-court dispute resolution mechanism to settle differences of opinion.

The private banks offer consumers the opportunity for disputes to be resolved unbureaucratically and swiftly by a neutral, independent party, the Ombudsman of the German private banks (www.bankenombudsmann.de). The private banks should actively draw attention to this out-of-court dispute resolution scheme.

10. The private banks should promote financial literacy.

The private banks should contribute to the improvement of financial literacy in order to increase the understanding of economic principles among the population.