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SCHOOL OF BUSINESS, ECONOMICS AND LAW

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Financial Advice to Consumers

An explorative study regarding the documentation requirements' impact on the
financial advice

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ABSTRACT

During recent years the supply of financial investments has increased. Today saving products and financial services are more complex and difficult to understand for ordinary consumers. This has resulted in a larger need of financial advisors and consequently the implementation of the Swedish law on financial advice to consumers. Recently, the law on financial advice to consumers and the documentation requirements have been questioned. This study examines how financial advisors perceive the framework of the financial advice, particularly the documentation requirements, and how it affects their actions, and thus the advice to the customers. The result indicates that centralized advice could increase in line with the more frequent use of technical tools and since advisors think it is difficult to be sure that customers understand more advanced and complex alternatives. The findings indicate that customers with low financial literacy more likely receive centralized advice, which in turn may be identical to other customers advice, given a similar risk attitude, expected return, and investment horizon. Furthermore, this paper indicates a need of clearer documentation requirements and a risk of financial exclusion.

Keywords

The Law on Financial Advice to Consumers, Documentation Requirements, Consumer Protection, Information Asymmetry, Conflict of Interest, Transaction Costs, Financial Literacy, Financial Exclusion, Centralized and Individualized Advice

TABLE OF CONTENTS

ACKNOWLEDGEMENTS.....	I
ABSTRACT	II
KEYWORDS.....	II
1. INTRODUCTION.....	1
1.1. BACKGROUND.....	1
1.2. PROBLEM DISCUSSION.....	2
1.3. RESEARCH QUESTION	4
1.4. PURPOSE STATEMENT	4
1.5. SCOPE OF STUDY AND DELIMITATIONS	5
2. METHODOLOGY	7
2.1. THE RESEARCH DESIGN	7
2.2. INTRODUCING THE CASE STUDY.....	7
2.3. DATA COLLECTION	7
2.3.1. <i>Choice of Respondents</i>	9
2.3.2. <i>About the Respondents</i>	10
2.4. THE ANALYTIC TECHNIQUE.....	11
2.5. THE TRUSTWORTHINESS OF THE STUDY.....	12
2.6. CRITICISM OF SOURCES	13
3. THEORETICAL FRAMEWORK.....	14
3.1. THE PROBLEM OF INFORMATION ASYMMETRY	14
3.2. THE ISSUE OF CONFLICT OF INTEREST	15
3.3. THE IMPACT OF TRANSACTION COSTS	17
3.4. THE DEGREE OF FINANCIAL LITERACY	17
4. EMPIRICAL RESULTS	19
4.1. THE BASE OF FINANCIAL INVESTMENT ADVICE.....	19
4.2. CUSTOMER COMPLAINT MANAGEMENT.....	21
4.3. THE BANK'S SALES GOALS.....	22
4.4. THE BANK'S TRANSACTION COSTS.....	22
4.5. CENTRALIZED AND INDIVIDUAL FINANCIAL ADVICE.....	23
4.6. OPINIONS ABOUT THE LAW ON FINANCIAL ADVICE TO CONSUMERS.....	25
4.7. OPINIONS ABOUT THE DOCUMENTATION REQUIREMENTS.....	27
5. DISCUSSION AND ANALYSIS	30
6. CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESERACH	36
6.1. CONCLUDING REMARKS.....	36
6.2. GENERATED HYPOTHESES FOR FURTHER RESEARCH.....	38
6.3. OTHER SUGGESTIONS FOR FURTHER RESEARCH.....	39
REFERENCES.....	41
APPENDICES	44
APPENDIX 1: QUESTIONNAIRE	44
APPENDIX 2: FINANCIAL ADVICE TO CONSUMERS ACT (SFS 2003:862).....	45

LIST OF FIGURES

1. ACTORS ON THE SWEDISH FINANCIAL MARKET	5
2. THE DIVISION OF THE RESPONDENTS.....	10

1. INTRODUCTION

1.1. Background

During the last two decades the supply of different types of financial services has increased. Today banks and other financial service providers offer saving products and financial services that are more complex and difficult to understand for ordinary consumers. The large range of investment alternatives with different risk classes has resulted in a larger need for knowledge and information as a consumer. Consumers have become more aware of their individual investments and the importance of financial advice given by professional advisors (SOU, 2002:41). In the late 1990s, the Swedish Parliament feared a greater risk for the consumer to be exposed to negligent advice. The risks were identified as e.g. conflict of interest between the involved parties and lack of necessary competence of the financial advisor. At the same time, many consumers were dissatisfied with their financial advice as a result of the downturn in the stock market (Korling, 2010). Since then, the Swedish Government has received several assessments in the field. In 2002 they received the report “Consumer Protection in Connection with the Provision of Financial Advice”. The report contained a proposal of new legislation and other appropriate measures to strengthen consumer protection concerning financial advice (SOU 2002:41). The report resulted in a new regulation, the law on financial advice to consumers. The law on financial advice to consumers was implemented in Sweden on the 1st of July 2004 (Finansinspektionen, 2015).

The law is aimed at financial advice by a professional trader to a consumer, which includes investments of the consumer’s assets in financial instruments or in life assurance with a component of capitalization. The law aims to favor the consumers, and includes the liability for financial institutions to pay damages for negligent advice. Furthermore, the law on financial advice to consumers requires well-written documentation and specific competence of the advisor. According to Section four in the law, the trader shall “*ensure that the advisor has sufficient skills, document that which occurred when the advice was given and provide the consumer with the documentation*” (See Appendix 2: Financial Advice to Consumers Act, SFS 2003:862).

Nevertheless, Dahlberg (2009) highlights the problem of conflict of interest between banks and their customers. He states that the Swedish banks withhold information and sell bad and

expensive products, even though there are cheaper alternatives. In accordance with this, the Swedish law on financial advice to consumers has been questioned in recent years. Creutzer (2010) states that the law on financial advice to consumers needs to be revised. She argues that the law creates false protection and does not protect the consumer in accordance with its intentions. Advisors are obligated to document their financial advice and at the point of the advice the customer approves by signing the document. In a bank dispute, the author argues that the biggest issue is that the documentation does not protect the customer. It is insufficient to argue *"I trusted what the advisor said, or it was such a rush so I did not have time to read through the documentation"*. The customer did sign the paper and hence approved the investment. Creutzer argues that the documentation requirements are inefficient and not beneficial for the customer. Dahlgren (2012) agrees that the law shows no effect. He claims that the consumer protection is weak since customers' chances of winning in court are only 20 percent. In his view the law is ineffective since there are no legal requirements to become an advisor and that it is also possible to get around the law by claiming it was a question of marketing and not of financial advice. According to the documentation requirements, it is sufficient to let the customers declare their risk by ticking standard boxes with "low risk", "medium risk" or "high risk". Dahlgren thinks the documentation requirements need to clarify customers' risk attitudes.

1.2. Problem Discussion

Today it still seems like the law on financial advice to consumers is ineffective. Recently in the financial supervision, the Swedish Consumer Agency and the Swedish Financial Supervisory Authority discovered flaws in the financial advice to consumers. The major flaws were noticed in the documentation about the advice and the uncertainties of the advice given. Other identified flaws were advice and products in connection with commission-based advice. Consequently, in January 2014, the Swedish Government received another report, "Consumer Protection Needs to be Trustworthy" containing proposals to strengthen the consumer protection further, including repealing the law (SOU 2014:4). The assignment included surveying, and identifying current problems in the regulation, and analyzing further need of consumer protection. Due to new EU directives implemented in Sweden, such as the Securities Market Act (SFS 2007:528), the law on financial advice to consumers is less applicable. The assessment concludes the need of more efficient supervision by authorities rather than extensive changes in the regulation. The report suggests a combination of self-regulation and legislation to strengthen the consumer protection. Furthermore, the report considers more precise and concrete documentation requirements, including documenting

why the advisor recommends a certain investment. This specific documentation requirement is currently not included in the law. A proposal of the trader's obligation to record the advice is also included in the report. Yet, the documentation requirements are a contentious issue within the EU, who are currently working within the field of financial advice to consumers (SOU 2014:4).

In the moment of writing, Dahlberg (2015) accuses the Swedish main banks for fooling their customers on expensive fees for actively managed funds that particularly have not been actively managed i.e. closet indexing. He claims that the Swedish banks e.g. SEB, Handelsbanken, and Swedbank have fooled their customers on at least 12 billion Swedish Krona, each year.

Correspondingly, in December last year, Swedbank's wholly owned subsidiary mutual fund management, Swedbank Robur (2015), became subject to a lawsuit. The Swedish Shareholders' Association, on behalf of Swedbank investors, accused Swedbank Robur of selling expensive active management funds that were generating index returns. In April 2015, Swedbank Robur stated that the accused funds had been actively managed but not with satisfying returns. Swedbank's communications director Cecilia Hernqvist says it is completely normal to have this kind of issue tested in court (Marriage, 2015). Up to the moment of writing, it still remains to be seen how the case turns out in the National Board for Consumer Disputes (ARN).

There is naturally an interest for policy makers, the Swedish Financial Supervisory Authority, customers, and financial institutions to examine the compliance of regulations. The media debate about banks closet indexing might reduce customers' trust in the bank and thus the banks' reputation. It is a clear indication on why it is important for the above-mentioned actors to investigate the field of financial advice. The questioned law on financial advice to consumers, in particular the documentation requirements, and the media debate about its uncertain future makes it interesting to examine. The latest assignment "Consumer Protection Needs to be Trustworthy" highlights the flaws, e.g. in the documentation, but the law's future largely lies in the mission of the EU. My own experience from my student job at Swedbank is that employees think the documentation requirements are stressful and take a lot of time. Bank employees are curious about the requirements' effects and how beneficial they are for customers. To the researcher's knowledge, there has up to the moment of writing been no

research about the effects of the documentation requirements regarding the Swedish law on financial advice to consumers. Therefore, it is interesting to examine how the documentation requirements affect the financial advice given.

1.3. Research Question

Clearly, documentation requirements are time-consuming for banks and other financial institutions. Swedbank, among others, use software systems in order to meet the regulatory documentation requirements. Besides, software systems help financial institutions to save important information and make the financial advice easier to carry out. Technical tools show customers economic overview and help the advisor to find out customers' need. It also guarantees equal advice in the entire bank built on the bank's holistic perspective. Simply said, customers with the same risk attitude and investment horizon could get identical advice from the computer. New technical tools imply greater responsibilities of financial advisors to interpret advice and at the same time act in accordance with different laws and regulations.

Banks and other financial institutions are obligated to fulfill legal requirements and simultaneously satisfy consumers' need, and employees' and shareholders' expectations. How do the law on financial advice to consumers and the documentation requirements actually affect the financial advice? Consumer protection is the main reason behind the law on financial advice to consumers, but do the law and the documentation requirements really protect the consumer by putting all consumers in the same boat? Based on this, the following research question is defined;

How do the documentation requirements in the law on financial advice to consumers affect the financial advice from a bank's perspective?

1.4. Purpose Statement

The aim of this study is to investigate how bank employees perceive the framework of the financial advice and how the law and particularly the documentation requirements affect the financial advisors' actions, and thus the advice given to the customers. This study attempts to generate hypotheses for further research.

1.5. Scope of Study and Delimitations

As banks represent the largest actor on the Swedish financial market, and since the law on financial advice to consumers does not cover all financial actors, the decision to focus on banks and not other financial institutions was clear. The current media debate about banks closet indexing strengthens this decision further. Figure 1 below shows the actors on the Swedish financial market. According to the Swedish Bankers' Association (2015), banks represented 39 percent of the financial market in December 2013.

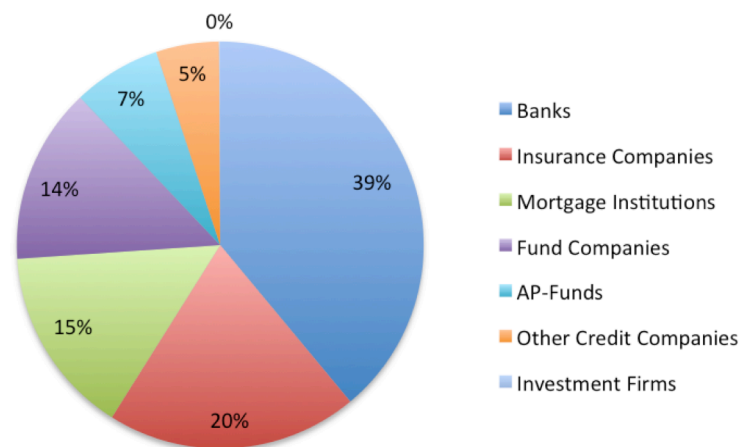


Figure 1: Actors on the Swedish Financial Market, December 2013

Percentage of total assets (Swedish Bankers' Association, p.4, 2015)

This study only examines one bank, namely Swedbank. Swedbank is chosen, as the researcher is already familiar with the company and their corporate culture. The thesis topic is formulated in collaboration with Swedbank, which is why reliable responses from other banks cannot be guaranteed. Banks work differently according to regulations and have different software systems, which can be seen as sensitive information. Therefore, the decision to focus on one bank was clear. Further, to make the study possible to accomplish, due to the study's scope, time limit, no research funding, and the researcher's location, the geographical delimitation will be the western region at Swedbank in Sweden.

Swedbank is one of the largest banks in Sweden with eight million private customers and over 600 000 corporate and organizational customers. The fact that it is one of the largest banks in

Sweden with about 300 branches made it well suited for this study. The bank has its roots in the Swedish savings bank tradition where the history goes back 200 years when the first Swedish savings bank was founded. Swedbank's vision, then as now, is to enhance financial growth including people, business, and society. The purpose is to uphold a sound financial sustainability. Swedbank's core values of being simple, open, and caring influence the business and the employees' daily work. Individual advice and, close and long-term customer relationships play an important role in Swedbank's focus on customers' need (Swedbank I, 2015).

This master thesis will only focus on the Swedish regulation and the Swedish market. Furthermore, as this study is in finance, not in law, the legal aspects will not be discussed thoroughly.

2. METHODOLOGY

This section will present the methodology and aims to describe the process of writing. The subsections explain important choices that reflect the outcome of this study.

2.1. The Research Design

The main interest of this study is to examine a so far unexplored area and to form hypotheses for further research. As there has up to the time of writing been no research about the effects of the documentation requirements concerning the Swedish law on financial advice to consumers, the strategic approach that is chosen is what Halvorsen (1992) refers to an exploratory approach. Since the course of action is inductive, meaning previous knowledge is small and there are no clear hypotheses from the beginning, he suggests a qualitative method as a primary research approach. He describes the use of the qualitative method as applicable when the aim is to get a deep understanding from a small number of participants. Furthermore, since the purpose of this study is to answer the research question “how”, Eriksson and Kovalainen (2008) agree to use the qualitative method. According to them, a “how” question enhances the understanding of how something works, takes place or interacts. In consideration with this, the qualitative method will be used as research approach.

2.2. Introducing The Case Study

The qualitative method that will be used is an intensive case study where largely information will be gathered from a few cases i.e. interviews with employees at Swedbank at different branches in the western region of Sweden. The focus of that kind of case study is to explore and create a narrative, “*a good story worth hearing*”, and to get an understanding of the employees’ perspectives (Eriksson and Kovalainen, p.120, 2008). The main aim of an intensive case study is to explore and understand the object, not to produce statistical generalizations. A case study, according to Merriam (1994), gives the reader insight and an explanation for better understanding. It is also an appropriate method in order to develop tentative hypotheses and to structure future research. This is clearly in line with this study.

2.3. Data Collection

The empirical data in terms of secondary data will be collected from printed books, published articles, websites, and press. Furthermore, different databases to which students of Gothenburg University have access will be used.

The primary data will be collected through in-depth interviews face to face held with employees at Swedbank. The researcher will be a passive participant, which means the researcher will ask the questions, but not lead the outcome of the interview. Halvorsen (1992) says that the researcher's relation to the primary data is characterized by closeness, meaning the researcher works together with the respondents, i.e. holds interviews, which is sensitive to the respondents' view. The empirical result will carefully be interpreted and written, and assumes to show the respondents' perspectives in a representative way (Eriksson and Kovalainen, 2008).

Interviews are time-consuming, dependent on the respondents' personalities, and their way of working, which can be seen as disadvantages. Not all employees' perspectives are taken into account. Another disadvantage is that the respondents may answer in a certain way which they think the researcher strives for. However, in this study, where the purpose is to get an understanding of the employees' perspectives, the advantages of holding interviews outweigh the disadvantages. Interviews let the respondents provide historical information and have less statistical loss compared to surveys. The interview questions cannot affect each of the respondents' answers, as they are not known in advance. Further, the researcher has the possibility to explain and ease the understanding for each question, which reduces misunderstandings (Halvorsen, 1992).

The interviews will be semi-structured with open-ended and well-defined questions. A semi-structured interview follows a prepared outline but allows the researcher to vary the order of questions and words. The belief is to perform easygoing interviews with an opportunity to capture new ideas and thoughts (Merriam, 1994). Eriksson and Kovalainen (2008) state that open-ended questions give the respondent more control and that it usually generates a more detailed response. Therefore open-ended questions are chosen. The questions asked will also be simple, neutral, and both primary and secondary. Simple questions are easier to answer and neutral questions avoid leading the answer in a certain direction. Primary questions will be the main questions asked to the respondents and secondary questions will be asked in those cases where it is deemed necessary e.g. uncertainties. According to Eriksson and Kovalainen, the questions have to be related to the research question. Hence the questions should cover the time before the implementation and after the implementation of the law. The questions should focus on how the documentation has changed and in what way it has affected the framework of the financial advice. The questionnaire can be found in Appendix 1.

The interviews will be recorded with a tape recorder mainly for the purpose of easing the summing up, but also for the purpose of improving the interview technique (Merriam, 1994). A tape recorder is chosen as it captures all the details and does not interfere with the ongoing interview.

2.3.1. Choice of Respondents

The participating advisors are employed at Swedbank in the areas of Gothenburg and Uddevalla. Gothenburg and Uddevalla are chosen since they represent two strong branches with large customer bases in the western region. Further, these cities are chosen since their locations are approachable but spread out in the western region. However, the western region is not as close to the financial sector as Stockholm. The employees' responses, financial competence, and experiences may differ and may not be comparable, which is why Halvorsen (1992) claims low reliability for qualitative studies. Regardless of this, due to this study's aim, scope, and delimitations, it is considered to generating decent hypotheses for further research.

It will be voluntary for the employees to participate and all respondents will be asked to participate in advance of each meeting. The employees will also be informed that they will be anonymous in this master thesis. Eriksson and Kovalainen (2008) emphasize the importance of respecting the anonymity of participants and Berg (2009) says that anonymity in e.g. a telephone interview helps in obtaining responses to sensitive questions. The belief is to encourage the respondents to speak openly and honestly. Therefore the choice is to let the employees be anonymous.

The respondents have all been selected with support from my supervisor at Swedbank, who has a great insight into their qualifications and competences. Berg (2009) refers this sample strategy to a purposive sampling, or a so-called judgmental sampling. The main idea of this sampling strategy is to use special knowledge about a certain group to select relevant respondents. Besides access to relevant respondents, the supervisor also eases the interview process by informing the respondents about the topic and purpose i.e. why their participation is important. In the view of Halvorsen (1992), negative aspects could be that the respondents are chosen to answer in a certain direction the bank strives for. Likewise the respondents may answer in a certain way which they think the supervisor strives for. Anyway, since the supervisor does not work close to all respondents and since the respondents are anonymous, it

is considered to reduce potential distortions. Both advisors employed before 2004 and after 2004 will be asked in order to capture reliable responses.

The number of respondents is considered to be consistent with the qualitative focus on a small number of participants (Halvorsen, 1992) and the intensive case study's focus on a few cases (Eriksson and Kovalainen, 2008). The number of respondents is adjusted throughout the work in accordance with the findings and the likelihood of getting abnormal responses. The division of the different job titles is selected and based on the same way of thinking. The view is that the higher the demand customers have on their advisor, the more personal the advice. In accordance with this, the response from Private Bankers would vary more than that of Premium Advisors, which in turn would vary more than that of Private Advisors and Stockbrokers. Based on this, the division of the employees' job titles is decided. Figure 2 shows the division below.

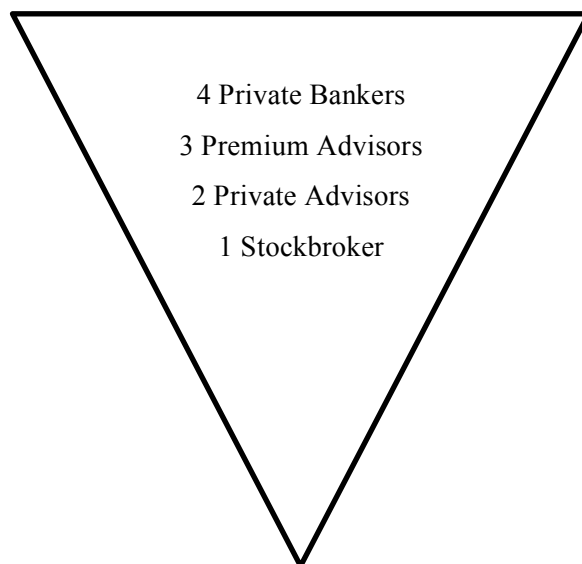


Figure 2: The Division of the Respondents

2.3.2. About the Respondents

The sample of respondents consists of 10 financial advisors employed at Swedbank. The respondents have overall several years of knowledge and experience in the industry. Most of the financial advisors' experiences include the Russia crisis in 1998, the IT crisis in 2000, and the financial crisis in 2007. The sample consists of three females and seven males. The general view that women are more risk-averse than men will be reflected, but is not

considered to be crucial in this study since this study investigates the employees' perspectives in their professional roles. Eight of the respondents are middle-aged and have been employed since the implementation of the law on financial advice to consumers in 2004. The other two are younger, have university education and have been employed at Swedbank after the year 2004. Furthermore, half of the financial advisors have a master's degree or similar, in business or economics.

The respondents possess job titles such as Private Bankers, Premium Advisors, Private Advisors, and Stockbrokers. The following information is gathered from the interviews and Swedbank's webpage (Swedbank II, 2015).

Private Advisors

Customers with a willingness to invest and with an investable capital of less than 0.5 million Swedish Krona can get yearly financial advice from a Licensed Private Advisor.

Premium Advisors

Financially interested customers who want to become more active in their investment decisions and with an investable capital between 0.5-5 million Swedish Krona are in the segment of Premium Advisory Services. The personal Licensed Premium Advisor meets his or her clients twice a year and in between suggests investment opportunities.

Private Bankers

The Private Banking segment consists of customers with investable capital of at least 5 million Swedish Krona. Besides financial investment advice, Private Banking customers are part of Swedbank's network with corporate customers, private customers, and entrepreneurs.

Stockbrokers

Customers willing to take quick financial decisions and regularly invest in shares can get access to a personal Stockbroker. The Stockbroker gives advice, comments, and regular investment suggestions.

2.4. The Analytic Technique

The chosen qualitative analytic technique and approach that will be used are the content analysis and interpretative approach. Berg (2009) describes the content analysis as the most obvious analytic technique of interview data. A content analysis examines and interprets material in order to identify different patterns, meanings, and biases. The interpretative approach allows the researcher to interpret and transcribe interviews into text. According to

Morgan (1997), a content analysis does not have to be based on a coding scheme. As the qualitative data is extensive, not all information can be used in the report. Creswell (2014) mentions that the data collection, e.g. interviews will proceed together with the ongoing data analysis of earlier interviews. The interviews will be transcribed, summarized, filtered, and divided into different themes. The different themes are based on the essential message in the responses, the theoretical framework, and the questionnaire (See Section 3 and Appendix 1: Questionnaire). Quotations are chosen to highlight the importance, and to make it easier and more readable for the reader. Since the respondents are anonymous they will be named by their job titles. The Private Bankers are named PB1, PB2 etc. and the Premium Advisors are named PREM1, PREM2 etc. The Private Advisors are named PA1, PA2 and the Stockbroker is named SB1. Besides their job titles they are also named “Respondents”, “Employees”, “Financial Advisors”, and simply “Advisors”. The intention is to respect their anonymity and to get a holistic perspective of the employees’ view but in the same way make it easy for the reader to catch which respondent says what. The empirical results are presented in Section 4.

2.5. The Trustworthiness of the Study

The study has to be valid and reliable. A qualitative validity is achieved through interviews with competent employees in the branch. The researcher needs to control the accuracy of the findings, have good knowledge, well-prepared questions, and present the result in a representative way to strengthen the validity. Creswell (2014) claims that the study has to be qualitatively reliable, which means the research approach should be consistent across different researchers and assignments. Halvorsen (1992) states that reliability is difficult to achieve in a qualitative study, as it is dependent on the responses. The critically view by Dahlberg (2015) suggests a low reliability of banks. The reliability of this study may be low since it is a small case study with only 10 respondents in the western region, not close to the financial sector. However, since the purpose of this study is to get an understanding of the employees’ perspectives and generating hypotheses for further research, the degree of reliability is considered sufficient. The chosen quotations are selected to exemplify the employees’ responses in a representative way. The good relation with Swedbank and the employees’ relevant experiences are considered to make this study trustworthy.

2.6. Criticism of Sources

The sources of information will be reviewed through a critical lens through the work. The secondary data will be gathered from trustworthy sources, such as scientific articles and the government's web page. Moreover, the primary data will also be critically reviewed through the transcription and analysis. The possibility of getting biased responses will be reflected. It will clearly be stated that no generalized conclusions will be drawn. The results are based on interviews held with employees at Swedbank branches in the western region.

3. THEORETICAL FRAMEWORK

This section will present relevant literature in the field of financial advice. The subsections describe important theories in purpose to connect and analyze the empirical results.

3.1. The Problem of Information Asymmetry

In the early 1970s Akerlof (1970) stated the lemon problem where the automobile market is used to illustrate the problem of information asymmetry. The author refers to bad cars as lemons, and on a secondary market, only the seller knows if the used car is good or bad, a so-called lemon. Asymmetric information is also a problem in financial advice by professional advisors to consumers. Logically the relationship between a financial advisor and a customer can be described as one better-informed advisor and one less-informed customer. According to Akerlof, only the better-informed advisor knows “exactly” what risk the investment entails and whether it is a good or a bad investment choice. He says the buyer has to pay equal price for the car without knowledge of whether the car is good or bad, and the same holds for a buyer of financial advice i.e. a customer. Akerlof argues that the lemon cars will drive out the good cars of the market and bad money will drive out good money of the market. Applying this to financial advice would be to say that bad advice drives out good advice of the market. Hence, the number of unserious firms and advisors increase. Customers are dependent on the financial advisor, which is why consumer protection is taken into account in the law on financial advice to consumers and in its documentation requirements.

The continuous evolution of new technology increases the ability to access various types of information. According to Vaněk and Botlík (2013), asymmetric information often arises from insufficient information sharing between parties where one part has more or better information, such as in financial advice. Information asymmetry can also be explained as a situation where one part does not have complete information in terms of possible alternatives and previous results. The authors divide asymmetric information into hidden action and hidden information. Hidden action cannot be recognized without any extra cost, it refers to activities that are hidden and cannot be seen by the other party. Hidden information stands for access to sources of better information. In financial advice, hidden action is accessible to the customer and inaccessible to the advisor where hidden information is inaccessible to the customer and accessible to the advisor. The presence of information asymmetry can generate market failures and negative consequences for both the better-informed one and the less-informed one, such as adverse selection and moral hazard. The authors discuss the idea of reducing information asymmetry by education. They argue that the financial sector has a lack

of transparency, which can be improved by increasing the citizens' financial competencies. Vaněk and Botlík state that too large asymmetric information is not always the preferred situation for the better-informed party. The information-rich party can gain confidence and better relationship by sharing information with the information-poor in order to rectify the information asymmetry. This is especially important in financial advice provided by banks, as long-term customer relationships are essential in their business. Customers seek advice and expect to get extra information. In financial advice, the information-rich advisor shares information with the information-poor customer. The advisor is required to give information, and to document the financial advice and suggested investment.

3.2. The Issue of Conflict of Interest

Krausz and Paroush (2002) examine the conflict of interest between the better-informed financial advisor and the less-informed investor. The investor relies on the advisor to get the best information, advice, and decision while the advisor can angle her information according to her best interests. The financial advisor earns higher commissions on risky assets and lower commissions on riskless assets, which may motivate her to influence the investor's belief of a more risky, and higher commission-based asset. By assuming that the advisor maximizes her utility, her actions will not essentially correspond to the investors' interests. Krausz and Paroush show that the financial advisor does not always exploit the situation in the presence of conflict of interest. However, the advisor will face a penalty if the actual return differs from the expected return. The penalty can be a loss of reputation, tighter regulations or a loss of future income due to potential lawsuits. The authors say that the size of the penalty relative to the commission earnings determines how much information the advisor shares with the investor. The bank's liability to pay damages, according to the law on financial advice to consumers, is one penalty Krausz and Paroush describe.

In contrast, Mullainathan, Noeth, and Schoar (2012) indicate that the financial market for advice works imperfectly. The authors investigate the quality of financial advice to retail investors and their findings show that financial advisors fail to be unbiased and usually boost their own financial interests. The study involves trained auditors who present four different portfolios to retail advisors. The portfolios in the experiment are either beneficial and satisfy the financial interests of the advisors, or are in conflict with their interests. For instance, the portfolios can be either a returns-chasing portfolio or a very low-fee index fund. The authors show evidence that financial advisors encourage returns-chasing portfolios and prefer to suggest funds with higher fees e.g. actively managed funds. Furthermore, the result proves the

fact that financial advisors may discourage investments that are not in line with their own interests. Anyway, most of the trained auditors in the study were convinced by the financial advisors and would take on the advice in reality.

Ismayilov and Potters (2013) study whether a disclosure of the financial advisor's interests can encourage openness and trust. The report shows evidence that the sender of information, in this case the advisor, is equally reliable regardless of a disclosure. The information receiver's choice i.e. the customer's choice of following the advice is not affected by the disclosure. The authors conclude that a disclosure of the better-informed advisor's interests does not benefit the less-informed customer.

Beyer, De Meza, and Reyniers (2013) examine whether a financial advisor's commission distorts customers' decisions. Their study is a laboratory experiment focusing on advised insurance purchase. The authors argue that the financial advisors may believe their financial advice is objective and that it would not be different in a case of different commission rates. The experiment lets participants act as advisors who were rewarded with commission for their advice. Half of the group's commission increased with the customers' willingness to purchase the insurance. For the other half, the commission decreased with the customers' willingness to purchase. In other words, the study examines the case of rewarding sales of something versus rewarding sales of nothing. The result shows that different commissions markedly affect insurance purchase. The authors state that the problem is not that the wrong product is suggested but that there in some cases is no suggestion at all. The study indicates that financial advisors act in favor to their own interests. Financial exclusion could arise in financial advice as advisors choose which customer to advise. Customers may be excluded due to low or moderate income and thereby have less willingness and capacity to trade and purchase products.

3.3. The Impact of Transaction Costs

Williamson (1979) highlights transaction costs as fundamental in the study of economics. The field of transaction costs links economics with features of firm theory and overlaps broadly with contract law. When a good or service transfers across a technologically interface a transaction is made. Financial intermediaries, e.g. banks, play an important role in the financial structure by reducing transaction costs, and thus, allowing small savers and borrowers to make use of financial markets. Williamson says that the transaction cost approach focuses on efficiency where the goal is to economize on the sum of production and transaction costs. One alternative for banks to reduce transaction costs is to bundle the funds of many investors together, i.e. to benefit from economies of scale. By arranging large purchases of shares of stock, the transaction costs for each consumer decreases. Applying this to financial advice means that advisors would suggest identical investments to several customers in order to reduce transaction costs. Banking businesses are dependent on technology and to develop in line with frequent technology changes. The costs of technology can also be reduced by economies of scale (Mishkin and Eakins, 2012).

3.4. The Degree of Financial Literacy

Financial literacy is an important factor in making well-informed financial decisions. The documentation requirements in the law on financial advice to consumers indicate the advisor to document the customer's financial literacy and experiences.

Collins (2012) investigates financial advice as a potential substitute for lack of financial literacy, financial knowledge, and capability. The results show that financial advice acts more as a complement to financial capability rather than a substitute. Individuals with higher education, higher income, and higher degree of financial literacy are most likely to collect financial advice from professionals. On the contrary, those individuals with less financial knowledge and financial literacy were less likely to receive any advice at all. Hence, there is a strong correlation between financial literacy and financial advice seeking individuals.

Likewise, Hackethal, Haliassos, and Jappelli (2012) find that individuals receiving financial advice by professional advisors tend to be older, wealthier, more experienced, and female. Additionally, the study examines the return of brokerage accounts run by investors without financial advisors in comparison to accounts run by financial advisors, or by investors in consultation with advisors. The result indicates that accounts run by financial advisors perform lower returns than those run by the investor oneself. Logically, the result also shows

that advisors with commission-based income prefer to dedicate time to wealthier customers more likely to trade on a bigger scale. Potential reasons why experienced individuals seek financial advice may be that the cost of running accounts by themselves are too high and that they are willing to pay a premium to get help from an advisor (Hackethal et al., 2012).

In the same way, Calcagno and Monticone (2015) analyze what effect an investor's financial literacy has on their decision about whether and to what extent to rely on advisors. The findings show that individuals with a low degree of financial literacy are less likely to seek advice from an advisor. On the other hand, individuals with low financial literacy are more likely to delegate their portfolio choice or simply, refrain to invest in risky assets. The contrary holds for investors with a higher degree of financial literacy. Furthermore, the authors show that financial advisors provide more valuable information to already relatively informed investors than to poorly informed investors. This result indicates that the general view of poorly informed investors who would need financial advice the most, are less likely to receive valuable information from an advisor, or to consult an advisor at all (Calcagno and Monticone, 2015).

4. EMPIRICAL RESULTS

In this section a summary of the interviews will be presented. The result of the responses is divided into different subsections, themes, and quotations in purpose to highlight the essential message.

4.1. The Base of Financial Investment Advice

The base of investment advice is the customer's need, risk profile, investment horizon, and expected return. Swedbank uses a software system called "Rådgivningsstöd" where customers' risk, expected return, financial literacy, and investment horizon are analyzed and documented. Swedbank's emphasis on customers' risk profile has become more essential in recent years. The risk analysis performs through a so-called suitable evaluation where the customers' competence and experience of complex products, shares, and interest-bearing securities are discussed. Customers describe their risk attitude by choosing between low risk, middle risk, and high risk. All participating financial advisors agree on the importance of asking questions, listening, and discussing the risk of the product and how the customer feels about the risk of losing money. The risk that the customer does not understand the product must also be considered. The investment risks are explained and exemplified where the advisors show how the investment affects a downturn in the market, and what time to recovery it entails. Most of the participating financial advisors stated the fact that they suggest lower risk to new customers than the software system "Rådgivningsstöd" suggests. PB1 said:

"At the moment when the interest rates are low, the bank's and the financial advisors' main task is to lower customers' expectations in order to meet more realistic expectations. The advisor needs to ensure a sustainable balance between the customer's risk and expected return, in both booms and busts."

It is difficult for advisors to know how much financial literacy customers possess. Customers can underestimate or overestimate their financial literacy, which is why asking questions and looking at historical transactions are important in order to control customers' financial literacy. PB1 highlighted the question how much time and effort a customer puts on trading as an indicator of the customer's financial interest. Another financial advisor, PB2 stated:

"A customer can have high competence but no experience, or be well experienced but with low competence."

Judging and evaluating the customer is an important way for the advisor to understand what kind of customer it is. PREM1 said he becomes defensive, and emphasizes the risks if the customer's financial literacy is low. Some respondents pointed out that it is important to remember that it is not about how wealthy customers are, it is about how much competence they have and how they feel about the risk of losing their money. PB3 and PREM1 expressed it in a similar way:

“Bank employees often miss or misunderstand that there is no correlation between economic wealth and customers’ financial literacy.”

Briefly, Private Bankers believe their customers possess high financial literacy while Premium Advisors, Private Advisors, and the Stockbroker believe their customers, or customers in general, possess low financial literacy. PREM1 pointed out that customers are aware of their risk but they do not have any detailed financial knowledge.

Financial advisors customize advice depending on the customer's financial literacy. Customers with higher financial literacy may get wider advice, as they may understand complex financial instruments better. A complex financial piece of advice cannot be given to customers that do not understand the product or what risk it entails. It can be easier for a financial advisor to explain complex financial instruments to a customer with high financial literacy. If the customer does not understand the product, the advisor must raise the customer's knowledge by giving more information. More complex products and securities may therefore not even be discussed with customers without knowledge or experience of such investments. PREM2 said:

“Sometimes you do not have the courage to suggest a complex product to a less-informed customer, as it is too complicated to explain the product. In those cases you suggest a more cowardly alternative.”

Another Premium Advisor, PREM3 explained:

“Different financial advice depends also on the customer's willingness to participate actively in the investment. A complex product may not be suitable for

a customer not willing to participate actively or willing to add extra risk even though the customer possesses high financial literacy.”

One Private Advisor, PA1 said:

“Different financial advice depends more often on customers’ investment horizon than on their financial literacy.”

Furthermore, PB4 stated the computer system’s bad ability to give different advice to customers with different financial literacy. He does not think the software system senses the difference in financial literacy and experience. PREM1 said the more complex financial products, the worse, irrespective of financial literacy. Instead he prefers to suggest investments in interest-bearing securities, real estate, and shares, which generally generate return in the long term.

4.2. Customer Complaint Management

Of course bad advice is costly for banks but the participating advisors are not afraid of consumer complaints and the liability to pay damages in their daily work. Consumer complaints arise rarely. PB4 said he does not know any case where customers have complained about bad returns in the court and PB3 expressed it as:

“It is not reasonable for a customer to complain about a well-allocated portfolio even in a downturn.”

However, the advisors put much effort into pointing out and explaining risk. They document more accurately and are more careful in giving individual and risky financial advice. If the customer has claimed complaints before, the advisor becomes more careful and clear with that certain customer.

Swedbank takes consumer complaints seriously and if consumer complaints arise, the advisor listens and documents the critique, and sends it to a central complaint department where it will be followed up. Thereafter, if needed, it is submitted to the National Board for Consumer Disputes (ARN). In some cases the advisor can directly give the case to the manager or in less severe cases compensate the customer with for instance annual fees.

4.3. The Bank's Sales Goals

Swedbank as a business driven operation has sales goals. Most of the respondents agree that this influences the financial advice, but that it should not provoke the customer's need and preferences. The starting point of deciding an investment advice is the customer's need, and then what is best for the bank. The advisors try to match the customers' need with the bank's financial requirements. A satisfied customer is a good customer. PREM1 said:

“Customers do not go to a financial advisor to get risk-free investment advice, they are aware of the sales.”

The bank's recommendations and sales goals can push aside investment alternatives at least as well as the chosen investment. The advisors try to find products and services that suit the customers' need in terms of mortgages, insurance, loans, and debit and credit cards etc.

The sales goals affect the employed with variable salary the most i.e. Stockbrokers. Among the respondents there is a fear that the industry goes back to the sales way of thinking. PB1 said he dislikes the word “sales” which is typical in the finance industry. He stated he works as an advisor, not as a salesman. PB1 continued:

“If the advisor does great work and upholds the bank's vision of being simple, open, and caring the sales and customer satisfaction comes automatically.”

4.4. The Bank's Transaction Costs

Without transaction costs such as fund fees and management fees, the bank cannot manage its operations. PB4 said:

“It is not economically sustainable to only sell index funds. If the customers want advice and asset management they need to pay for it.”

The bank wants to sell products with good earnings but of course it has to suit the customer. The bank recommendations try to bundle the funds of many investors together, but it is because the product is good, not because of the price.

Some respondents think it is an obligation to inform the customer of the different prices and that it is more expensive for the advisor to perform the trade than if the customer does it in the

Internet bank. Active fund management is more expensive and should generate higher return than index funds in the long term, but there is no guarantee. PREM2 said that customers understand that active management funds are more expensive. PB2 said:

“Sound advice, but not an economically sustainable business advice, is to suggest the fund with lower management fee. In the long term the bank gains customers’ trust and satisfaction. Besides, a dissatisfied customer, due to high transaction costs or unawareness of alternative investments, can generate more damage for the bank than lower earnings.”

Employees with variable salary try to sell the funds with higher fees more than employees with fixed salary. Moreover, an investment characteristic, such as the possibility to make monthly payments influences the decision to choose among investments with different transaction costs.

4.5. Centralized and Individual Financial Advice

The advisors get the bank’s centrally controlled recommendations and analyses. The software system “Rådgivningsstöd” is great support showing different investment alternatives given customers’ risk attitude and investment horizon. However, most of the respondents do not think the system captures everything, such as financial knowledge.

The respondents emphasize to individualize advice with caution. The further away an advisor goes from the centralized advice, the more documentation is needed. The overall picture is that financial advisors think it is easier to follow the bank’s recommendations and products, in order to protect themselves and the customers, but they customize the financial advice as they know the customer best. The Private Bankers stated that many customers seek and expect individual advice. PB1 said:

“Customers are willing to pay to get added value from a personal advisor and individual advice increases the trust in the bank.”

Briefly, the Stockbroker and all four Private Bankers primary individualize the advice along the central analyzes. The three Premium Advisors see the centralized advice in “Rådgivningsstöd” as great support, and individualize the advice on the customer’s request. The two Private Advisors mostly follow the centralized investment suggestions, as long as the

customer feels comfortable with it. They said it is up to the customers whether they want to follow “Rådgivningsstöd” suggestions or if they want more personal suggestions. PA2 claims the customers demand little individual advice, while PA1 thinks the customers often ask about the advisor’s opinion and own suggestions.

PB3 highlighted the risk of being more careful in giving the advice and giving less individual advice because of the law on financial advice to consumers. Another respondent, PREM3, pointed out that customers with less financial literacy and experience get less individual advice. The financial advisors feel more comfortable giving individual advice to well-known customers. PB1 said he spent time on getting to know a new customer before he gives any advice at all. He said:

“With freedom comes responsibility.”

When it comes to how the customers perceive the financial advice, most of the advisors asked think the customers can perceive the advice as both centrally controlled and individually adjusted. It depends on whether the advice is emphasized as the bank’s recommendation or as the financial advisor’s suggestion. The general view is that Private Banking customers tend to perceive the financial advice as more individualized. Only SB1 thinks the customers perceive the financial advice as centrally controlled. PB2 said that customers appreciate consistent central advice in combination with the personal advisor’s view. PREM3 pointed out that some customers think the advice “Rådgivningsstöd” suggests is poor and identical to other customers’ advice.

Most of the participating advisors see a risk of giving identical advice to customers with same risk profile and investment horizon by only following the centralized advice from the software system. They believe it is prevented together with the bank’s strategy and the advisor’s ability to individualize the advice. PREM2 said:

“The investment suggestions are centralized, it supports us, but the financial advice is individual.”

4.6. Opinions About the Law on Financial Advice to Consumers

One perceived advantage of the law on financial advice to consumers is that the industry is now cleansed from unserious firms and advisors. Another perceived advantage is that there is now more qualified advice, which hopefully should result in more satisfied customers. Furthermore, compared to before, it is clearer for financial advisors what laws and regulations they have to relate to.

There is an opinion among the respondents that Swedbank was not sufficiently prepared when the law was implemented, which in turn affects the financial advice. A considered disadvantage is that the law is too excessive and complex, and the bank's system is not yet fully adapted. There are too many control questions, which can affect the customers' trust in the bank. PB3 said:

“Some customers think the law was implemented for bank protection and do not understand that consumer protection is behind.”

PREM1 believed:

“Customers may feel safer in their investment decisions.”

PREM1 continued:

“Swedbank's customer surveys show that customers think the bank asks too many questions and gives too cautious advice.”

The respondents highlight the fact that customers may get cautious advice with far too low risk in their financial investment. On the other hand, there is for now no obligation to discourage customers to take on extra risk as long as the customers are informed about the consequences.

PA2 said:

“The financial advisor has become more regulated in the advisory services.”

The Stockbroker, SB1 believed:

“The law is more theoretical than practical, which is business inhibitory.”

It takes time and effort to act according to regulations. PA1 said laws are difficult to interpret and it can cause a problem if financial advisors literally follow the law. The opinion is that regulations affect customers negatively as they have to bear the cost in some way. The advice may be less individual and more centralized as advisors become more and more careful.

Briefly, most respondents consider the quality of the financial advice enhanced since the implementation of the law. Only two respondents, both females, said the quality is unaffected, and as good as before the implementation. One of them, PREM3 said she does not notice the law in her daily work. The third female, PA2 thinks the quality in on the whole is enhanced in terms of the awareness to control that customers understand. However, she does not think she works differently than before the implementation.

The advice has become more uniformed. The improvement can be explained by clearer templates and by better analysis of customers' need, due to the bank's software system "Rådgivningsstöd". By explaining and discussing risk with customers, one becomes a better financial advisor. There is more similarity in the financial advice given by different advisors, which strengthens the bank's reputation.

The financial advice has changed in the sense of the advisors' awareness to explain risk, and to be clear and careful. In recent years, many of the customers have also changed their own financial habits e.g. the use of the Internet and the experience of several financial crises. PB4 said:

“Before the law was implemented, customers sought financial advice due to the tax advantage, now it is because of the expected return.”

When it comes to the impact on the financial advisors' competence and professional role, half of the respondents do not think law has strengthened them. PB3 thinks his competence has not increased, rather the opposite. He does not think his competence gets fully used. The other half think it has strengthened them in their professional role. Some customers are very aware

of which regulations banks comply with, which requires well-informed advisors. The financial advisors think they have become more thoughtful and comfortable. Also, internal meetings with updates about the global economy strengthen their professional roles further.

4.7. Opinions About the Documentation Requirements

The common view is that the documentation requirements have to exist but they are currently too extensive. Before the implementation of the law in 2004, and especially before the implementation of Swedbank's software system "Rådgivningsstöd" in 2002, not many financial advisors documented manually. At that time, it was enough with customers' signature on a business compilation. PB3 said:

"The law cannot protect the market from new crises but the documentation can show that the customer did not get the wrong product based on the customer's risk profile, investment horizon and financial literacy."

PB3 also said that the documentation requirements are stressful as it is a question of interpretation of what good documentation means. PA1 expressed it as:

"The more you write, the greater the risk of misinterpretation."

It is time consuming to document which leads to less spontaneous investments and financial advice on the whole. PB2 and PREM1 said individual advice could decrease due to the advisors' time limit. The documentation is more time consuming with new customers than with established contacts. PB2 said he became more comfortable, and maybe documented poorly with well-known customers. PREM1 described it as:

"Less wealthy customers could be excluded due to advisors' time limit."

Another Private Banker, PB4 said:

"Advice with small impact on the customer may be avoided, as the time it takes to document is not in proportion to its benefits."

Further, there is often no time to document during the advisory meeting. Only PA1, PA2, and PREM2 tend to document during the meeting. Usually, advisors often document what has been said after the customer has left the office. They thereafter send the documentation to the customer, who signs the paper and sends it back to the bank. PREM2 said customers can get tired and:

“Sometimes you need to divide the advice into two meetings.”

Telephone calls can be recorded but should anyway be documented in the software system “Rådgivningsstöd”, something that is not always done. Some of the participating advisors said it is important to document well and to adapt their writing as the customers receive the documentation. PB1, PB3, and PB4 stated that anxious advisors might give more centralized and cautious advice.

The advantages of having documentation requirements can be that customers may experience the bank as more open, trustworthy, and professional. The documentation requirements may make the documentation more accurate but PREM3 does not think the documentation requirements are necessary and argues that it would be done anyway, in accordance with customer service. Other advantages are the traceability to follow customers’ historical transaction and advice, and to avoid future problems.

The common perception is that customers think the documentation requirement is a way for the bank to disclaim their duty. The customers do not understand why the bank repeatedly asks the same questions. One solution would be to have less documentation requirements regarding small or recurrent investments. PREM1 does not think the customers know what is included in the bank’s obligation. Further, the view is that the customers do not even read the documents. PB3 sees approximately 80% of the documentation as irrelevant. PB4 said:

“The customers perceive 20 pages of documentation as frightening and risky. They think 3 pages would have been enough for a normal risky investment.”

PB1 stated the risk that the employed advisors think the bank is looking for mistakes, which reflects directly on the customer. Another common perception among the respondents is that Swedbank has not yet developed an optimal documentation routine. The software system

“Rådgivningsstöd” has improvement potentials such as linking different systems together. PB3 highlighted the importance of updating the CRM (Customer Relationship Management) and link it together with the routine of AML (Anti Money Laundering). Another improving potential suggested by a participating advisor to simplify the documentation routine is to let customers accept and sign agreements with the electronic identification Bank ID.

5. DISCUSSION AND ANALYSIS

The aim of this section is to connect the theoretical framework with the empirical result with consideration to the purpose and research question.

The law on financial advice to consumers cannot protect the financial market from new crises and thereby customers to lose their money. However, the documentation can show that the customer got a fair piece of advice based on the customer's risk profile, investment horizon, and financial literacy.

The law on financial advice to consumers seems to have cleaned the industry from unserious firms and advisors. Unserious firms are not in favor of documentation and specific competence requirements of the advisor. With consideration to Akerlof (1970), the law and the documentation requirements drive out "bad" advice from the market. Today, asymmetric information has become more equalized and hidden information is more accessible to customers due to new technology. Customers can easily raise their own competence and knowledge by searching for information on the Internet. Nevertheless, it seems as though customers always will demand financial advice and expertise in order to exchange, and discuss financial information. Thus, customers seek advice due to the information asymmetry to add value to their financial decisions. This means that the customers are aware of the information asymmetry and use it to their advantage to get good advice.

The empirical findings indicate that the documentation requirements, taken into account in Swedbank's software system "Rådgivningsstöd", reduce the information asymmetry since the better-informed advisor shares information with the less-informed investor. With consideration to Vaněk and Botlík (2013), it seems to strengthen the bank's reputation and customers may experience the bank as more open, trustworthy, and professional. Documentation requirements also seem to enhance the similarity in the financial advice given by different advisors. Another finding in line with Vaněk and Botlík is that customers' trust in the bank increases as financial advisors add value by individual advice. If financial advisors increase customers' knowledge about a certain investment, they document it in "Rådgivningsstöd" and thus there is a transparency of information.

Mostly, financial advisors do not have time to document in the software system during the meeting. This implies that customers mostly not get the documentation in real-time.

According to this, Creutzer (2010) was right. There is a risk of misunderstandings and customers may afterwards say *"I trusted what the advisor said, or it was such a rush so I did not have time to read through the documentation"*. Additionally, financial advisors do clearly and carefully explain the risk of the investment. Financial advisors listen, ask questions, and look at the customer's historical transactions in order to make sure the customer understands the risk. However, as Dahlgren (2012) stated, customers only declare their risk by ticking standard boxes with "low risk", "medium risk" or "high risk". When it comes to customers' risk profile, the financial advisors bear the responsibility more than the documentation requirements do. In particular, the financial advisors are supposed to explain the different risk classifications and make sure that the customer understands.

The result shows that financial advisors perceive an advantage of having more information, but only share it with the customer if the customer's financial literacy is relatively high. Financial advisors cannot give a certain investment suggestion if the customer does not understand the product and its risks. The result indicates that financial advisors only seem to give investment suggestion and information that the customer already is familiar with, as it is complex to explain more advanced alternatives and be sure that the customer understands.

In financial advice, it seems like the employees do not think conflict of interest is a practical problem. According to the law, the financial advisor should act in the consumer's best interests. The trader shall give appropriate advice according to the consumer's wishes and needs. The advisors try to match the customers' need with the bank's financial requirements without provoking the customer's preferences. Previous results by Ismayilov and Potters (2013) show no effect on consumers' behavior regarding a disclosure of advisors' interests. Additionally, Krausz and Paroush (2002) do not always think the advisor acts in his or her own interests. Contrariwise, Mullainathan et al. (2012) prove the fact that financial advisors often act in their own interests but that it does not affect consumers' decisions. In accordance with previous findings, my result indicates customers' awareness and acceptance of different financial interests. In particular, my study indicates that financial advisors perceive most customers to be aware of sales goals, do not seek risk-free investments, and are willing to pay a premium to get added value from a personal advisor. Irrespective of the bank's and financial advisors' interests, customers seek financial advice to their own advantage. On the contrary, Dahlberg (2015) accuses Swedish banks for acting in favor to their own interests.

In line with the findings of Beyer et al. (2013), the result indicates a risk of financial exclusion. Financial advisors see a risk that the documentation requirements lead to less spontaneous investments and financial advice on the whole. Sales goals can push aside investment alternatives but should not provoke the customer's need and preferences. Due to financial advisors' time limit, less wealthy customers, or customers with low financial literacy could be excluded as advisors may choose to dedicate their time and effort to wealthier investors more likely to trade on a bigger scale.

Williamson (1970) says the transaction costs approach economizes on the sum of production and transaction costs. Banks can reduce transaction costs by bundling the funds of many investors together. However, in practice, customers bear transaction costs such as fund fees and management fees. The result shows that the bank's recommendations try to bundle the funds together because of the product, not because of the price. Besides different investment characteristics that influence the choice of investment alternatives, the opinions differ about the decision among the financial advisors. Most respondents think it is obvious to inform the customers about the fund with a lower management fee, and in the end let the customer decide. Others primarily try to sell the funds with higher fees as long it is in line with customer's need. Irrespectively, Dahlberg (2015) says that that customers are not fully informed and do not always get what they pay for. He states that banks are fooling their customers by selling expensive actively managed funds that are not being actively managed. The sales goals affect Stockbrokers with variable salary the most. In line with Hackethal et al. (2012), employees with commission-based salary, dedicate more time to wealthier customers, and try to sell funds with higher fees. The different opinions indicate that the bank gives the advisors space for own actions.

The law on financial advice to consumers and the documentation requirements were formed with the purpose of strengthening consumer protection. There is a common view among the respondents that customers perceive the law and the documentation requirements as bank protection. The financial advisors perceive the customers to think the bank asks too many control questions. My study does not seem to show any noticeable perceived consumer protection. Nor does the study show any difference in numbers of consumer complaints even though the advisors admit that they explain risk and document better now compared to before.

In accordance with Collins (2012), Hackethal et al. (2012), and Calcagno and Monticone (2015), the result shows that wealthy investors with high financial literacy seek advice from financial advisors. In this study, it is only applicable to Private Banking customers, since only they are considered to have high financial literacy. On the contrary, the result indicates that there is no relation between economic wealth and financial literacy for customers that seek financial advice from Private Advisors, Premium Advisors, and Stockbrokers.

My findings agree with Collins (2012) that financial advice acts more as a complement to, rather than as a substitute for, lack of financial literacy. My study shows that financial advisors tend to share more information with customers with high financial literacy and thus, act as a complement to the customers' financial literacy. For customers with low financial literacy, the financial advice does not seem to act as a substitute but as a complement to their financial literacy. My study shows that financial advisors give less complex advice, and more centralized advice to consumers with low financial literacy. Customers with less financial literacy are mostly satisfied with centralized advice from the computer, and do not often demand other advice. The result indicates that financial advisors do not suggest individual advice if the customer does not request it. It would take too much time to provide individual advice to everyone. The centralized advice from the software system "Rådgivningsstöd" shows what suits the customer. Contrariwise, customers with more experience and financial knowledge seek individual advice and expect personal advice from their financial advisor and are mostly not satisfied with the advice "Rådgivningsstöd" suggests. This result implies that customers with less financial literacy and financial interest get centralized advice from the computer, which may be identical to other advice given to customers with a similar risk attitude, expected return, investment horizon, and preferences. The result indicates that even though financial advisors believe they can prevent identical advice due to the possibility to individualize advice, there is a risk of giving identical advice to different customers by only following the centralized advice.

In connection with the documentation requirements, the financial advice has become more cautious and sometimes the advice includes far too low risk. Besides, up to the time of writing when interest rates are low, customers who want the same rate of return as before, have to add extra risk. Financial advisors have become more careful when giving advice and may avoid certain investment suggestions, as it is too complex to explain and be sure that the customer understands. Swedbank's customer surveys show that customers think the bank asks too many

questions and gives too cautious advice. The result indicates that financial advisors suggest lower risk to new customers than the software system suggests. This can be explained by the fact that financial advisors want to get to know their customers and be sure that the customers understand what risk they take on, before they suggest more risky advice. Hypothetically, in consideration of what already has been discussed, this would imply that new customers with low financial literacy get too high risk, as they are more likely to receive centralized advice. However, the role of financial advisors prevents this and ensures that customers get advice in line with their risk profile.

The result does not show any noteworthy differences in the responses between the financial advisors with respect to their different ages and period of employment. However, the result indicates that there are some differences with consideration to the respondents' professional roles. Only Private Bankers, PB1, PB2, PB3, PB4 seemed to believe their customers possess high financial literacy. Likewise, they think their customers tend to perceive the financial advice as more individually adjusted than other customers perceive each piece of advice. The majority of the financial advisors think the customers perceive it as both centrally controlled and individually adjusted. Only the Stockbroker, SB1 thinks the customers perceive the financial advice entirely as centrally controlled. This can be explained by the fact that Stockbrokers have a greater sales role and support other advisors with their customers. Stockbrokers and Private Bankers individualize the advice more often than Premium Advisors and Private Advisors. The Private Bankers i.e. PB1, PB3, and PB4 are more concerned that anxious advisors might give more centralized and cautious advice due to the law on financial advice to consumers. There is not any remarkable variation in the responses between the employees. However, the view of PREM1 seems to be more critical and rougher, than the other financial advisors. Thus the positive aspects of PREM1 can be perceived as over-optimistic opinions. Anyhow, this is not considered to affect the outcome of this study since there will not be any generalized conclusions or generated hypotheses based on specific opinions by PREM1 or the others. Thus the conclusions and the generated hypotheses are not considered biased. There is no clear sign how the law and the documentation requirements have affected the financial advisors competence and professional roles. 50% of the participating financial advisors believe their competence have increased, the other 50% believe the opposite.

The common view is that the documentation requirements have to exist but that they currently are too extensive. Much of the documentation routine in “Rådgivningsstöd” seems to be irrelevant, especially in recurrent investments. There is no clear guide of what good documentation means. The findings indicate a risk of misinterpretation the more the advisors write. The documentation requirements have to be more relevant and Swedbank’s software system needs to be improved and updated.

Interestingly, from a gender perspective, the result shows that the female respondents think the quality of the financial advice is unaffected, and as good as before the implementation. The general view that women are more risk-averse than men was not considered to be crucial in this study. However, the findings indicate that female advisors have acted in the same way as before the implementation. Whether this can be explained by their risk attitude cannot be proved, and remains a subject for further research.

6. CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESERACH

To begin with, no generalized conclusions can be drawn due to the study's purpose, scope, and delimitations. The statements and conclusions are based on the responses from 10 employees at Swedbank in the western region of Sweden.

6.1. Concluding Remarks

The law on financial advice to consumers seems to be essentially necessary. However, the documentation requirements need to change and be clearer. Financial institutions and advisors need to know what good documentation means in order to improve their documentation routines. Particularly, Swedbank's software system needs to be updated, exclude irrelevant questions and ease the documentation of small and recurrent investments. Currently, Swedbank's documentation routine is extensive, time consuming, and seems to lead to less spontaneous investments and financial advice on the whole. To counteract this, it seems fundamental for Swedbank to update their software system and to link different systems together. However, clearer documentation requirements imply stricter framework, which may reinforce perceived control and regulation.

The fact that documentation is extensive and time consuming seems to affect what financial advisors prioritize during the meeting. Financial advisors emphasize discussions and tend to document and give the documentation to the customer afterwards. In line with Creutzer (2010), it implies a risk of misunderstandings when customers do not get the documentation in real-time. To ease the documentation routine further than already suggested, the bank should look at the opportunity to let customers accept and sign agreements with the electronic identification Bank ID.

The documentation requirements seem to enhance the similarity in the financial advice given by different advisors. Standard questions in banks software systems enhance equal advice and the same quality in the entire bank, which may strengthen the bank's reputation. However, the requirements could imply that anxious advisors might give more centralized and cautious advice. Anxious aspects would be that the bank is controlling the advisors and looking for mistakes in the given advice and documentation, or that the customer may not understand the product. Centralized advice is based on the bank's recommendations and can be seen as "safer" advice built on the bank's holistic perspective. Therefore, centralized advice could increase as financial advisors think it is complicated to explain individual, risky and complex products.

Customers with less financial literacy and financial interest mostly get centralized advice from the computer. This implies that these customers most likely receive identical advice given a similar risk attitude, expected return, and investment horizon. There is a risk that identical investment advice imply larger fluctuations in the market. One could also wonder about Swedbank's emphasis on individual advice and, close and long-term customer relationships, since some customers despite all get centralized advice from the computer. Anyhow, it is individually in the manner that the customer is attendant and that the advisor is going through the customer's economic situation. It seems like it is up to each financial advisor and each customer together to decide how the advice should look like.

In line with new technical tools as "Rådgivningsstöd", anxious aspects, advisors' time limit, and low financial literacy, it seems like centralized advice and recommendations increase. Technical tools imply greater responsibilities for financial advisors to interpret advice, but does not necessary fully use their competence. It may be difficult for customers to control if the advice comes from the advisor or from the computer. There can be a risk that advisors financial interests, engagement, and internal competence requirements decrease in line with the increased use of technical tools and centralized advice.

Due to financial advisors' time limit, less wealthy customers, or customers with low financial literacy could be excluded as advisors may choose to dedicate their time to wealthier investors. Another option, which would be interesting to examine further, would be to implement the English banking system where banks charge customers for their financial advice. However, the media debate about banks closet indexing and the pressure on fund managers indicate difficulties to charge customers for financial advice. In accordance with advisors' time limit, a more digitalized world, and new technical tools one may think that artificially advice where customers get centralized financial advice by the computer at home, without any present financial advisor, would be implemented. However, due to banks' legal aspects, video counseling by professional advisors to consumers may be the closets we can get. This is actually something banks currently investigating to implement.

Regarding conflict of interests, Dahlberg (2009) and (2015) emphasizes the problem and the drawbacks for the customers while other authors do not emphasize it to actually be a problem (e.g. see Ismayilov and Potters, 2013., Krausz and Paroush, 2002., Mullainathan et al., 2012). My result states that financial advisors perceive most customers to be aware of sales goals and

are willing to pay a premium to get added value from a personal advisor. However, in accordance with Dahlberg, this is only acceptable and applicable if customers get correct information. Dahlberg claims that customers are not fully informed and do not always get what they pay for. In connection with this, there is a risk that the responses regarding conflict of interest in my study are unconsciously or consciously biased.

As mentioned before, in accordance with previous findings (e.g. see Collins, 2012., Hackethal et al., 2012., Calcagno and Monticone, 2015), this study indicates a positive relation between wealthy Private Banking customers and high financial literacy. Controversially, the result indicates that there is no relation between economic wealth and financial literacy. These responses should be considered with caution, as it is not in line with previous studies that show a positive correlation between economic wealth and financial literacy over the life cycle (e.g. see Jappelli and Padula, 2011).

Finally, there is naturally an interest for policy makers, customers, and financial institutions to examine the compliance of financial advice to consumers. It is clearly important for policy makers to take into account how the law and the documentation requirements turn out in practice. Considering the media debate about banks closet indexing it will be interesting to see how the development of the law on financial advice to consumers and the documentation requirements turn out. Currently, the development is awaiting directives from the EU, who are working within the field of financial advice to consumers. The consumer protection needs to be strengthened somehow and customers need to be guaranteed correct information. However, if we can expect a change in terms of more efficient supervision, more precise and concrete documentation requirements or a repeal of the law, still remains to be seen.

6.2. Generated Hypotheses for Further Research

As discussed in previous sections, my study indicates different connections and conclusions. The generated hypotheses highlight potential connections and as they are based on the respondents' common view, they indicate probable statements for further research. The following hypotheses would therefore be interesting to test.

The first generated hypothesis addresses the relationship between customers' financial literacy and centralized advice. According to previous studies, there seems to be a correlation between financial literacy and financial advice seeking individuals (e.g. see Collins, 2012., Hackethal et al., 2012., Calcagno and Monticone, 2015). My study indicates a relation

between customers with low financial literacy and those who receive centralized advice. My findings indicate that customers who receive centralized advice are most likely to receive identical advice given a similar risk attitude, expected return, and investment horizon. Therefore it would be interesting to test whether there is a relation between customers' financial literacy and centralized financial advice.

H₁: There is a relationship between customers' financial literacy and centralized financial advice

Second, the empirical findings indicate a risk of financial exclusion. Documentation requirements are time consuming and lead to less spontaneous investments and financial advice on the whole. Less wealthy customers or customers with low financial literacy could be excluded as financial advisors may choose to dedicate their time and effort to wealthier investors more likely to trade on a bigger scale. An interesting hypothesis to test would be whether financial exclusion could arise due to financial advisors' time limit.

H₂: Financial exclusion arises due to financial advisors' time limit

At last, it seems as though financial advisors have become more careful when giving advice and they may avoid certain investment suggestions, as it can be too complex to explain them to the customer, and be sure that the customer understands. It would be interesting to test whether the law on financial advice to consumers and the documentation requirements affect financial advisors decision to give cautious advice.

H₃: The law on financial advice to consumers and the documentation requirements affect financial advisors decision to give cautious advice

6.3. Other Suggestions for Further Research

Other suggestions have been developed with consideration to arising questions during the research process and interesting areas outside this study's limitations.

Thoughts regarding the gender perspective were particularly considered during the analysis process. The female financial advisors stated that they do not notice the law in their daily work, and that they do not think the law on financial advice to consumers has had any

improved effect on the financial advice on the whole. It remains to be investigated whether this can be explained by their risk attitude. An interesting subject would therefore be to test whether female financial advisors are more risk-averse in the financial advice than their male colleagues.

Another interesting aspect is whether the documentation requirements enhance the similarity in the financial advice given by different advisors. The financial advisors seemed to think so, but the result also indicated different working approaches regarding centralized and individually adjusted advice. A suggestion for further research would therefore be to investigate which particular factors that influence the investment advice for financial advisors.

Due to financial advisors' time limit, a possible and interesting topic to examine is whether Sweden will move towards the English banking system where banks charge customers for financial advice (e.g. see Berg, Saunders, and Steffen, 2014). Alternatively, one could examine the difficulties to charge customers, as a result of the increased pressure on fund managers (e.g. see Dahlberg, 2015).

Finally, it would be interesting to develop this study and to look at a wider perspective. For instance, examining the documentation requirements' impact on the advice given in a city more close to the financial sector (e.g. Stockholm), in different areas in Sweden, or in Sweden on the whole. Another possible extension to this study would be to examine the customer perspective, which is clearly debated in media.

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Interviews

In Gothenburg [2015-03-10] [2015-03-11] [2015-03-18]

In Uddevalla [2015-04-28]

APPENDICES

Appendix 1: Questionnaire

General questions

- Name? Position? Period of employment at the bank?
- What is your education?
- How long have you been working as a financial advisor?
- What are the competence requirements of a financial advisor?

The base of a financial investment advice

- What is the base of your investment advice?
- How do you analyze customers' risk profile?
- How do you control customers' financial knowledge?
- Do you provide different advice to customers with greater financial knowledge?
- At given investment advice, how do you make sure the customer understands what it means? How do you investigate what risk means for each customer?
- Is the advice centralized or individualized?
- Do you think the customer perceives the advice as centrally controlled or individually adjusted?
- How does the risk of complaints and potentially damages affect the advice?
- How do you deal with customers' complaints?
- How do the bank's sales requirements affect the "push on sale" at the advisory services?
- How do transaction costs affect what type of advice will be given?
- How much of your working time do you spend on investment advice?

Effects of the implementation of the law

- What are the advantages and disadvantages of the law? What is working well? What is working less well?
- Do you believe there has been an improved quality in the financial advice since the implementation?
- In what ways has the financial advice changed?
- Do you think the customers are aware of it?

Effects of the documentation requirements

- What are the documentation routines like?
- What are the advantages and disadvantages of the documentation requirements? What is working well? What is working less well?
- In what ways does financial advice differ with respect to the documentation requirements?
- In what ways do you feel that the documentation requirements affect the advice given?
- Do you think the documentation requirements lead to an increased risk of giving identical advice to different customers?
- How do you think customers perceive the documentation requirements?
- What is your view of the documentation requirements?
- Have the documentation requirements strengthened you as an advisor?

- Other opinions about the law and its documentation requirements?
- Is there something else you would like to add?

Appendix 2: Financial Advice to Consumers Act (SFS 2003:862)

Introductory provisions

Section 1

This Act shall apply to financial advice provided by a trader to a consumer and which includes investment of the consumer's assets in financial instruments or in life assurance with an element of capitalization. However, the Act shall not apply where the party giving advice only recommends an investment other than the foregoing. (SFS 2004:571).

Section 2

For the purposes of this Act:

“Consumer” means a physical person who trades primarily for non-commercial purposes;

“Trader” means a physical or legal person who trades for purposes connected to his own business;

“Financial instrument” shall have the same definition as in Chapter 1, section 4, first paragraph, subsection 1 of the Securities Market Act (SFS 2007:528). (SFS 2007:560).

Section 3

The provisions of this Act shall not be deviated from to the detriment of a consumer.

Section 3 a

The provisions of sections 4 and 5 shall not apply to financial advice, which is provided by:

1. A Swedish management company pursuant to Chapter 7, section 1, first paragraph, subsection 3 of the Swedish UCITS Act (SFS 2004:46);
2. Insurance intermediaries pursuant to Chapter 5, section 1, first paragraph of the Insurance Mediation Act (SFS 2005:405);
3. Securities institutions and foreign UCITS pursuant to the Securities Market Act (SFS 2007:528);
4. An AIF manager pursuant to Chapter 3, section 2, second paragraph, subsection 4 of the Alternative Investment Funds (Managers) Act (SFS 2013:573). (SFS 2013:573).

The trader's obligations

Section 4

The trader shall:

1. Ensure that the advisor has sufficient skills;
2. Document that which occurred when the advice was given; and
3. Provide the consumer with the documentation.

The Government, or the authority designated by the Government, may issue detailed regulations regarding that which the trader must observe in respect of the advisor's skills, documentation of advice, provision of such documentation, and exceptions from the obligation to provide documentation.

Section 5

In its advising operations, the trader shall observe generally accepted practices governing the provision of advice and, with appropriate care, attend to the consumer's interests. The trader shall adapt the advice to the consumer's wishes and needs, and shall not recommend solutions other than those, which can be considered appropriate for the consumer.

The trader shall advise the consumer against taking measures, which cannot be considered appropriate, taking into consideration the consumer's needs, financial position, and other circumstances.

Damages

Section 6

A trader, which, through its provision of financial advice, intentionally or negligently causes the consumer to suffer pure economic loss, shall compensate for the loss.

Section 7

Where the consumer wishes to allege that the financial advice has caused him or her pure economic loss, the consumer shall inform the trader thereof within a reasonable time after he or she knew or should have known that the loss arose.

Where the consumer fails to inform the trader with the time designated in the first paragraph, the right to damages pursuant to this Act shall be waived. The aforesaid shall also apply where the consumer fails to commence proceedings within ten years from the date on which the advice was given.

Supervision

Section 8

The Consumer Agency shall supervise compliance with this Act and regulations promulgated thereunder. However, the Agency's supervision shall not include operations under the supervision of the Financial Supervisory Authority or operations conducted by members of the Swedish Bar Association.

In the course of its supervision, the Consumer Agency shall be entitled to conduct inspections at traders who provide financial advice and to read all documents necessary for the supervision. The trader shall provide the information regarding the operation, which is requested for the supervision.

Where the trader fails to provide the documents or information, the Consumer Agency may order the trader to fulfill its obligations under pain of fine.

Section 9

Where a trader subject to supervision by the Consumer Agency provides financial advice in contravention of the requirements of the Act or regulations promulgated thereunder, the Agency may order the trader to desist from providing financial advice under pain of fine.

Where sufficient, the Consumer Agency may, instead, issue a warning.

Section 10

Decisions of the Consumer Agency pursuant to section 8, third paragraph and section 9 may be appealed to a general administrative court.

Permission to appeal is required in conjunction with appeal to the Administrative Court of Appeal.

Entry into force and transitional provisions

2003:862

This Act shall enter into force on 1 July 2004.

2004:571

(Published 18 June 2004).

2007:560

1. This Act shall enter into force on 1 November 2007.
2. Older provisions shall apply with respect to advice, which was provided prior to the entry into force.

2013:573

This Act shall enter into force on 22 July 2013.