What can the industry do to encourage long-term savings

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EFAMA

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Outline

- Part 1: Recent trends in household savings in the euro area
- Part 2: EFAMA’s survey on long-term savings
**Part 1**

**Recent trends in household savings in the euro area**

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**Saving, investing and wealth accumulation**

- **Saving**: Residual income used to acquire financial and non-financial assets
- **Investing**: Household saving is the main source of funds to finance long-term investment

- **Wealth**
  - Short-term financial assets: EUR 6 trillion
  - Long-term financial assets: EUR 12 trillion
  - Non-financial assets: EUR 28 trillion

End of 2011
Households’ total wealth
Significant increase until the start of the global financial crisis in 2007

Financial and Non-Financial Assets

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<th>Year</th>
<th>Financial Assets</th>
<th>Non-Financial Assets</th>
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Source: ECB

Households’ total wealth allocation
Change in composition driven by...

Financial assets Non-financial assets

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Source: ECB
Households’ total wealth allocation
... diverging trends between stock and housing market prices until 2008

Sources: ECB and STOXX

Households’ financial asset allocation
Increasing share of retirement savings (since 1999) and deposits (after 2007)

Source: ECB
Retirement savings asset allocation
Increasing share of households’ indirect holdings of investment funds

![Chart showing retirement savings asset allocation from 2001 to 2011. The chart indicates a trend where the share of investment funds increases over time.]

Households’ gross savings
Sustained rise in gross savings until 2009

![Chart showing household gross savings from 1999 to 2011. The chart depicts a consistent rise in savings until 2009, with a peak of EUR 834 billion in 2008.]

Source: ECB
Households’ acquisitions of assets (EUR billions)

Pre-crisis “normal” years

Housing bubble

Crisis phase

Source: ECB

Lower demand for almost all asset classes since 2008

Currency and deposits
Debt securities
Quoted shares
Retirement savings
Investment funds

Source: ECB
Households’ acquisitions of financial assets
Disinvestment from investment assets since 2008

Developments since 2008 in a nutshell

- Gross saving remaining relatively high
- Demand for non-financial (housing) assets remaining strong
- Retirement savings remaining strong, albeit low in 2011
- Demand for investment assets taking a big dip
- Holdings of investment funds via retirement savings continued rising

Word of caution: outside the euro area, some countries have seen different trends in household saving pattern
Part 2

EFAMA’s survey on long-term savings

Motivation

- The decline in savings in financial assets and the retreat from investment assets raise many questions

- EFAMA has surveyed its members to get their perspectives on two broad issues
  - the factors explaining the fall in household savings in financial assets
  - potential solutions to address household concerns and to encourage long-term savings
Who participated in the survey?

EFAMA’s members

- 46 Corporates
- 1 Associate
- 10 Associations

57 responses from 21 countries

Methodology used to rank results

Basics

- Multiple choice questions
- Rank each option on a 1–5 scale (1 least relevant, 5 most relevant)
- Each chart presents the options marked 4 or 5
Fall in household savings in financial assets
Cyclical (*) or structural?

(*) linked among other things to market uncertainties, deleveraging and low interest rates

Factors behind fall in savings in financial assets
Lack of trust, market risk, poor performance
How to address lack of trust?
By addressing household concerns about market risk and performance

Household trust

Market risk

Performance

91% of the respondents believe asset managers can contribute to improve household trust in financial assets

How to address concerns about market risk?
By enhancing value proposition at the manufacturing level

Stronger protection against certain risks
Absolute return products
New solutions with insurers

61%
42%
21%
How to address concerns about market risk?
By enhancing value proposition at the distribution level

How to address concerns about performance?
By encouraging households to invest over a long period of time
Why is saving for the long term important?
Because long-term savings tend to generate higher returns than short-term savings

93% of survey participants share this view

Why LT savings tend to generate higher returns?

- Provide access to equity risk premium and liquidity premium: 77%
- Avoid buying high and selling low: 61%
- Take advantage of macro trends: 51%
- Create opportunities to invest in alternative asset classes: 28%

• Lower transactions costs
• Compound interest rates
• Reinvestment of returns
• LT savings associated to regular subscriptions
How to spur supply of LT savings products?

Key factors for asset managers

- Incentives for retirement savings: 82%
- Household demand: 65%
- EU framework for LT investments for retail investors: 54%
- New products from competitors: 32%

Strong call to explain benefits of LT savings

Do you believe households still need to become aware of the benefits of LT savings?

- Yes: 91%
- No: 9%
Benefits of long-term savings
What can asset managers do to raise awareness?

- Encourage authorities at EU and national level: 72%
- Launch a common information initiative on LT savings benefits: 58%
- Finance an entity to communicate on LT savings benefits: 25%

How to encourage retirement savings?
What can asset managers do?

- Develop retirement-oriented products: 77%
- Offer low-cost solutions to retirement product providers: 53%
- Develop distribution solutions to have direct access to end-clients: 26%
What can the industry do in a nutshell?

- Understand
- Communicate
- Advice
- Encourage long-term savings
- Trust
- Develop retirement-oriented, low-cost products
- Inform about benefits of long-term saving
- Promote investor education
- Inform about future public pension levels
- Authorities
- Encourage retirement savings
- Create EU framework for LT investments

Thank you for your attention!
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