EFAMA

European Fund and Asset Management Association

POSITION PAPER

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Outline of a Strategy to Boost Retail Participation in Capital Markets and Promote Investments in EU Assets

In this note, EFAMA presents a set of suggestions and principles to foster an investment culture that drives meaningful change in retail participation in capital markets and supports EU investments. Increased capital in EU markets can help finance innovation, job creation and economic growth, ultimately creating more investment opportunities and leading to better long-term returns for savers.

EU member states, along with EU institutions, must take greater responsibility for promoting retail participation in capital markets because of the **limits of the top-down approach** and the traditional Level 1/Level 2 process. Reaching an EU-wide agreement is challenging, and many necessary actions fall outside the EU's competencies, requiring national-level initiatives in sensitive areas such as taxation.

There is no need to focus on new simple, and low-cost investment products at the EU level. The EU has successfully developed world-leading, cross-border investment products – UCITS, AIF, and increasingly ELTIF – that provide investors both within and outside the EU with a diverse range of strategies to meet their needs, including access to private markets. Conversely, EU-level initiatives on pension product design and wider regulation of retail distribution have shown their limitations, partly due to over-complexity, lack of member state support, and national specificities of markets.

We encourage all member states to introduce easy to access **Investment Savings Accounts (ISAs)**, where not yet available, to offer savers access to a broad range of diversified investment options, including UCITS, ELTIFs, retail AIFs, life-cycling funds, and other investment vehicles that enhance exposure to private assets. There should be minimal restrictions on eligible assets to ensure that ISAs are appealing and user-friendly for retail investors, especially in terms of tax reporting obligations.

The ISA should be structured in alignment with **national tax regulations** to ensure compatibility with the country's tax system. Member states could apply tax incentives with no prescriptive guidance, focusing first and foremost on increasing the amount of investment capital and number of citizens investing for the long term.

Furthermore, we encourage member states to explore ways to provide **preferential tax benefits**, if considered appropriate, to incentivize savers to allocate capital predominantly towards the EU economy.

The ISA framework will help foster a **stronger investment culture**, mobilizing capital for the long term without requiring mandated investments. **Streamlining the customer journey** is also essential to encourage more savers to become investors.

Building a European ISA culture should be reinforced by a broader EU-wide strategy aimed at enhancing the **competitiveness of the EU economy**, improving the investment climate in the EU, and strengthening investor confidence.

We believe that the EU strategy to improve financial literacy should be complemented by actions to enhance **investor education** to highlight the importance of diversification, the power of compound interest, and the benefits of long-term investing in minimizing risk and maximizing returns. By equipping investors with a deeper understanding of these principles, they can make informed financial decisions that lead to more stable and sustainable wealth growth.

Last but not least, various measures to strengthen the role of **private and occupational pensions** would help support EU citizens' retirement and direct savings into the economy, recognizing the balance between national and EU competence in developing effective retirement provisions. At the EU level, this includes simplifying the PEPP Regulation to make it a truly attractive template for personal pension provision in the EU and supporting the development of pension dashboards. At the national level, key actions include introducing attractive tax incentives, pension tracking systems, and auto-enrolment mechanisms, and allowing pension providers to invest in a broad range of asset classes, including unlisted private assets.

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1. Introduction

As highlighted in the Draghi and Letta reports, Europe faces a pressing need for additional investment to regain its competitiveness and close the gap with the US – more than EUR 800 billion per year, according to the Draghi report.

Yet, European households keep an excessively large share of their financial wealth in cash and bank deposits, while a significant portion of the savings invested in capital markets does not sufficiently benefit the EU economy.

In this context, **maintaining the status quo is not an option**. Recognizing the urgency, the European Commission has made this issue a top priority.

Against this backdrop, EFAMA is pleased to contribute to the ongoing discussions by proposing strategic measures to better channel retail financial savings – driving European economic growth while securing stronger financial outcomes for European citizens over the long term.

2. Two Challenges, Different Causes

2.1 Excessive amount of savings kept in bank accounts.

EU households have a high level of financial assets and a substantial part is stuck in cash/banking accounts, as explained below.

Why?

- Lack of equity/investment culture
- Risk aversion due to low financial literacy and investor education
- Excessive regulatory focus on risk warnings
- Limited/insufficient incentives
- Low level of retirement savings
- Complex and discouraging investor journey (PRIPPs, PEPP, ESG features - MIFID)

2.2 High amount of savings invested outside the EU

European savings are not financing enough the EU economy.

Why?

- EU capital market efficiency issues
- Insufficiently attractive investment culture
- Low competitiveness of the EU economy
- Low returns of EU assets due to the above

3. Key Actions to Transform Retail Savings into Investments

The European Union needs to unlock the substantial amount of household savings held in cash and bank deposits, which, at the end of 2023, amounted to EUR 11,635 billion. This represented 42.1% of total household financial wealth, i.e. EUR 27,621 billion.[1]

If EU households in all countries reduced the share of their financial wealth held in deposits by 1 percentage point per year, from 42.1% to 41.1% initially, **the amount of money that would be transferred annually from deposits to capital markets would total EUR 276 billion**.

If this process continued for ten years, the financial wealth kept in cash and bank deposits would fall to EUR 8,873 billion. This amount would still represent 32.1% of household financial wealth, compared to 17.7% in the United States. This confirms that the proposed gradual transfer of savings toward capital market instruments is reasonable.

To achieve this goal, a holistic set of measures should be taken.

3.1 Substantial review and drastic simplification of the Retail Investment Strategy

In its current form, the Retail Investment Strategy (RIS) will not achieve its goal of making investing more accessible to European citizens. In fact, it introduces excessive complexity and regulatory burdens that could ultimately deter, rather than encourage, retail participation. In order to stand a chance to deliver on its objectives, the RIS needs urgent review and simplification.

EFAMA has published a leaflet setting out clear recommendations to encourage, rather than deter, EU retail investors.

3.2 A retirement saving strategy

Priority should be given to various measures that encourage and nudge citizens to save more in private and occupational pensions, ensuring an adequate retirement income while also channeling savings into the broader economy. We believe that the following actions would help drive substantial progress in this area.

- At the national level, expanding **auto-enrolment** in occupational pension schemes to increase coverage and scale, using life-cycle investment strategies as the default option to boost overall pension assets and increase the allocation to equities.
- Creating **pensions dashboards** to provide transparency on the long-term sustainability of national pension systems, with a particular focus on assessing the financial viability of public pensions amid aging populations and a shrinking workforce.
- Introducing **pension tracking systems** in member states where these systems are not yet in place to provide citizens a consolidated view of their pension entitlements.
- Simplifying the **PEPP Regulation** to reduce unnecessary costs, streamline the advice process, remove the 1% fee cap, and revise life-cycle investment rules to allow younger savers to invest

[1] The 27 trillion amount does not include unlisted stocks which mostly represent family corporate ownership.

fully in high-growth assets. Additionally, positioning PEPP as both a second pillar (complementary to existing occupational plans) and third-pillar pension product would significantly expand its market potential.

- Ensure that national legislations allow pension providers to invest in a broad range of asset classes, including **unlisted private assets** for several key reasons:
    - Stocks and private assets have historically outperformed bonds and cash over the long term.
    - Equities and private assets, especially infrastructure and real estate, often provide inflation-adjusted returns, protecting pensioners' purchasing power over time.
    - Investing in private assets channels capital into growing businesses, infrastructure, and innovation, supporting job creation and economic growth.
    - Pension funds have long investment horizons, allowing them to withstand short-term volatility and benefit from compounding returns.
    - By boosting returns, these investments can help ensure sustainable pension systems, reducing pressure on public finances.
- The investment allocation of occupational pension funds is governed in the IORP Directive by the prudent person principle, which contains a presumption in favor of investment in liquid, public assets. While we continue to support the overriding requirement of the prudent person principle to focus on the interest of members and beneficiaries, there are opportunities in some member states to ease **investment limits for pension funds**. This could enable greater diversification into private assets, taking into account risk, liquidity and cash flow needs. We believe that guidance in this area could empower pension fund governance bodies to actively think about private asset allocation in the EU.
- Finally, member states should consider **public-private partnerships** where appropriate to attract the long-term investments of pension providers and other institutional investors.

3.3 Financial literacy & Investor education

Financial literacy plays a key role in helping individuals understand that long-term financial security is best achieved through investing – which, in most cases, outperforms traditional savings accounts while offering greater liquidity than assets like real estate.

The strategy to improve financial literacy should be complemented by a strategy to enhance investor education for the following reasons:

- Bridging the gap between knowledge and action
    - Financial literacy equips individuals with basic concepts like budgeting, saving, and debt management.
    - Investor education focuses on applying this knowledge to making informed investment decisions, such as understanding asset classes, risk, diversification, and long-term wealth accumulation.
- Overcoming psychological and behavioral barriers

    - Even financially literate individuals may hesitate to invest due to risk aversion, distrust, or lack of confidence.
    - Investor education can address these concerns by demystifying markets, reducing fear of volatility, and promoting responsible risk-taking.
- Navigating market complexity
    - Capital markets are evolving continuously, with new types of investment products (ETFs, ELTIFs, sustainable funds, etc.).
    - Investor education helps individuals understand these products and how they align with personal financial goals.
- Encouraging long-term investment behavior
    - Retail investors often make short-term, emotional decisions (e.g. panic selling during downturns).
    - Investor education teaches patience, market cycles, and the benefits of long-term investing, fostering a culture of wealth accumulation.
    - Encouraging regular savings takes away the temptation to invest at the top of the market and sell at the bottom of the market and allows investors to reap the benefits of euro-cost averaging.
- Aligning with EU's goal of the Savings and Investments Union
    - Increasing retail participation is key to mobilizing private savings into productive investments.
    - A well-designed investor education strategy supports this goal by building trust and engagement with capital markets.

In conclusion, improving financial literacy lays the foundation, but investor education is the missing link that transforms knowledge into action. Together, they empower individuals to make informed investment choices, participate in markets with confidence, and contribute to economic growth.

As part of the broader goal of fostering an investment culture in Europe, we strongly encourage the authorities at both EU and national levels to prioritize investor education, recognizing that general financial knowledge alone is not enough to drive meaningful retail participation in capital markets.

3.4 The EU's economic competitiveness

As retail investment in capital markets grows across Europe, a portion of this capital will naturally be allocated to the EU economy. This is due to the home bias observed in most markets. However, the share of European savings invested in US assets has significantly increased over the last ten years.

Several factors can explain this increase, including their views on the benefits of cross-border investment diversification, cumbersome procedures to claim withholding tax relief, the strong performance of US stocks, the role of financial advisers, the development of fund platforms facilitating investments in funds tracking global indices, the relatively small size of EU stock markets compared to the US, and enthusiasm for leading US technology companies.

To attract more investment capital and ensure European companies have access to financing throughout their development, the EU must reduce bureaucracy burdens and embark on a transformative journey to boost the competitiveness of its economy.

The **Draghi Report**, released in September 2024, outlined several key measures to achieve this goal, including increasing public investment in research and innovation, simplifying regulations, enhancing support for startups and tech scale-ups, reforming the energy market to reduce energy prices for households and businesses, implementing cohesive industrial, competition, and trade policies across EU member states to reduce fragmentation.

Implementing these measures will strengthen the competitiveness of the European Union's economy. This, in turn, will trigger a virtuous cycle: stronger economic growth boosts investor confidence in the EU economy, reinforcing investors' willingness to provide stable, long-term funding for European governments, companies, and infrastructure projects.

3.5 No new simple, low cost EU saving and investment products needed

No new simple, low-cost investment products should be introduced at EU level, for the following reasons.

- There are already many products available (e.g. **UCITS, ELTIF, EuVECA, EuSEF**), which provide a wealth of opportunities in a well-established and accessible format for both savers and product manufacturers and can accommodate public policy initiatives by adopting specifications or eligibility criteria (e.g. minimum share of European assets, etc.).
- Following its recent in-depth review, we believe **ELTIF 2.0** has the potential to be a very effective financing tool, in particular for innovative start-ups and scale-ups, offering retail investors access to private assets with carefully designed redemption policies.
- Introducing a new simple product as a subsector of UCITS or spinning off certain UCITS into a Retail AIF category would be highly **disruptive** for such a strong, well-recognized brand.
    - Within the EU, this would require product restructuring for thousands of products and the negotiation of hundreds of thousands of distribution agreements.
    - Outside the EU, changing the fundamental structure of UCITS could be detrimental to the eligibility of UCITS in key export jurisdictions. A new EU savings product could potentially undermine the well-established and successful UCITS brand. UCITS funds are regarded as the gold standard for retail funds invested in liquid assets and are recognized globally. Regulatory stability and investment flexibility are important reasons for UCITS' success.
- The ELTIF review has confirmed that introducing new products at the EU level takes a lot of time.
- Introducing more products will only add complexity to the regulatory landscape, resulting in a "**complex simplification**" that makes investing more confusing and overwhelming, ultimately discouraging retail investors.

3.6 Promoting the adoption of Investment Savings Accounts across all Member States

The experience of Investment Savings Accounts in France, Italy, Sweden, the UK, and other countries outside Europe demonstrates that well-designed, nationally tailored regulations can effectively and sustainably increase savers' participation in capital markets. **We encourage all Member States to introduce similar Investment Savings Accounts**, where not yet available.

In general, well-designed ISAs can vary depending on investment horizons (retirement or liquid products, employer-related or not, etc.), but at their core, they should be easy to access, diversified economically, and attractive in terms of tax treatment, as taxation is a key factor driving investment adoption.

This is particularly important for European retail investors, who traditionally have limited exposure to equities and are excessively risk-averse. Since taxation remains a national competence, **the tax rate provided to ISAs, and its characteristics, should be designed and implemented at the Member State level.** To be effective in attractive retail savings, the tax incentive should be substantial, and the tax reporting requirements straightforward to effectively counteract the common tendency to postpone retirement savings decisions.

The following key features should be considered.

- ISAs should promote a **long-term perspective**. This focus can be built into the ISAs via incentives that discourage investors from early withdrawals.
- A **broad range of assets** (listed but also non-listed) should be eligible, including all UCITS, ELTIF, retail AIFs.
- The ISA should establish a **sufficiently large deposit limit** and include options that allow for regular saving as well as converting larger sums into investments.
- ISAs **administration** should be possible across all available channels and allows easy client onboarding processes to enable investors' easy access. There should be no MiFID appropriateness/suitability test specific to the tax wrapper (ISAs).
- An **information campaign** should support the introduction of ISAs and explain to citizens the importance, benefits, and risks of investing their savings in them.
- The account structure should encourage **regular savings** to be made, making it easier to develop an investment habit and to allow investors to benefit from euro-cost averaging.

Furthermore, we encourage member states to explore ways to provide **preferential tax benefits**, if considered appropriate, to incentivize savers to invest in a broad range of well-diversified investment products with a predominant allocation to the EU economy – such as, for instance, EU financing-linked bonds or funds tracking a pan-EU all-shares index to channel capital primarily into EU assets, thereby supporting economic growth or any other type of investment in the EU economy (public or private assets). This approach is followed in France in the PEA (Plan d'Epargne en Action), and Italy in the PIR (*Piani Individuali di Risparmio*), including to promote investment in ELTIFs.[2]

Member states interested in this approach could collaborate on a **joint strategy** to promote ISAs and channel more investment in the EU economy.

[2] See table in Annex.

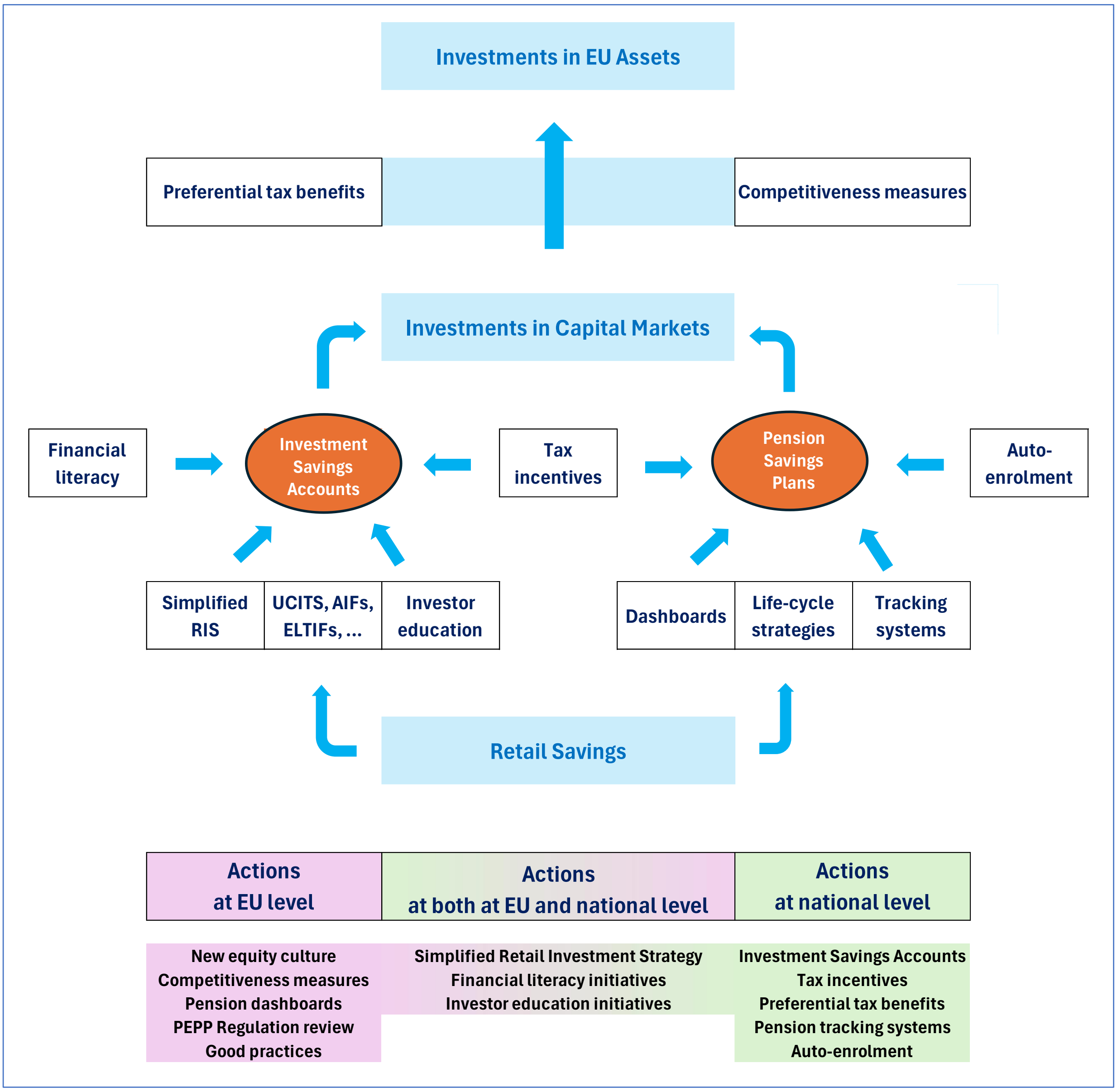
4. Conclusion

The exhibit below outlines the **key pillars of the strategy** proposed in this note to channel retail savings into investments within the EU.

It highlights the necessary measures at both the **EU and national levels** to promote long-term investment through investment savings accounts and pension savings plans.

These measures will help direct more savings toward the EU economy by leveraging the home bias that influences many investors' decisions.

Key Pillars of a Strategy to Boost Retail Participation in Capital Markets and Promote Investments in EU Assets



Comparison of Some Existing Investment Savings Accounts

ISA	Sweden ISK	UK ISA	France PEA	Italy PIR
Key Features				
Launch	2012	1999	1992	2017
Yearly contribution (local)	SEK 125,000 raised to SEK 300,000 in 2026	GBP 20,000	None	40,000
Yearly contribution (€)	11,070	23,987	None	40,000
Maximum global contributions	None	None	150,000	200,000
Restricted liquidity	None	No, except for the "Lifetime ISA"	5 years to trigger tax incentives	5 years to trigger tax incentives
Geographic restriction	None	None, last attempt at "British ISA" was dropped	Investment universe restricted to European corporate stocks and funds investing 75% of their assets in Europe	70% of European companies residing in Italy
Other requirements	None	None	None	17.5% in small and/or mid-caps; 3.5% in small caps exclusively
Tax Treatment				
Contributions	Exempt	Exempt	After-tax	After-tax
Dividends	Exempt	Exempt	Partly exempt	Exempt after 5 years of holding
Capital gains	Exempt	Exempt	Partly exempt	Exempt after 5 years of holding
Account-level	Yearly flat tax rate = 30% of govt borrowing rate + 1% Floor at 1.25%	None	None	None
Withdrawals	Exempt	Exempt	Close the account if made before 5 years	Exempt (also from inheritance tax)

ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages around EUR 33 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

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