EFAMA

European Fund and Asset Management Association

Household Participation in Capital Markets

ASSESSING THE CURRENT STATE AND MEASURING FUTURE PROGRESS

SEPTEMBER 2020

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EXECUTIVE SUMMARY

Executive Summary

This report analyses the investment behaviour of households in 25 European countries[1] and looks specifically into the progress made in recent years in shifting household financial wealth from bank deposits towards capital market instruments. The report finds that:

- Statistics on the average composition of household savings in Europe overestimate how much EU citizens invest in capital market instruments. The reality is that while some households invest substantial amounts, **the vast majority of European households do not save directly in capital market instruments at all.**

- **Countries with the lowest share of deposits tend to have the highest share of financial wealth held in pension savings**. This situation reflects long-lasting policy efforts in these countries to achieve high coverage of funded pensions through mandatory or quasi-mandatory arrangements. Few households invest in capital markets without being nudged or forced to do so.

- **Tax incentives play a crucial role in encouraging citizens to save in capital market instruments and opt for some specific long-term investment products.**

- Significant increases in the share of capital market instruments have been achieved in many countries between 2008 and 2019. **There has been limited progress made since the launch of the CMU initiative in 2015, with the exception of a few countries**, where the share of deposits has continued to decline quite significantly.

Drawing on information gathered from EFAMA's member associations, this report highlights **five drivers**, which alone or in combination can explain why the vast majority of EU citizens keep a disproportionate amount of their savings in bank deposits:

- **Many people are risk averse** and prefer saving via bank deposits and insurance products that offer some form of guarantee.

- **A lack of sufficient financial literacy in most countries** prevents households from understanding the advantages and disadvantages of the different capital market instruments available and the impact of inflation on bank deposits.

- There is a negative correlation between the **level of economic development of a country** and the share of financial wealth held in bank deposits.

- **Real estate** is by far the most popular investment choice for the vast majority of households in Europe.

- The **welfare system and the provision of social services** tend to reduce the propensity of households to save for retirement and actively manage their savings.

The report shows that **the financial wealth of European households would have been EUR 1.2 trillion higher if they had gradually reduced the share of deposits from 41% to 30%, by investing more into equity and bond investment funds in 2008-2019.**

Against this background, **the report presents examples of policy measures that could be taken at national and European level to encourage households to invest in capital market instruments.**

[1] Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

Our proposals are fully aligned with the recommendations of the High Level Forum (HLF) on the Capital Markets Union; however, we believe that these recommendations will not be effective in fostering retail investors' participation in capital markets unless Member States take appropriate measures to encourage citizens to place their savings into capital market instruments.

Our proposals focus on four issues – financial literacy, pension policies, tax incentives and measuring progress. These are summarised in the table below.

FINANCIAL LITERACY	1	Target specific investor education initiatives at millennials.
	2	Implement the recommendations of the European Youth Parliament to promote financial education.
	3	Launch partnerships between the public sector and the financial services industry to undertake new investor education initiatives.
PENSION POLICIES	4	Develop a policy framework to establish a pan-European occupational pension plan, taking into account the lessons learned from the development of the PEPP Regulation.
	5	Launch a 'European Retirement Week', to raise awareness on the pension challenge and the need to save more for retirement.
TAX INCENTIVES	6	Strengthen tax incentives to promote retirement savings and savings in the PEPP, green investment products, ELTIFs and other long-term, less liquid, assets.
	7	Avoid creating new taxes, such as the FTT, that would adversely impact investment activity.
	8	Decide on a financial product's tax treatment on the basis of its specific features rather than its legal structure.
MONITORING PROCESS	9	Monitor progress of household participation in capital markets through using Key Performance Indicators (KPIs).
	10	Use the variation in the 'CMI ratio' (the ratio between the household savings invested in capital market instruments (CMI) and those placed in deposits) as a KPI.

The report uses the KPI proposed in this report to assess the progress that has been achieved in fostering retail investments in capital markets since the launch of the CMU initiative in 2015. It also estimates that close to EUR 1.6 trillion would be transferred from bank deposits to capital market instruments if households in all countries reduced the share of their financial wealth held in deposits by 5 percentage points.

This amount highlights the huge impact that achieving the CMU could have, in terms of financing European companies, if it managed to foster retail investments in capital markets. By investing more in capital market instruments, households could also expect to improve returns on their long-term savings, which could help them achieve their financial goals, including increasing their retirement income.

INTRODUCTION

1. Introduction

In 2015, the European Commission launched its ‘Action Plan on Building a Capital Markets Union’. The two main goals of this initiative were to rebalance the European financial system towards a more ‘market-based system’ and to foster retail investments in capital markets. In November 2019, the Commission established a High Level Forum (HLF) to review progress to date and to propose new targeted actions to further advance the CMU initiative.

The HLF published its final report, **‘A New Vision for Europe’s Capital Markets’** on 10 June 2020. This made concrete recommendations on how to advance the CMU agenda.[2] Its recommendations were grouped into four clusters, covering the full spectrum of capital market activities: financing of business, market infrastructure, individual investor engagement and obstacles to cross-border investment.

Our report examines the realities of how to deliver the CMU objective of enabling and incentivising households to put their savings to better use by investing in capital markets. It supplements the HLF report by quantifying and analysing the progress made by European households in reallocating their financial wealth from bank deposits towards capital market instruments.

Building on information gathered from EFAMA’s member associations, the report identifies numerous obstacles that discourage households from becoming long-term investors. It also looks at those policy measures at national level that have proven to be effective in achieving this goal.

> **“Engagement by retail investors with capital markets remains low. EU households are amongst the highest savers in the world, but the bulk of these savings are held in bank accounts with short maturities. More investment into capital market can help meet the challenges posed by population ageing and low interest rates.”**
>
> *Communication from the European Commission on the mid-term review of the CMU action plan (8 June 2017)*

It also offers a novel Key Performance Indicator (KPI) for measuring the progress towards greater household participation in capital markets, following the expected launch of the renewed CMU Action Plan.[3]

> **“By facilitating participation and efficiency of both the economic and financial system, Capital Markets Union can facilitate a better reallocation of wealth, support the future financial well-being of EU citizens and help achieve a fairer participation of vulnerable social groups.”**
>
> *A new vision for Europe’s Capital Markets – Final Report of the High-Level Forum on the Capital Markets Union (10 June 2020)*

[2] The report can be downloaded from the following web page: https://ec.europa.eu/info/publications/cmu-high-level-forum_en.

[3] This report has been prepared in close co-operation with the member associations of EFAMA and, in particular, its Economics and Research Standing Committee chaired by Armin Kammel. Insightful discussions with Markus Michel, Anastasia Petraki, Fredrik Pettersson, Alessandro Rota, Miranda Seath and Thomas Valli were most valuable in helping define the Key Performance Indicator proposed in this report. All charts and tables have been made with the precious assistance of Vera Jotanovic, Thomas Tilley and Hailin Yang.

HOUSEHOLD FINANCIAL ASSET OWNERSHIP

2. Household financial asset ownership

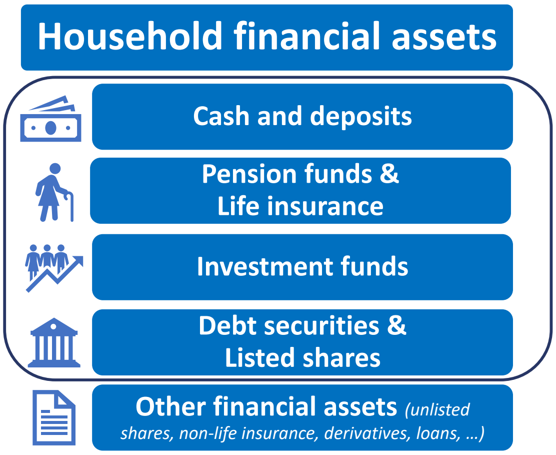
2.1 The main categories of household financial assets

Household wealth consists of a combination of tangible assets (houses, vehicles, valuables, etc.) and financial assets.

Financial assets can be broadly broken down into seven types of financial instruments: cash and deposits ('deposits'), pension plans in the form of funded pensions ('pension funds'), life insurance products, investment funds, debt securities, listed shares and other financial assets.

Other financial assets include derivatives, loans, unlisted shares and non-life insurance.[4] These assets are not included in the remainder of the report because they are managed on the basis of criteria that are not directly related to savings management activities.

Using this categorisation, this report will focus on the recent trends in household savings held in deposits, life insurance, pension funds, investment funds, debt securities and listed shares.


Household financial assets
Cash and deposits
Pension funds & Life insurance
Investment funds
Debt securities & Listed shares
Other financial assets (unlisted shares, non-life insurance, derivatives, loans, …)

2.2 Trends at the European level

Using data from the ECB's statistical data warehouse on sectoral financial accounts, below we summarise how the portfolio composition of European households has evolved in the period 2008-2019:

- European households have traditionally held a high share of their financial assets on deposit. From a starting point of 41% in 2008, the share of deposits had declined to 37.1% by 2015 and has remained roughly at this level since. New money saved in deposits reached a total of EUR 4.1 trillion during 2008-2019. This represented 61% of the total net acquisitions of financial assets by European households during this period.

- The share of pension funds increased from 20.7% in 2008 to 26.1% in 2014. This share has stabilised at this level since then. Accumulated net acquisitions of pension savings during 2008-2019 amounted to EUR 1.8 trillion.

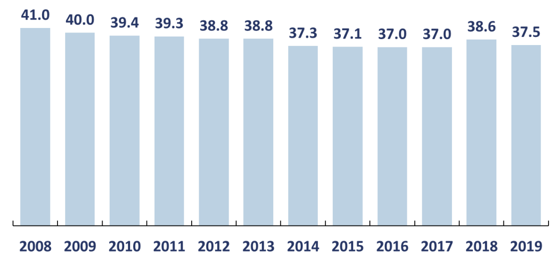
- The share of life insurance products has fluctuated between 18.6% and 19.5% since 2008. Accumulated net contributions to these products in 2008-2019 amounted to EUR 1.4 trillion.

[4] While crowdlending and equity crowdfunding are gaining traction among retail investors, they do not as yet represent significant amounts.

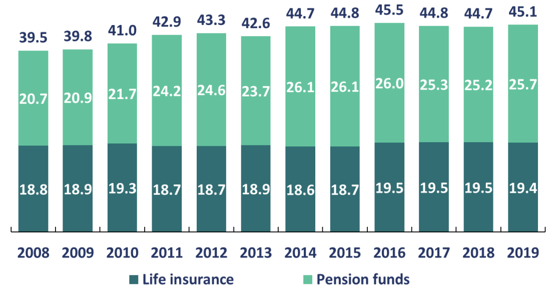
- The global financial crisis and the eurozone debt crisis exerted a negative effect on households' willingness to invest directly into investment funds until 2012. Subsequently, households began to respond to the prevailing low-interest environment and the rebound in stock markets by investing some of their savings in investment funds. Accumulated net acquisitions of investment funds amounted to EUR 240 billion in 2008-2019.

- Direct ownership of debt securities by households has declined steadily over the last 10 years, due to households' increasing reluctance to invest in debt securities with very low interest rates and the limited offer to retail investors. At the same time, however, the share of listed stocks increased from 3.6% to 5.2%, reflecting both new investments and the rebound in stock markets. During 2008-2019, European households made net disinvestments in debt securities totalling EUR 852 billion, whereas their net purchases of listed shares were EUR 79 billion.

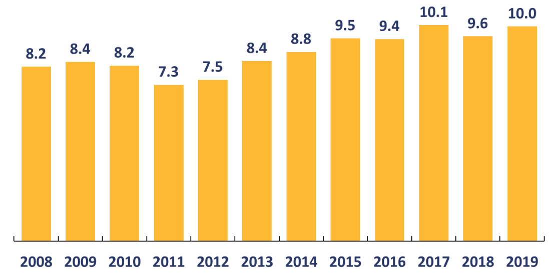
1: Household Holdings of Deposits
(in percent of household financial assets)



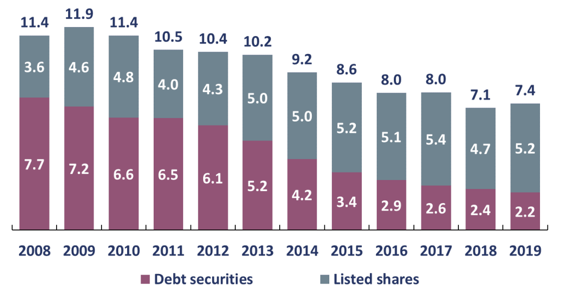
2: Household Holdings of Pension Funds and Life Insurance Products
(in percent of household financial assets)



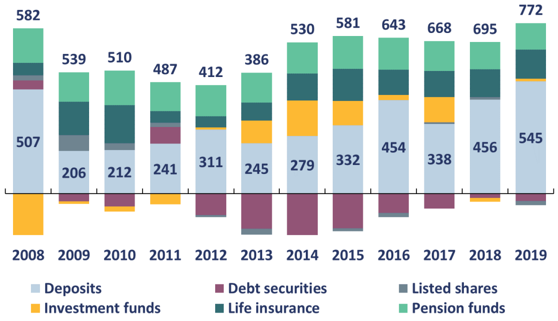
3: Household Holdings of Investment Funds
(in percent of household financial assets)



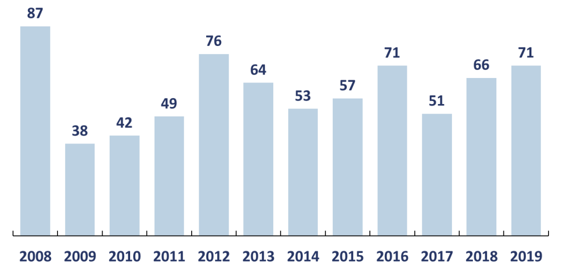
4: Household Holdings of Securities
(in percent of household financial assets)



5: Net Asset Acquisition by Households
(EUR billions)



6: Net Acquisition of Deposits by Households
(in percent of household financial asset acquisition)



Source: ECB

2.3 Variations at national level – Overview of the situation at the end of 2019

2.3.1 General overview

Turning our attention to the national level, we see considerable variations between the individual countries. The charts below show that in four European countries (the **Netherlands**, **Denmark**, **Sweden** and the **UK**), households are holding less than 30% of their financial wealth in deposits, but more than 70% in three other countries (**Greece**, **Cyprus** and **Bulgaria**).[5]

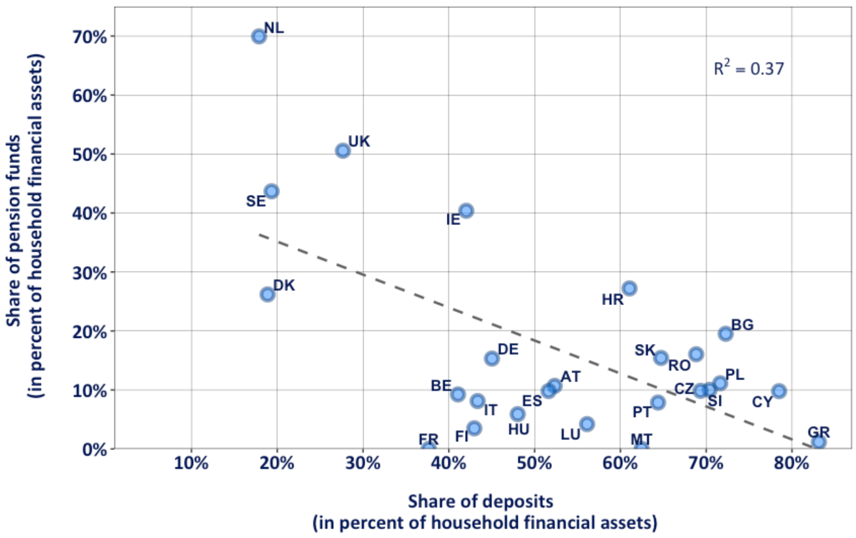
This situation is mirrored by significant differences in the share of savings held in pension funds and life insurance products. These are quite high in the first group of countries and relatively low in the second group.

There are also significant differences between countries in the savings split between pension funds and insurance products. The pension systems in the **Netherlands**, the **United Kingdom**, **Sweden** and **Ireland** are heavily geared towards pension funds, whereas in **France** and **Denmark** pension savings are mostly invested in life insurance products.

Most other European countries sit somewhere in the middle. They are generally characterised by a significantly lower share of funded pension savings, as they still rely predominantly on the first pillar pension system. It may be that households in countries that have until now been able to provide a relatively high public pension are not necessarily worse off. Therefore, they may have had fewer incentives to save than those in countries with less-developed public pension systems.

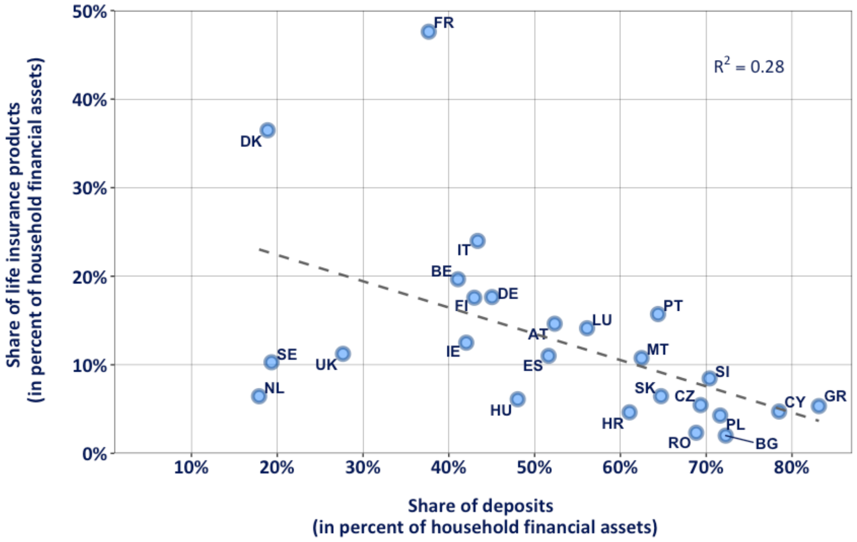
The situation for direct holdings of investment funds also varies across Europe. Households in **Belgium** and **Spain** hold more than 18% of their wealth in investment funds, with less than 6% in many other countries. The picture is similar for the share of debt securities and listed shares.

7: Pension Funds versus Deposits

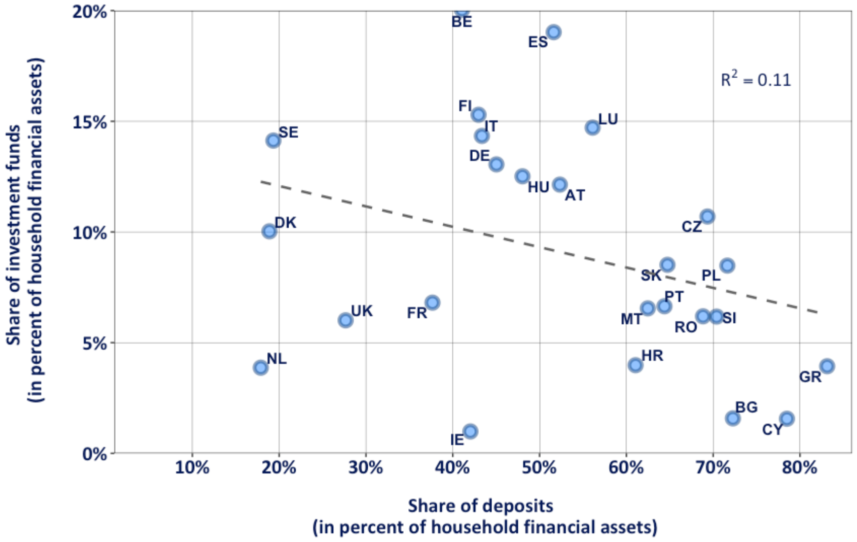


[5] The charts are based on ECB data.

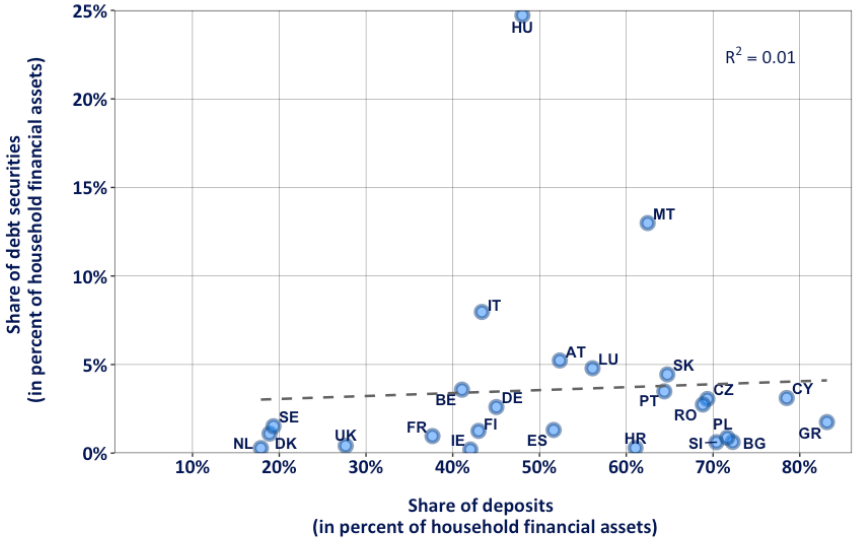
8: Life Insurance Products versus Deposits

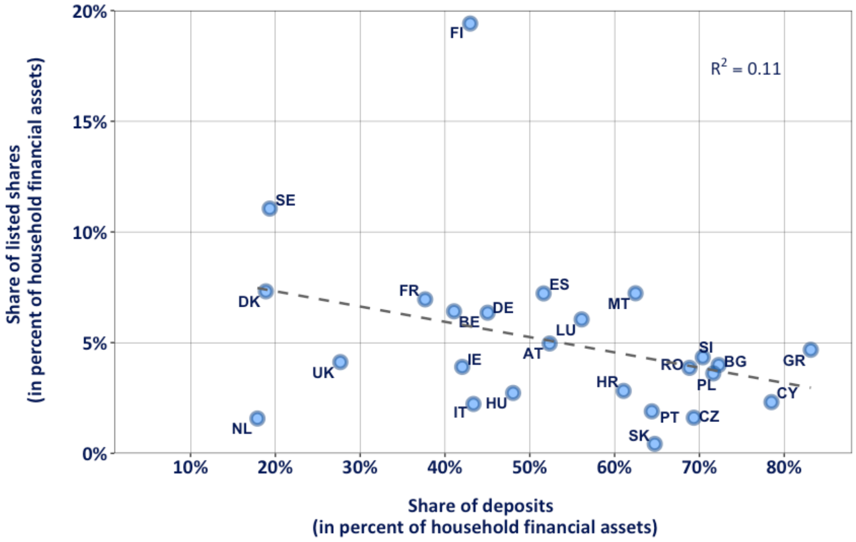


9: Investment Funds versus Deposits



10: Debt Securities versus Deposits





11: Listed Shares versus Deposits

2.3.2. Country-specific analysis

The table below shows the share of wealth held by households in the six main categories of financial assets. These are in ascending order for the share of deposits and descending order for the share of capital market instruments (pension funds, life insurance products, investment funds, debt securities and listed shares). The countries highlighted in green are those in which households hold a lower-than-average share of deposits and a higher-than-average share of capital market instruments.

Being ranked above or below the European average serves to highlight the potential for households to increase their participation in capital markets.

A number of points stand out:

- As noted above, in the **Netherlands**, **Denmark**, **Sweden** and the **United Kingdom**, the share of deposits held by households is significantly lower than the European average, while the share of pension savings in pension funds and/or life insurance is significantly higher. These countries have, for many years, adopted a proactive approach to achieving high coverage of funded pensions through mandatory, or quasi-mandatory, arrangements.

    - In the **Netherlands**, most people automatically invest via their pension plans, without necessarily realising that they are investors.

    - In **Denmark**, the pension contribution rates are agreed between the employer and the employee, reaching 15-17% of salary for many workers.

    - In **Sweden**, a new national pension system was approved in 1994. One of its features was that a percentage – 2.5% of the pensionable salary – would go to the premium pension system (PPM). The PPM offered savers the opportunity to choose the funds in which they wished to invest their money. Those who do not make a choice end up in a UCITS-like fund run by the government. The first selection of PPM funds was made in 2000. In addition, most people benefit from an employer's occupational pension scheme; in four of the major occupational pension arrangements, they have the opportunity to opt for schemes based on investment funds, which they take advantage of.

    - In the **United Kingdom**, the authorities have reformed the pension system several times, in order to increase the share of funded structures in pension provision and to encourage additional savings to achieve a higher standard of living post-retirement. The same approach has been followed in **Ireland**.

12: Share of Financial Assets Held by European Households in 2019

Deposits		Pension funds		Life insurance		Investment funds		Debt securities		Listed shares	
Netherlands	18%	Netherlands	70%	France	48%	Belgium	20%	Hungary	25%	Finland	19%
Denmark	19%	United Kingdom	51%	Denmark	36%	Spain	19%	Malta	13%	Sweden	11%
Sweden	19%	Sweden	44%	Italy	24%	Finland	15%	Italy	8%	Denmark	7%
United Kingdom	28%	Ireland	40%	Belgium	20%	Luxembourg	15%	Austria	5%	Malta	7%
Europe	**37%**	Croatia	27%	**Europe**	**19%**	Italy	14%	Luxembourg	5%	Spain	7%
France	38%	Denmark	26%	Germany	18%	Sweden	14%	Slovakia	4%	France	7%
Belgium	41%	**Europe**	**26%**	Finland	18%	Germany	13%	Belgium	4%	Belgium	6%
Ireland	42%	Bulgaria	20%	Portugal	16%	Hungary	13%	Portugal	3%	Germany	6%
Finland	43%	Romania	16%	Austria	15%	Austria	12%	Cyprus	3%	Luxembourg	6%
Italy	43%	Slovakia	15%	Luxembourg	14%	Czech Republic	11%	Czech Republic	3%	**Europe**	**5%**
Germany	45%	Germany	15%	Ireland	12%	**Europe**	**10%**	Romania	3%	Austria	5%
Hungary	48%	Poland	11%	United Kingdom	11%	Denmark	10%	Germany	3%	Greece	5%
Spain	52%	Austria	11%	Spain	11%	Slovakia	9%	**Europe**	**2%**	Slovenia	4%
Austria	52%	Slovenia	10%	Malta	11%	Poland	8%	Greece	2%	United Kingdom	4%
Luxembourg	56%	Czech Republic	10%	Sweden	10%	France	7%	Sweden	2%	Bulgaria	4%
Croatia	61%	Spain	10%	Slovenia	8%	Portugal	7%	Spain	1%	Ireland	4%
Malta	62%	Cyprus	10%	Slovakia	6%	Malta	7%	Finland	1%	Romania	4%
Portugal	64%	Belgium	9%	Netherlands	6%	Romania	6%	Denmark	1%	Poland	4%
Slovakia	65%	Italy	8%	Hungary	6%	Slovenia	6%	France	1%	Croatia	3%
Romania	69%	Portugal	8%	Czech Republic	5%	United Kingdom	6%	Poland	1%	Hungary	3%
Czech Republic	69%	Hungary	6%	Greece	5%	Croatia	4%	Bulgaria	1%	Cyprus	2%
Slovenia	70%	Luxembourg	4%	Cyprus	5%	Greece	4%	Slovenia	1%	Italy	2%
Poland	72%	Finland	3%	Croatia	5%	Netherlands	4%	United Kingdom	0.4%	Portugal	2%
Bulgaria	72%	Greece	1%	Poland	4%	Bulgaria	2%	Croatia	0.3%	Czech Republic	2%
Cyprus	78%	France	0%	Romania	2%	Cyprus	2%	Netherlands	0.3%	Netherlands	2%
Greece	83%	Malta	0%	Bulgaria	2%	Ireland	1%	Ireland	0.2%	Slovakia	0.4%

Source: ECB and EFAMA

- The concentration of savings in life insurance and bank deposits in **France** can be explained by the tax benefits available to these products, which are more favourable than those that are applied to those vehicles directly holding securities (apart from employee savings plans and, to a lesser extent, the 'Plan d'épargne en actions'). However, given the continuing low-interest rate environment, there is a reorientation away from life insurance products with a capital guarantee towards those based on investment funds.

- In **Germany**, the strong market position of insurance-based products can be explained by the preference of many citizens for products with a nominal capital guarantee and the legal obligation to offer such a guarantee for some product types. Insurance contracts and investment funds also benefit from tax incentives under the state-subsidised 'Riester' pension scheme and the so-called 'Vermögenswirksame Leistungen' (VL). This is a seven-year saving plan that allows employers to invest up to 480 euros per year in a savings contract of the employee's choice, for example an investment fund.

- In **Belgium**, the initial steps by the government to promote long-term savings plans, at the end of 1980s, have led to a wide distribution of life insurance products among the population, thanks to the favourable tax treatment granted to these products. At around the same time, the government also introduced the possibility of offering 3rd pillar pension savings plans. Here, the existing tax deduction regime, which was designed to encourage the population to invest in risk capital by holding 'equity shares' for a period of ten years, has been transformed into an attractive tax regime for these new 3rd pillar pension savings plans. Thanks to the success of the promotion of risk capital, the initial 3rd pension savings plans were immediately positively accepted by retail investors.

- In most countries from **Central, Eastern and Southern Europe**, the share of wealth held in deposits is significantly higher than the European average. This situation is mirrored in the low holdings of capital market instruments. However, in **Italy**, **Spain** and **Hungary**, the share of deposits is not too far from the European average. In **Malta**, bank deposits remain strong, but the demand for government paper has been continuously high over the years, due to the strong credit rating of the Government of Malta and the relatively attractive interest rates. The development of the corporate bond market has also brought about sustained support for corporate issuers in various sectors. The demand for domestic equity in the primary market has also been relatively strong, against a backdrop of successful IPO issues.

2.4 Progress achieved at national level in household participation in capital markets

2.4.1 Evolution between 2008 and 2019

Looking at the evolution of financial assets held by European households between 2008 and 2019, we can make the following observations.

- There have been significant reductions in the share of deposits in many countries, as falling interest rates have made bank deposits less attractive. Particularly impressive is the evolution in **the Netherlands,** where the share of deposits declined from its already relatively low level of 27% in 2008 to 18% in 2019. In the same time frame, the share of savings in pension funds increased by 15 percentage points. This development can be explained by campaigns to encourage Dutch households to use their savings accounts to pay off their mortgage, as interest rates on many outstanding mortgages are higher than the deposit interest rates.

- The increase in the share of pension funds in household savings in Bulgaria, Romania and Croatia, and in parallel the fall in the share of deposits savings, has been driven by pensions policy. In **Bulgaria**, it is mostly the assets of mandatory pension funds that have increased significantly. In **Croatia**, the marked fall in the share of deposits can be explained by the combination of factors, in particular (i) a significant shift of deposits into real estate investments, (ii) continuously falling interest rates, and (iii) the positive effect of the 2002 pension reform. The latter replaced the existing public pay-as-you-go (PAYG) system with a mixed one, consisting of a public PAYG system (1st pillar), a mandatory fully funded system (2nd pillar) and a voluntary supplementary scheme (3rd pillar). This reform has made the pension funds into one of the most important institutional investors in Croatia. The increase in pension fund assets reflects a combination of an increasing number of members (due to higher employment), higher salaries and solid market appreciation. In **Romania**, the 2007 pension reform, which introduced the opportunity for saving in 2nd and 3rd pillar pension plans, has been the main driver behind the increase in pension savings.

- In **Hungary** in 2013, the authorities reformed the way public debt is financed, by starting to issue a different series of special government securities that were only available to households. These offered interest rates above market rates, leading to a significant increase in the share of savings in debt securities.

- The significant growth in the share of pension funds in the **Netherlands** and **Ireland** can be explained by the strong performance of capital markets since the global financial crisis. **Sweden** and the **United Kingdom** have also benefited from this development, but to a lesser extent.

- In **Spain**, the share of deposits remained high until 2012. It then began to fall, following the recapitalisation and restructuring of the Spanish banking system, which facilitated the banks' access to alternative funding sources. The decision by the Central Bank in January 2013 to recommend limits on bank deposits returns, along with the strong performance of financial markets led to an important shift of savings into investment funds and - to a smaller extent - into life insurance.

- The share of deposits in household financial assets in **Italy** has always been high. Italian investors are historically rather risk-averse and inclined to keep a substantial proportion of their savings in liquid assets as well as in real estate. In 2012, an “investment boost” got under way, for the greater part in managed products but also to some extent in deposits. This was against the backdrop of the eurozone debt crisis and mistrust in the government and bank bonds. Another reason for this product switch was that from 2012, banks were no longer in need of retail-based funding, as a direct result of the QE measures put in place by the ECB. In a zero-interest rate environment, banks encouraged households to change their asset allocation from bank deposits and government bonds to investment funds, which are financial products offering a potentially much higher yield, as well as to life insurance products. This transition to managed products has helped the banks sustain their profitability ratios.

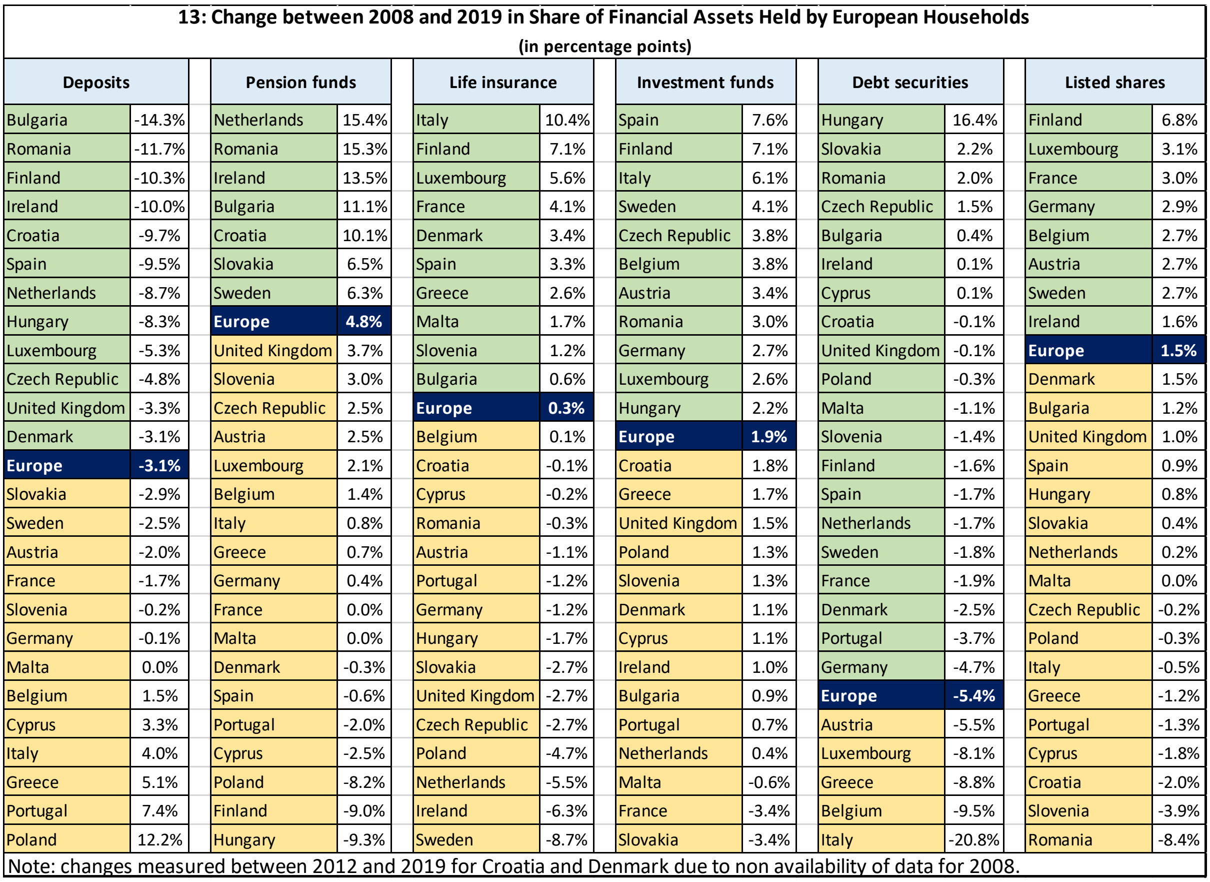
- In **France**, the change in the financial market conditions from 2009 onwards prevented the banking networks and their subsidiaries (private banks and insurers) from continuing to offer ‘formula funds’ with a relatively high level of capital protection. This led many households to liquidate their holdings in those funds and instead subscribe to life insurance in euro products. This was in reaction to the 2008 crisis, in order to meet both the security expectations of individuals and the new prudential requirements (Basel III) in the context of strong demand for real estate loans. The reduction in the share of investment funds is also linked to the absence of long-term vehicles, something which the recent Law “PACTE” aims to correct. These new measures designed to generalise employee savings plans, and the greater diversification of investment funds in unit-linked life insurance products, are a positive development. At the same time, money market funds lost their attractiveness, as the low-interest rate environment has resulted in negative returns, net of fees, since 2015. On a positive note, the recent capital tax reforms (flat tax and the property wealth tax) should encourage more savings to enter capital market instruments.

- In the **United Kingdom**, pension auto-enrolment has been highly successful in driving up the proportion of the workforce saving into their pensions. Since 2012, when large employers began automatically enrolling employees, there has been an additional 10 million employees saving into a pension, taking the total to 18.7 million or 87% of the UK’s total eligible workforce. Auto-enrolment has also improved saving persistency and increased the total amount contributed to a pension. In 2018, some 72% of eligible employees had saved into a pension for three of the four previous years, indicating that three-quarters were displaying reasonable persistency in making pension contributions. It has also effectively increased the amount being saved into workplace DC pensions: between 2012 and 2018, total pension saving into qualifying schemes rose by £16.8 billion to £90.4 billion, according to data from The Pension Regulator. The April 2015 changes to the UK's pensions system gave people much greater control over their pension savings than was previously the case (the ‘pension freedoms’). It removed the requirement to secure an income (normally through the purchase of an annuity) by the age of 75 and gave greater flexibility to move into flexible drawdown. This has allowed savers to remain invested at retirement and has led to an increase in savings managed by pension funds as well as a drop in the share of insurance-based products.

- In the two countries most hit by the eurozone debt crisis, **Greece** and **Cyprus**, the share of deposits reached an all-time high in 2013-2014. This share declined in Greece from 89% to 86% in 2015. With political uncertainty peaking in the first half of 2015, as the result of the challenging negotiations on a bailout agreement with the EU, the growing fragility of the domestic banking sector and the fear of imposition of capital controls, Greek households increasingly channelled domestic deposits to non-Greek banks, EU money market funds or even to safety deposit boxes. The shift out of deposits ended with the imposition of capital controls.

- In **Portugal**, a number of factors can explain the sharp increase in the share of deposits between 2008 and 2019. These include volatility in financial markets during the global financial crisis and the eurozone debt crisis, as well as the fact that banks offered attractive deposit rates between 2008 and 2015 to address their liquidity problems. Banks also developed campaigns to encourage their clients to hold a greater proportion of their wealth in savings accounts rather than in other financial products. The impact of this latter measure lasted much longer in Portugal than in other European countries, where the interest rates on deposits had started to fall earlier. At the same time, it is worth noting the sharp reduction in household savings rates, from 14% in 1995 to 6.7% in 2019.

- Finally, it is notable that the share of life insurance products and debt securities has dropped in many countries. This is mainly due to the fall in interest rates, which has made insurance-based products less attractive; insurance companies have been forced to reduce the interest rates they apply when calculating traditional life insurance contracts with a capital guarantee. For example, the guaranteed interest rate on life insurance contracts in **Germany** has fallen from 2.75% in 2004 to 0.9% today, inevitably making these products far less attractive to households.



13: Change between 2008 and 2019 in Share of Financial Assets Held by European Households

(in percentage points)

Deposits		Pension funds		Life insurance		Investment funds		Debt securities		Listed shares	
Bulgaria	-14.3%	Netherlands	15.4%	Italy	10.4%	Spain	7.6%	Hungary	16.4%	Finland	6.8%
Romania	-11.7%	Romania	15.3%	Finland	7.1%	Finland	7.1%	Slovakia	2.2%	Luxembourg	3.1%
Finland	-10.3%	Ireland	13.5%	Luxembourg	5.6%	Italy	6.1%	Romania	2.0%	France	3.0%
Ireland	-10.0%	Bulgaria	11.1%	France	4.1%	Sweden	4.1%	Czech Republic	1.5%	Germany	2.9%
Croatia	-9.7%	Croatia	10.1%	Denmark	3.4%	Czech Republic	3.8%	Bulgaria	0.4%	Belgium	2.7%
Spain	-9.5%	Slovakia	6.5%	Spain	3.3%	Belgium	3.8%	Ireland	0.1%	Austria	2.7%
Netherlands	-8.7%	Sweden	6.3%	Greece	2.6%	Austria	3.4%	Cyprus	0.1%	Sweden	2.7%
Hungary	-8.3%	**Europe**	**4.8%**	Malta	1.7%	Romania	3.0%	Croatia	-0.1%	Ireland	1.6%
Luxembourg	-5.3%	United Kingdom	3.7%	Slovenia	1.2%	Germany	2.7%	United Kingdom	-0.1%	**Europe**	**1.5%**
Czech Republic	-4.8%	Slovenia	3.0%	Bulgaria	0.6%	Luxembourg	2.6%	Poland	-0.3%	Denmark	1.5%
United Kingdom	-3.3%	Czech Republic	2.5%	**Europe**	**0.3%**	Hungary	2.2%	Malta	-1.1%	Bulgaria	1.2%
Denmark	-3.1%	Austria	2.5%	Belgium	0.1%	**Europe**	**1.9%**	Slovenia	-1.4%	United Kingdom	1.0%
Europe	**-3.1%**	Luxembourg	2.1%	Croatia	-0.1%	Croatia	1.8%	Finland	-1.6%	Spain	0.9%
Slovakia	-2.9%	Belgium	1.4%	Cyprus	-0.2%	Greece	1.7%	Spain	-1.7%	Hungary	0.8%
Sweden	-2.5%	Italy	0.8%	Romania	-0.3%	United Kingdom	1.5%	Netherlands	-1.7%	Slovakia	0.4%
Austria	-2.0%	Greece	0.7%	Austria	-1.1%	Poland	1.3%	Sweden	-1.8%	Netherlands	0.2%
France	-1.7%	Germany	0.4%	Portugal	-1.2%	Slovenia	1.3%	France	-1.9%	Malta	0.0%
Slovenia	-0.2%	France	0.0%	Germany	-1.2%	Denmark	1.1%	Denmark	-2.5%	Czech Republic	-0.2%
Germany	-0.1%	Malta	0.0%	Hungary	-1.7%	Cyprus	1.1%	Portugal	-3.7%	Poland	-0.3%
Malta	0.0%	Denmark	-0.3%	Slovakia	-2.7%	Ireland	1.0%	Germany	-4.7%	Italy	-0.5%
Belgium	1.5%	Spain	-0.6%	United Kingdom	-2.7%	Bulgaria	0.9%	**Europe**	**-5.4%**	Greece	-1.2%
Cyprus	3.3%	Portugal	-2.0%	Czech Republic	-2.7%	Portugal	0.7%	Austria	-5.5%	Portugal	-1.3%
Italy	4.0%	Cyprus	-2.5%	Poland	-4.7%	Netherlands	0.4%	Luxembourg	-8.1%	Cyprus	-1.8%
Greece	5.1%	Poland	-8.2%	Netherlands	-5.5%	Malta	-0.6%	Greece	-8.8%	Croatia	-2.0%
Portugal	7.4%	Finland	-9.0%	Ireland	-6.3%	France	-3.4%	Belgium	-9.5%	Slovenia	-3.9%
Poland	12.2%	Hungary	-9.3%	Sweden	-8.7%	Slovakia	-3.4%	Italy	-20.8%	Romania	-8.4%

Note: changes measured between 2012 and 2019 for Croatia and Denmark due to non availability of data for 2008.

Source: ECB and EFAMA

2.4.2 Evolution since the launch of the CMU initiative

The table below shows how the asset allocation of European households has evolved since the CMU Action Plan of 2015.

14: Change between 2015 and 2019 in Share of Financial Assets Held by European Households

(in percentage points)

Deposits		Pension funds		Life insurance		Investment funds		Debt securities		Listed shares	
Croatia	-5.8%	Romania	5.8%	Finland	4.4%	Finland	2.5%	Hungary	8.7%	Greece	2.3%
Bulgaria	-4.6%	Croatia	5.7%	Italy	4.1%	Spain	2.4%	Cyprus	1.9%	Romania	1.4%
Romania	-4.4%	Netherlands	3.7%	Denmark	3.0%	Czech Republic	2.0%	Slovakia	0.8%	Finland	1.0%
Cyprus	-2.9%	Bulgaria	3.5%	France	2.6%	Croatia	1.8%	Poland	0.4%	Austria	0.7%
Greece	-2.6%	Ireland	2.6%	Greece	2.6%	Germany	1.5%	Bulgaria	0.1%	Germany	0.6%
Slovakia	-2.3%	Sweden	2.3%	Belgium	1.4%	Sweden	1.3%	Romania	0.1%	Hungary	0.6%
Hungary	-2.2%	Slovakia	1.5%	Spain	1.0%	United Kingdom	1.2%	Greece	0.1%	France	0.4%
Netherlands	-1.9%	Luxembourg	1.0%	Luxembourg	0.9%	Austria	1.1%	Slovenia	0.1%	Bulgaria	0.3%
Spain	-1.6%	Austria	0.8%	**Europe**	**0.8%**	Portugal	1.0%	United Kingdom	0.0%	Poland	0.2%
Denmark	-1.3%	Czech Republic	0.7%	Bulgaria	0.3%	Luxembourg	1.0%	Portugal	-0.1%	Czech Republic	0.2%
Ireland	-1.1%	Cyprus	0.6%	Slovakia	0.0%	Cyprus	1.0%	Netherlands	-0.2%	Luxembourg	0.1%
Sweden	-1.0%	Italy	0.3%	Cyprus	-0.1%	Slovenia	0.8%	Croatia	-0.2%	Slovakia	0.1%
Luxembourg	-0.6%	Belgium	0.2%	Croatia	-0.2%	Belgium	0.7%	Ireland	-0.2%	Sweden	0.0%
United Kingdom	0.0%	Slovenia	0.1%	United Kingdom	-0.2%	**Europe**	**0.6%**	Sweden	-0.4%	**Europe**	**-0.1%**
Europe	**0.4%**	Portugal	0.1%	Romania	-0.3%	Italy	0.5%	Denmark	-0.8%	Netherlands	-0.2%
Austria	0.4%	France	0.0%	Austria	-0.4%	Malta	0.5%	Spain	-0.8%	Ireland	-0.2%
France	0.6%	Malta	0.0%	Netherlands	-1.1%	Bulgaria	0.4%	France	-0.9%	Portugal	-0.2%
Slovenia	0.7%	Denmark	-0.1%	Slovenia	-1.2%	Ireland	0.3%	Germany	-1.0%	Belgium	-0.3%
Finland	0.7%	Greece	-0.4%	Malta	-1.2%	Denmark	0.0%	Finland	-1.0%	United Kingdom	-0.4%
Germany	0.8%	**Europe**	**-0.5%**	Germany	-1.2%	Poland	-0.1%	**Europe**	**-1.2%**	Spain	-0.5%
Portugal	0.9%	Spain	-0.5%	Ireland	-1.4%	Slovakia	-0.2%	Luxembourg	-2.4%	Cyprus	-0.5%
Italy	1.6%	Hungary	-0.6%	Hungary	-1.6%	Netherlands	-0.4%	Austria	-2.7%	Slovenia	-0.5%
Belgium	1.7%	United Kingdom	-0.6%	Czech Republic	-1.6%	Greece	-1.9%	Czech Republic	-3.1%	Denmark	-0.8%
Czech Republic	1.8%	Germany	-0.7%	Portugal	-1.7%	Romania	-2.6%	Malta	-3.4%	Malta	-1.0%
Poland	3.4%	Poland	-1.8%	Poland	-2.1%	France	-2.7%	Belgium	-3.6%	Italy	-1.3%
Malta	5.0%	Finland	-7.7%	Sweden	-2.2%	Hungary	-5.0%	Italy	-5.3%	Croatia	-1.3%

Source: ECB and EFAMA

The following observations can be made:

- There has been limited progress at the European level, which means that the progress recorded between 2008 and 2019 was mostly achieved before the launch of the CMU initiative. This is not entirely surprising, as relatively few measures to foster retail investments were included in the CMU Action Plan, and the most important one – the pan-European Personal Pension Product (PEPP) Regulation – which will only apply twelve months after publication of the level 2 technical standards, still needs to be finalised. Moreover, as explained in section 3, there are some cultural and structural factors that explain why progress towards greater household participation in capital markets will inevitably be slow.

- The downward trend in the share of deposits was actually reversed in **Austria**, **the Czech Republic**, **Finland**, **France**, **Germany, Malta** and **Slovenia**, while the share of deposits continued to increase in **Belgium**, **Italy**, **Poland** and **Portugal**.

- In **Portugal**, the increase in the share of deposits is attributable to the fact that long-term deposits have benefited from a reduction in the tax rate that applies to the interest paid to savers since 2015. While the 'normal' tax rate is currently 28%, this is reduced to 22.4% if the term of the deposit is at least five years, and to 11.2% if the term is longer than eight years.

- In **Malta**, the share of bank deposits increased significantly against the backdrop of an economic boom – real GDP growth averaged 7.3% in Malta in 2014-2019, compared with 2%

in the EU. This resulted in virtually full employment and increases in wages due to the competition for human resources. The fall in the share of debt securities can be explained by the fall in corporate debt issuance, which was driven the banks' policy of extending their lending activities to compensate for increases in deposits.

- The share of deposits continued to fall significantly in **Croatia**, **Bulgaria** and **Romania**, while savings in pension funds continued to increase as a result of the pension reforms referred to earlier. In Croatia, this development has been compounded by the introduction of a 12% tax on the income earned on savings accounts, which has strengthened the outflows from deposits into real estate investments. This demonstrates that it is possible to record positive developments in countries where household financial wealth is limited.

- Concerning **Italy**, it is worth noting that the government launched "PIR saving plans" (*piani individuali di risparmio* or PIR) in 2017, which allowed asset managers to establish tax-exempt investment plans at no extra costs for individual retail investors. These PIR plans are exempt from the 26% substitute tax on capital gains and financial income (excluding those included in the taxable basis for Italian individual income tax purposes and taxed at progressive rates). To qualify, they need to meet certain conditions. These are that (i) investment in such plans are held by individuals for more than five years, (ii) at least 70% of the investment portfolio consists of equity or debt securities issued by Italian companies (or EU companies with an Italian branch) or units or shares of UCITS complying with such requirements, (iii) 30% of the issuers of such securities are SMEs, (iv) each investor does not invest more than €30,000 per year or €150,000 in aggregate through a professional investment manager or a life insurance wrapper or capitalisation contract entered into with a professional financial intermediary and (v) the concentration risk in a single investment is limited to 10%. This new saving vehicle is expected to encourage Italian households to save more for retirement in the future.

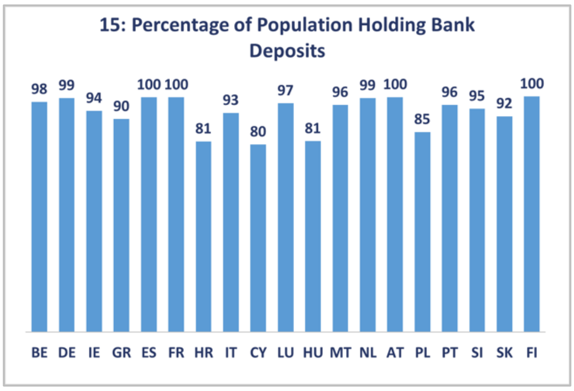
REASONS FOR THE LOW PARTICIPATION OF HOUSEHOLDS IN CAPITAL MARKETS

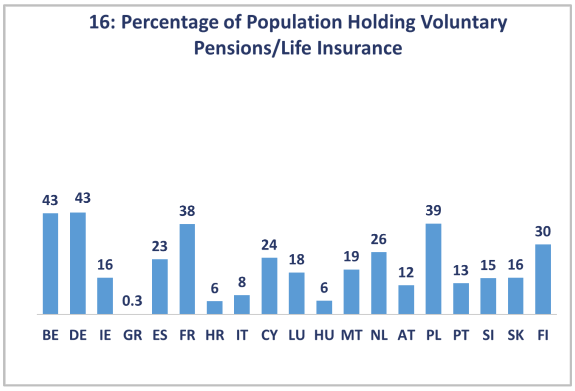
3. Reasons for the low participation of households in capital markets

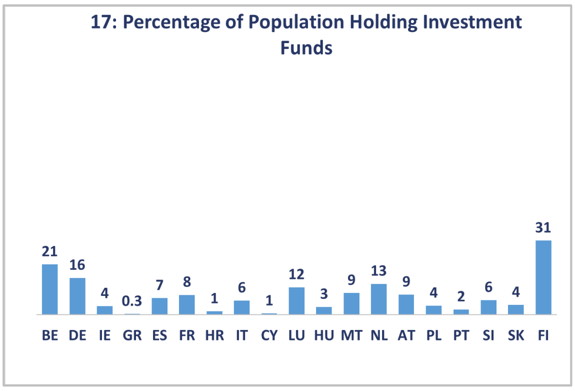
Although the figures presented in the previous section offer a reasonable overview of European households' participation in capital markets, they actually overestimate the extent to which the average EU citizen invests in capital market instruments.

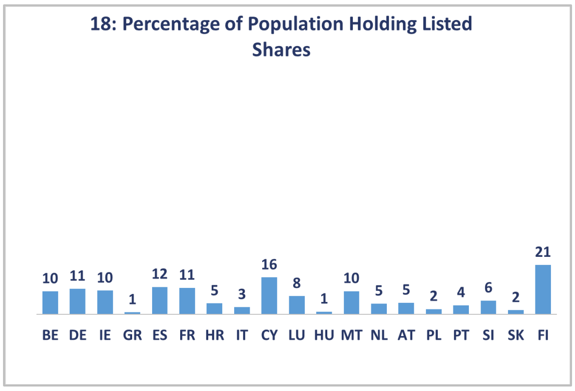
In reality, there are a relatively small number of households investing significant parts on their financial wealth in capital markets products, whereas **the vast majority of EU households do not invest in capital market instruments.** This has been confirmed by the latest ECB Household Consumption and Finance Survey, which shows what percentage of a country's population hold various types of financial assets.

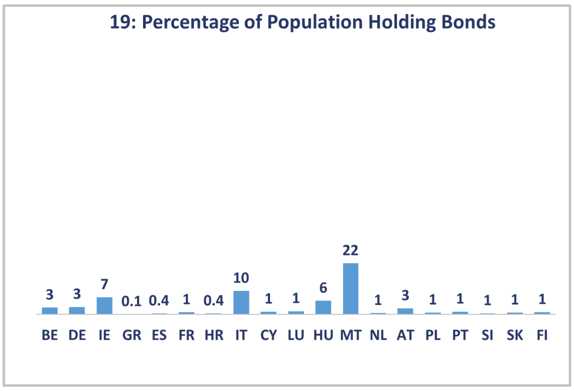
So, for example, **although 10% of European household financial wealth is in investment funds, only 10% of households in the euro area actually hold funds.**


15: Percentage of Population Holding Bank Deposits


16: Percentage of Population Holding Voluntary Pensions/Life Insurance


17: Percentage of Population Holding Investment Funds


18: Percentage of Population Holding Listed Shares

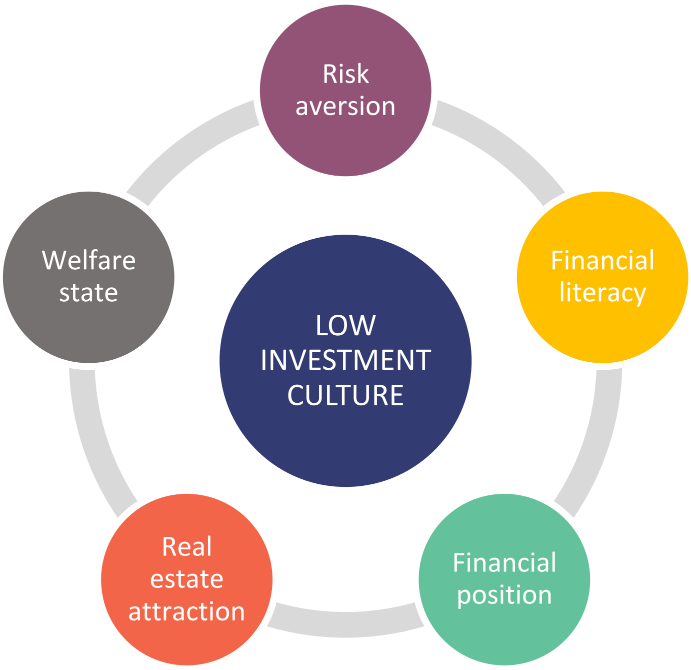

19: Percentage of Population Holding Bonds

Source: ECB Household Consumption and Finance Survey

The reluctance to invest has been the subject of significant research, in particular by the OECD, which has identified a series of barriers that prevent people's participation in equity markets.

20: Long-Term Savings and Investment Issues		Relevance among responding economies
Many people …	…do not save/invest **anything** for the long-term	**65%**
	…do not save/invest **enough** for the long-term	**89%**
	…**cannot access** formal savings or investment products	**24%**
	…**rely on non-financial assets** such as property or help from family	**62%**
	…are over reliant **on government support** for the long-term	**65%**

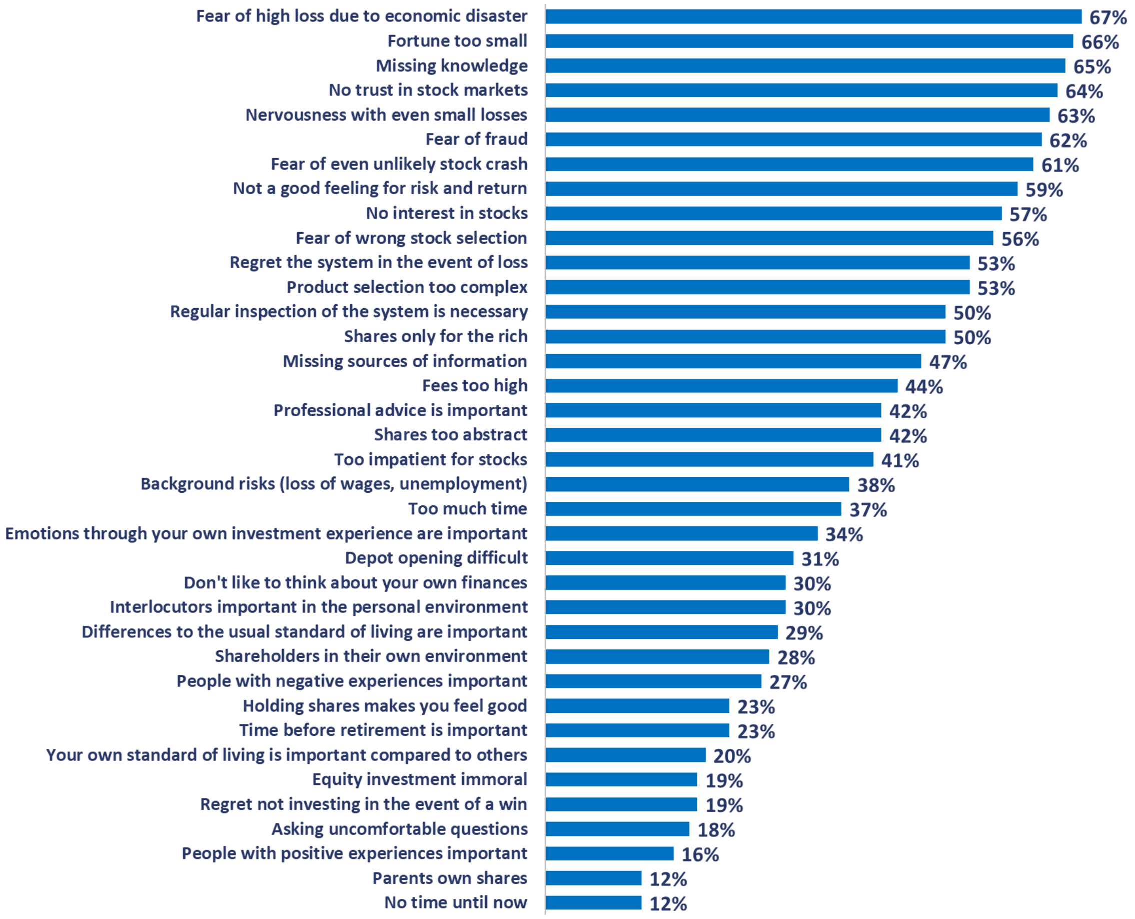
Drawing on information gathered from EFAMA's member associations, **this section highlights five drivers that, alone or in combination, can explain why the vast majority of EU citizens keep a disproportionate amount of their savings in bank deposits.**


Risk aversion
Welfare state
LOW INVESTMENT CULTURE
Financial literacy
Real estate attraction
Financial position

3.1 Risk aversion

A key driver of households' willingness to invest is their attitude towards risk. The strong preference displayed by European households for saving in bank deposits and insurance products that offer some form of guarantee indicates that they are highly risk averse. A study by researchers from the Frankfurt School of Finance and Management and the Goethe University Frankfurt am Main, on behalf of Deutsche Börse AG, looked into why households in **Germany** are reluctant to invest in the stock market. It found that the number one driver was fear of high losses.

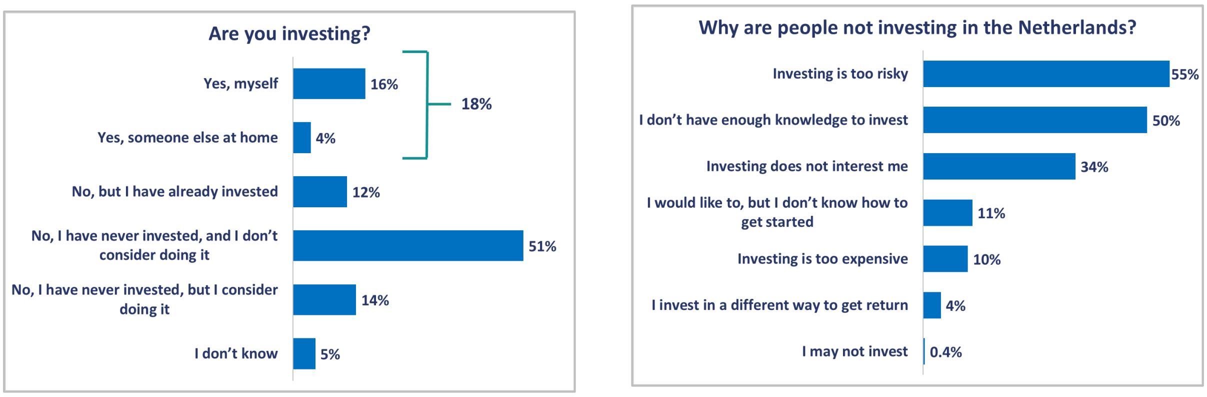
21: Possible Reasons for the Low Participation in the German Stock Market



Source: https://academy.deutsche-boerse.com/out/pictures/ddmedia/Studie-Zum-Raetsel-der-Aktienmarktteilnahme.pdf

On a similar theme, a recent survey by the Dutch Financial Markets Authority (AFM) showed that only 16% of survey respondents were investing in capital market instruments, while 55% consider that investing is too risky. So, although section 2 showed that Dutch households hold only a small amount of their financial wealth in bank deposits, the results of the AFM survey indicate that this does not necessarily indicate that there is a capital market culture in the **Netherlands**.

22: Views of Dutch Consumers on Investment



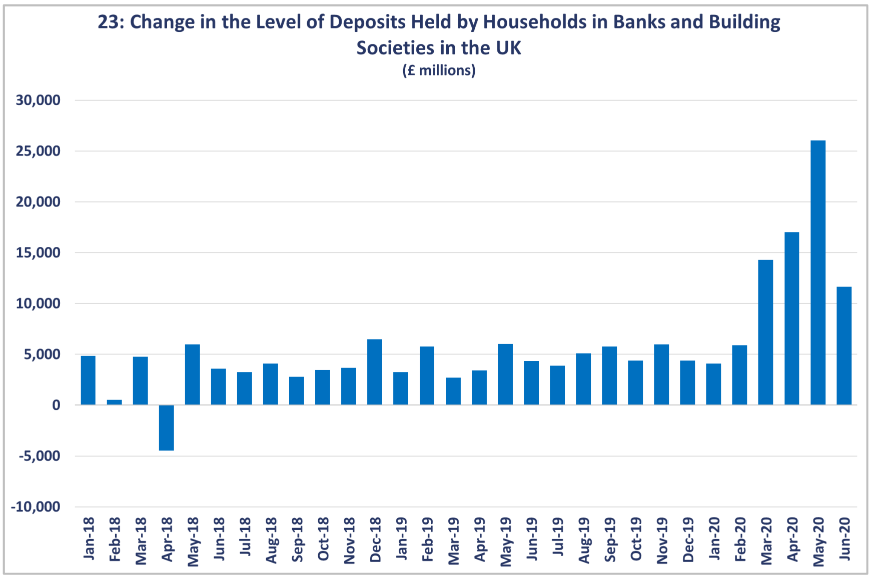
Source: https://www.afm.nl/nl-nl/nieuws/2019/jun/consumentenmonitor-voorjaar-onverzekerbaarheid

Furthermore, it is widely recognised that **recent financial crises – the dotcom crash of 2000, the global financial crisis and the 2011 eurozone debt crisis – have increased households' awareness of the risk inherent in investing and impaired public trust in the financial system.** Some specific cases or scandals can also explain why the degree of risk aversion has risen in some countries. There are numerous examples, such as the bankruptcy of Lernout & Hauspie and the downfall of Fortis Bank in **Belgium**. There was also the fall in the price of the shares of (formerly state-owned) Deutsche Telekom, which had been advertised as a safe and highly lucrative investment, which were bought by millions of retail investors during the IPO in 1996. This event is now considered, in **Germany**, as an additional 'proof' that equity investments are (too) risky. The recent collapse of Wirecard may further strengthen mistrust among German citizens of equity markets. In **France**, households have been disappointed by the performance of the privatisations of large French companies carried out in 2005-2007. As a consequence, the number of individual shareholders fell from 7 million in 2007 to 3 million in 2019. In **Portugal**, the 2014 bailout of Banco Espírito Santo, to stave off the collapse of the country's biggest bank following a series of financial scandals, contributed to higher risk aversion among Portuguese households.

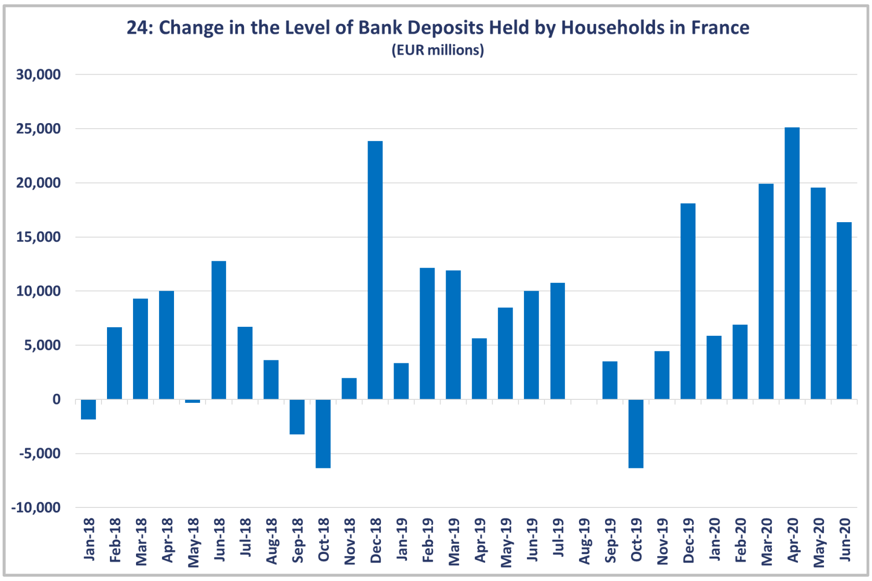
In this context, the deposit guarantee schemes, which reimburse a minimum amount to compensate depositors whose bank has failed, are valued and recognised by European households as a strong risk mitigation mechanism for protecting their bank deposits. The fact that the Deposit Guarantee Schemes Directive was amended in 2009 to impose on Member States the requirement to increase the protection of deposits, first to a minimum of EUR 50,000, and then to a uniform level of EUR 100,000 by the end of 2010, provided stronger incentives than ever to keep savings in deposits.

Generally speaking, the regulatory framework tends to be biased towards bank deposits, as holding a bank account is deemed a basic banking service. Investments in capital market instruments, however, require following a much more cumbersome procedure, which tends to dissuade many people from taking this step. While there are good reasons for this, it does have an impact on the composition of households' financial wealth and their ability to grow their savings and protect them against inflation.

In addition, it is worth emphasising that the Covid-19 crisis led to a spike in assets moving into deposits from households and businesses in March, as a reaction to the lockdown and the steep decline in markets. The charts below show that this process has increased month-on-month through April, May and June in the **United Kingdom** and **France**. It will be interesting to see whether the majority of these assets will migrate back to other types of financial assets once investor confidence has returned, and whether households' perception that cash/deposits are less risky will persist. Some of this increase in allocation to deposits is likely to be sustained as households understandably will need easier access to their financial wealth, given the worsening of their economic situation.[6]



Source: Bank of England



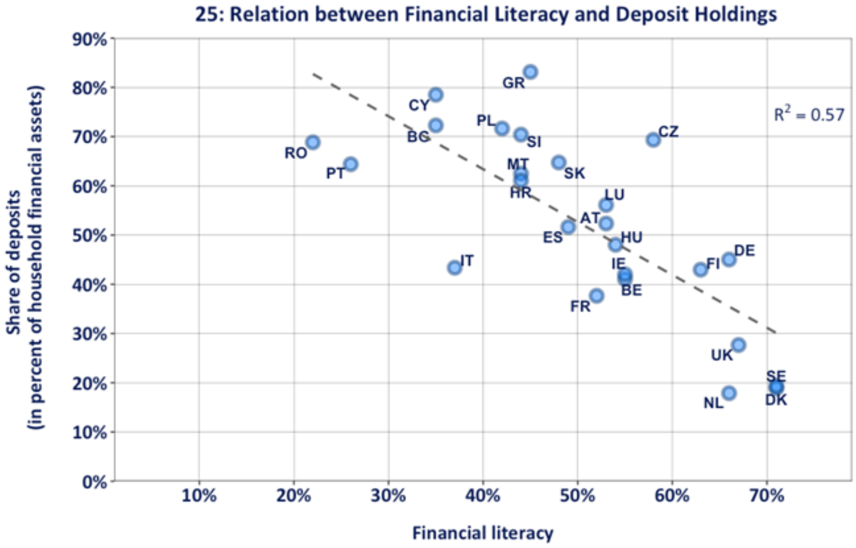
Source: Banque de France

[6] It is worth noting that purchases of French shares by individuals were multiplied by a factor of four in March 2020, in an overall volume multiplied by three. Among the many buyers of shares during this period, a significant proportion were new clients or clients who have not been very active in recent times. Nevertheless, these purchases were not strong enough to prevent the sharp increase in bank deposits observed in March. More information on this development can be found in a paper published by the French supervisory authority (AMF) available at https://www.amf-france.org/sites/default/files/2020-04/investisseurs_particuliers_actions_mars_2020.pdf.

3.2 Financial literacy

A further factor for explaining the high share of deposits in households' financial assets in many European countries is a lack of sufficient financial literacy and knowledge on investment opportunities. The following chart provides some support for this observation by showing a negative relation between the degree of financial literacy and the allocation of savings in bank deposits.[7]

Insufficient financial literacy means that households are unlikely to be able to understand the functioning and the advantages and disadvantages of the different savings instruments available.



Source: ECB and Klapper, Lusardi and van Oudheusden

The aforementioned AFM survey confirmed that 50% of households in the **Netherlands** consider that they do not have sufficient knowledge to start investing. The Survey of Financial Literacy, carried out in **Austria** in 2019, showed a significant improvement in financial knowledge in recent years. However, a majority of respondents could not answer some rather simple questions particularly relevant when discussing investment. For example, only 60% of those surveyed knew the basic principle of risk diversification. The results also showed that the level of financial education of the 'less risk-averse' group (15 to 38-year old respondents) is comparatively low.

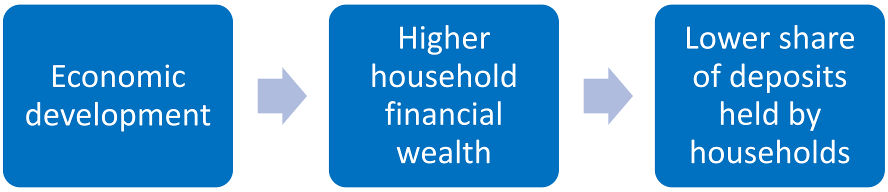
Recent research indicates that, by creating barriers for effective participation in capital markets, low financial literacy exacerbates wealth inequality, as individuals with higher financial literacy tend to earn a higher rate of return on their investments.[8] In addition, many savers do not understand the difference between nominal and real rates, and consequently fail to factor in the impact of inflation on the value of their savings deposited at the bank.

3.3 Financial wealth

Another driver of households' participation in capital markets is their financial position. There is evidence to suggest a strong relation between the level of economic development of a country and

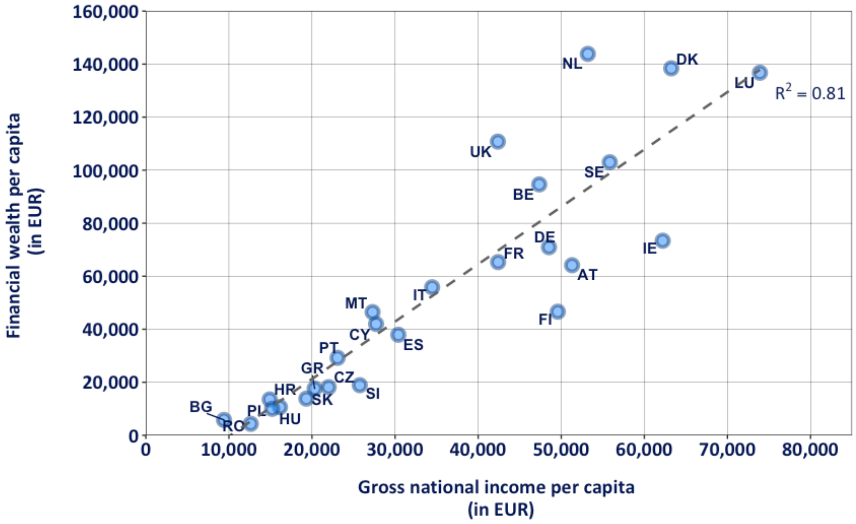
[7] This chart is based on a paper by Klapper, Lusardi and van Oudheusden, published in 2019, which measures the degree of financial literacy using five questions assessing basic knowledge of concepts in financial decision making (see https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x47626).
[8] See paper by Lusardi, Michaud and Mitchell available at https://gflec.org/wp-content/uploads/2015/12/Optimal-Financial-Knowledge-and-Wealth-Inequality.pdf.

the amount of financial wealth owned by households in this country as well as between the amount of financial wealth owned by households and the share of financial wealth held in bank deposits.

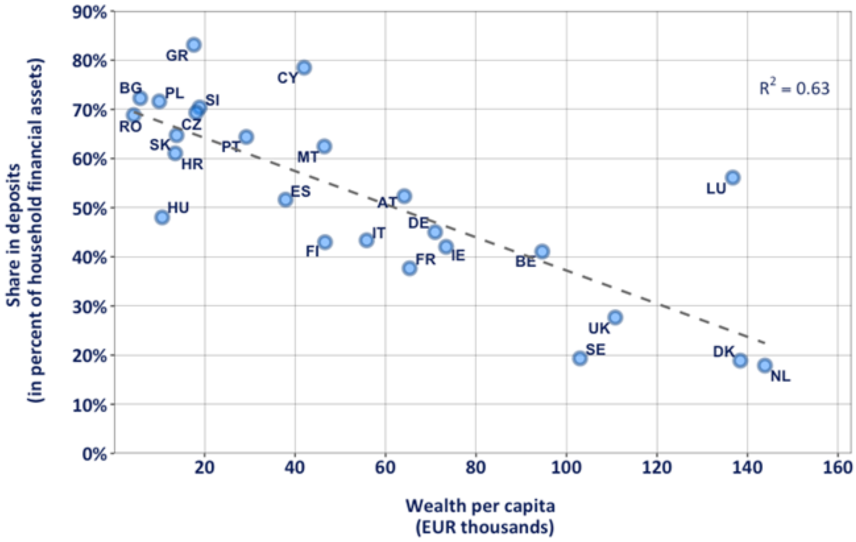

Economic development
Higher household financial wealth
Lower share of deposits held by households

From this perspective, the relatively low financial wealth of most households in Central and Eastern European countries goes some way to explaining why households in those countries hold a significant share of their financial wealth in bank deposits. This is self-explanatory: households need to keep enough of their wealth in deposits to manage their everyday spending and meet any unforeseen needs; the lower their overall wealth, the more they will need to rely on easily accessible cash.

26: Economic Development and Household Financial Wealth



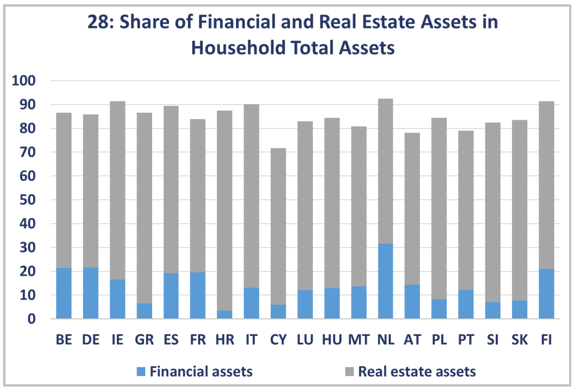
27: Share in Deposits versus Wealth per Capita

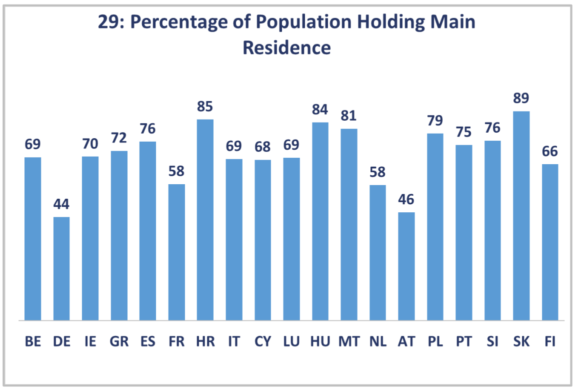


Source: ECB and EFAMA

3.4 Real estate

Real estate is by far the most popular investment vehicle for the vast majority of households in Europe. The chart below shows that, with the exceptions of **Austria** and **Germany**, in all EU countries a majority of households own their main residence.


28: Share of Financial and Real Estate Assets in Household Total Assets

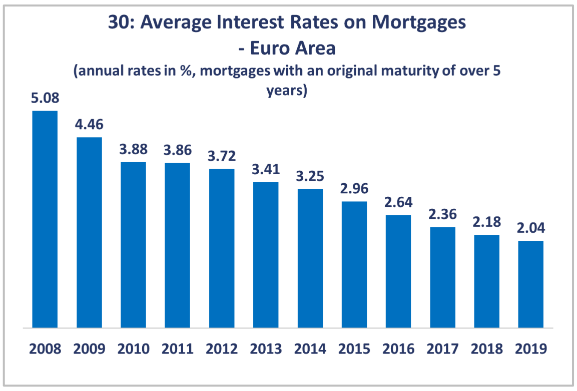

29: Percentage of Population Holding Main Residence

Source: ECB Household Consumption and Finance Survey

The tax advantages granted to mortgage loans in many countries are a major driver behind households' investment in real estate. In addition, buying a home is often considered as the most prudent investment they can make. Apart from certain exceptions, such as in holiday locations, the real estate market tends to remain largely resilient, even during times of economic distress. The fall in interest rates during the last decade has reduced the cost of borrowing and made mortgages more affordable. This, in turn, has enhanced the attractiveness of homebuying.

There are also households who purchase secondary properties to rent to third parties and use this as a source of complementary revenue and wealth, via rental income and capital appreciation.

This means that a larger share of savings is directed towards real estate (acquisition and repayment of credit), thereby reducing the share allocated to financial savings and the capacity of households to invest in capital markets.


30: Average Interest Rates on Mortgages - Euro Area

(annual rates in %, mortgages with an original maturity of over 5 years)

Source: ECB

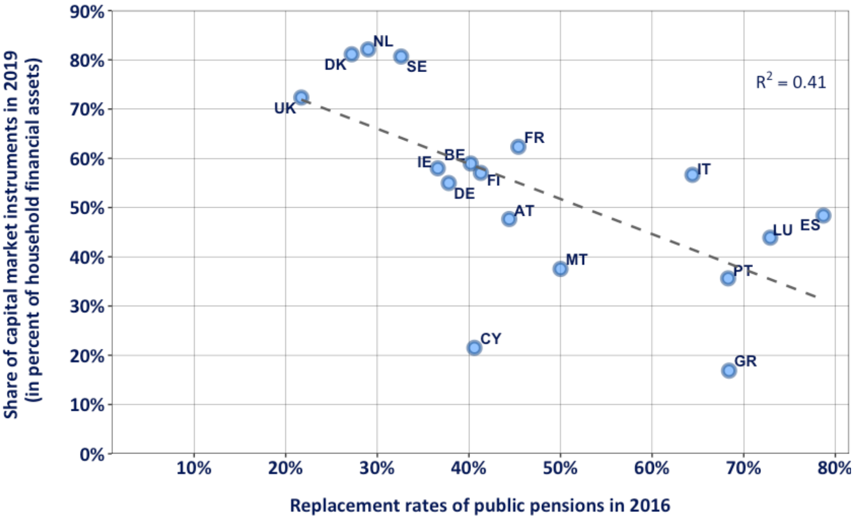
3.5 Welfare system

The provision of social services (education, health, retirement, unemployment protection) by the State has been - at least until recently - relatively generous in many European countries.

The welfare state tends to reduce households' propensity to save for retirement, or to actively manage their savings to cope with potential economic uncertainty and to plan for major expenses in the area of health care needs and children's' education. The chart below illustrates this, showing that the share of capital market instruments held by households tends to be lower in those countries which (until now) have been able to provide a relatively high public pension compared to final salary.[9]

The organisation of the labour market is a further determinant in the savings allocation decision. By way of illustration, the labour market in **Denmark** is characterised by the fact that it is relatively easy to hire and fire employees; also people typically have access to adequate public benefits if they are unemployed. The combination of a flexible employment market and the wide social safety net means that most Danes do not need to rely on having major cash buffers if they lose their jobs for a short period.

31: Public Pensions versus Participation in Capital Markets



Source: ECB, EFAMA and European Commission[10]

3.6 Outlook

By their very nature, the factors identified above will continue to influence European households' future investment decisions. If anything, the Covid-19 crisis means they are likely to have a greater impact.

- **Risk aversion:** it is likely that the Covid-19 crisis will discourage many EU households from accepting more volatility in their savings portfolios.

- **Financial literacy:** although essential, initiatives to increase the levels of financial literacy and investor education will take time to bed in and produce beneficial effects.

- **Financial position:** the possibility of reducing the share of bank deposits in less-advanced economies will remain limited. Nevertheless, developments in **Bulgaria**, **Croatia** and **Romania**, as highlighted in section 2, show a high level of deposit holdings is not inevitable.

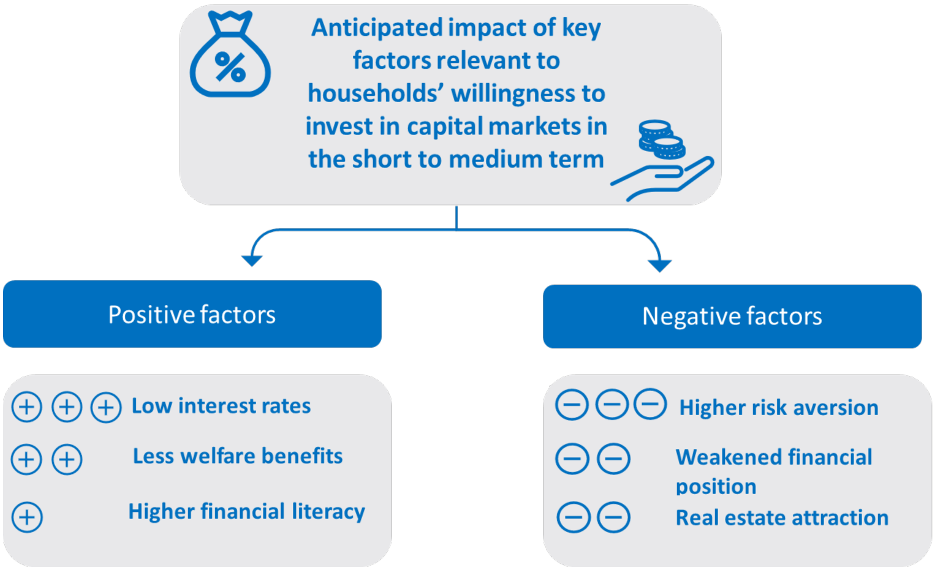
[9] We did not include the CEE countries in the chart because the relatively low level of pension savings in these countries is mostly explained by the fact that the financial wealth of households tends to be limited, and therefore the households' capacity to save in products other than bank deposits. In many countries, the generosity of first-pillar pensions is an assumption rather than a reality, as state pensions are low and is expected to decrease further, in the absence of the necessary structural pension reforms.

[10] The sources of the replacement rates are "The 2018 Ageing Report", published by the European Commission. This is except for the Netherlands and the UK, for which we use the data published in the OECD "Pensions at a Glance 2019", as the Ageing Report did not provide any relevant data for these two countries.

- **Real estate attraction:** many EU citizens will continue to retain, or acquire, real estate, particularly if they benefit from tax incentives.

- **Welfare state:** Europe's ageing population and the Covid-19 crisis is putting pressure on many countries, which will likely have to raise taxes and/or reduce benefits (including pensions) to keep their budgets under control. This will lead to pressure on EU citizens, who will need to save more for their retirement in the future.

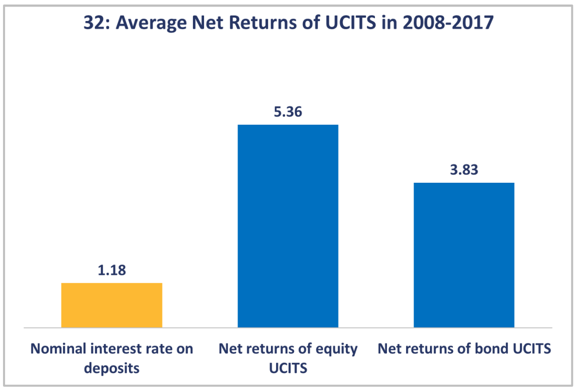
All other things remaining equal, **there is one factor that could encourage more households to reduce the amount they save in bank accounts: it is the current ultralow interest rate environment**. This is likely to persist for the foreseeable future, as governments and central banks seek to stimulate economic activity following the negative impact of Covid-19. As a result, households will continue to be motivated to look for alternative solutions for investing and preserving their financial wealth. In this context, banks are likely to promote the distribution of investment products that offer the potential for greater returns over time, whereas insurance companies will find it increasingly difficult to offer products with a guarantee.

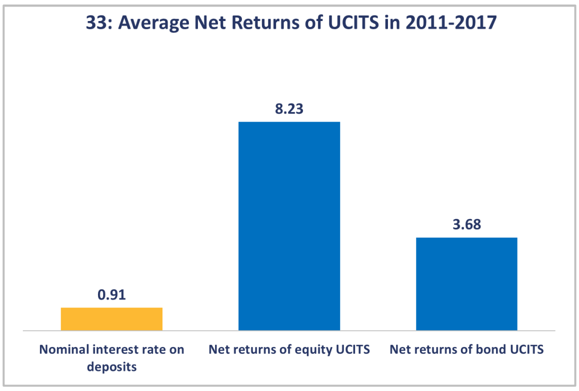

Anticipated impact of key factors relevant to households' willingness to invest in capital markets in the short to medium term
Positive factors
Negative factors
⊕⊕⊕ Low interest rates
⊕⊕ Less welfare benefits
⊕ Higher financial literacy
⊖⊖⊖ Higher risk aversion
⊖⊖ Weakened financial position
⊖⊖ Real estate attraction

PROPOSALS FOR INCREASING HOUSEHOLD PARTICIPATION IN CAPITAL MARKETS

4. Proposals for increasing household participation in capital markets

Currently, in spite of all the efforts of the European Commission to create a Capital Markets Union, still too few European households invest in capital market instruments. This leads to a huge missed opportunity cost for savers with a long-term investment horizon. Indeed, whereas the average interest rate on deposits[11] was close to zero over the 2008-2017 period, the average net returns on equity and bond UCITS for the same period were 5.4% and 3.8% respectively and, for the 2011-2019 period, 8.2% and 3.7% respectively. In addition to these higher returns, investing in funds offer other benefits, in particular reducing the non-systematic risk brought about by the diversification of the positions held.





Source: ECB and "Performance and Costs of Retail Investment Products in the EU" (ESMA, 2019)

> **"Many households put their savings in bank deposits at low yield and redeemable at short-term notice. By doing so, these households give preference to immediate liquidity needs at the expense of long-term wealth creation".**
>
> *A new vision for Europe's Capital Markets – Final Report of the High-Level Forum on the Capital Markets Union (10 June 2020)*

On the Covid-19 crisis, it is too early to evaluate its final impact on the performance of investment products in 2020. What is clear, however, is that the crisis will have a strongly negative impact on public deficits and debts, and that the generosity of first pillar pensions is likely to be reduced further in future. Therefore, to ensure an adequate retirement income, households will need to manage their savings more proactively and save more for retirement.

Against this background, **this section presents specific examples of policy measures that could be taken at European and national level to encourage households to invest in capital market instruments.** The ultimate objective of these measures is to help households achieve a higher return on their savings and a better retirement income. A proactive public policy to foster retail investments in capital markets could also provide an opportunity to encourage households to invest in ESG financial products, thereby contributing to a more sustainable world.

[11] The interest rates shown in charts 32 and 33 correspond to the average between the overnight interest rates and the interest rates offered on deposits with a term equal or greater than two years in the euro area, with a weight of 80% given to the overnight rates, which corresponds to the share of overnight deposits in total bank deposits in the euro area.

The opportunity cost of saving too much in bank deposits

In order to illustrate the financial losses that European households have incurred by saving too much in bank deposits, we examined what would have happened if households had actually saved only half of the true amounts they saved in deposits, investing the other half in equity funds and bond funds, in equal proportions, during the period 2008-2019.[1]

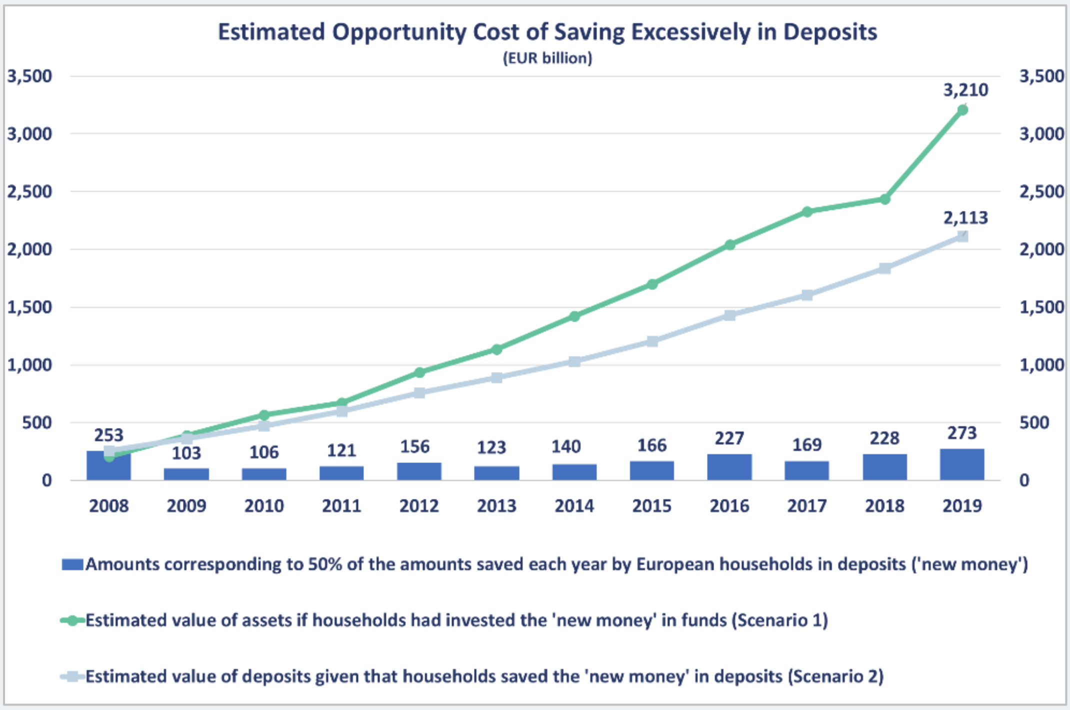
The chart below shows the evolution of the assets accumulated in those funds, taking into account the yearly average net returns generated by UCITS equity and bond funds (Scenario 1).[2]

It also shows the estimated increase in the deposits held by European households, given that they did not invest those amounts in funds (Scenario 2). In making this estimation, we have assumed that households placed 81% of these amounts in overnight deposits and 19% in deposits with a maturity of two years or more.[3]

It can be seen that the investment in equity and bond funds would have generated a total wealth of EUR 3.2 trillion at the end of 2019. This compares to an estimated amount of EUR 2.1 trillion under Scenario 2.[4]

This means that **the financial wealth of households would have been EUR 1.2 trillion higher had they decided to further diversify their wealth by investing in UCITS equity and bond funds.**

Under Scenario 1, the share of deposits at the end of 2019 would have fallen to 30%, rather than reaching 37.5%.



[1] The amounts saved by European households in deposits each year in 2018-2019 are shown in chart 5.
[2] We have estimated the return rates on equity and bond funds as the capital-weighted average net returns of the equity and bond funds available in the Morningstar Direct database for the 2009-2019 period. Due to the lack of data for 2008, we have estimated the net returns for that year on the basis of two MSCI indexes.
[3] The percentages correspond to the average share of overnight deposits and term deposits in the banking system in the euro area during the period 2008-2019.
[4] The estimated average nominal annual net return of funds is 4.6%, compared to 0.2% for deposits.

Our proposals focus on four areas: financial literacy, pension policies, tax incentives and monitoring progress. These are fully aligned with the HLF recommendations and aim to provide complementary ideas, with a particular focus on the actions that need be taken at national level.

Whilst supporting the recommendations of the High Level Forum on the CMU, we believe that they will not be effective in fostering retail investors' participation in capital markets unless Member States take appropriate measures to encourage their citizens to place their savings into capital market instruments. In other words, in our view, the key to success for the CMU lies at national level.

Summary of policy recommendations

FINANCIAL LITERACY	1	Target specific investor education initiatives at millennials.
	2	Implement the recommendations of the European Youth Parliament to promote financial education.
	3	Launch partnerships between the public sector and the financial services industry to undertake new investor education initiatives.
PENSION POLICIES	4	Develop a policy framework to establish a pan-European occupational pension plan, taking into account the lessons learned from the development of the PEPP Regulation.
	5	Launch a 'European Retirement Week', to raise awareness on the pension challenge and the need to save more for retirement.
TAX INCENTIVES	6	Strengthen tax incentives to promote retirement savings and savings in the PEPP, green investment products, ELTIFs and other long-term, less liquid, assets.
	7	Avoid creating new taxes, such as the FTT, that would adversely impact investment activity.
	8	Decide on a financial product's tax treatment on the basis of its specific features rather than its legal structure.
MONITORING PROCESS	9	Monitor progress of household participation in capital markets through using Key Performance Indicators (KPIs).
	10	Use the variation in the 'CMI ratio' (the ratio between the household savings invested in capital market instruments (CMI) and those placed in deposits) as a KPI.

4.1 Improving European citizens' financial literacy

The HLF has clearly highlighted financial literacy as a key area of interest. It has identified many different initiatives that the European Commission and EU Member States could take to promote financial education and enable individuals to make better informed financial decisions.

As an additional contribution, we propose to target specific initiatives towards millennials, taking into account their views on the subject.

Last year, **EFAMA concluded a one-year partnership agreement with the European Youth Parliament** (EYP) and sponsored a 'financial literacy committee' in the context of the EYP's 90th International Session, which was held in Valencia in July 2019.

The EYP is a non-partisan and independent educational project. It organises three to four of its International Sessions each year. Each of these lasts for about 10 days and brings together some 300 young participants, during which the EYP delegates discuss and debate, initially in committees and then in a plenary session, a number of European policy issues.

In its Resolution adopted by the plenary session**, the EYP called on the European Commission to be, among other things, far more active in the area of financial education**. In particular, it should do this through using digital tools (web applications, online advertisement, social media platforms, webinars), to help young people engage with financial concepts and inform them on how to best use the financial advice and other tools available to them. The EYP recommendations are presented in a box below.[12]

We believe that **the financial services industry should take an active role in financial education**. This should be done in partnership with the EU and national authorities, e.g. by teaching students, households and investors of different ages about the opportunities and advantages of long-term capital market investments and risk diversification.

For its part**, EFAMA will start work on a new publication entitled 'Ten Principles for Saving & Investing for Millennials'**. The Covid-19 crisis makes this project more important than ever, as the increasing strains on welfare states will mean that the coming generations will increasingly have to rely on their own savings.

EFAMA KEY MESSAGE

With current low interest rates, investing in capital markets with a long-term investment horizon is a commonsense approach to bolster return on savings and prepare for retirement.

Governments and the financial sector should team up to launch new investor education initiatives to raise public awareness of the benefits arising from long-term investments.

[12] The full text of the Resolution is available at https://issuu.com/valencia2019/docs/_resolutionbooklet.

VALENCIA 2019

EUROPEAN YOUTH PARLIAMENT

EXTRACT FROM THE RESOLUTION BY THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS I

Me, my pension, and I: With legislation on the Pan-European Personal Pension Product (PEPP) laying the foundation for easier cross-border retirement savings, what should the EU do to increase financial literacy among young people to ensure they benefit from such initiatives and are better equipped to save and invest for retirement, with a long-term perspective and in a sustainable way?

Tools for financial advice and education – European level

1. Requests the European Commission's Directorate General for Communication (DG COMM) to demonstrate the disadvantages of not being financially literate through websites, campaigns and other strategies;

2. Requests that the European Commission focuses on financial education tools and methods adapted to the needs of different age groups, such as interactive video games and web applications, in order to help youth engage with financial concepts;

3. Calls upon the European Commission to open a call for tenders for private companies to develop applications and other digital tools which help citizens, especially young people, to understand long-term financial planning;

4. Urges the European Commission to provide young people with:
    a. low-cost financial advice,
    b. seminars and financial literacy workshops about all investment options with an emphasis on sustainable investments;

5. Calls upon the European Commission to utilise online advertisement and social media platforms to inform young citizens on how to best use the financial advice and other tools available to them;

6. Further recommends the European Commission's DG COMM to establish and promote a new digital platform including webinars, expert talks on financial issues and other relevant financial information in all official EU languages;

Tools for financial advice and education – Member State level

7. Encourages Member States to further develop activities aimed at improving financial literacy, such as introducing a European Financial Literacy Day;

8. Calls upon national central banks across the EU to create unbiased public informational material specifically tailored to each Member State, and coordinate its distribution with private sector actors, such as banks, asset managers, and other financial service providers;

Cohesion across Member States

9. Urges Member States to make the PEPP more attractive through harmonising tax incentives, leading to decreasing dependence on the first and second pillars of the pension system;

10. Calls upon the European Commission to allocate funds to support financial literacy initiatives in all Member States, prioritising the Member States with lower rates of financial literacy;

11. Asks Eurostat, in cooperation with Member States, to establish a standardised way to measure financial literacy across the EU by creating an online test conducted in schools tailored to different age groups, to monitor the implementation in each Member State, and to collect and publish the results every 2 years;

12. Recommends that the European Commission provides funding and support to national financial education campaigns to be translated into all Member States' languages;

Improving the current framework

13. Recommends that PEPP providers offer free workshops on investment planning to potential PEPP customers, in order to inform them about the specifications of their products;

14. Suggests that the ministries of education in all Member States establish a financial education unit with the following responsibilities:

a. conducting financial literacy tests among young people according to their education level and age group,

b. add introducing financial literacy content into existing subjects, such as math, at all levels of education and vocational training,

c. informing young people about the availability of financial tools;

15. Urges the European Commission to initiate the introduction of mandatory scoring on an Environmental, Social and Governance (ESG) scale for third pillar pension products in order to make the level of sustainability of investment products more transparent.

4.2 Adopting proactive pension policies

Our analysis has highlighted the important role played by pension savings in household participation in capital markets. Those countries in which households are the largest holders of capital market instruments have a highly developed and funded pension system, which has its origin in proactive and ambitious pension reforms. This could indicate that **funded pensions increase people's familiarity with capital markets**. The experience at national level shows that countries with the most-developed funded pension systems have relied on some form of mandatory pension savings.

It is quite clear that inertia is a strong factor in people's unwillingness to save (or rather lack of interest in saving) enough for retirement. Hence enrolling people into an occupational pension scheme with an opt-out option is an effective way to overcome this resistance. Experience shows that **pension auto-enrolment can significantly increase the number of employees saving towards a pension**, as well as the persistency and level of the total contributed to a pension.

While Member States are ultimately responsible for the design of their own pensions system, the European Union can also play an important role. **We have identified two initiatives that have the potential to further contribute to developing retirement savings.**

First, the European Commission should request that EIOPA develops a policy framework to establish **a pan-European defined-contribution occupational pension plan**, taking into account the lessons learned from the developments of the PEPP regulation and existing best practices observed at national level. This framework should not aim to replace existing occupational pension plans, but rather offer an additional and complementary workplace retirement savings solution that could be managed on a pan-European scale at lower costs. It would also create the opportunity for people to save in the same occupational plan when they move to another EU country.

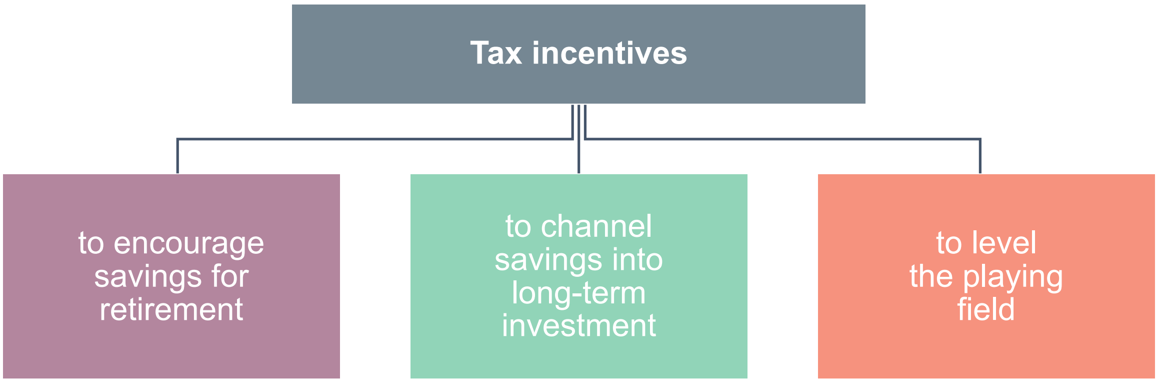
Second, **EFAMA, together with Insurance Europe and PensionsEurope, support the idea of launching an annual 'European Retirement Week'**. Building on the experience of similar European Commission-led initiatives in other policy areas, such as the EU Green Week, the European Retirement Week would serve the purpose of raising awareness of the pension challenge. It is indeed increasingly clear that, in the future, institutional reforms alone will not be enough, and that people will have to take action to prepare for their own retirement. The 'European Retirement Week' could act as a platform for stakeholders and policymakers, both at national and EU levels, to trigger discussions on the pension challenge and the importance of saving enough for retirement.

EFAMA, Insurance Europe and PensionsEurope, with their long-standing experience in this field, are committed to supporting their respective national members to ensure the greatest reach and impact at national level. In addition, in order to ensure a proper diversity of views, all NGOs, civil society and other relevant stakeholders with an interest in the topic should have the opportunity to contribute.

> **"Pension sustainability in times of high and rising government liabilities requires market-based pension systems that supplement state systems. Only with the two working together can those who will be retiring in the coming decades have the retirement benefits they are today expecting."**
>
> *Thomas Wieser, Chair of High Level Forum on the Capital Markets Union*

4.3 Redesigning tax incentives

The experience at national level shows the importance and effectiveness of tax incentive measures in influencing households in how they allocate their financial wealth.


Tax incentives
to encourage savings for retirement
to channel savings into long-term investment
to level the playing field

4.3.1 Provide more favourable tax treatment for retirement savings

Tax incentives have long been the primary means for governments to promote savings for retirement. Hopefully, the Covid-19 crisis and resulting higher public deficits will not lead governments to withdraw existing tax incentives.

If we want to boost the CMU and protect the tax neutrality that is to be granted to investment funds, new taxes need to be designed with care. New tax obstacles to end-investors in a fund should be avoided. From that perspective, introducing an EU financial transaction tax (FTT) would have an adverse effect on investment activity within the EU, with investors ultimately bearing the burden and all the related costs. EFAMA strongly encourages those Member States that are still participating in the enhanced cooperation to reconsider the introduction of an EU FTT.

If we want to relaunch the economy and promote fair and effective taxation for investors, the focus should be on tackling the existing barriers to the free movement of capital and encouraging the introduction and maintenance of those tax incentives that have already proven successful in promoting investment.

Equally important is the upcoming launch of the Pan-European Pension Product (PEPP). This will offer a unique opportunity for the European Commission and Member States to encourage more citizens to save for their retirement. However, as noted by the European Parliament, **a necessary condition for achieving this objective is that Member States agree to grant the same tax relief to PEPP as is granted to national personal pension products, and to grant specific tax relief to PEPP, harmonised at EU level, to be laid down in a multilateral tax agreement between Member States.**[13]

[13] The resolution from the European Parliament is available at: https://www.europarl.europa.eu/doceo/document/TA-8-2019-0358_EN.html.

4.3.2 Provide more favourable treatment for long-term and green investment products

An important objective of the CMU is to boost the ability of households to invest in long-term, less-liquid investments to finance unlisted companies, infrastructure projects and sustainable investments. From this, **we fully support the HLF recommendations to amend the European Long Term Investment Funds (ELTIFs) regulatory framework** to reduce barriers to investment by retail investors and to make long-term investment products attractive, by offering tax incentives to convince households to accept the lower liquidity of these products in return for obtaining a higher rate of return.

The success of investment funds dedicated to promoting employee share ownership, as proposed by the HLF, will also depend on the tax incentives supporting those funds.

EFAMA KEY MESSAGE

The ageing of the population and the ESG challenges make it desirable for European citizens to invest in long-term and green investment products, to protect their savings against inflation and contribute to the financing of a more sustainable economy.

New tax incentives would also help to channel savings into green investment products more quickly by incentivising both companies and investors to divest brown (i.e. carbon intensive) assets.

4.3.3 Level the playing field

In some countries, there is a tendency among policymakers to respond to the general public's risk aversion by providing more favourable tax and regulatory treatment for insurance-based pension products than for other financial products.

It is against this background that the European Commission proposed that all PEPPs should offer – as the default option – an investment strategy with capital protection. Fortunately, the final text of the PEPP Regulation allows the Basic PEPP to be designed on the basis of a guarantee or a life-cycling investment strategy, thereby offering savers a choice. Life-cycling strategies are consistent with the overall objectives of the CMU project, because they offer long-term investment market exposure and risk diversification throughout the accumulation phase, whilst reducing the impact of market risk as the saver approaches retirement. By contrast, strategies that provide a capital guarantee are more constrained in how they can invest their assets. Typically, insurance companies offering these types of products have to channel their investments towards less-risky sovereign bonds, rather than shares, which generally offer a better return in real terms over the longer term.

EFAMA KEY MESSAGE

A major change in tax policy is needed to stop treating investment products as less suitable long-term savings products for retail investors compared to insurance products.

The tax treatment of a financial product should be decided on the basis of its specific features rather than its legal structure in order to ensure to ensure a level playing field between different product providers and product types.

In light of these factors**, we urge Member States to ensure that the taxation and legal framework governing each different investment option be neutral so as not to avoid any bias in the channelling of savings towards one of those options**, unless, of course, the purpose of such framework is to promote long-term savings or savings for retirement.

4.4 Monitoring progress in household participation in capital markets

We firmly believe that the new framework that the European Commission will adopt to strengthen the CMU should include some Key Performance Indicators (KPIs) to measure the progress made by European citizens in adequately managing their financial savings.

In the next section, we propose a specific KPI, and use this KPI to assess the progress made in fostering retail investments in capital markets since the launch of the CMU initiative in 2015.

A NOVEL APPROACH TO MONITORING HOUSEHOLD PARTICIPATION IN CAPITAL MARKETS

5. A novel approach to monitoring progress of household participation in capital markets

One of the main goals of the CMU is to encourage households to allocate more of their financial wealth in capital market instruments (CMIs) and less in bank deposits. To assess the progress towards that goal, **we propose using the variation in the 'CMI ratio', which is the ratio between the household savings invested in CMI and those placed in deposits, as a KPI.**

Monitoring the variation in the CMI ratio offers three important advantages:

- This ratio is rooted in the principle that the most effective way to encourage household participation in capital markets is to incentivise households to shift part of their savings from bank deposits towards CMIs.
- It simultaneously assesses the relative importance of bank deposits and CMIs in the households' financial wealth.
- It is not skewed by the level of a country's economic development.

The higher the CMI ratio, the more households are participating in capital markets. It is worth noting that there is a natural upper limit to this ratio for the vast majority of households, as they need to retain a certain amount in deposits. The CMU's goal is, strictly speaking, to optimise rather than maximise this ratio.[14]

The situation varies markedly between Member States, and the most effective tools to foster retail investments in capital markets lie within the power and the responsibilities of national authorities. Therefore, we strongly believe that the European Commission should measure progress at a national level. Such monitoring should go hand in hand with a review of the measures taken by Member States to encourage their citizens to save more in capital markets.

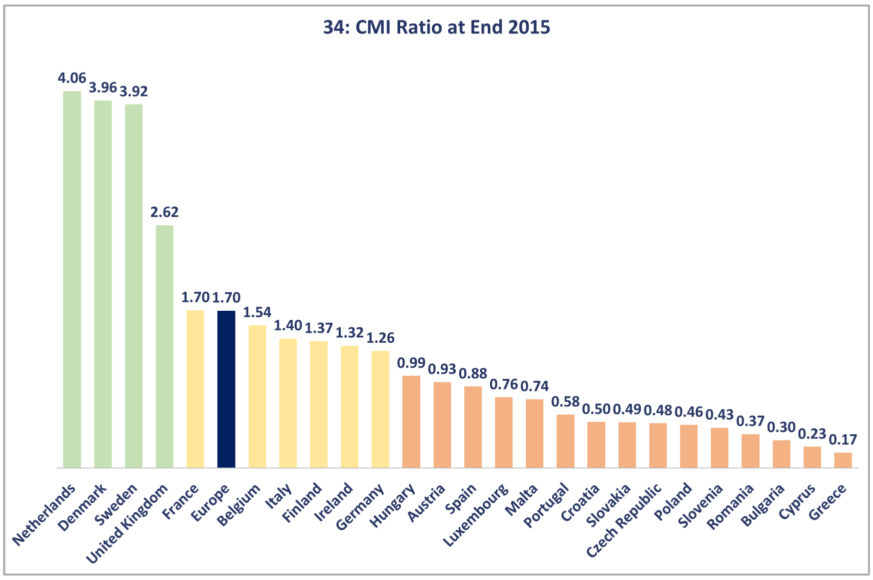
We have used the KPI proposed here to assess the progress made in fostering retail investments in capital markets since the launch of the CMU initiative in 2015. The results are presented in the following charts.

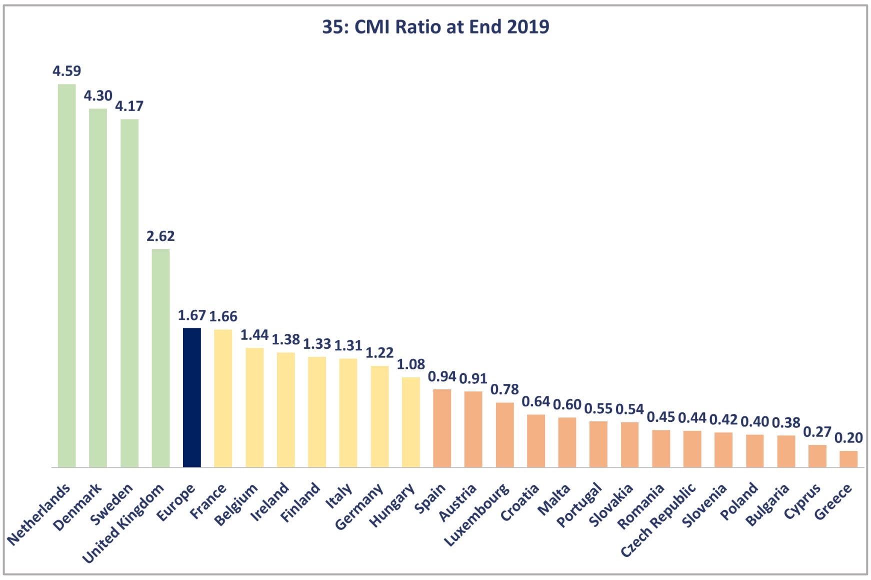
The first chart shows the CMI ratio at the end of 2015. We have grouped the countries into three categories: those with a ratio above 2, those with a ratio between 1 and 2, and those with a ratio below 1. The ratios at the end of 2015 ranged from 4.06 for **the Netherlands** to 0.17 for **Greece**, against a European average of 1.70. For those countries with a CMI ratio below 1, the goal would be to move beyond parity as much as possible, whereas the objective for category 2 countries would be to move closer to the average of the top countries.

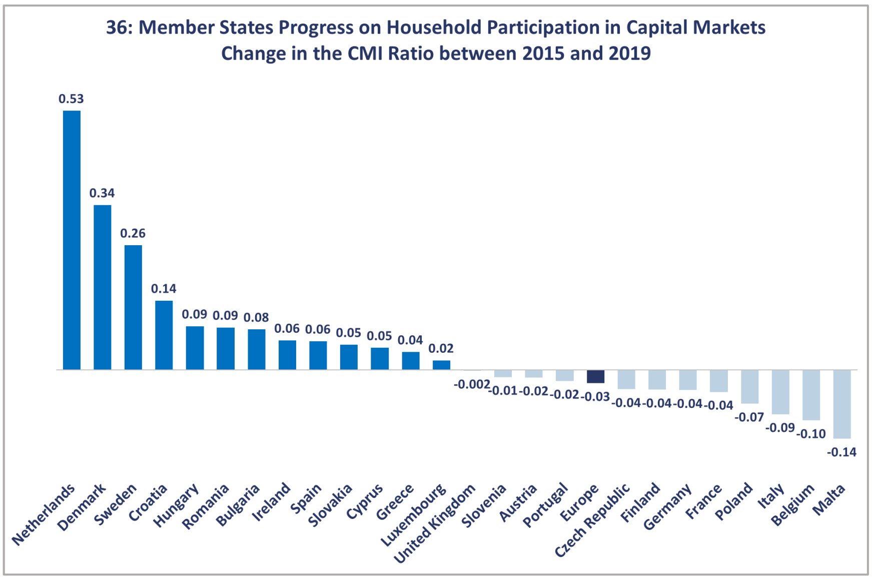
The next two charts show the CMI ratio at the end of 2019 and the variation in the CMI ratio between 2015 and 2019, respectively. The greatest increases have occurred in **the Netherlands**, **Denmark** and **Sweden**. In the three of the four largest European economies, i.e. **Germany**, **the United Kingdom**, **France** and **Italy**, the CMI ratio fell; the exception being the **United Kingdom**. It is also encouraging to note that a number of the countries that had a low CMI ratio in 2015 have managed to record an increase. For example, **Hungary** moved from a category 3 country to a category 2.

These observations confirm the importance of measuring progress at national level, as the CMI ratio for Europe has decreased by 0.03 points since 2015. Focusing on this figure alone would overlook the fact that significant progress has been made in quite a number of countries.

[14] An alternative KPI is the level of household savings invested in CMI as a percentage of GDP, as proposed by AFME (see https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20CMU%20Key%20Performance%20Indicators%20Report.pdf). As explained above, the advantage of the KPI proposed in this report is that it identifies the amount of savings held in deposits as the source of the problem and of its solution.


34: CMI Ratio at End 2015


35: CMI Ratio at End 2019


36: Member States Progress on Household Participation in Capital Markets
Change in the CMI Ratio between 2015 and 2019

A further interesting aspect of household behaviour is how they increase their holdings of CMIs and deposits over time.

The table below provides this information, by comparing the change in the amounts invested in capital markets to the amounts that were saved in deposits in 2016-2019. The countries are grouped into different categories according to the percentage of household investment in CMIs: more than 100%, between 50% and 100%, between 25% and 50%, between 0% and 25%, and negative investment.

37: Household Investment Behavior in 2016-2019

Countries	Share of amount invested in capital markets in 2016-2019 [(1)]	Amount invested in capital markets in 2016-2019 (EUR million)	Amount saved in deposits in 2016-2019 (EUR million)	Total amount invested in 2016-2019 (EUR million)	CMI Ratio (End 2015 level)
Col 1	Col 2	Col 3	Col 4	Col 5	Col 6
Cyprus	398.3%	1,109	-830	278	0.23
Sweden	61.8%	77,711	47,948	125,659	3.92
Netherlands	57.6%	66,095	48,679	114,774	4.06
Hungary	51.7%	15,175	14,158	29,333	0.99
Denmark	51.0%	29,505	28,377	57,882	3.96
Spain	50.8%	69,150	66,890	136,040	0.88
Croatia	48.7%	4,196	4,415	8,611	0.50
Germany	45.7%	419,750	499,083	918,833	1.26
Luxembourg	38.1%	6,933	11,275	18,208	0.76
Slovakia	36.8%	6,365	10,915	17,281	0.49
United Kingdom	36.0%	171,755	305,179	476,934	2.62
Romania	35.8%	9,744	17,440	27,185	0.37
Bulgaria	35.1%	3,622	6,683	10,305	0.30
Finland	33.5%	9,521	18,888	28,409	1.37
Ireland	32.7%	9,514	19,592	29,106	1.32
Czech Republic	21.3%	8,584	31,632	40,216	0.48
France	21.0%	74,402	279,273	353,675	1.70
Poland	15.0%	13,315	75,370	88,686	0.46
Slovenia	12.5%	890	6,245	7,135	0.43
Austria	11.1%	5,585	44,807	50,392	0.93
Portugal	9.9%	2,249	20,509	22,758	0.58
Italy	0.6%	1,098	173,557	174,655	1.40
Malta	-4.4%	-136	3,232	3,096	0.74
Belgium	-39.6%	-21,119	74,430	53,312	1.54
Greece	--	-1,124	-14,581	-15,706	0.17
Europe	35.4%	983,888	1,793,168	2,777,056	1.70

[(1)] Column 3 divided by column 5.

Source: ECB and EFAMA

Cyprus stands out in the table because households there withdrew money from their bank accounts in 2016-2019. The same happened in **Greece**; however, Greek households also removed money from CMIs.

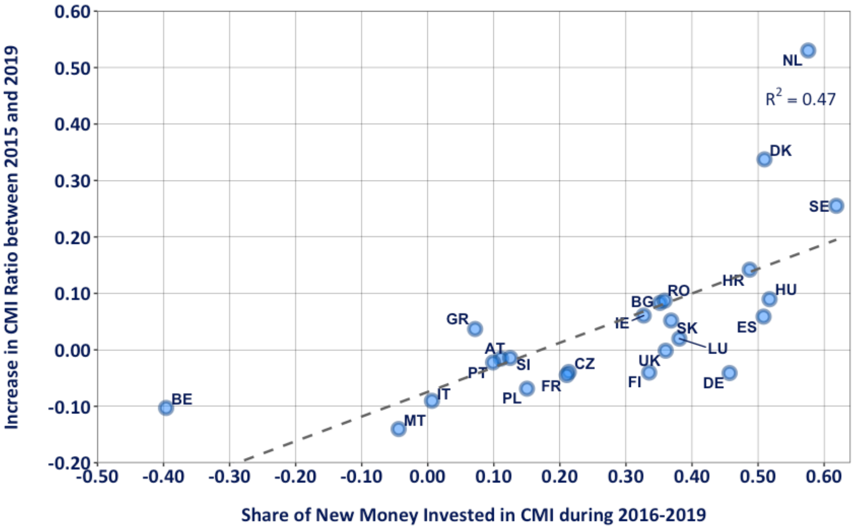
Households in **Sweden**, **the Netherlands** and **Denmark** made more than 50% of their investments into CMIs. This is not particularly surprising, as these are the countries that have implemented ambitious pension reforms to encourage, and sometimes even compel their citizens to save more in both occupational and personal pension plans, thereby creating the conditions for a sustained increase in the CMI ratio.

Hungary and **Spain** also belong in category 2 countries, for the reasons explained in section 2.4.1: the reform of public debt financing in Hungary and the introduction of limits on bank deposits in Spain.

It is also worth noting that in three countries with a CMI ratio above 1 – **France**, **Italy** and **Belgium** – households made less than 25% of their investment in CMIs.

Returning to the question posed at the start of this analysis, an estimated 47 percent of the increase in the CMI ratio between 2015 and 2019 can be explained by the share of new money that was invested in capital markets.[15]

38: Impact of New Money Invested in Capital Markets



EFAMA KEY MESSAGE

By developing a dashboard comprising the Key Performance Indicator proposed in this report to measure progress towards greater household participation in capital markets at national level, the European Commission would strengthen peer pressure and incentivise Member States to take action to support the future financial well-being of their citizens.

[15] We have excluded Cyprus from the chart given its outlying position.

CONCLUSION

6. Conclusion

In order to conclude this report on a positive and upbeat note, we have estimated the amount that could be invested in capital markets across Europe if households in all countries reduced the share of their financial wealth held in deposits by 5 percentage points.

The results are shown in the table below.

39: Impact of Greater Household Participation in Capital Markets: an Illustrative Scenario [(1)]

Countries	CMI Ratios (End 2019 level)	Projected CMI Ratios	Projected Variations in CMI Ratios	Amount shifted from deposits to Capital markets (EUR billion)
Netherlands	4.59	6.76	**2.17**	124
Denmark	4.30	6.21	**1.91**	40
Sweden	4.17	5.98	**1.80**	53
United Kingdom	2.62	3.41	**0.80**	369
France	1.66	2.06	**0.41**	219
Belgium	1.44	1.77	**0.34**	54
Ireland	1.38	1.70	**0.32**	18
Finland	1.33	1.63	**0.31**	13
Italy	1.31	1.61	**0.30**	168
Germany	1.22	1.50	**0.28**	295
Hungary	1.08	1.32	**0.24**	5
Spain	0.94	1.14	**0.21**	89
Austria	0.91	1.11	**0.20**	28
Luxembourg	0.78	0.96	**0.17**	4
Croatia	0.64	0.78	**0.15**	3
Malta	0.60	0.74	**0.14**	1
Portugal	0.55	0.68	**0.13**	15
Slovakia	0.54	0.67	**0.13**	4
Romania	0.45	0.57	**0.11**	4
Czech Republic	0.44	0.55	**0.11**	10
Slovenia	0.42	0.53	**0.11**	2
Poland	0.40	0.50	**0.10**	19
Bulgaria	0.38	0.49	**0.10**	2
Cyprus	0.27	0.36	**0.09**	2
Greece	0.20	0.28	**0.08**	9
Europe	1.67	2.08	**0.41**	**1,551**

(1) This scenario is based on the assumption that the share of deposits (CMI) in household financial wealth would fall (increase) by 5 percentage points.

The amount of money that would be transferred from deposits to capital markets under this scenario would total **EUR 1,551 billion**. This highlights the huge impact that the CMU could have in terms of financing of European companies, if households were to shift the allocation of their financial assets by what could be considered as a reasonable amount.

EFAMA KEY MESSAGE

Increasing retail participation in Europe's capital markets will help savers achieve a higher return on their savings, thereby securing better retirement income.

This will also offer companies broader opportunities to obtain funding and to become more productive contributors to the European economy and promote sustainable growth.

The key to the pursuit of these goals is that Member States implement the necessary reforms in order to foster retail investments in capital markets.

Key Performance Indicators should be developed to measure progress made at national level.

STATISTICAL APPENDIX

Statistical Appendix

A1: Household financial Wealth at end 2019

Countries	Deposits	Pension funds	Life insurance	Investment funds	Debt securities	Listed shares	Total
	(EUR billion)						
Austria	297	61	83	69	30	28	568
Belgium	445	100	213	217	39	70	1,084
Bulgaria	29	8	1	1	0.3	2	40
Croatia	34	15	3	2	0.2	2	55
Cyprus	29	4	2	1	1	1	37
Czech Republic	134	19	11	21	6	3	193
Denmark	152	210	293	81	9	59	804
Finland	111	9	45	39	3	50	257
France	1,649	0	2,084	298	42	304	4,378
Germany	2,652	902	1,040	769	153	374	5,891
Greece	157	2	10	7	3	9	189
Hungary	50	6	6	13	26	3	104
Ireland	151	145	45	4	1	14	360
Italy	1,461	273	808	483	269	75	3,369
Luxembourg	47	4	12	12	4	5	84
Malta	14	0	2	2	3	2	23
Netherlands	445	1,739	160	96	7	39	2,486
Poland	272	42	16	32	3	14	379
Portugal	193	24	47	20	10	6	300
Romania	58	13	2	5	2	3	84
Slovakia	49	12	5	6	3	0.3	75
Slovenia	28	4	3	2	0.2	2	39
Spain	919	175	196	339	23	129	1,779
Sweden	204	460	108	149	16	116	1,054
United Kingdom	2,042	3,733	830	444	30	304	7,383
Europe	**11,620**	**7,960**	**6,026**	**3,112**	**685**	**1,613**	**31,016**

A2: Household Financial Wealth at End 2015

Countries	Deposits	Pension funds	Life insurance	Investment funds	Debt securities	Listed shares	Total
	(EUR billion)						
Austria	252	48	73	54	38	20	485
Belgium	373	86	172	183	68	63	945
Bulgaria	23	5	1	0.3	0.2	1	30
Croatia	29	9	2	1	0.2	2	43
Cyprus	30	3	2	0.2	0.4	1	36
Czech Republic	96	13	10	12	9	2	142
Denmark	129	169	215	65	12	52	642
Finland	90	24	28	27	5	39	214
France	1,369	0	1,665	351	69	241	3,695
Germany	2,153	779	920	563	176	279	4,871
Greece	172	3	6	12	3	5	200
Hungary	38	5	6	13	12	2	75
Ireland	132	116	43	2	1	13	307
Italy	1,287	241	615	426	409	108	3,085
Luxembourg	38	2	9	9	5	4	67
Malta	11	0	2	1	3	2	19
Netherlands	396	1,326	152	86	9	35	2,003
Poland	195	37	18	25	1	10	286
Portugal	173	21	47	15	10	6	272
Romania	41	6	1	5	1	1	56
Slovakia	38	8	4	5	2	0.2	56
Slovenia	21	3	3	2	0.2	1	31
Spain	852	165	160	267	34	123	1,600
Sweden	180	365	111	113	17	98	883
United Kingdom	1,995	3,693	826	346	32	324	7,216
Europe	**10,112**	**7,127**	**5,088**	**2,584**	**919**	**1,431**	**27,260**

A3: Household Financial Wealth at End 2008							
Countries	Deposits	Pension funds	Life insurance	Investment funds	Debt securities	Listed shares	Total
	(EUR billion)						
Austria	211	32	61	34	42	9	388
Belgium	267	53	132	110	88	25	674
Bulgaria	12	1	0.2	0.1	0.03	0.4	14
Croatia (*)	27	7	2	1	0.1	2	38
Cyprus	27	4	2	0.2	1	1	36
Czech Republic	70	7	8	7	1	2	94
Denmark (*)	123	148	185	50	20	33	560
Finland	77	18	15	12	4	18	145
France	1,093	0	1,210	284	80	111	2,777
Germany	1,657	550	694	380	267	128	3,675
Greece	202	1	7	6	27	15	258
Hungary	37	10	5	7	6	1	66
Ireland	120	62	43	0	0.2	5	231
Italy	1,098	205	379	231	802	76	2,791
Luxembourg	26	1	4	5	5	1	42
Malta	8	0	1	1	2	1	12
Netherlands	347	711	155	46	26	18	1,303
Poland	106	35	16	13	2	7	178
Portugal	145	25	43	15	18	8	254
Romania	26	0.2	1	1	0.2	4	32
Slovakia	24	3	3	4	1	0.01	35
Slovenia	17	2	2	1	0.5	2	24
Spain	797	136	101	149	39	82	1,306
Sweden	100	171	86	46	15	38	456
United Kingdom	1,222	1,853	552	178	22	125	3,952
Europe	**7,838**	**4,036**	**3,707**	**1,579**	**1,471**	**713**	**19,343**
(*) Data at end 2012							

A4: Household Cumulated Investment in Financial Assets in 2016-2019							
Countries	Deposits	Pension funds	Life insurance	Investment funds	Debt securities	Listed shares	Total
	(EUR billion)						
Austria	45	5	-4	12	-8	1	50
Belgium	74	3	-0.2	13	-30	-6	53
Bulgaria	7	3	0.3	0.3	0.1	-0.2	10
Croatia	4	3	0.4	1	-0.04	-0.4	9
Cyprus	-1	0.3	-0.004	0.3	1	-0.1	0.3
Czech Republic	32	5	-0.1	5	-2	1	40
Denmark	28	2	24	10	-3	-4	58
Finland	19	-1	5	6	-1	1	28
France	279	0	157	-57	-21	-5	354
Germany	499	124	119	140	-21	57	919
Greece	-15	1	2	-5	1	0.4	-16
Hungary	14	1	0.4	-1	15	0.1	29
Ireland	20	8	2	1	-0.1	-1	29
Italy	174	28	108	59	-150	-44	175
Luxembourg	11	0.4	2	4	-1	0.4	18
Malta	3	0	-0.2	0.3	-0.3	0.1	3
Netherlands	49	89	-8	-7	-2	-6	115
Poland	75	9	-2	5	2	0.4	89
Portugal	21	-1	-1	4	-0.05	0.1	23
Romania	17	7	0.4	-0.1	2	1	27
Slovakia	11	3	0.3	1	1	0.1	17
Slovenia	6	1	0.05	0.3	0.004	-0.1	7
Spain	67	1	16	58	-11	5	136
Sweden	48	76	0.2	7	-6	0.3	126
United Kingdom	305	195	103	-116	8	-19	477
Europe	**1,793**	**563**	**525**	**141**	**-227**	**-18**	**2,777**

Source: ECB and EFAMA

EFAMA

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