

Promoting Longer-Term Investment by Retail Investors

Non-pension financial savings product case study

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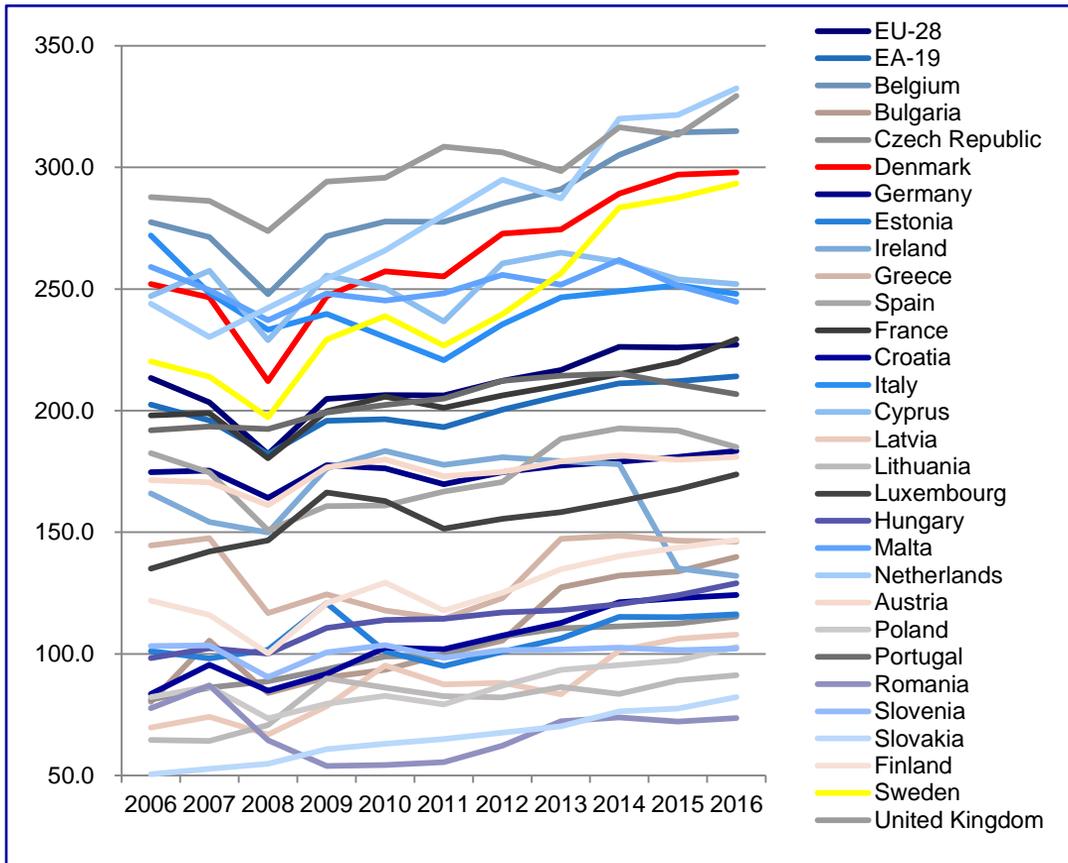
CEPS-ECMI Task force

ASSET ALLOCATION IN EUROPE: What challenges and opportunities lie ahead?

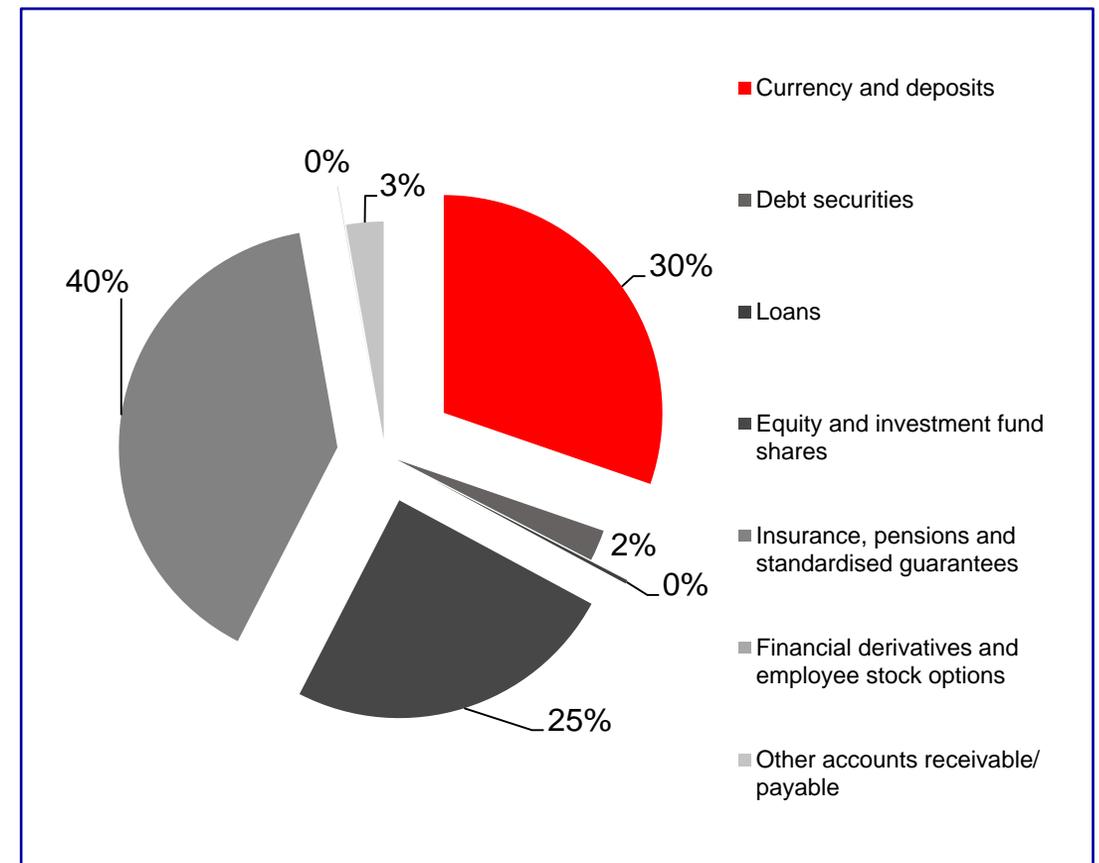


EU: Do we have a problem with household financial assets?

Total financial assets of households in the EU-28 were equivalent to 227.1 % of GDP in 2016. Total financial assets have increased annually by 2.6% during 2006-16



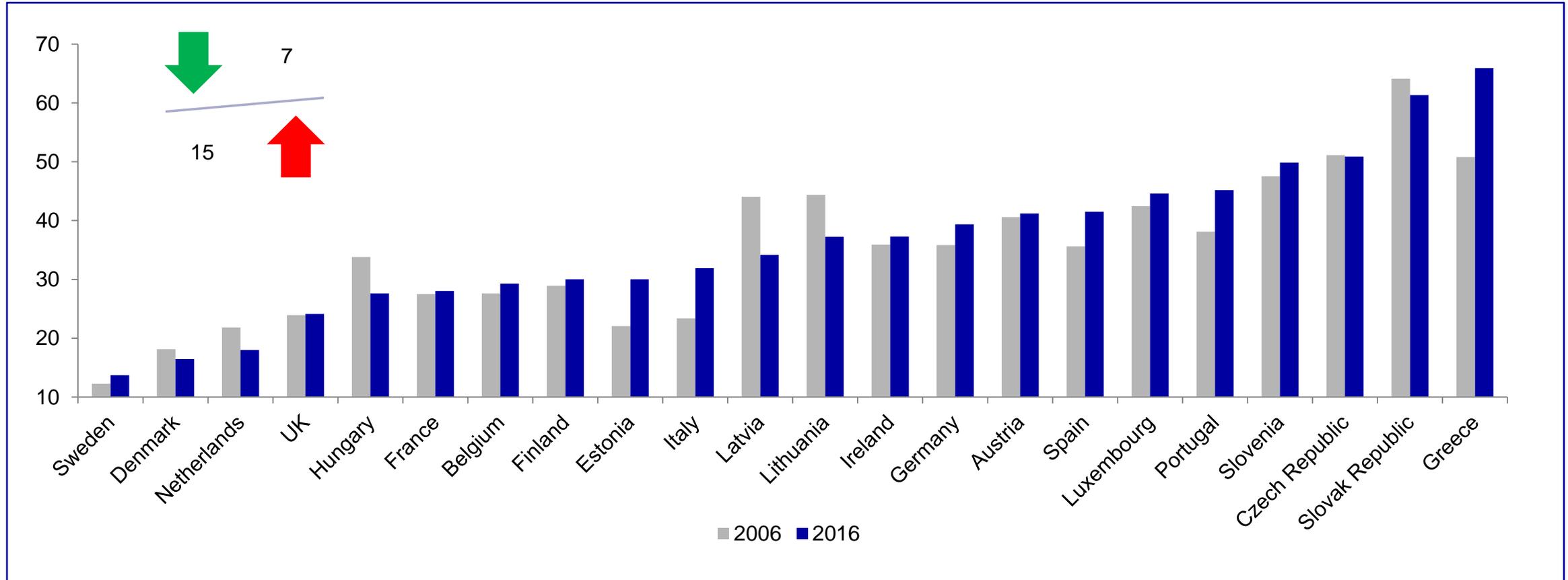
Total financial assets of households for the EU-28, breakdown in % for 2016, by financial instrument: Deposits constitute 30% of asset allocation in households



Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Households - statistics on financial assets and liabilities](http://ec.europa.eu/eurostat/statistics-explained/index.php/Households_-_statistics_on_financial_assets_and_liabilities)

EU: Are we heading in the right direction?

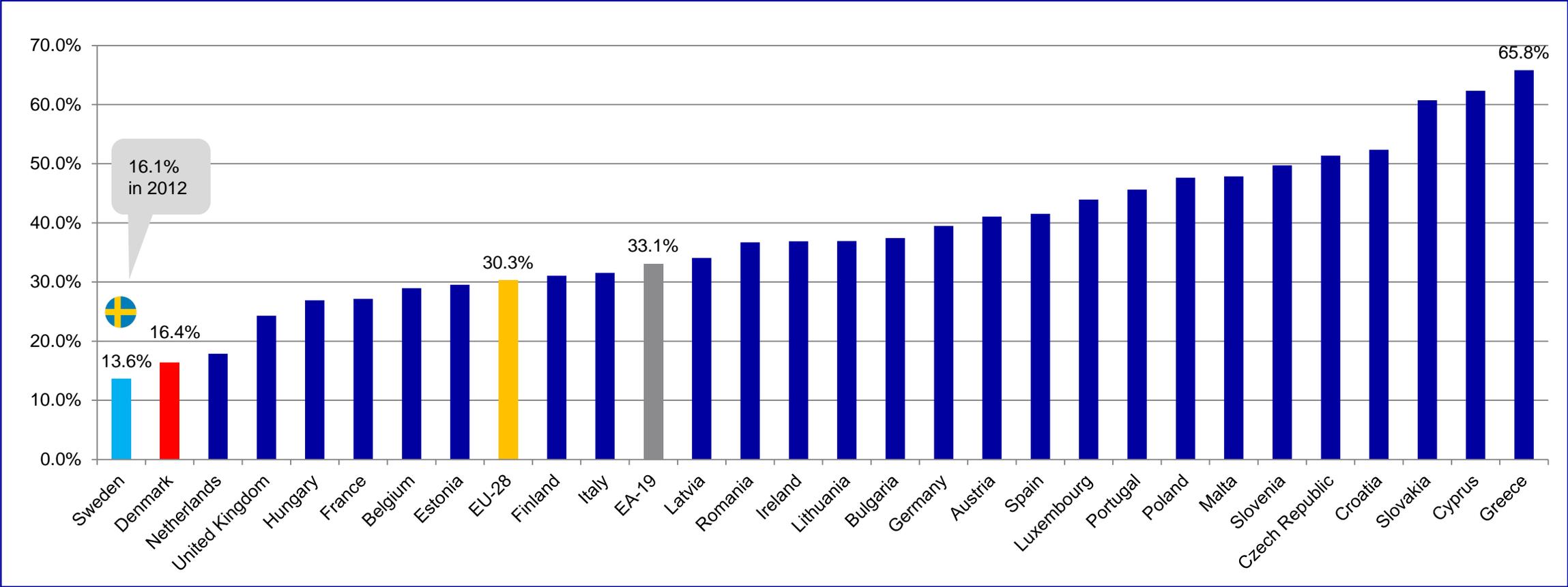
Currency and deposits, % of total financial assets, 2006 versus 2016 for 22 of the EU-28 countries



Source: <https://data.oecd.org/hha/household-financial-assets.htm#indicator-chart>

EU: We have a challenge with activating household savings placed in deposits

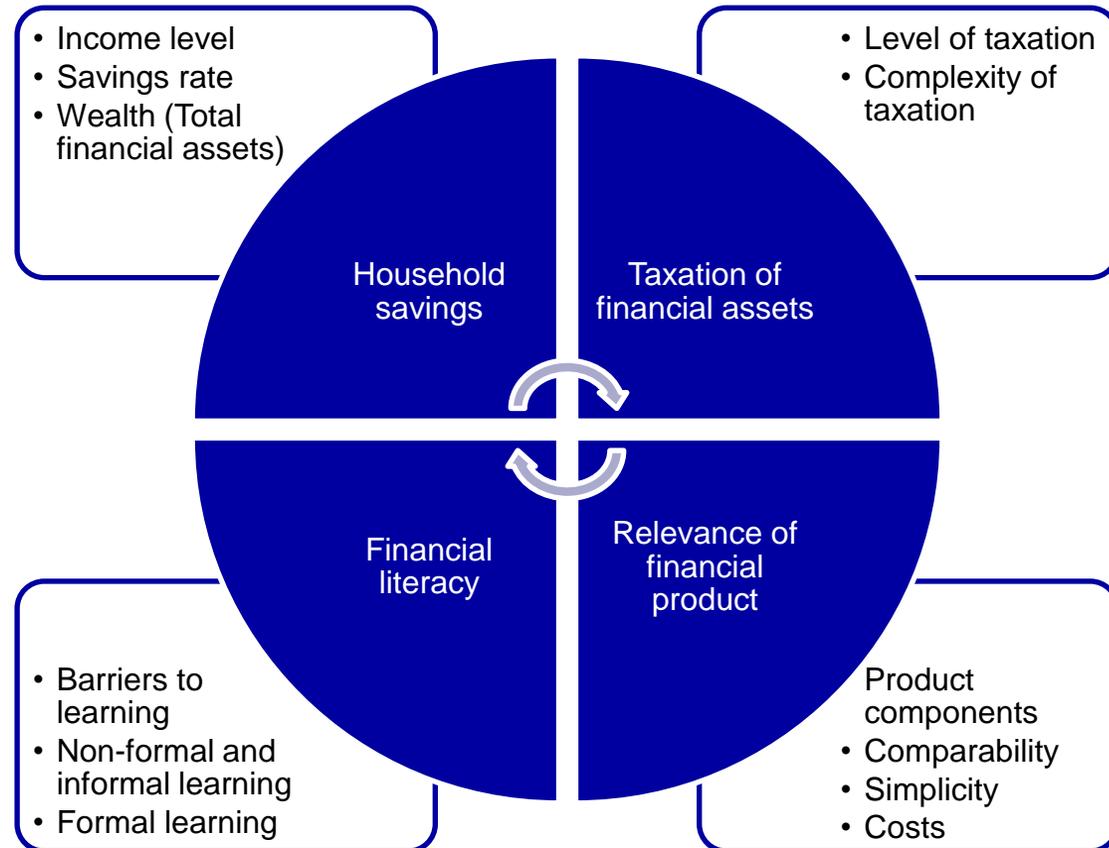
Currency and deposits as % of total financial assets of households for the EU-28, breakdown for 2016: The lowest allocation to deposits was 13.6% versus the highest amounted to 65.8%



Source: Own calculations based on Eurostat data

Transforming household savings through financial intermediates into investments

Selection of key success factors for funnelling household savings into investments



Financial innovation and households

- Academic papers have used survey data to illustrate that richer and more educated households are both more likely to participate in risky financial markets, and to participate more aggressively;
- These findings are compatible with the idea that less sophisticated households are uncomfortable with risky investment opportunities and fail to take advantage of them; and
- The findings are consistent with greater risk aversion among poorer households and the existence of fixed costs for stock market investing
-
- Thus it is an important task for EU to actively encourage the development of innovative financial products that make decision making easier for unsophisticated households, and to understand the circumstances under which financial regulation may be a necessary part of consumer protection (e.g. concentration of investments)

Sources: C. Carroll, "Portfolios of the Rich", in L. Guiso, M. Haliassos, and T. Jappelli eds. Household Portfolios, MIT Press (2002) , J. Heaton and D. Lucas, "Portfolio Choice and Asset Prices: The Importance of Entrepreneurial Risk", Journal of Finance 55, pp. 1163-98 (2000) and J. Campbell, "Household, Institutions, and Financial Markets", NBER Number 2 (2007)



Food for thought coming from the top of Europe

- 7 Swedish Nobel prize winners in literature
- 1% of Sweden's waste goes to Rubbish dump
- 189,000 kilo of crayfish caught in 2015
- 56 days of daylight in summer
- 10 million in Sweden
- 2,252,544 IKEA meatball eaten every day
- 1,644 hours is the number of hours an average Swede works a year
- 86% of Swedes live in cities
- 95,700 lakes in Sweden
- 100,000 Swedish moose hunted every year
- 52% of energy comes from renewables
- 480 days of paid parental leave



Sweden
A Scandinavian nation with thousands of coastal islands and inland lakes, along with vast boreal forests and glaciated mountains

Source: <https://sweden.se/p3/>



Non-pension financial savings product called The Investment Savings Account – The ISK



Tax wrapper

Legislation with aim to encourage greater retail investor participation in capital market through savings accounts with tax advantages.

These tax wrapper examples are ISA in UK (1999), ISK in Sweden (2012), ISK in Norway (2017) and ESA in Denmark (2019)



Public finance

ISK introduced with the aims to make savings simpler and more favourable and make it easier for consumers to save in shares and funds.

The special template taxation model compared to conventional taxation calculated to impact the public finances negatively with SEK 2.0bn long-term. The GDP in 2015 – € 447bn



Investments

Investment assets in an ISK are limited to the following securities:

- 1) Financial instruments that are admitted to trading on a regulated market or an equivalent market outside the EEA;
- 2) Financial instruments traded on a trading platform in the EEA; and
- 3) Units in investment funds (fund units)



Taxation

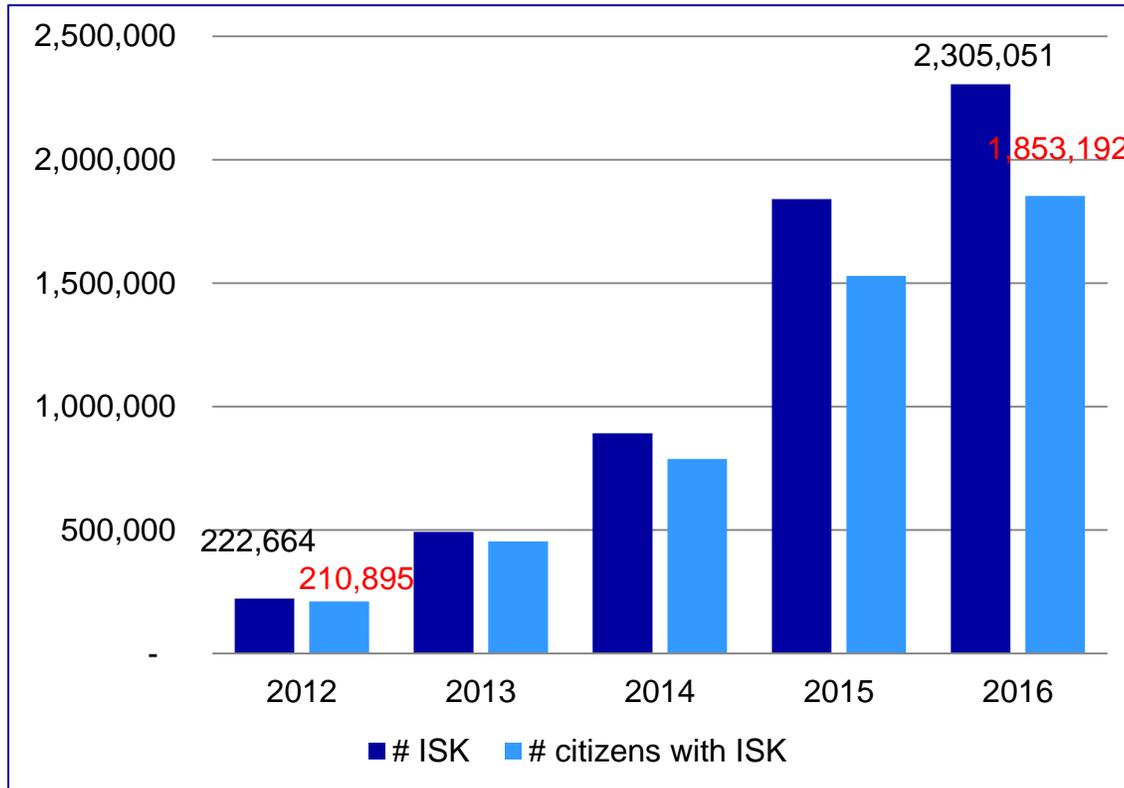
Taxation is simple and low.

Taxation is related to government borrowing rate encouraging risk taking



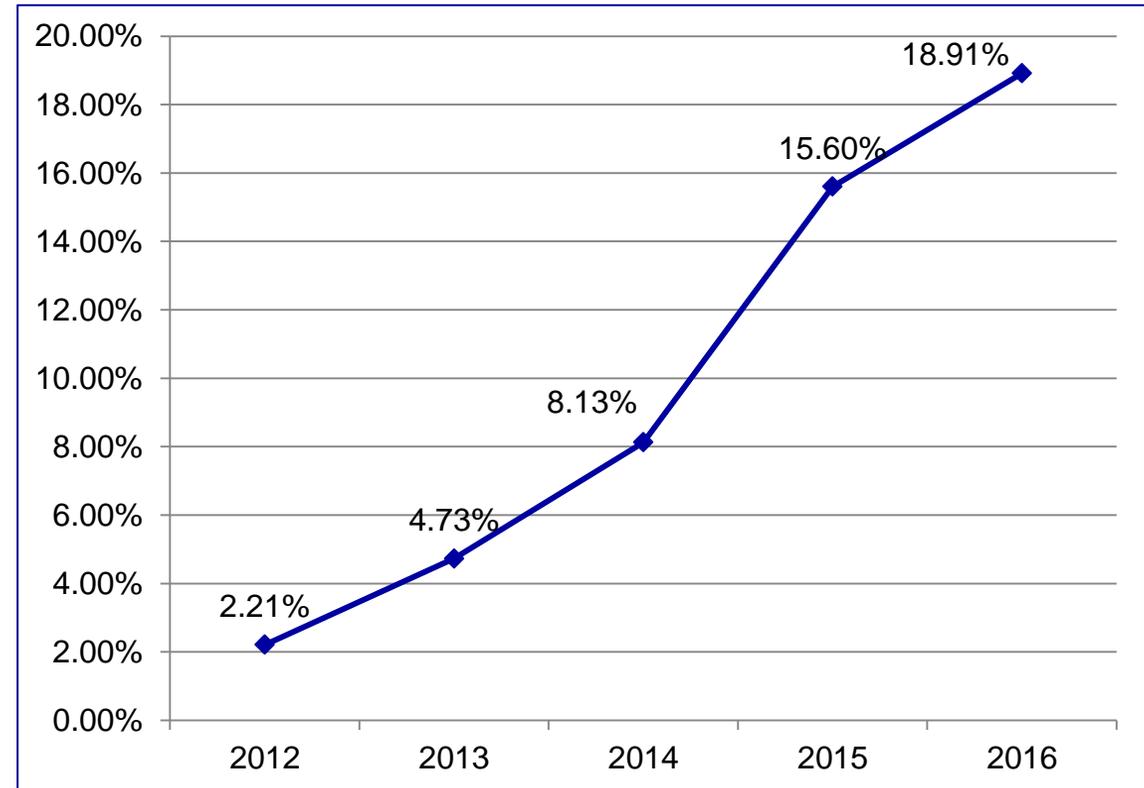
The magnitude of the ISK product concept

Number of ISK: # ISK accounts and # of citizens with ISK account



Source: www.skatteverket.se

ISK market coverage: # of citizens with ISK account relative to Swedish population

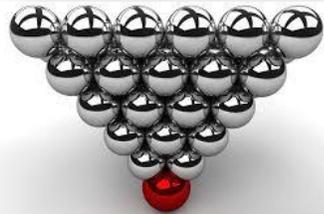


Source: Population data from World Bank; 2015 data used for 2016
http://www.google.dk/publicdata/explore?ds=d5bncppjof8f9_&met_y=sp_pop_totl&idim=country:SWE:NOR:FIN&hl=en&dl=en



Comparability: The transparency of things

Public ISK web-page

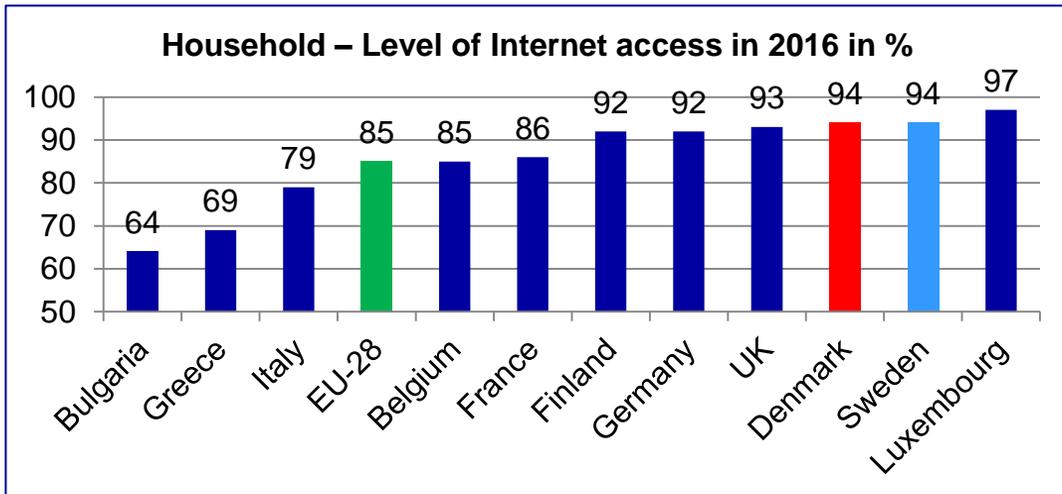


A web-page has been constructed in corporation between public institutions and industry organisations:

- Consumer Agency, Financial Supervision Authority, Bankers Association, Investment Fund Association and Securities Dealers Association

Comparability parameters between all product providers on web-page

- ISK account costs
- Discretionary investment management option
- Investment options for 4 asset categories (funds, equities, structured products and cash)
- # of funds available split into internal and external
- The management fee price range for external funds and associated transaction costs grouped into 5 categories
- The management fee for internal funds and associated transaction costs grouped into 5 categories
- Other costs (custody account, personal service etc.)
- Interest on cash holdings
- Restrictions (e.g. max. # of funds, minimum investment)
- Costs associated with transfer of ISK to another market participant



Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Internet access and use statistics - households and individuals](http://ec.europa.eu/eurostat/statistics-explained/index.php/Internet_access_and_use_statistics_-_households_and_individuals)
<http://www.konsumenternas.se/spara/olika-sparformer/om-investeringsparkonton/jamfor-investeringsparkonto-isk>



The asset allocation in ISK



The Swedish Tax Agency (Skatteverket) does not collect:

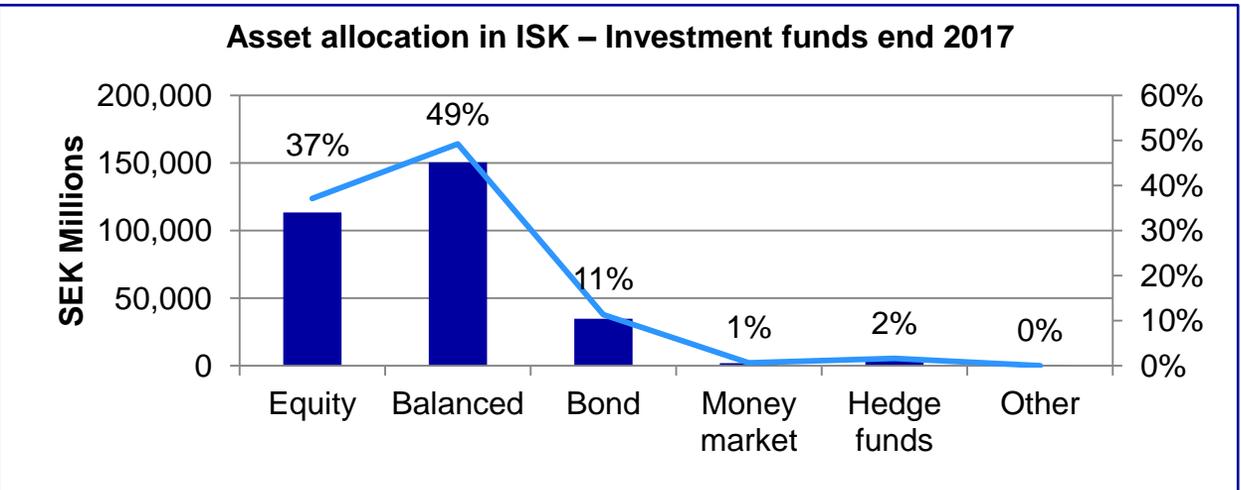
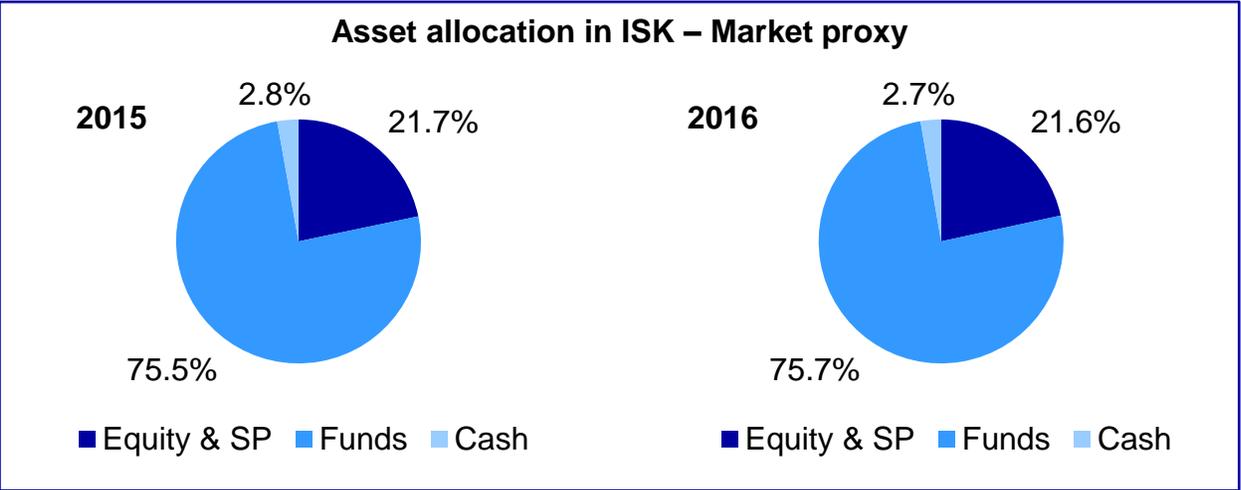
- The total wealth in the ISK; and
- The composition of assets in the ISK
- The asset allocation data is scattered among the financial institutions offering ISK

A market proxy for asset allocation in the ISK market is calculated:

- Data from a top 5 bank in Sweden forms the basis for the market proxy
- The market proxy shows insignificant allocation to cash

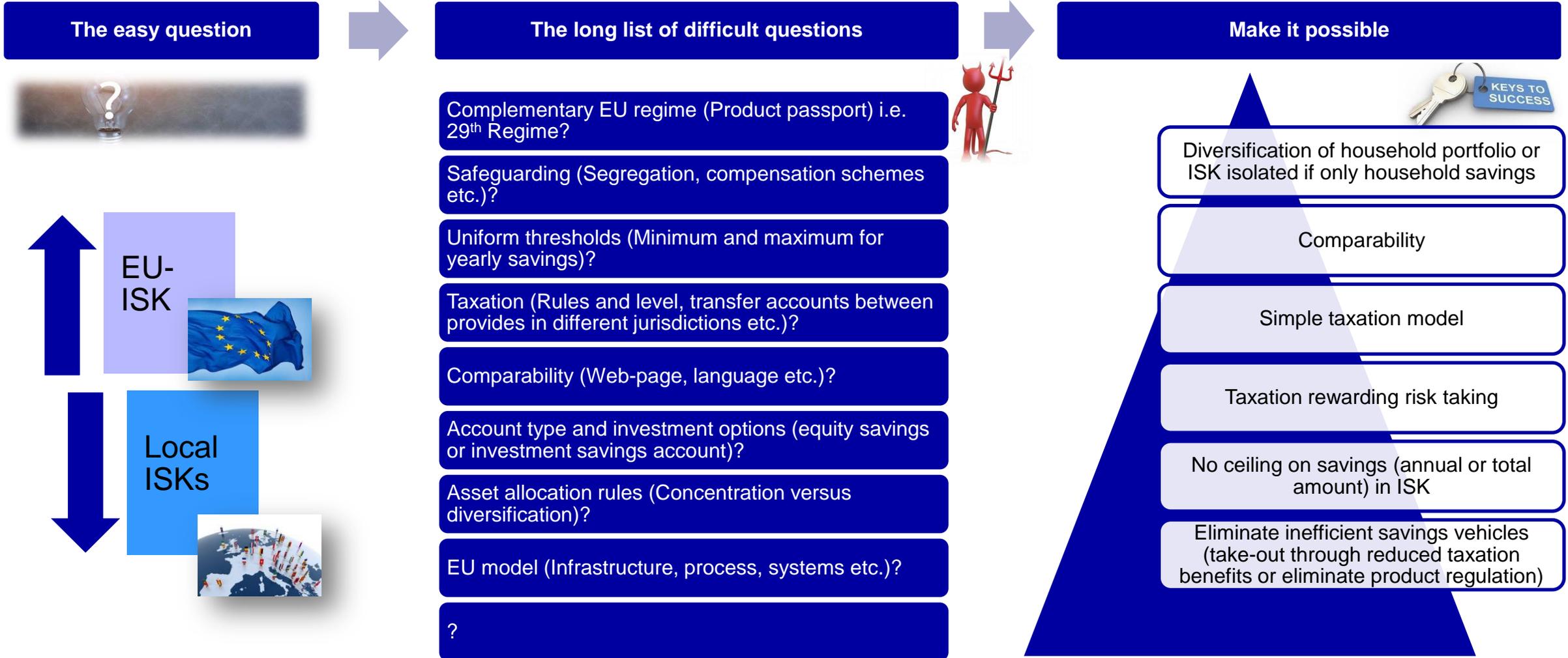


Adjusting the ISK portfolio through the online bank of the ISK provider is market standard



Source: <http://www.fondbolagen.se/Statistik--index/Fondsparande-och-fondformogenhet-efter-kategori/>

To be or not to be a country with ISK!



Source: M. Huertas, "Capital Markets Union and the Need for Greater Retail Investor Participation in Financial Markets", Vol.31 Journal of International Banking Law & Regulation, Issue 9, (2016)

Nordea

Thank you!

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