Saving Trends in the Eurozone Market Assessment

Description: UK Lead IN Financial Assets
As a whole, UK households are more asset-rich than anywhere else in Europe, due mainly to the long tradition of funded occupational pensions. However, UK citizens also borrow more than other Europeans. The Belgians and the Dutch have, per head, 89.9% and 88.5% respectively of the financial assets of the UK. The distribution of financial assets shows a concentration in North-West Europe, and a diminution as one travels southwards and eastwards.

Among the six Euroland countries under review - Belgium, France, Germany, Italy, The Netherlands and Spain - ownership of notes and coins, as a percentage of all financial assets, is highest in Spain and lowest in The Netherlands and Belgium. In France, Italy, Spain and Belgium, over 40% of households' financial assets are in shares and other equities. Transferable deposits, such as cheque accounts and no-notice deposit accounts, are proportionately highest in Italy. The Belgians and Dutch, who are substantial investors in life assurance and equities respectively, hold very few transferable deposits.

Belgians GO FOR Equities
The tax regime prompts Belgians to favour investments in shares over cash savings, and Belgians cast their net wide, far beyond the domestic scene. Private pensions remain of limited importance because of the compulsory occupational schemes, but there are good possibilities for life insurance sales. Belgo-French and Belgo-Dutch companies are replacing purely Belgian ones.

French Demand FOR Low-risk Investments
The French market used to be characterised by state protection, but is now much more open. French savers and investors are pro-active in their search for capital growth and opt for products that minimise tax liability. New investments in shares will become a little harder to attract because of the still-high taxation levels, and the lacklustre returns from shares since 2000. However, individuals have mounting concern about their income when they retire, creating new demand for low-risk investments in life and pensions. Planning for inheritance is also of significant interest to the French, because of the high levels of inheritance tax.

NEW German Pensions Market
Financial organisations see limited opportunities in the home market, apart from the new personal pensions sector. A general election is scheduled for autumn 2002, but, whoever wins, major alterations to savings incentives and regulations are unlikely. Inflows into private-pension plans may not reach the levels the Government wants because state pensions remain generous. Commercial banks will need to convince customers that they are sufficiently protected from the risks of loan defaults if they are to maintain their share of the savings and investment markets. A continuing substantial role for the savings banks and the credit co-operatives seems assured, and insurance companies, notably Allianz, should benefit from contributions to the new pensions.

Italians Press To Keep Generous Welfare
Italians like to hold shares directly, and they continue to have little interest in private pensions. The tax-reducing policies of the Berlusconi Government should, in theory, liberate income for households to save and invest - but, from the perspective of spring 2002, it seems improbable that the economy will grow sufficiently for Berlusconi to implement all his promises. Italians in the labour force, and the millions already in receipt of pensions, have more to gain from a continuation of generous state benefits than they do from a reduction in taxation.

Limited Prospects IN Mature Dutch Market
Large increases in public spending to meet pension and welfare needs are not expected for another decade, so the Dutch have time to plan for their future financial needs. The rate of savings is already so substantial, however, that major growth in savings and investments, especially from high-income households, is unlikely. The international awareness and outlook of leading financial organisations, such as Fortis and ING, mean that it will be difficult for foreign newcomers to make much headway in the domestic market. On the other hand, continued Dutch expansion in other European markets is likely.

Direct Sellers Advance IN Spain
Spain's savers remain attached to the mutual savings banks, but they are also attracted to online saving. The
savings banks, carrying the heavy costs of their large branch networks, will come under increasing pressure from direct sellers that ‘cherry pick’ profitable customers. Savers prefer to be able to access their money at will, and are nervous of long-term commitments for life and pensions. Market prospects are not sufficient to sustain a large number of new entrants.

AGE IS TheBIG Issue
Significant threats to savings across Euroland include the ageing populations, and the prospect of steadily-rising taxation to help support the elderly. Governments across Europe are being forced to admit that they, and their successors, cannot afford to maintain pensions at current levels, let alone increase them, because of their ageing populations. By 2040, when today’s babies will be just 38, over Europe as a whole there will be under two workers to every pensioner, if current trends continue. If EU nations do nothing more to reduce their future pension liabilities, several could find themselves burdened with a debt of more than double their gross domestic product (GDP), a recipe for commercial and political instability. It is in banks’ and insurers’ long-term interests to lobby EU governments continuously, to urge faster moves to funded pensions, to press for pensioners to be given tax incentives to continue working and for early retirement schemes to be abandoned.

Risk-averse Savers
Savers in the coming decade are likely to seek out risk-averse homes for their cash, choosing mutual institutions and commercial organisations that have not over-extended themselves in a rush for growth, and which have a track record of successful performance. Savers will look more carefully at deposit-protection schemes and will avoid placing all their financial assets with a single organisation. Even the most profitable banks will probably seek to increase savers’ and investors’ confidence by increasing the amount of information they provide to the public about non-performing loans. Individuals who are willing to take risks will look increasingly at investing in shares of pharmaceutical, bio-technology, recycling and renewable energy companies, and companies providing products and services appealing to, or necessary for, the elderly. They will be less inclined to invest in overseas companies, preferring to stick with companies of which they have personal knowledge.

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