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OBSERVATOIRE DE L'EPARGNE EUROPÉENNE

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Summary

Editorial

Jacques de Larosière

Since its creation, the OEE has grown quickly, through a broadening of its product range -by creating a website, an online database, publishing this newsletter, organising seminars. It also started an ambitious research program on households' saving and investment behaviour, on savings tax systems, on more specific saving products such as real estate funds, sectorial funds or company saving schemes, on individual shareowners in Europe, etc.

As it appears hereafter, these projects have started bearing their fruits. Trends in European saving behaviour are better identified. An analysis of these trends reveals an increase of capital markets' importance, and points to common developments such as a reduction of bank deposits in households' financial wealth, a growth in life insurance contracts and in holdings of shares. However, some differences across countries remain. They characterise either different stages of the same growth pattern or the result from a country's specific developments.

Through these research projects, the OEE confirms its strategic options: stimulating the production of statistics and the conception of methods to analyse savings in Europe. The importance of the issue at stake should be related to that of savings in Europe's economic growth. I hope that our efforts will attract even wider support for the OEE throughout Europe.

Depuis sa création, l'OEE a rapidement développé son offre, en proposant un site Internet, une base de données en ligne, cette lettre trimestrielle et en organisant des séminaires. Il a aussi lancé un ambitieux programme de recherche, sur les comportements et l'affectation des ménages européens, sur la fiscalité de l'épargne, des produits plus spécifiques tels que les fonds immobiliers et les fonds sectoriels, sur l'épargne salariale, sur les actionnaires individuels européens…

Comme on le verra à travers les synthèses contenues dans cette lettre, ces projets commencent à porter leurs fruits. Les tendances des comportements d'épargne ont été mieux identifiées. L'analyse révèle des convergences, comme l'importance croissante prise par les marchés de capitaux, la réduction de la part des dépôts bancaires dans le patrimoine financier des ménages, la croissance de la détention d'actions ou de contrats d'assurance-vie. Mais des différences subsistent entre les pays, qui sont à des étapes différentes de ces évolutions ou qui présentent des spécificités nationales.

A travers ces recherches, l'OEE confirme ses options stratégiques: il stimule la production de statistiques et la conception de méthodes d'analyse de l'épargne en Europe. L'enjeu est à la mesure de l'influence déterminante de l'épargne sur la croissance économique. J'espère que nos efforts seront relayés par un soutien encore plus large de l'OEE à travers l'Europe.

European saving patterns change considerably[1]

André Babeau[2]

During the summer, most European Union countries published national accounts for 1999. Therefore, it is now possible to have fairly detailed information on changes in households financial assets in 1999, and, for some countries, for the first part of 2000.

The relative importance of financial investment flows still varies greatly throughout the region. Considering the ratio of investment flows to household revenues as an indicator, the range of values reached in 1999 was broad, as new investments accounted for less than 8% of Austrian households' revenue as opposed to 23% in the Netherlands and Germany. France, once again, reported a rate of around 11%. These differences in levels as well as the nature of investments cannot merely be explained by referring to well known variables such as the revenue per capita, or demographic structures.

The nature of investments is very dependent on national specifications

To understand the levels and the nature of investments, it appears necessary to make reference to national specifications –regulations, development of the various financial institutions, psychological attitudes etc.

Globally speaking, 1999 foregoes the trends which appeared in Europe in the second half of the eighties –a reduction in the importance of investments with banks, a large growth in life assurance contracts and a rise in the amount of shares held directly by individuals, due to the recent spate of privatisations. However, this last movement is often followed by selling shares held and a switch to subscriptions to Mutual funds. From 1997 to 1999, two sub-trends appeared within the trends outlined above: in the case of life insurance contracts the recent strong performances of Stock Exchanges, as well as references to the English model led to the sudden appearance, on the continent, of unit linked policies with negative effects on subscriptions to contracts held in francs. Regarding mutual funds, arbitrations were, for the same reason, made in favour of equity funds, while the majority of household investments had been, until then, on bond or monetary funds.

Corresponding well to this description are evolutions noted in countries such as Germany, Austria, Belgium, Italy, and to a lesser extent Portugal. France also follows this schema to a certain extent but has concentrated, certainly until very recently, more on life insurance and building society saving schemes, and less on share investments.

As well as these medium and long term trends, the past few years have seen the preservation of institutional specifications whose duration has been a lot longer than the usual cycle deemed 'long term', but on the other hand, certain short term events have had tangible consequences for periods of less than one year.

A type of institutional specification is the choice of capitalisation for the second 'pillar' pension plans. This choice explains the very high level of financial investment in the Netherlands (existence of a large number of sectional funds). The rise in household assets with regard to these funds

[1] A French version of this article was published in the 31st October issue of Le Monde. It summarises more technical views provided later in this publication, in an article entitled " European households' financial behaviour in 1999 "

[2] Chairman of the OEE's Advisory Committee

represented, in 1999, almost 40% of all financial investment in the Netherlands. This phenomenon also exists in the United Kingdom, where the rise in the assets of workers with regard to pension funds reached 45% of total financial investments in 1999, but with a much more modest total than that of the Netherlands, this is due to a large number of British selling their shares.

Contrary to these institutional specifications, the last few weeks of 1999 saw a large rise in the proportion of financial assets households held in cash in many European countries, due to worries over the consequences of the passage to the year 2000. Another short term reaction, which negatively affected mutual funds, was the massive return by the Spanish, in 1999, to short term bank deposits. This was due to fiscal reform which made them a favourable option, even though, in 1997 and 1998, the country had completely conformed to the scenario described above with regard to the rapid take off of mutual funds. To a lesser extent, a comparable evolution was observed in Portugal -a lessening of interest in share investments to the profit of bank savings. This change in Portugal, however, had nothing to do with tax reforms, it was a result of the less important privatisations in 1999 compared to the preceding years.

High level of diversity in the financial balance sheets

The following observations relate to the amount and structure of the flows of new financial investment during the last few years, and, more specifically, in 1999. Another theme is, of course, the evolution of the financial balance sheets themselves. As the part that stocks and shares play within the balance sheet continues to grow, due to the evolution of the market, the structure of the financial assets can sometimes differ from the structure of the flows. In the United Kingdom and France, for example, the proportion of the household financial balance sheet held in quoted shares continued to grow, due to the very healthy Stock Exchange, even though, in general, individuals were selling their shares.

Regarding the end of 1999, what classification, according to their composition, can one make of financial balance sheets in Europe? Money held in pension funds and life assurance companies (pension savings schemes often have roots in both activities) represented 55% of the Dutch household balance sheet and 52% of the British, but only 10-15% of the Belgian, Italian, Spanish and Austrian balance sheets. Germany and France are situated in the middle, in this regard, with a share of between 30 and 33% (which includes, for Germany, the rights of workers under the reserves of non financial company balance sheets).

From the point of view of quoted shares, large differences are also evident. The leaders are Italy and Spain with a share of the financial balance sheet of between 33 and 35%, this trend being quite recent. In second place, are the United Kingdom and Belgium with 20 and 25% respectively. Germany and France come next with a proportion of 10-12% - for Germany, it is also a recent progression, because, until the privatisation of Deutsche Telekom in November 1996, the German saver usually invested in bonds. Austria lags behind - shares play a part of less than 4% of the household financial balance sheet, the legacy of a history of constraint.

With regard to the direct holding of public loans and bonds, the differences from one country to the next, while not as pronounced, still remain very noticeable. Their share of the household balance sheet, is, in fact, about 19% in Belgium and 16% in Italy (where it fell from a great height due to legendary Government debt), but only 2% in France and the United Kingdom.

With respect to mutual funds, which have had considerable success over the last few years, it is Italy which has remained in the lead (20% of the financial assets of households) with an impressive collect on “fondi comuni”. France, Belgium and Spain come next with shares of about 13 – 16%, Germany is at 11%, Austria at 9% and, finally, the United Kingdom with only 5%. However, attitudes have changed in the United Kingdom in very recent times and the British have begun to show slightly more interest in Unit Trusts and other Mutual Funds.

Finally, as concerns the treatment of bank savings, things have also changed a lot in this area in the last 3 or 4 years, in the sense that their importance has greatly diminished, but with differences between European countries still being rather large. This type of saving accounted for almost three fifths of the financial assets of the Austrians, at the end of 1999, but only around a third of those of the Germans, the Spanish and the French, and even less (between 20 and 25%) of the Belgian, Dutch and British assets.

The balance sheets often provide a useful summary of the economic history of a country. During the second half of the 20th century, European countries have been trying to bring their economies together. But the household balance sheets seem to be very slow in following this pattern, as can be seen from the diversity between countries, still visible today. The next decade could well be one marked by a much faster convergence, most likely towards long term investments, due to ageing populations within all European countries.

How much do foreign shares weigh in European shareholders' portfolios?

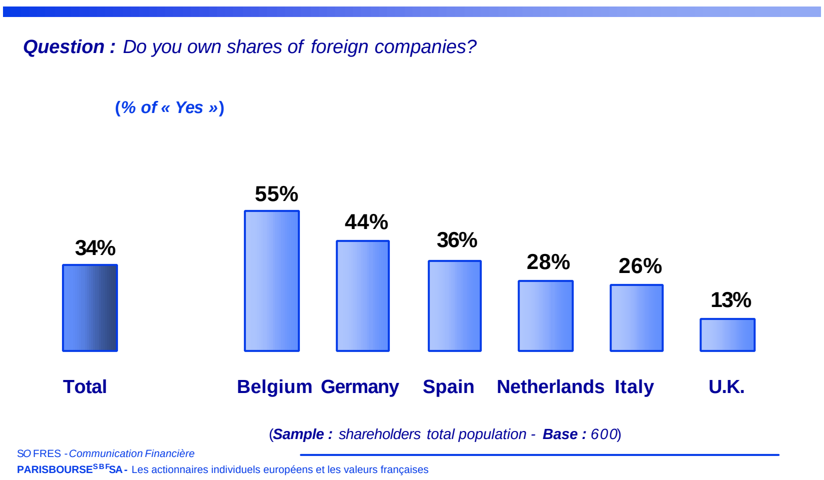
Marianne Huvé Allard[1]

With the arrival of the Euro and the development of online brokerage services on the internet, it is becoming ever easier for a simple individual investor to buy and sell shares of companies of other European countries. In order to measure European countries' individual shareholders' interest for investments in shares beyond national borders and in particular in French listed companies, ParisBourse^{SBF}SA[2] mandated a research to SOFRES Financial Communication. Conducted in June 2000 by the means of a survey of 600 individual European shareholders (100 per country) in Germany, Belgium, the U.K., Spain, Italy and the Netherlands, this study aimed both at updating data on holdings of foreign shares by individual European shareholders and at estimating French shares' potential of attractiveness for this public.
Furthermore, this study could be considered as a barometer helping French listed companies to adapt their communication towards European individual shareholders.

Among the total population two major sub-categories could be observed : that of actual holders of foreign shares and that of shareholders who do not yet hold foreign shares.

Major conclusions

1. Proportion of European individual shareholders holding foreign shares

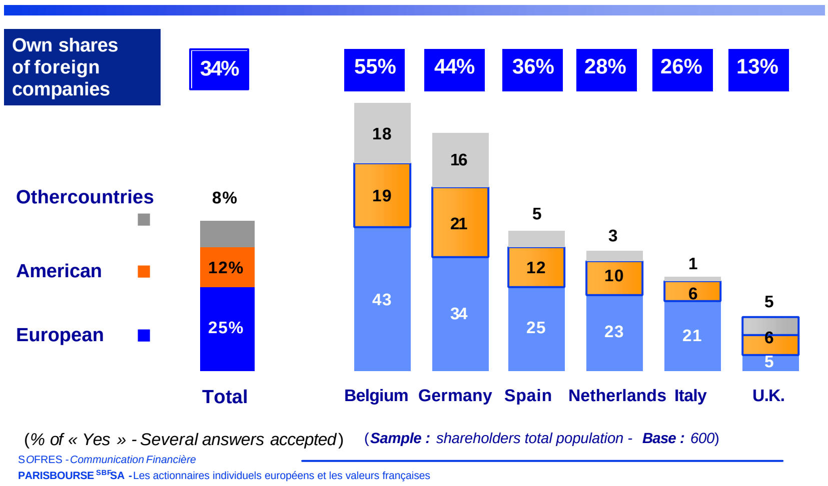


About a third of European individual shareholders hold shares of foreign companies, with a outstanding proportion of more than one out of two Belgian shareholder and of 44% of German ones.

[1] Directeur de la Communication et du Marketing Opérationnel, Euronext Paris.
[2] Now named Euronext Paris and 100% subsidiary of Euronext NV, the company resulting from the merger of the Amsterdam, Brussels and Paris exchanges.
[3] As for some questions the rate of answers per country was low, results have to be interpreted with caution and some percentages are only provided as an approximation.

As far as the United Kingdom is concerned, a strong preference for holding domestic shares can still be observed, as only 13% of surveyed British shareholders declared holding foreign shares in their portfolio.

2. Origin of shares held



Generally speaking, a preference for European shares (25% of answers) versus American or other countries' ones can be observed. Nevertheless, and confirming their higher international exposure, Belgian and German shareholders are proportionally more open to investing outside the European borders (37% of both Belgian and German shareholders' answers).

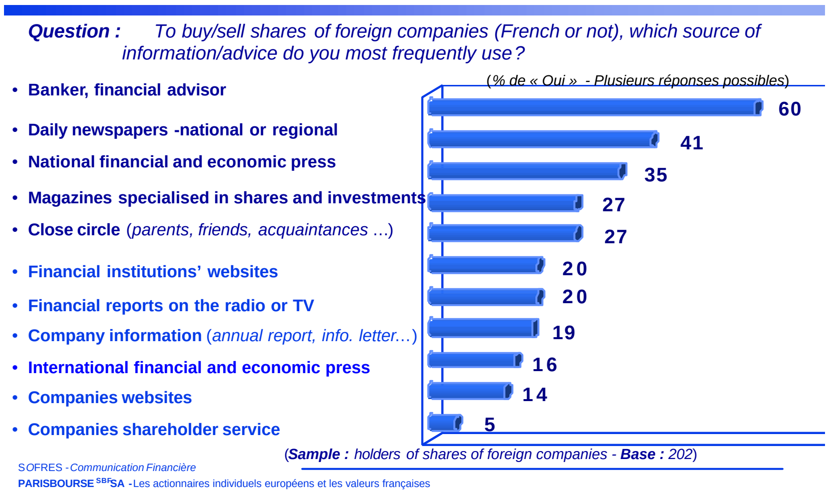
When asked where these foreign shares are bought, an equally high proportion of answers reveals direct interventions on foreign exchanges (49% of the total number of European answers). British (64%), Spanish (61%) and Italian (54%) shareholders are the ones who venture the most frequently outside their domestic market to acquire those foreign shares. The picture provided here does not fit with the results concerning internationalisation as the shareholders considered here are not among the keenest Europeans to invest abroad. A first interpretation for this result would consist in considering that British, Spanish and Italian shareholders are more informed investors than their Belgian or German counterparts. More sophisticated in their approach to share investment's management, they would prefer direct intervention on the market they select the shares from. As far as Spanish and Italian shareholders are concerned, one might also mention that the choice of foreign shares listed on their domestic stock exchanges is limited and that, as a result, in order to invest in foreign shares, leaving the stock exchange of their country of origin cannot be avoided.

3. Favoured information sources

In order to make an investment decision, it is necessary to have at one's disposal reliable and precise information on selected shares and this in one's native language. It was thus interesting to ask European individual shareholders what sources of information and advice they favoured.

The graph on the next page clearly shows that bankers or financial advisors play a major role (60% of answers). It underlines as well that of the press, be it non specialised (41%) or economic (35%).

Strangely enough, the financial institutions' websites come up only in 20% of answers. This should however be put into perspective given the still recent development of the internet in Europe, as far as financial services are concerned.



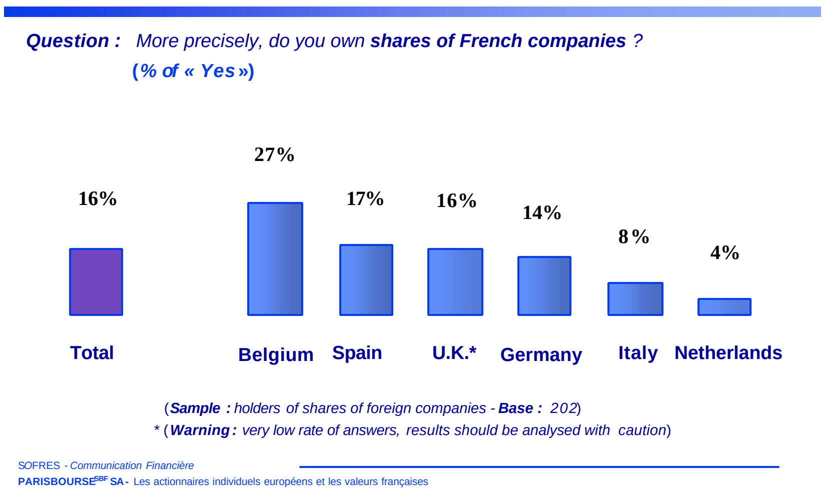
Country by country, answers lead to differentiate :

- In Belgium and the U.K., advice of acquaintances plays a more important role
- In the Netherlands, financial reports on the radio or on TV have a greater influence
- In the U.K., listed companies shareholders services are more important

4. Interest for French shares

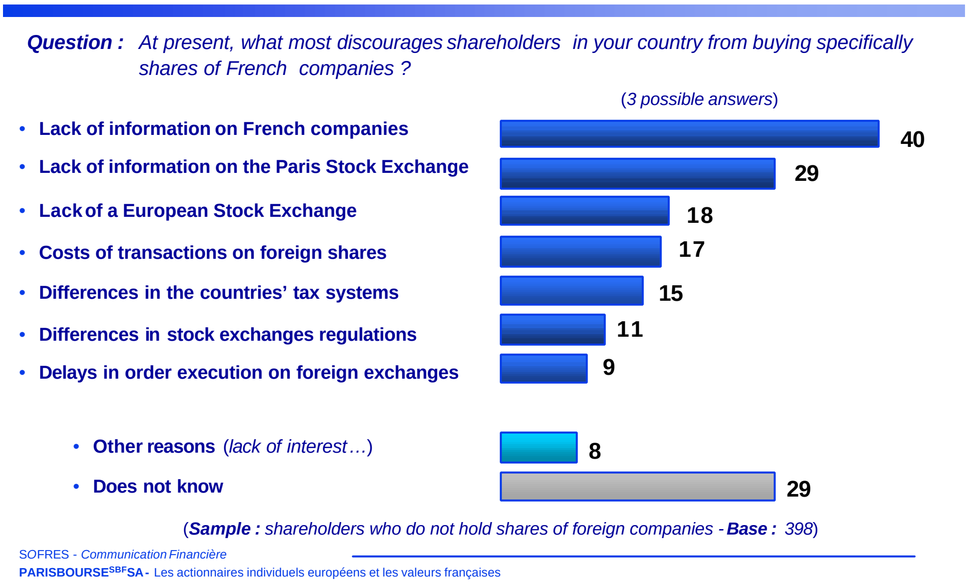
The proportion of French shares European in shareholders' portfolios is still low, as only 16% of surveyed people declared to hold any.
However, a stronger attraction of Belgian shareholders can be observed, of whom 27% hold French shares.

In the ranking of companies that would have priority in European shareholders' choice of foreign shares, American companies come first (43% of positive answers) followed by German companies (31% of positive answers) while French companies come only far beyond, in fifth place, with 8% of positive answers.



5. Obstacles to investment in French shares

What most discourages shareholders who do not hold foreign shares from buying shares, and more specifically shares of French companies ? Access to information on companies according to 40% of surveyed people, access to information on the Paris Stock Exchange and its workings for 29%, the absence of a European Stock Exchange and costs of transactions on foreign shares for respectively 18% and 17%.



As a whole, this study demonstrates the big potential of the population of European individual shareholders for the Paris Stock Exchange and French listed companies –and that considering either the 34% of European shareholders already investing in foreign shares or the 66% of European shareholders who do not hold shares of companies listed outside the borders of their country. It seems that if the Paris Stock Exchange and the companies listed on it pledged jointly in an information program for European individual shareholders to address both the need to know how the stock market operates and the need to get more financial research and information on French listed companies, European individual investors' major obstacles to investing in French shares would be removed. This perspective sounds encouraging at the time of the first steps of the Euronext trading platform, the first pan-European Stock Exchange born in September from the merger of the Amsterdam, Brussels and Paris exchanges.

Where do European households' savings go?

Direct and indirect holdings of financial products in France, Italy, the United Kingdom and the Netherlands

Didier Davydoff [1]

Households' financial wealth may be invested in a few major categories of products and finance :

- public deficits
- companies (« non financial companies »), either by providing own funds (shares) or debt securities (bonds, treasury bills)
- investments abroad
- investments in intermediated products (bank products, UCITs, pension funds, life-insurance)

The research was led by the MODEM (Paris X-Nanterre university) as a two staged approach: it first analysed « households' primary investment structure » -that is the importance of whatever form of intermediation in households' holdings. Secondly, it identified « households' savings final destination » by taking into account the fact that UCITs, pension funds and life insurance are in fact themselves invested in the other product categories. This second stage thus makes market intermediation products « transparent ». However, as the banks' asset allocation does not directly relate to their customers' deposits, the method was not applied to bank products, on credit institutions' liabilities side.

The following analysis deals with households' financial wealth in France, Italy, the Netherlands and the United Kingdom. Information relates to the year 1998, with exception of the Netherlands where most recent data were for 1997 at the time the research's intermediary report was produced.

1 The importance of intermediation :

In the four countries, intermediated investments are preponderant among households' financial assets in comparison to « direct » holdings of financial products : more than 80% in the United Kingdom, in France and in the Netherlands and close to 60% in Italy (see Table 1). However intermediation differs widely from one country to another.

In the Netherlands and in the United Kingdom, one may speak of a market intermediation model. More than 55% of households' financial investments are made through insurance companies and pension funds. Investments by banking credit institutions represent only slightly more than 20% of the total whereas one can note the very limited role of non monetary intermediation (mainly UCITs) which collects less than 5% of investments.

In France, these traditional intermediation canals -banks- play a major role as bank products represent about 40% of households' financial investments. In spite of the limited role of pension funds, the share of the block « insurance and pension funds » is well above 30%. It looks as if the French compensate the absence of pension funds by subscribing to important amounts of life insurance contracts. The market share of UCITs is relatively stable, at about 10%.

[1] This article summarises the preliminary results of an OEE research project on « European savings final destination » by the MODEM research center of the Paris X-Nanterre University.

In Italy, the striking feature is the sharp decline of bank products whose market share fell by a half in 1998 to reach some 19% of total households' financial investments (whereas it had reached 37% in 1997). A process of banking disintermediation -as opposed to global disintermediation- can also be observed as, over the same period of time, the market share of non monetary UCITs' doubled to 26%. These observations need however to be confirmed by the final statistics for 1998 that should be made available soon. Finally, the pension funds' market share, and even more that of insurance companies', remains stable at 14%.

This initial allocation of households' financial wealth underlines the importance of intermediation, implying, in particular in France, the Netherlands and the United Kingdom, that the proportion of direct holdings of non intermediated financial products remains relatively low.

2 Savings final destination :

In addition to making « transparent » the specific role of non monetary financial intermediaries (UCITs), insurance companies and pension funds, one may now analyse « households' final investment structure ». The latter includes the four investment categories considered above when analysing « households' primary investment structure » (financing of public debt, private debt, holdings of shares, financial investments abroad) and adds a fifth category consisting exclusively of financial products sold by the banks (Table 3). The comparison of the « primary » and « final » investment structures reveals both a number of similarities and of differences in the structure of households' financial investments in the four countries considered.

2.1 Financing of the public debt :

The financing of the public debt represents less than 5% of the French, Dutch and British households' financial investments (Table 2) and reaches some 10 to 15% of savings when securities held through UCITs, life insurance or pension funds are included (Table 3). In these three countries, public debt securities are most frequently held indirectly.

The Italian case is atypical. Indeed, households' direct holdings of public financial assets represent more than 20% of their financial investments. This big share of public debt securities in households' investments appears as a structural characteristic of their financial portfolios and reflects the special effort made by Italian monetary authorities -in animating government bond markets- to attract households' savings as to finance public deficits. Hence the « final investment structure » reveals a proportion of more than 35% of households' financial wealth financing public debt. Subsequently this investment category appears as the first final investment category among Italian households' savings in 1998. This development characterises both a reallocation of Italian households' direct holdings of public debt in favour of indirect holdings and a massive acquisition of shares through UCITs. Actually, Italian UCITs' portfolio structure reveals itself a proportion of more than 50% of public debt securities.

2.2 Financing of the private debt :

In the four countries under scrutiny, private debt securities represent less than 5% of households' financial wealth. Including securities held indirectly through UCITs, life insurance and pension funds, the share of private debt among households' financial investments reaches however 10% in France and 16% in the Netherlands. It remains modest in the United Kingdom (6%) and in Italy (4%).

Interestingly, in Italy private debt securities represent the smallest investment category in households financial wealth. These securities indeed traditionally account for a small share of the Italian securities market as public debt securities attract most invested funds.
This structural weakness of households' holdings of private debt securities is confirmed by final allocation figures. This seems logical given that private agents and particularly the thick web of innovating Italian SMEs is traditionally and overwhelmingly financed by bank credits. From this point of view the offer of private debt securities is, even more than in France, restricted by strict and costly issuing conditions on both monetary and fixed income markets. This leads companies, except the biggest ones, to make use of them only rarely.

In the case of the United Kingdom, final holdings of private debt securities remain low, as insurance companies and pension funds have little inclination to invest in these types of securities, holdings of shares being by far the most important.

2.3 Holdings of non financial companies' listed shares :

Non listed shares have been withdrawn from the field of this analysis as valuation methods used by statisticians are too heterogeneous (see " *Valuation methods of non-listed equities in Europe* " by André Babeau, in the issue n° 2 of the OEE's Letter).

Households' direct holdings of non financial companies' listed shares are low in France (4,5% of their financial wealth in 1998) and in the Netherlands (6%). They are higher in the United Kingdom where they reach to 8%. These figures are however subject to important changes due to variations in market prices. The proportion of shares in households' financial wealth in 1999 and 2000 will indeed certainly show an increase, when data is made available.

Including indirect holdings through UCITS, insurance companies or pension funds, the proportion of listed shares in households' financial investments remains practically unchanged in Italy, as the narrowness of the domestic market incites mutual funds to invest in foreign shares.

Conversely, taking into account indirect holdings multiplies by two the proportion of listed shares in households financial wealth in France and in the Netherlands, to respectively 10% and 13%, and by four in the United Kingdom where it reaches 30% and represents a major final destination for savings thanks to pension funds (Table 3). As an example, in the United Kingdom, domestic shares represent about 50% of the portfolio of institutional investors' financial assets.

2.4 Financial investments abroad :

Households' direct holdings of foreign financial assets seem relatively limited in all four countries, at some 2% in the United Kingdom, 6% in France, 8% in Italy and in the Netherlands. Taking indirect holdings into account, the degree of international openness of financial portfolios differs widely across countries : it is multiplied by two in France and in Italy (respectively 14% and 21%), by three in the Netherlands (24 % in 1997), and by close to 8 in the United Kingdom (19%).

In France, the households' relatively low share of direct holdings of foreign financial assets is not really compensated by the investment choices of institutional investors. Indeed, foreign securities accounted for 10 % of insurance companies and UCITs financial portfolio in 1998.

In Italy, the internationalisation of households' financial portfolios is a somewhat recent phenomenon as it started in the early nineties. It was largely motivated by the decrease in Italians' public securities yields and by an insufficient articulation between the domestic market's investment instruments. Finally, the transition from direct holdings of financial assets to savings managed increasingly by non monetary intermediaries reinforced this trend : Italian mutual funds (UCITs) invest, for example, a third of their portfolio in international markets.

In the United Kingdom, the extremely high degree of openness (26% of foreign securities in households' portfolios in 1997) is very atypical, but results only from indirect holdings of securities, which can -at least in part- be explained by the London City's internationalisation.

2.5 Financial investments by the banks

Except in the United Kingdom, financial investments by the banks represent the major proportion of final investment in households financial portfolio. Reaching 49% in France, 24% in Italy, 32% in the Netherlands and 31% in the United Kingdom, the 40% for Italy in 1997 should however lead to interpret the figures with some caution.

This characteristic underlines the major role played in France and in Italy by traditional intermediation and particularly the traditionally high level of bank deposits. In the United Kingdom and to as lesser degree in the Netherlands, banking intermediation stands in direct competition with institutional investors who, as evidenced in Table 1, account for the highest proportion of final investments.

Conclusion

The analysis of households' « final investment structure » thus shows a number of contrasts and similitudes : Market intermediation implies a decrease in the share of bank products in households wealth. But this trend is less important in France and in Italy than in the Netherlands and in the United Kingdom, as UCITs held by households are themselves holding important amounts of debt securities issued by the banks.

In France, market intermediation redirects households' investments towards the various types of non bank assets, but above all towards public debt securities, particularly through life insurance. The market of OATs is thus practically restricted to institutional investors. The recent reallocation of new life insurance investment towards unit linked contracts invested in shares has not yet fundamentally changed the structure of outstanding amounts.

In Italy, intermediation does practically nothing to reallocate savings towards listed shares. It plays even, as in the Netherlands, an opposite role, as it « counterbalances » somewhat direct holdings of shares. Reallocation towards foreign investments results largely from the narrowness of the national market.

Finally, in the United Kingdom market intermediation, particularly that of pension funds, has stronger reallocation effects in favour of listed shares and of investment abroad than in the other countries. In the United Kingdom –as in the Netherlands- pension funds play a very important role in households' financial wealth. In the United Kingdom, these pension funds tend more to hold listed shares than households (considering the latter's direct holdings), while the opposite can be observed in the Netherlands.

Table 1 : Proportion of intermediated investments in households' financial wealth (outstanding in %, 1998 Netherlands excepted: 1997)

Financial investments by	France	Italy	Netherl.	U.K.
The banks*	39,2	18,8	21,9	23,9
Non bank intermediaries (UCITs…)	10,1	25,5	3,9	1,8
Life insurance companies and Pension funds	31,3	14,5	55,7	59,0
Total of intermediated financial investments	80,7	58,8	81,5	83,8

* Including monetary UCITs except for the United Kingdom.

Table 2 : Households' primary investment structure (outstanding in %, 1998 Netherlands excepted: 1997;)

	France	Italy	Netherl.	U.K.
Financing of the public debt	4,4	21,8	1,3	4,0
Financing of the private debt	4,3	0,2	0,1	2,3
Listed shares of non financial companies	4,5	10,7	6,4	7,6
Financial investments abroad	6,1	8,5	8,2	2,3
Intermediated financial investments	80,7	58,8	81,5	83,8
Total	100	100	100*	100

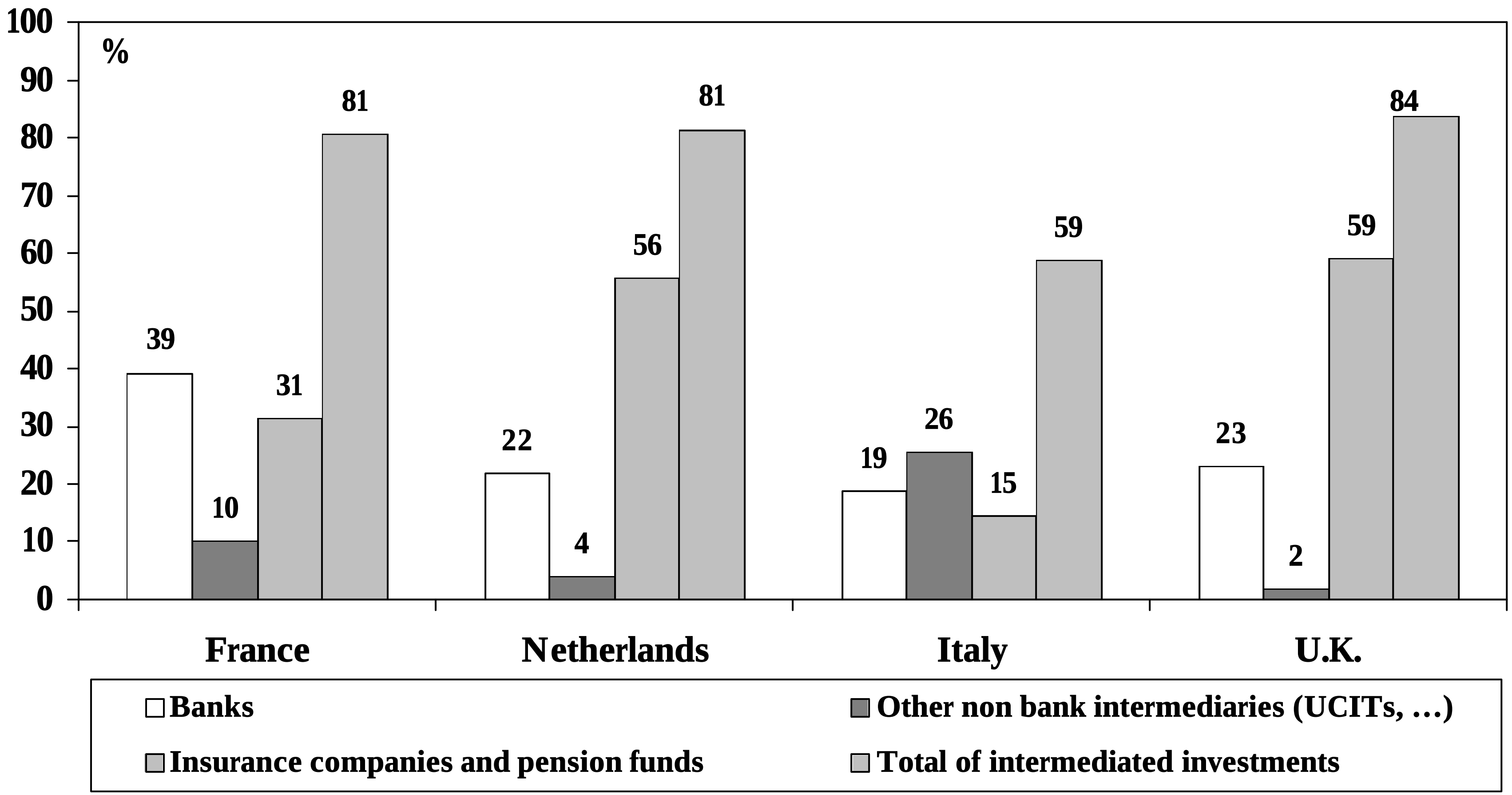
* The total is not strictly equal to 100% as a result of statistical discrepancies.

Table 3 : Households' final investment structure (outstanding in %, 1998 Netherlands excepted: 1997)

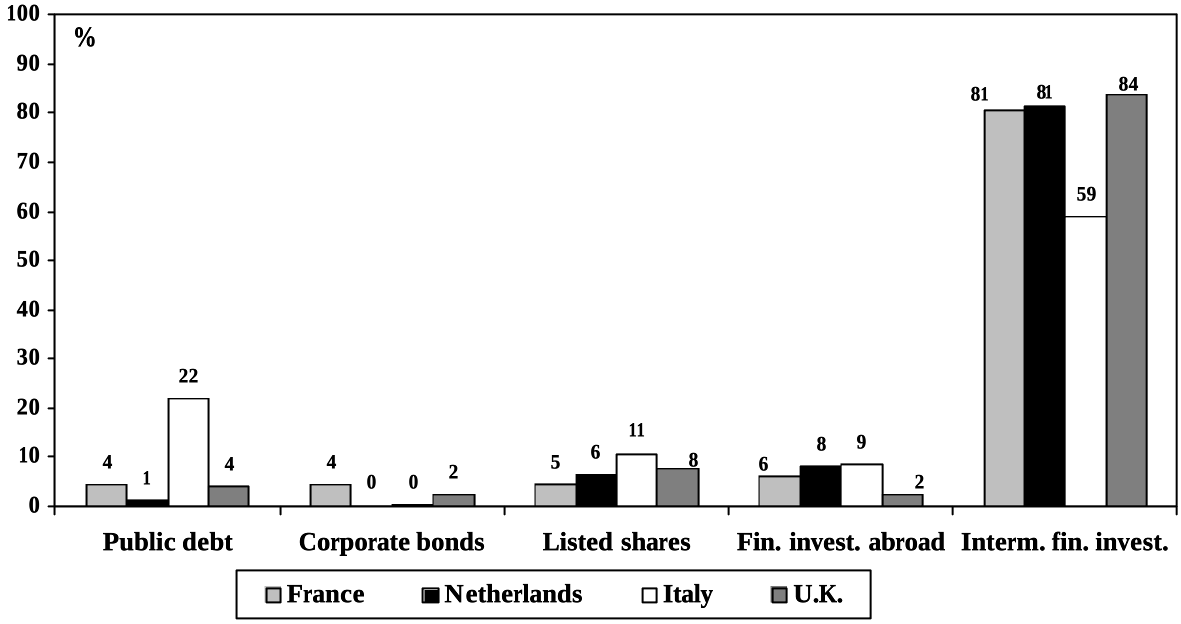
	France	Italy	Netherl.	U.K.
Financing of the public debt	16,0	39,0	10,6	14,2
Financing of the private debt	11,6	4,1	16,0	5,5
Listed shares of non financial companies	9,8	12,0	13,5	29,9
Financial investments abroad	13,9	20,6	24,2	19,1
Financial investment by the banks	48,9	24,2	32,2	31,2
Total	100	100	100*	100

* The total is not strictly equal to 100% as a result of statistical discrepancies.

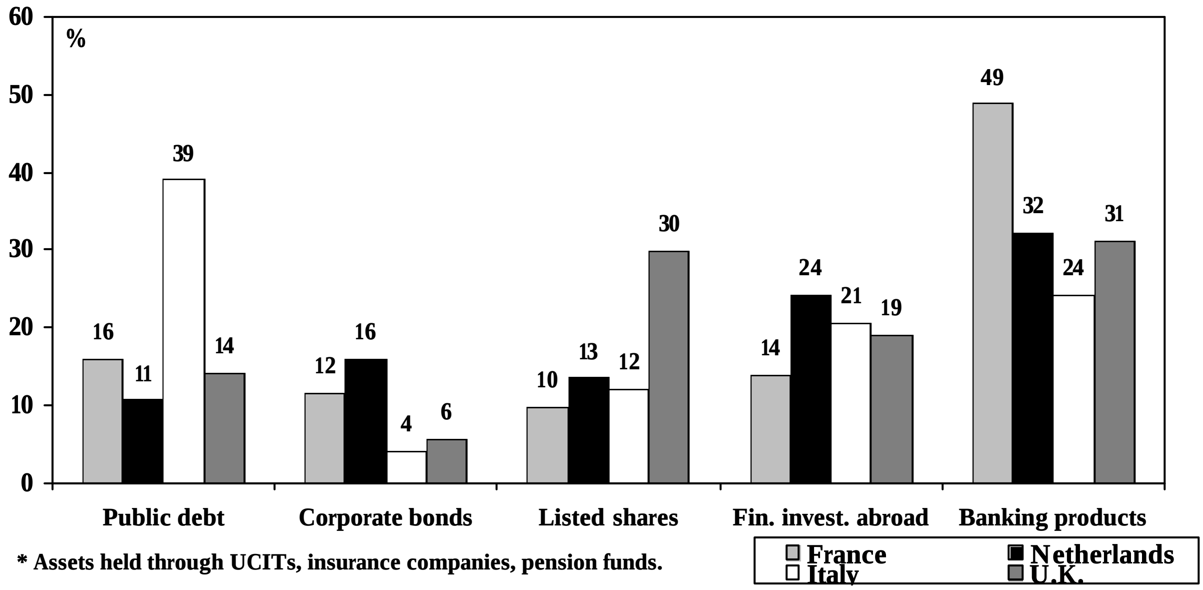
Proportion of Intermediated Investments in Households' Financial Wealth in 1998



European Households' Financial Wealth in 1998 - Direct Holdings



European Households' Financial Wealth in 1998 - Direct and Indirect* Holdings



* Assets held through UCITs, insurance companies, pension funds.

Households' financial behaviour in Europe[1]

André Babeau, Mathilde Lainé, Niamh Mc Cabe

Households' financial behaviour in Europe: diversity results less from the degree of development of countries under scrutiny than from institutional and cultural characteristics.
For all the countries considered, the following financing tables show **households' financial resources as well as the uses made of these ressources**, supposing that their final consumption is completely financed through their disposable income.

This paper covers nine European Union countries for 1999. The base change in 1999 (transition to ESA95) did not facilitate work and -some statistics lacking as a result of delays in financial accounts' publication- estimates had to be made in some cases.

*

* *

1 Financing tables evidence a diversity of situations that cannot be explained by simple relations…

Most striking are in the first place the significant differences among **gross and net accumulation rates** (between 16 and 36% in Table 1) and even more among **net accumulation rates** (between 11 and 32% in Table 2). On the side of **resources**, differences across countries cannot be explained by a simple variable (saving rate, rate of credit) but only with a combination of values taken by several variables. Neither does the real disposable income per head seem to provide a good reference variable.

With gross accumulation rates of more than 25%, three countries (two rich and an emerging one) **lead in rankings :**
- the Netherlands, in which the gross saving rate and the rate of credit are the highest;
- Portugal, in which the gross saving rate is modest, but the rate of credit very high;
- Belgium, finally, that does not make intensive use of credit but shows a high saving rate as well as relatively important « other resources » (transfers and statistical difference).

Last in the rankings, with **gross accumulation rates** of less than 17% of gross disposable income, one finds two countries of also very different levels of development:
- the United Kingdom, that has become a wealthy country again, with a low saving rate and making an extensive use of credit. « Net » savings of British households are only marginally above zero;
- Austria, a still modestly developed country, that happens to be practically in the opposite situation showing a high saving rate, but making very limited use of credit.

On the **resources** side, finding robust rules to explain either the levels or their structure thus appears to be difficult.
As far as **uses** are concerned, it is worthwile noting that in 1999 financial investments were by far the most important (in seven countries out of nine); but the differences still remain important as

[1] This study presents preliminary results of an OEE research project realised by CREP SA and focusing on 5 European countries for the period from 1995 to 1999. Information considered here relates only to 1999 but the field of analysis has been enlarged to 9 countries. The full report on «Les Tableaux de financement des ménages en Europe» (in French) is now available for OEE members.

financial investments represented less than half of gross uses in Austria, but about two thirds of them in the Netherlands or in Belgium. The dispersion of gross capital formation rates, on the other hand, is actually relatively small, as if all the countries needed to invest in similar proportions of households' disposable income. However, the dispersion of the rate of financial investment is somewhat more important, as if, once « capital needs » satisfied, the surplus of resources went to financial investment.

Considering now rates « net » of capital consumption, the differences between the various countries are, logically, increasing as in 1999 some countries (Spain, the United Kingdom) did not do more than maintain the value of their physical assets, while others (Portugal, the Netherlands) seemed still to be building their wealth up.

Table 1 - Households Gross Financing in 1999 (as % of gross disposable income)

	Nether-lands	Portugal	Belgium	Germany	Italy	Spain	France	U.K.	Austria (1998)
Gross Resources									
Gross saving rate	16,5	10,0	16,0	15,3	12,7	10,2	15,7	5,0	13,5
Rate of credit	19,7	17,4	4,3	5,7	3,3	10,4	3,8	9,3	1,6
Transfers and statistical discrepancies	-0,1	2,8	7,5	1,0	5,7	-0,3	-0,1	2,5	0,9
Total gross resources	35,8	30,2	27,8	22,0	21,7	20,3	19,4	16,8	16,0
Gross Uses									
Gross capital formation rate	12,8	11,7	10,0	11,4	8,8	8,0	8,8	6,3	8,5
Fin. investment rate	23,0	18,5	17,8	10,6	12,9	12,3	10,6	10,5	7,5
Total gross uses	35,8	30,2	27,8	22,0	21,7	20,3	19,4	16,8	16,0

2 …but the level of development and its pace, institutional characteristics as well as behaviour differences, account pretty well for observed differences

To take into account this diversity, one cannot avoid referring simultaneously to **cultural differences**, and to **institutional characteristics**.

The use of credit seems indeed positively linked to the **level of development** (in the Netherlands, the United Kingdom), but also to its **pace** (Spain, Portugal). In Belgium, however, and though things may be about to change, one reaches the limits to this type of interpretation. Among institutional specificities, very long term mortgages (30 years and over) –which actually finance consumption!- add up to the level of debt as well as the tax deductibility of interests of mortgage payments. This explains, at least partly, the situation in the Netherlands.

Let us note that, given the importance of the credit rate in the Netherlands, the households' ratio of debt to gross disposable income reaches almost 160% at the end of 1999! Economists foreseeing a collapse of the American economy because households' debt reaches more than 100% of their disposable income do not seem to be really aware of the situation in Europe (where Denmark is probably even ahead of the Netherlands in that respect).
Conversely, consumer credit plays only a minor role in a country like Italy where debt remains related to lower social classes.

For their part, **pension systems** do not provide with an alternative or simple explanation for differences among accumulation rates: the United Kingdom, with its pension funds, has the lowest saving rate of the countries covered by this study. Furthermore, funded pensions may be at a different stage of their «life cycle » in the various countries considered here. Thus, if British pension funds seem to add comparatively little to households' savings and financial investment flows, this probably arises from the fact that, numerous pension funds have actually reached maturity and must now pay out benefits that are not much lower than the contributions they receive. Conversely, Dutch sectorial pension funds seem still to be in their « youth »: the surplus of contributions received on benefits paid out represents, in 1999, about half of the level of households' gross savings and more than a third of their financial investment. When these funds come to maturity, one may thus anticipate a significant drop in Dutch households' saving rate.

The **transfers and statistical discrepancies** were not mentioned in the foregoing lines: when they happen to be important, they are always positive. It is however difficult to believe that in countries like Portugal, Italy and, above all, Belgium, capital transfers of this importance can be made. This item might subsequently reveal an underestimation of the other types of resources (saving, credit).

An underestimation of the use of credit does not seem very likely: in Italy, usurious financing (for unknown outstanding amounts), is still an important financing source in the mezzogiorno, but it occurs inside the households sector and should thus -in theory- not add to this sector's resources.

Table 2 - Households Net Financing in 1999 (as % of net disposable income)

	Netherlands	Portugal	Belgium	Germany	Italy	Spain	France	U.K.	Austria (1998)
Net Resources									
Net saving rate	11,5	4,8	11,5	9,7	7,2	5,0	10,8	0,9	8,3
Rate of credit	20,6	18,4	4,5	5,8	3,5	11,0	4,0	9,7	1,7
Transfers and statistical discrepancy	-0,1	3,0	8,0	1,1	6,0	-0,3	-0,1	2,6	1,0
Total net resources	32,0	26,2	24,0	16,6	16,7	15,7	14,7	13,2	11,0
Net Uses									
Net capital formation rate	7,7	6,6	5,3	5,5	3,0	2,7	3,6	2,3	3,1
Fin. investment rate	24,3	19,6	18,7	11,1	13,7	13,0	11,1	10,9	7,9
Total net uses	32,0	26,2	24,0	16,6	16,7	15,7	14,7	13,2	11,0

The underestimation of the « savings » category is hence more likely: obviously, households savings are the surplus of their disposable income over their final consumption; tax information makes them a well known variable, but the disposable income one, on the contrary, may happen to be underestimated. The category «current transfers », notably, includes revenues repatriated from abroad that may lead to underestimations: in the case of Belgium (relations with Luxembourg), but also in that of Portugal (transfers from workers abroad), the question is at least worth asking. But there are certainly other causes of underestimation (black economy in Italy?).

*
* *

The use of financing tables for explaining households behaviour has at least the three virtues of:
- providing with a global picture of their financial behaviour;

- facilitating the understanding of interactions that may exist between the different areas investigated here (high levels of housing investment imply often, of course, high rates of mortgage credit; conversely, high credit rates underpin financial investment, etc.);
- underlining the need to investigate national characteristics that may lead to the observed differences.

In addition, this analysis framework helps to understand why macro-economic saving functions -that, in individual countries, relate households' saving rates to their purchasing power's rate of growth and to inflation- are such poor interpretation tools.

SOME DEFINITIONS

- The **financing tables** used here as analytical instruments relate in their synthetic layout to the national accounts' households accounts of the considered countries.

- **Capital consumption** during a given period of time represents the obsolescence of the physical capital held by households (housing assets, corporate assets of **unincorporated companies**).

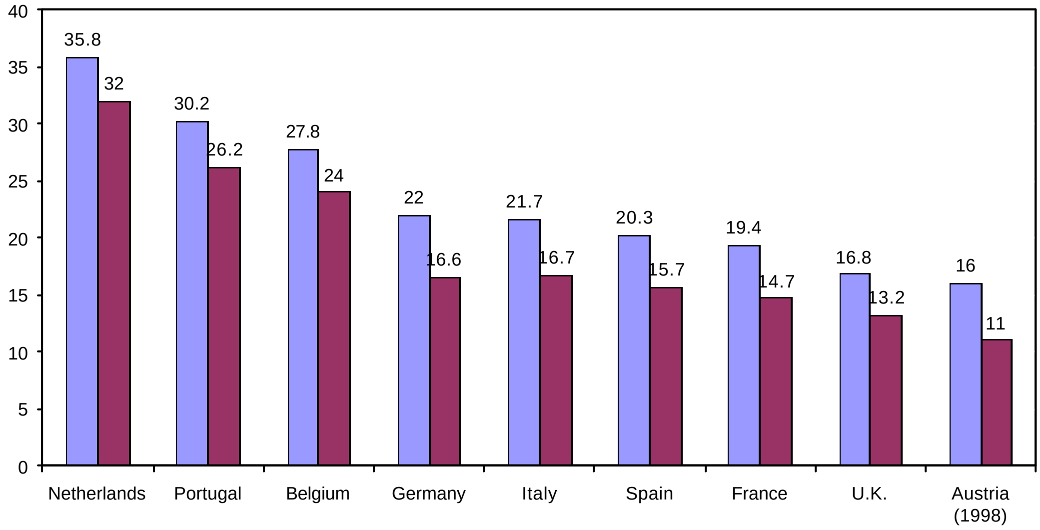
- All variables qualifed here as "gross" or "net", **are, if not otherwise explicitly mentioned, gross or net of capital consumption**.
  The **transfers and statistical discrepancy variable** on the resources side correspond most of the time to additional capital "resources" gained by households (from, for example, another sector), but they can also induce an underestimation of savings or of the use of credit.

- The sum of gross resources (or similarly of gross uses) is a year's accumulation divided by wealth, debt not subtracted and gross of capital consumption. The rate of gross accumulation on gross wealth is the ratio of a year's gross accumulation to gross disposable income.

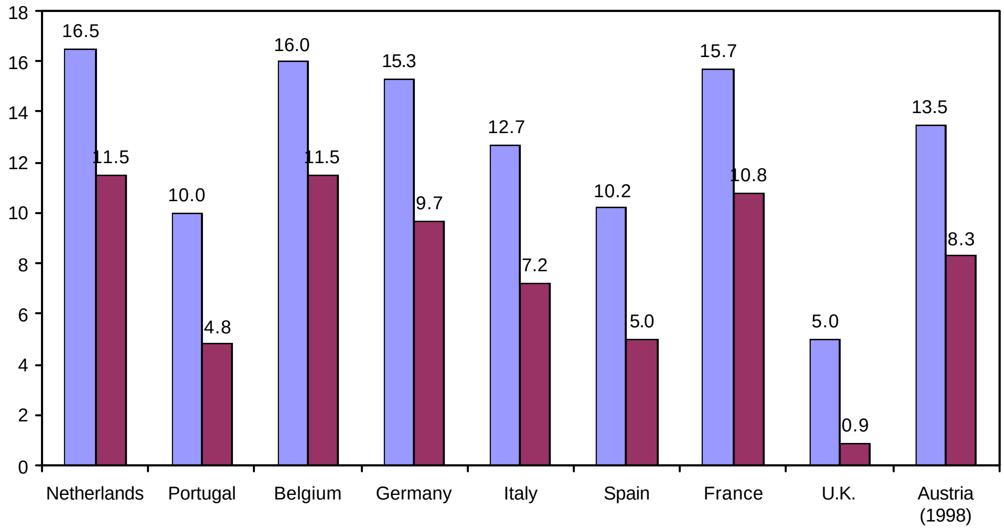
- The sum of net resources (or similarly of net uses) is a year's accumulation divided by wealth, debt not subtracted and net of capital consumption. The rate of net accumulation on net wealth is the ratio of a year's net accumulation to net disposable income.

- The rate of net accumulation on net wealth (debt not subtracted) is simply the ratio of net savings to net disposable income, and is subsequently what we call here the net saving rate.

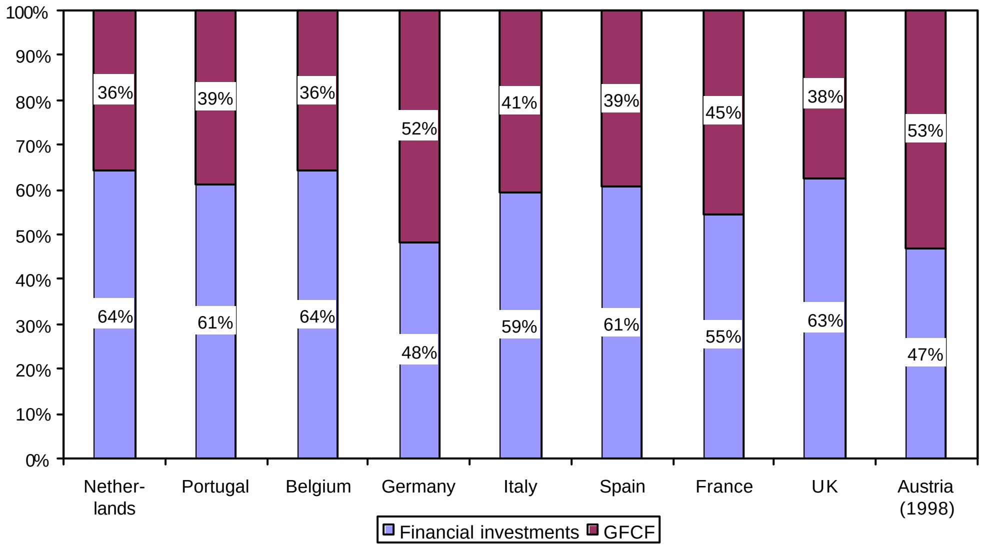
Graph 1 - Gross and net accumulation rates in 1999 : a solidly established hierarchy!



Graph 2 - Differing gross and net saving rates across countries



Graph 3 - The share of financial investments is very variable: from less than a half to two thirds



Real estate investment funds in Europe[1]

Guy Marty[2], Alexandre Lecornet[3]

The aim of this research was to establish a comparative assessment of real estate investment funds in a range of European countries.

A definition of real estate investment funds had first to be established. It was largely inspired from the concept of UCITs –e.g. of saving products held by households with mutualisation of risks, delegation of management and saving protection rules. However, one should not be mistaken: in the same way that UCITs are « gates » towards financial securities, a real estate fund is, for its subscribers –technically, as well as psychologically- a way of taking part in the real estate market.

Thus, standard listed property companies and property unit trusts that we consider as belonging more, in households saving logic, to the stock market than to the real estate market, are excluded from the field of this investigation.

Based on this definition, in each of the six countries considered here (Germany, Belgium, Spain, France, Italy and Switzerland), households have access to mutual real estate investment products.

In three countries, Switzerland, Germany and France, real estate funds were developed more than thirty years ago, before specific legislations for savers' protection even appeared:
- Swiss real estate investment funds or FPI[4] (« LFP » law of 1st January 1966);
- German open real estate unit trusts[5] (« KAGG » law of 14th January 1970);
- French unlisted real estate investment companies or SCPI[6] (law of 31st December 1970).

More recently, in the three other countries -Spain, Italy and Belgium- founding laws led to the creation of the same type of funds:
- Spanish property funds or FII[7] (law of 7th July 1992), are mostly inspired by German funds, but also a bit by French SCPIs;
- Italian closed real property funds or FCII[8] (law of 24 January 1994), are inspired by American REITs (Real Estate Investment Trusts) and French SCPIs;
- Belgian closed-end capital property investment companies or SICAFI[9] (royal decree of 10th April 1995), are very similar to American REITs.

These real estate mutual investment products have had various degrees of success, German open real estate unit trusts standing markedly out of the lot.

[1] This research project was conducted by the Paris based real-estate investment research institute (Institut de l'Epargne Immobilière et Foncière).
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[4] Fonds de Placement Immobilier.
[5] Offene Immobilienfonds.
[6] Sociétés Civiles de Placement Immobilier.
[7] Fondos de Inversion Inmobiliaria.
[8] Fondi Comuni di Investimento Immobiliaria.
[9] Sociétés d'Investissement à Capital Fixe Immobilières.

Capitalisation

Important differences appear between the six European countries considered here:
- first with EUR 49.5 bn on 1st January 2000, German open real estate unit trusts have registered a remarkable growth (of about 62%) since 1995 : they have become by far the biggest in the region while, at the end of 1992, they capitalised less than French SCPIs (EUR 12.1 bn against EUR 13.6 bn);
- French SCPIs, that had a fresh start in 1998 after experiencing five years of trouble, in the wake of the French real estate crisis, reached, on 1st January 2000, a capitalisation of EUR 10.0 bn;
- in five years, the capitalisation of Swiss FPIs progressed somewhat from EUR 5.0 bn on 1st January 1995 to EUR 5.85 bn on 1st January 2000;
- Belgian SICAFIs, created five years ago, had a capitalisation of EUR 2.35 bn at the beginning of 2000;
- Spanish FIIs did not truly start to grow before 1998, and capitalised EUR 0.9 bn on 1st January 2000;
- Italian closed FCIIs, which started to grow even more recently, capitalised EUR 0.6 bn at the beginning of 2000.

Capitalisation *(in million EUR, on December 31st)*

(number of funds)	1999	1998	1997	1996	1995
Germany	**49 509** (15)	**42 304** (14)	**39 735** (14)	**36 347** (13)	**30 534** (13)
Belgium	**2 350** (12)	**1 569** (7)	**752** (2)	**645** (2)	**137** (1)
Spain	**882** (5)	**400** (5)	**132** (4)	**85** (4)	**72** (4)
France	**10 012** (248)	**10 031** (258)	**10 425** (262)	**11 226** (273)	**12 281** (282)
Italy	**571** (3)	**-**	**-**	**-**	**-**
Switzerland	**5 850** (30)	**5 578** (30)	**5 129** (30)	**5 038** (29)	**4 975** (29)

Sources: ***IEIF, Etude OEE*** *(according to statistics from ING, Banif Inmobiliario, Crédit Suisse, IEIF)*

Net capital fund raising

Notwithstanding the German case, differences between most countries are here less important than afore mentioned:
- indeed, German open funds have collected each year much more than the other funds taken together, fund raising reaching a level of EUR 7415 mn in 1999,
- Belgian SICAFIs Net capital fund raising, that grew continuously since 1995, reached EUR 1027 mn in 1999;
- Swiss FPIs did the same with a net fund collection of EUR 758 mn in 1999;
- in their first year -1999- Italian closed FCIIs registered net inflows of EUR 516 mn;
- Spanish FIIs did not raise much compared to Belgian or Italian funds, with EUR 206 mn inflows in 1999;
- finally, French SCPIs saw only very recently a rebound in their net fund collection with EUR 160 mn collected in 1999.

Net capital fund raising *(in million EUR)*

(number of funds)	1999	1998	1997	1996	1995
Germany	**7 415** (15)	**2 415** (14)	**3 163** (14)	**7 067** (13)	**3 495** (13)
Belgium	**1 027** (12)	**602** (7)	**114** (2)	**459** (2)	**137** (1)
Spain	**206** (5)	**482** (5)	**268** (4)	**47** (4)	**13** (4)
France	**160** (248)	**60** (258)	**62** (262)	**70** (273)	**102** (282)
Italy	**516** (3)	**-**	**-**	**-**	**-**
Switzerland	**758** (30)	**292** (30)	**560** (30)	**57** (29)	**24** (29)

Sources: ***IEIF, Etude OEE*** *(according to statistics from ING, Banif Inmobiliario, Crédit Suisse, IEIF)*

Performance

As far as global performances are concerned, trends are diverging:
- characteristic of German and Swiss funds' performances is their high degree of stability, with a constant tendancy to decrease that seems to come along with the general fall in interest rates. Performances reached respectively 3.5% and 5.1% in 1999 in these countries;
- Spanish funds' performances are somewhat more variable, with a sharp increase to 8.2% in 1999;
- Belgian funds' performance, after registering strong growth in 1997 and 1998 (25.1% and 16.5%), recorded a fall by 7.8% in 1999;
- after several years of negative performances, French SCPIs entered a phase of consolidation, a rate of 18.9% being registered in 1999.

Global Performance (in percent)

(number of funds)	1999	1998	1997	1996	1995
Germany	**3.51** (15)	**4.97** (14)	**4.56** (14)	**5.18** (13)	**5.61** (13)
Belgium	**-7.77** (12)	**25.12** (7)	**16.46** (2)	**3.45** (2)	**-** (1)
Spain	**8.15** (5)	**4.90** (5)	**5.56** (4)	**2.65** (4)	**-** (4)
France	**18.90** (248)	**1.80** (258)	**-7.50** (262)	**-7.80** (273)	**-7.80** (282)
Switzerland	**5.12** (30)	**4.05** (30)	**5.22** (30)	**6.51** (29)	**7.28** (29)

Sources: ***IEIF, Etude OEE*** *(according to statistics from ING, Banif Inmobiliario, Crédit Suisse, IEIF)*

Information transparency

Regarding the information provided to savers, if practically all European real estate funds publish half-yearly and annual reports, German open real estate unit trusts and French SCPIs distinguish themselves on two points: a full range of details has to be communicated ahead of subscription, and relatively detailed information has to be provided on the fund's management and on its assets during its whole life.

Information transparency is all the more developed in those two countries as regulatory authorities -BAK in Germany and COB in France- have organised savers protection through information rules specifically adapted to real estate products. However French SCPIs give comparatively more detail on their accounts and on their assets than German open funds.

Belgian SICAFIs -for which obligations and practices applicable to listed companies are relevant- come as a third, as far as transparency of information is concerned.

Assets

Legislations differ widely on several aspects, the most important being the following:

- all funds possess real estate assets; however, Germany admits holdings of undeveloped real estate (like Switzerland but unlike Spain and France), and of buildings in construction; Spain forbids the acquisition of industrial buildings; in Switzerland, tax reasons restrict funds' acquisitions to building assets owned in the form of shares of real estate investment companies;
- German, Belgian, Italian and Swiss funds can all hold shares of listed real estate investment companies;
- German, Spanish and Italian funds are also allowed to hold important liquidities in addition to their real estate assets;
- Spain, France and Italy forbid any property development activity;
- France ruled very precisely on the various types of works susceptible to be made on real estate assets, and Spanish law sets limits to the renovation of buildings;
- as far as buiding selection is concerned, the French legislation imposes very strict conditions to SCPIs, which stand out of proportion with the lack of rules in Belgium or Italy, or with the rules defined by other countries (Spain, Germany and Switzerland).

Mandatory expertise of the assets is common to all funds. All funds are allowed to invest –under more or less stringent conditions- in fixed income securities, except German ones for which it is strictly forbidden.

Organisation of the secondary market

Liquidity is most important for all kinds of investment, but probably even more so for real estate funds as the latter are offered to the public -and cannot as such avoid submission to commonly applicable rules- but are invested in essentially illiquid real estate assets. The mix of real estate securities and stocks and bonds is a fundamental characteristic –and, in a sense, a common issue- for all real estate funds.

Thus solutions differ from one country to another. One may however identify three main types of characteristics:

- Listing on stock exchanges:
  Belgian SICAFIs and Italian closed FCIIs –which, in that respect, follow pretty closely the model of American REITs- have clearly opted for trading on stock exchanges, as they did not develop parallel or complementary alternatives.
  Swiss funds, for their part, have adopted a mixed system: subscription at issuance has to be made with the depositary, but listed funds' secondary trading occurs mainly on the stock exchange -though shares may also be traded with the depositary. As far as non-listed funds are concerned, the depositary, obviously, is in charge of organising the secondary market.
  German and Spanish funds as well as French SCPIs cannot be listed.
- liquid assets counterbalance the weight of real estate assets in portfolios:
  This solution proved to be most efficient in the case of German funds, and was extended to many other funds (with the noticeable exception of French SCPIs): in addition to holding shares of real estate investment companies, holdings of short term investment products -be they authorised or mandatory- indeed enable, by leaving a certain freedom in the composition of portfolios, to reach -from subscribers' point of view- minimum levels of liquidity. This is the way German and Spanish markets are organised by depositaries. Only French SCPIs have access neither to listing nor to cash in their portfolios.
- « Advised sale prices » -or « exit values » according to real estate assets, independently of changes in the market of the shares- are proposed in all countries, except, of course, in Belgium and in Italy, where the shares are listed.
  This mechanism works whenever guaranteeing the return value appears possible: in Germany, important holdings of liquidities in portfolios fulfill this need. Spain followed this model, with slightly inferior rates (a maximum of 30% of cash in portfolios). In Switzerland, holdings of cash on the one hand, listing on the other, fulfil the same needs. Only French SCPIs, that are not listed and are, above all, not allowed to hold liquidities, propose an advised sale price without any counterbalancing mechanism. This explains the difficulties met in the recent crisis and the appearance of over-the-counter markets. This, in turn, should feed debates on upcoming developments.

As a conclusion for this research, it appears that real estate funds -a very dynamic component of the saving market- truly meet an expectation of European households as far as saving is concerned. The most recent formulas (the Belgian, Spanish and Italian ones) are largely inspired by the long experience of American REITs, German open-ended real estate unit trusts and French SCPIs. An improvement of the flow of statistics and of infomation on this type of funds will most certainly contribute to improving existing products, and maybe lead to new experiences in the field of European savings.

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Events and Publications

Agenda

- Nov. 1-3, **European Pension Schemes Summit**, Rome, IMN (http://www.imn.org/)
- Nov. 9-10, **The future of life assurance in Europe**, London, IPE (http://www.ipeonline.com)
- Nov. 11, **The impact of technology on market organisation and regulation**, West Sussex, U.K., FESE (http://www.fese.be/other.htm)
- Nov. 15, « **2050, la durée de vie s'allonge. Quel devenir pour notre avenir?** » Assureurs Prévention Santé (APS), CNIT Paris La Défense, (http://www.ffsa.fr/pdf/aps.pdf)
- Nov. 15-16, **Profiting from the European Unit-Linked Insurance & Pensions Product Market**, London, IIR (http://iir-conferences.com/)
- Nov. 16-17, **First European conference on corporate governance**, Banque Nationale Belge Brussels, The Corporate Governance Forum
- Nov. 20-24, **14th Annual European Finance Convention,** Paris, European Finance Convention, (http://www.bourse-de-paris.fr/fr/news7/fsg730.htm)
- Nov. 21, **Entretiens Annuels de la Commission des Opérations de Bourse,** Palais des Congrès, Paris, COB, (http://www.bourse-de-paris.fr/fr/news7/fsg730.htm)
- Nov. 23, **L'Epargne salariale dans la nouvelle économie**, Paris, Fondact (http://perso.wanadoo.fr/.fondactnet/actuGB.htm)
- Nov. 23-24, **Exchange Traded Funds**, London, IIR (http://iir-conferences.com/)
- Nov. 27-28, **E-Commerce and the Internet in Insurance**, London, IIR (http://iir-conferences.com/)
- Nov. 30, **Cross-border distribution of funds in Europe**, London, IBC (http://www.ibcglobal.com/)
- Dec. 3-6 Superbowl of Indexing, Phoenix, U.S., IMN (http://www.imn.org/)
- Dec. 6, **Global Investment Summit 2000 - Globalisation of Equities: One Market, One Exchange**, Café Royal, London, Dow Jones, (http://www.djconferences.dj.com)
- Dec. 7-8 **Multi Pensions 2000**, Amsterdam, IPE (http://www.ibcglobal.com/)
- Jan. 11-12, 2001, **Coopération fiscale européenne**, Geneva, DII
- Feb. 21 and 22, 2001, **6th Annual Fund Management Conference**, The Wall Street Journal Europe (http://www.djconferences.dj.com),
- Mar. 30, 2001, **Forum retraite 2001: nouveau siècle, nouveaux enjeux**, CDC, Bordeaux
- Apr., 2001, **First Annual Conference on Capital Markets without Borders**, Paris, Edmond Israël and Promethee, (http://www.promethee.asso.fr/news/news.htm)
- Jun. 26-28, 2001, 18th **International Conference in Finance**, Namur, Begium, AFFI, (http://www.fundp.ac.be/eco/affi2001/mainen.html)

News

Release of financial accounts' statistics in Europe

The September 2000 deadline for EU countries' submission of national financial accounts' statistics to Eurostat has been reached. Eurostat is thus currently working at presenting submitted data in the form of cross country tables and release of ESA 95 financial accounts by Eurostat is now scheduled for year end. Let us note, however, that:

- publication of Danish financial accounts is not scheduled before end of January 2001.
- several country contributions remain partial:
  - Finish financial accounts include a short version of households' accounts (taking, on the debt side, only households' credit into account -with a split in three sub-categories: housing debt, consumer credit and students' loans) without a liabilities' side.
  - Greek financial accounts do not include any households' accounts.

Let us recall, in addition, that official saving rate statistics published in German, Finnish and Austrian national accounts are net of capital consumption, while other European countries publish gross saving rates.

Assessing extra-territorial finance: another good reason for improving statistics

An article of the October issue of the Bank of France's monthly Bulletin on « Extra-territorial financial centres: Characteristics and issues of the statistical follow-up »[1] raises the question of assessing extra-territorial financial activities. Though the geographical limits of the research largely exceed European borders, this article appears as another proof of the need to develop in the financial area both appropriate measurement tools (in particular by extending country coverage) and methodologies' harmonisation. In that respect, this paper's survey of statistical tools available to researchers appears -in addition to its high informational value- as a model of methodology.
October's Monthly Bulletin (in French) may be downloaded from http://www.banque-france.fr/fr/telechar/bulletin/bmbdf82.pdf. A Monthly Digest in English will be available shortly at http://www.banque-france.fr/gb/telechar/digest/82digest.pdf.

European saving issues in AFG-ASFFI's October monthly bulletin

The last issue of the monthly bulletin –"Gestion Info"- of the AFG-ASFFI (the French Asset Managers' association) reports on:

- latest changes in the French law ruling company saving schemes. Let us recall that the OEE is currently leading a research project aiming at comparing company saving schemes across Europe.
- an EAMA (European Asset Management Association) project intending to measure the quality of the information delivered by fixed income issuers both on primary and secondary markets.
- a study being conducted by FEFSI (European Federation of Investment Funds and Companies) aiming at measuring and comparing fiscal discrimination in several European countries.

Published in French, "Gestion Info" can be downloaded from AFG-ASFFI's website at http://www.afg-asffi.com/afg/fr/upload/gestion_info/GestionInfo22.pdf.

The OEE held a conference at the New-York Stock Exchange

Didier Davydoff, Director of the OEE, was invited by the New-York Stock Exchange and the Brooklyn Law School to hold a conference on October 13th on « Stock Exchange alliances in Europe and their implications for European savings ». His presentation mentioned in particular conclusions of the MODEM's research for the OEE on the final destination of European

[1] « Les centres financiers extraterritoriaux: caractérisation et enjeux du suivi statistique » Jean-Stéphane Mésonnier. Bulletin de la Banque de France N°82 – Octobre 2000.

households' savings. The presentation slides can be obtained from Chantal Gautron (c.gautron@oee.fr or +33-(0)1 43 12 58 00).

Paris-based think-tank Promethee starts a « Capital Markets without Borders » research :
Chaired by André Villeneuve, Chairman of Instinet and member of the Board of the OEE, Promethee is a Think Tank based in Paris. Part of a broader project on the theme « Capital market without borders », Promethee currently conducts a survey of market practitioners on behalf of the Edmond Israël Foundation. This survey aims at :
- measuring the degree of openness of cross-border activity of the world's major capital markets
- identifying key remaining barriers from a market perspective. Using Promethee concepts, three types of barriers may be identified : imperfections in market infrastructures, regulatory obstacles and differences in market cultures
- providing financial communities with analysis tools

Didier Davydoff, Director of the OEE is a member of this project's Scientific Advisory Board.
For additional information, please contact Albert Bressand, Managing Director of Promethee at +33 – (0)1 47 42 66 99 or consult the website at http://www.promethee.asso.fr.

The European Investment Review (EIR) calls for papers:
Created in 1999 by researchers and practitioners from the investment industry, the EIR is an association which promotes European research on asset management and investment by giving free access to the information it releases, supporting researchers seeking contacts in Europe (it provides them with a communication platform on http://www.theeir.com), and by ensuring dissemination of European research throughout the world. The EIR is financed by renowned financial institutions (Barclays Global Investors, BNP-Paribas Gestions, Indocam, Primark, SG AM, WestAM) and backed by professional associations (AFG ASFFI, EAMA) and a number of renowned academics familiar with research on asset management (see website).
Each EIR quarterly publication deals with specific themes. It focuses currently on Credit and a call for papers was recently released on « Benchmark, Indexation and Performance ».
The next EIR annual conference will take place in October 2001. On this occasion a selection of working papers will be presented and prizes attributed to the year's most innovative authors.
As the EIR makes its first steps, contributions and comments are welcome (contact vincent.prot@theeir.com).

Publications

« Would you like to shrink the Welfare State – The Opinions of European Citizens »
In order to shed some light on the reasons why the European welfare states' fundamental problems remain unaddressed, a team of researchers from both the Mannheim (Axel Börsch-Supan) and Bocconi (Tito Boeri, Guido Tabellini) universities has drafted a questionnaire solliciting the opinions of citizens in France, Germany, Italy and Spain on public pensions, unemployment insurance, and possible reforms in both areas.
A paper prepared for the Economic Policy panel in October 2000 reports and interprets the answers. The main results are as follows:
- First most citizens are ill informed about how the welfare state works;
- Second, a majority of the citizens does not want to change the status quo size of pension and unemployment benefits, even in the light of current taxes and contributions;
- Third, many citizens are willing to change the way in which these benefits are provided. In particular, a majority of the Italian, German and Spanish workers would be willing to opt out of the public pension system to replace it with private pensions.

Copies of the draft report are available at the OEE. For more information, you may either consult Bocconi University's website –which gives a lot of detail (questionnaires, econometric estimates, etc.)- or contact the authors (http://www.rdb.uni-bocconi.it/ or http://www.sfb504.uni-mannheim.de/).

« Brokers and Asset Managers in Germany »
According to a paper by Goldman Sachs Global Equity Research in August, on-line mutual fund growth should translate into rapid earnings growth at the German on-line brokerage companies. The paper divides into three parts, of which one more specifically relates to savings markets, which values the German asset management market in gauging the magnitude of its growth opportunity and comparing the German and US savings markets (« Is Germany the US with a ten-year lag ? »). The resulting forecast is that the value of the investment fund market could increase fourfold over the next ten years offering a compounded annual growth rate of 13%. More specifically, it is estimated that on-line trading is only part of the market opportunity for the German on-line brokers : « A far greater opportunity lies in the on-line distribution of mutual funds ». The two other parts of the publication aim, for the one, at providing with option-based valuation methods of investment companies' new business lines and geographic markets, and, for the other, at translating the aforementioned results into specific investment recommandations.

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