

The European Savings Institute surveys individual shareholders in Europe*

A Europe wide study carried out for the European Savings Institute serves to underline major country-to-country differences and the importance of age, education and total wealth as factors influencing the decision to invest directly in equities.

The study was commissioned by the European Savings Institute to compare the importance of direct and indirect share ownership in Europe. The study, carried out by the most respected specialists in household wealth in the different countries of Europe, shows major differences among countries. The comparisons were made on the basis of surveys made in each of the countries examined.

As the table below shows, 3 times as many individuals hold stocks, directly or indirectly through UCITS or mutual funds, in the UK as in Italy. France and Germany are in an intermediate position, while The Netherlands stands out in Europe for its highly developed shareholder culture, mainly due to indirect holdings. The relative weakness of the shareholder culture among Italian households is explained in part by the strong volatility of the Italian stock market which serves to increase the risk associated with investment in equities. Standard deviation of stock price growth is 35% in Italy, compared to 16% to 19% in France, Germany, the UK and the US.

Stock market participation (in %)			
Country	Direct Stockholding	Indirect Stockholding	Direct and Indirect Stockholding
France	15.0	13.5	23.1
Germany	12.0	10.3	19.8
Italy	7.9	11.1	15.2
Netherlands	14.4	27.5	33.5
UK	27.9	31.8	44.9
US	19.2		48.9

The data, collected by the European Savings Institute, corroborates to a large degree the close relationship between age, total wealth and educational level on the one hand and shareholding on the other. However, here too national differences come into play.

Concerning the link between age and shareholding, it is the 40-49 age group where shareholding (direct and indirect) is at the highest level. This is easily explained by the 3 major phases of the long-term savings cycle: the first period corresponds to the beginning of professional life and often the purchase of a home; the second phase sees an accumulation of savings, particularly with the prospect of retirement; the third phase corresponds to a period in which financial assets previously acquired are fully or partly sold to provide supplementary income during retirement. Germany, however, where holding shares is a recent phenomenon, has a stronger proportion of shareholders among younger age groups (under 30 and 30-39). Similarly, in countries where individual shareholding (direct or indirect) is widespread, such as the United Kingdom, all age groups are affected.

Age profile - Direct & indirect stockholding (in %)						
	< 30	30-39	40-49	50-59	60-69	> 70
France	14.3	23.6	25.1	28.0	23.6	21.3
Germany	18.6	21.8	22.0	21.0	17.1	11.7
Italy	8.0	10.6	16.6	19.0	14.3	8.4
Netherlands	12.1	25.6	33.7	40.1	38.6	35.9
UK	31.0	46.7	53.8	56.5	47.7	29.2
US	34.3	51.8	58.3	61.4	47.1	32.4

The relationship between wealth and shareholding again applies in all countries considered. However, in countries with a stronger shareholding culture, such as The Netherlands and the UK, the proportion of better-off households (third and fourth quartile) holding shares is markedly stronger than elsewhere. Interestingly, in a country with a more recent shareholder culture such as Germany, the proportion of less wealthy households (first quartile) holding stocks is somewhat higher.

* NB: This study of households' direct and indirect holdings of shares in France, Germany, Italy, The Netherlands and the UK has been carried out using harmonised data for 1998.

Wealth profile - Direct & indirect stockholding (in %)

	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile
France	3.5	12.6	23.9	52.5
Germany	6.0	16.3	24.8	41.6
Italy	1.4	2.6	11.7	47.6
Netherlands	4.4	16.9	36.8	75.9
UK	9.1	34.0	58.8	76.6
US	4.4	38.3	66.0	86.7

Disparities among countries are also found concerning the relationship between the level of education and shareholding. In countries with a strong shareholder culture, one quarter of the population with less than a high school education holds shares. In countries where the equity culture is weaker, the figure is 10 percentage points less. Here again, Germany is somewhat outside the pattern, with shareholding better spread among educational levels as a result of the relatively recent privatisation trend.

Education profile - Direct & indirect stockholding (in %)

Country	Less than high school	High school	College
France	18.1	33.4	36
Germany	16.6	21.8	31.3
Italy	8.7	24.1	37.5
The Netherlands	26.6	25	45.6
UK	26	39.6	59

The development of shareholding is directly linked to privatisations and to a lesser degree to tax incentives for long-term investment in stocks. For example, only 8% of UK households held stocks directly at the beginning of the 1980s but the proportion had grown to 20% 10 years later and to 28% in 1998 (32% of households hold stocks indirectly). Other countries followed the same pattern with a slight delay.

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Funds are beefing up their research teams because of worries about the independence of research from sell-side investment banks, according to the 2001 Reuters Survey of European Smaller Companies, carried out by Tempest Consultants. About 86% of fund managers think that the involvement of sell-side analysts in corporate finance work dilutes their value to institutional investors. Fund management groups say that they are unlikely to increase the number of small-company sector broker teams they speak to, and may reduce the amount of time they spend reading broker research. Fund managers would prefer brokers to spend less than 10% of their time on corporate finance work, about 29% on company visits and about 45% on fundamental research. "Some 40% of fund management groups also intend to increase the resources they devote to their own in-house research efforts," the survey says.

The backlash continues against investment banks producing company research perceived as "tainted", and this may force the banks to alter how they do business with smaller European companies, the survey details. Fund managers also want dedicated teams at the investment banks who are committed to smaller continental-European company research.

The traditional one-stop shop model of a close relationship between equity research departments and investment banking services is not suitable for smaller companies, the survey indicates. The way forward could be for securities houses to develop a "twin-pillar" approach whereby investment banking departments develop their own research teams to spot opportunities on the advisory side. This would give existing equity research analysts greater independence. "While the cost of developing a two-pillar approach may be considerable, the risk of fund management groups seeing research as tainted may be more severe," the survey said.