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Overview of Savings in Europe

December 2014

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Content

1. Overview of savings	4
2. Asset prices and savings behaviour	5
2.1. <i>A difficult market environment for savers</i>	5
2.2. <i>The challenge in saving</i>	10
3. Savings products	14
3.1 <i>The singular evolution of sight deposits in France</i>	14
3.2 <i>Paradoxal increase in bank saving's actual remuneration</i>	15
3.3 <i>Italians tend to give up on bank debt securities</i>	19
3.4 <i>Unrealised capital gains on stock portfolios</i>	20
3.5 <i>Investment funds: a changing landscape</i>	23
3.6 <i>Long-term savings: financial performances under question</i>	29
4. Credit	35
4.1 <i>Some recovery of the income credit ratio</i>	35
4.2 <i>The cost of housing loans at its lowest level</i>	36
4.3 <i>A step in consumer credit contraction</i>	39
4.5 <i>Over indebtedness</i>	41
5. Non-financial investment	42

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1. Overview of savings

The market environment in which European savers evolve is a challenging one : the decrease in long-term rates has certainly generated capital gains on portfolio but there are hardly any more assets left with a strong profitability (with a good rate of return). Financial intermediaries and institutional investors also preserved a good remuneration thanks to the assets previously set aside but now have to revise the guaranteed performance promised to investors downwards. This situation puts life insurance, which in France like in Germany remains the main pole of attraction for savings, under pressure. Retirement savings, the past financial performances of which are uneven, are also under the close scrutiny of Public Authorities, especially as regard fees.

Beyond this general characteristic, the average household disposable income differs from one country to another in Europe and gaps between countries remain stable or increase on the housing and stock markets. The decline in savings rate accelerated in Spain and volumes of new financial investments were irregular everywhere except in Germany.

Amounts held in bank savings products showed little change over the last few months. Investors' "perceived" nominal remuneration still decreased but at a pace a bit lower than inflation and therefore slightly improved in real terms. In France, like in Germany, housing savings scheme is the only bank savings product that has increased over a year. In the United Kingdom, only Individual Savings Accounts (ISA), whose remuneration is tax-free, increased and they are now freely invested in deposits or shares with an overall ceiling of £15,000.

The organisation of the production and distribution chain of investment funds is evolving rapidly. As a result of international investors' demand, the domiciliation of an increasing number of funds moved to Luxembourg or Ireland, which is now the second place for fund domiciliation in Europe. The value chain is also probably on the eve of significant change, as a result of the MiFID II implementing measures which could challenge retrocession fees to financial advisors and the private bank sector, mirroring the reforms already implemented in the United Kingdom.

Concerning credit, there is almost no more room for further decrease in borrowing rates and this engine of demand could become exhausted rapidly especially in countries where real estate prices remain above their long-term average. It is a strong potential constraint to housing investment which is already weak. In that respect, the dynamism of the British mortgage market, momentarily slowed down this summer due to the « Market Mortgage Review », contrasts with the rest of Europe.