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Restoring retail financial balance in the post-pandemic era

A natural human response to times of uncertainty is to save resources. And few years have been as uncertain as the one just past. European households reacted to the Covid 19 crisis by increasing their savings rate to more than 17 percent in the third quarter of 2020; the second highest level since records began in 1999, according to Eurostat.

However, savers have been reticent about moving this money from bank accounts into investment accounts. Eurostat data also shows that the investment rate bounced between 8 and 9 percent during the same period. This is a range that has held firm since 2012, and one that is yet to recover from the effects of the 2008 financial crisis, when the rate was above 11 percent.

These numbers tell multiple stories, but one that immediately stands out is about opportunity costs. A euro earning next to zero interest in a bank is one that doesn't contribute to an economic recovery or grow over time in a pension.

This adds up quickly over many households and many years. The European Fund and Asset Management Association estimates that the wealth of European households would be around 1.2 trillion euros higher had they reduced their bank deposits between 2008 and 2019 and invested in stocks and bonds instead.

Policy dilemma

And so, policymakers surveying a post Covid-19 landscape face a difficult challenge. Businesses, and to some extent national treasuries, will be keen for these savings to flow back into the economy via consumption.

But to only focus on short-term consumption as a route to economic recovery would be to miss a great opportunity to revive retail participation in the EU's capital markets, and channel those savings into the type of long-term prosperity that was foregone in the past decade.

We need an investment-led recovery as much - if not more than - a consumer-led recovery.

We therefore welcome the CMU's ambition to stimulate retail participation in markets through programmes such as PEPP, a pensions dashboard and a clean-up of product disclosure standards. We also welcome the upcoming MiFID (and IDD) distribution reviews.

But our post-COVID world requires both a rapid response and one that builds on COVID consumer behaviours in their more positive aspect - a continent-wide shift online. We believe that online financial health and planning tools, built on Open Finance standards and situated within the wider financial inclusion agenda, should be a fundamental cornerstone of policy going forward.

Stimulating financial health

Financial planning tools have a double benefit when it comes to 'retail participation': they both bring long term retail market participants and support strategic investment over event-driven speculation.

This is particularly important in an era where gamified access to speculative market trading is becoming ever easier. The instinct to save can very easily turn into a desire to take increased risk when periods of uncertainty lift.

So, we must do what we can, as soon as we can, to engage potential retail investors, restore public trust in capital markets and stimulate participation. Or risk another lost decade of low investment.