Bridging the participation gap: how empowering EU retail investors is pivotal to decency in retirement

FESE statement to mark European Retirement Week 2022

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Amid a severely challenging socioeconomic environment, marked by high levels of inflation, persistent social inequality and rising old-age poverty, European public budgets and private savings, alike, are coming under substantial pressure. The conjunction of these crises with environmental breakdown serves only to reinforce the precarity of Europe's long-term prosperity.

All this in a moment when European households are keeping €10 trillion of cash[i] in their bank accounts, three times more in relative terms than US households. If Europe is to ensure an adequate retirement income for all, for the years to come, facilitating greater access for citizens to channel more of their savings into simple and cost-efficient pension products will be crucial.

Europe is getting older. Rising life expectancy, and, consequently, a longer retirement, is something all of us welcome. It is a marker of Europe's progress. Nevertheless, demographic ageing, as is faced by most EU countries, is subjecting state budgets to increasing pressure in terms of their capacity to deliver an adequate income at the moment of retirement.

Many European countries have, in response to this phenomenon, felt obliged to raise the state retirement age. Many have also been reforming their public pension systems. Often, however, these reforms have focused on short-term measures, rather than the structural shifts that are necessary.

It is increasingly evident that investments in pillar 2 and 3 – occupational and private or individual pensions – will be needed to maintain dignity and comfort in retirement in the decades to come . And yet, the latest Better Finance figures reveal the frequently poor returns of many long-term and pension savings products across numerous EU Member States.[ii] Less than 10% of the pension vehicles exceeded the average return on investment delivered by capital markets, with, in some cases, savers even experiencing a real-term loss compared to the value of their contributions.

Alongside inflation, the report points to the fees charged to retail customers as one of the main factors behind this trend. Citizens are too often offered expensively-packaged products by intermediaries, as opposed to direct capital market investments, without management fees, that would deliver good returns.

Europe needs to empower retail investors by making investment practices simpler, cheaper, more transparent, and untarnished by conflicts of interest. To achieve this, simple and cost-efficient products must be easily accessible across the EU, and the remaining barriers to access certain products removed.

Our remedies

- Minimise the obstacles to cross-border investment, such as divergent tax and legal requirements, that inhibit the pan-European personal pension product (PEPP).

- Use the forthcoming Retail Investment Strategy to spearhead a major push on financial literacy, improved levels of which have been shown to correlate with higher rates of investor participation.
- Introduce a semi-professional investor category catered to retail investors with a high degree of knowledge, enabling access to products currently out of their reach, while safeguarding investor protection.[iii]

To realise the potential benefits of such changes, the EU needs liquid markets that fund the economy most efficiently, inclusively and fairly for all investors. We need to engender trust in capital markets by crafting a market architecture that bolsters transparency and price formation. And we need a strong commitment to banning inducements in investment practices - such as Payment for Order Flow (PFOF) – which distort the market and hamper competition, producing hidden costs and worse prices for investors.

The MiFIR review[iv], and forthcoming Retail Investment Strategy, are opportunities to improve market outcomes, empower investors, and enhance their participation in capital markets. While the current economic backdrop might encourage caution, FESE urges policymakers to be bold and rise to the moment. The right reforms can deliver a fairer and more inclusive economy for European citizens.

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[i] Eurostat, 2022, Households - statistics on financial assets and liabilities: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Households_-_statistics_on_financial_assets_and_liabilities#Structure_of_assets_and_liabilities

[ii] BETTER FINANCE, 2022, Long-term and Pension Savings: The Real Return 2022 Edition: https://betterfinance.eu/publication/the-real-return-long-term-pension-savings-report-2022-edition/

[iii] For a full breakdown of FESE's retail-focused policy recommendations, see FESE, 2021, Response to the retail investment strategy consultation: https://www.fese.eu/blog/response-to-retail-investment-strategy-consultation/

[iv] For more on FESE's positions vis-à-vis market structure, the consolidated tape and other aspects of the MiFIR review, head here, or see our latest press release: FESE, 2022, Policymakers must shape competitive EU financial markets to power the digital and green transitions: https://www.fese.eu/blog/press-release-policymakers-must-shape-competitive-eu-financial-markets-to-power-the-digital-and-green-transitions/