BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

PRESS RELEASE

Lest more is done to attract EU Households into Capital Markets, the CMU project will fail

Brussels, 12 November 2019 – More than five years ago, the EU laid the foundation for a Capital Markets Union that would at last create the single market for capital foreseen 62 years ago in the Treaty of Rome, develop capital market funding for the real economy and provide better returns for EU citizens as savers.

As the excessive reliance on bank funding for long-term investment in Europe became painfully clear during the crisis and the high cost of capital was correctly identified as one of the main barriers to growth, a consensus emerged that broadening and deepening EU Capital Markets would be key to achieving this elusive European growth.

EU households are the main source of long-term financing for the real economy

Over the recent decades, the European economy degenerated into a financial type of capitalism where the link between owners and issuers of securities (the real economy) has been severed, and where decision-making power finds itself increasingly in the hands of financial intermediaries ("other people's money").

BETTER FINANCE believes that the CMU initiative provides the ideal opportunity to return capital markets to their natural participants. There is an abundance of investable private capital in Europe, with households desperately looking for positive real returns on their long-term and pension savings in an environment of ever lower interest rates, high and opaque fees, complex investment products and financial repression.

European citizens as savers and investors stand to greatly benefit from a well-designed CMU, aimed at strengthening the link between their savings and the real assets into which their funds are deployed, as well as providing better returns. The European Commission itself highlighted that EU households are the main source of long-term financing for the real economy. For the CMU to succeed, European citizens, as individual investors and savers, should be at the heart of the project.

5 years on, how is the CMU faring for EU citizens as savers and investors?

Following up on its 2015 Briefing Paper with its 23 proposals towards creating an effective and citizen-friendly CMU, BETTER FINANCE carried out a targeted assessment of the progress achieved by the European Union (EU) in establishing a Capital Markets Union after four years of implementation.

Key indicators that track the performance of the CMU Action Plan show limited progress, but so far, any real "boost" of retail investments into capital markets has failed to materialise, quite the contrary in fact. There is ample room for improvement, in particular with regard to the distribution and advice on retail financial products, investor protection and redress, SME access to financing on public markets and the improvement of long-term returns for savers. In the meantime, retail finance remains ranked as one of the worst performing consumer markets in the EU.

The European Federation of Investors and Financial Services Users
44, Rue d'Arenberg, 1000 Brussels - Belgium
Tel. (+32) 02 514 37 77 - Fax. (+32) 02 514 36 66
E-mail: info@betterfinance.eu - http://www.betterfinance.eu

KPI 1 - Equity Market Funding vs Bank Funding

Status: Slight progress

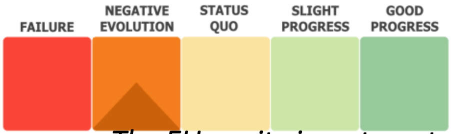
➔ Most sectors in capital markets in the EU have shrunk relative to the size of the economy over the past decade. Nevertheless, non-financial corporation (NFC) debt rose to 75% and the level of bank funding decreased to 181%.

KPI 2 – SME participation in capital markets

Status: Negative evolution

➔ The number of SMEs and start-ups going public has decreased. With many Eastern European markets lagging behind, equity trading in the EU is concentrated in a handful of trading venues in Western Europe.

KPI 3 – Retail investments in capital markets



Status: Negative evolution

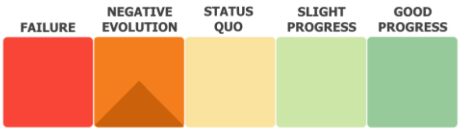
➔ There has been a decline of direct individual ownership of securities. EU households keep most of their savings in complex, opaque and costly banking products or packaged investment products.

KPI 4 – The EU equity investment culture

Status: Unchanged

➔ 10-year data from EU Member States shows a correlation between regulatory incentives and the number of employee shareowners. However, their number has been in decline since 2011 and EU authorities are yet to act in this area.

KPI 5 –Savings returns for retail investors



Status: Negative evolution

➔ Despite a 10-year bull market for European equities and bonds, most long-term and pension savings products did not, on average, return anything close to those of capital markets, due to the fact that most EU citizens invest less, and less directly, in capital market products, but are instead pushed into more "packaged" and fee-laden products.

Guillaume Prache, the Managing Director of BETTER FINANCE said that *"we're at a crossroads where we must choose between leaving fragmented and under-developed capital markets in the sole hands of financial intermediaries or seize this unique opportunity to develop EU capital markets by making them work for the people. BETTER FINANCE is encouraged by the recent "Next-CMU" Report, sponsored by several Member States, which now also calls for the new phase of the CMU to give "**priority to responses to citizens' needs**", by giving "**access to fair advice**", encouraging **employee share ownership** and incentivizing "savings in **simple and transparent long-term financial instruments like single shares and ETFs**".*

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Contact: Chief Communications Officer | Arnaud Houdmont | +32 (0)2 514 37 77 | houdmont@betterfinance.eu