



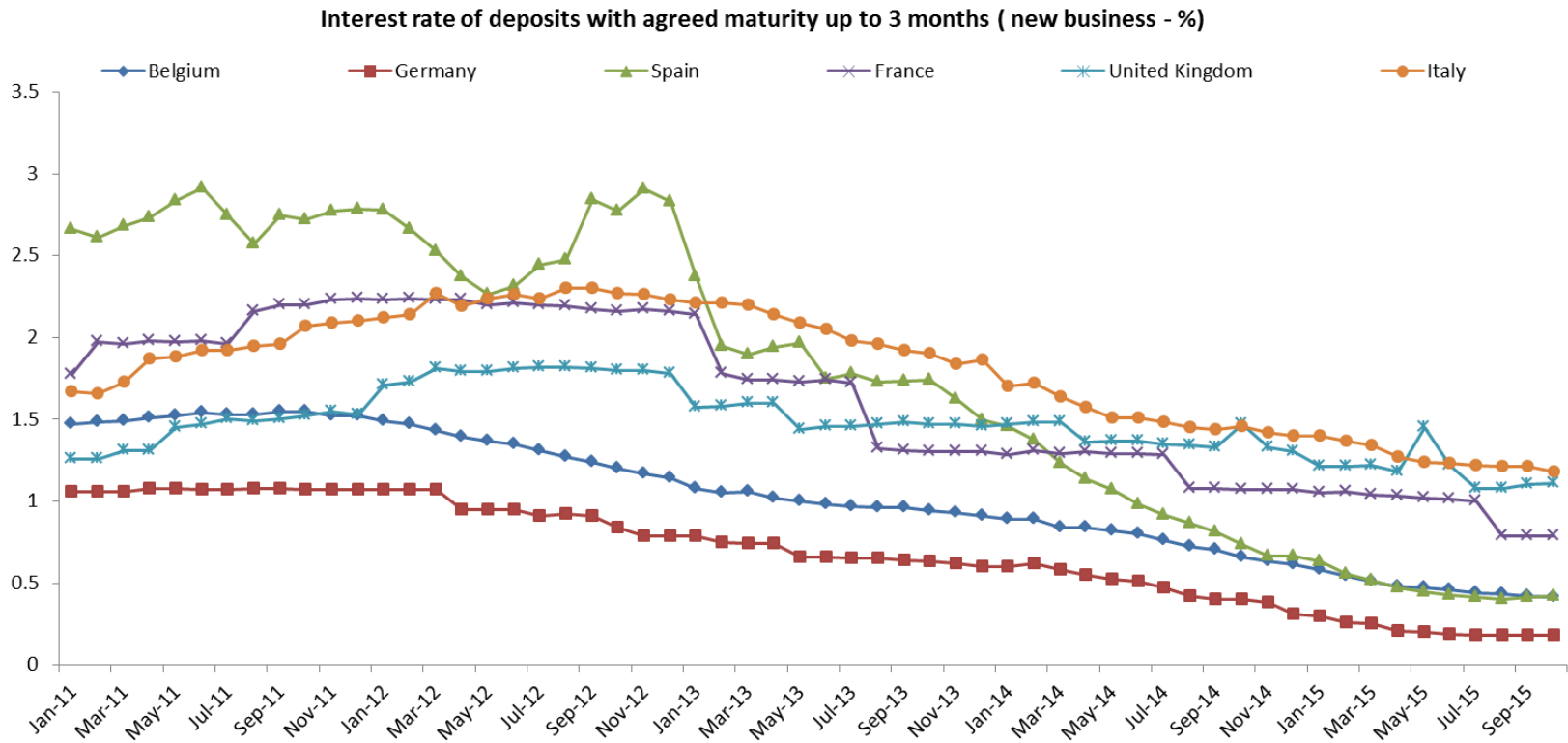
Financial stability, consumer protection, long-term financing: The saver's perspective

Congress of the European Federation of Building Societies
Budapest, 20 October 2016

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Didier Davydoff, Director of the OEE

Nominal interest rates for savings at historical lows



Source: ECB

In theory: complex effects of low interest rates on savings behaviour

∞ Complexity of interactions:

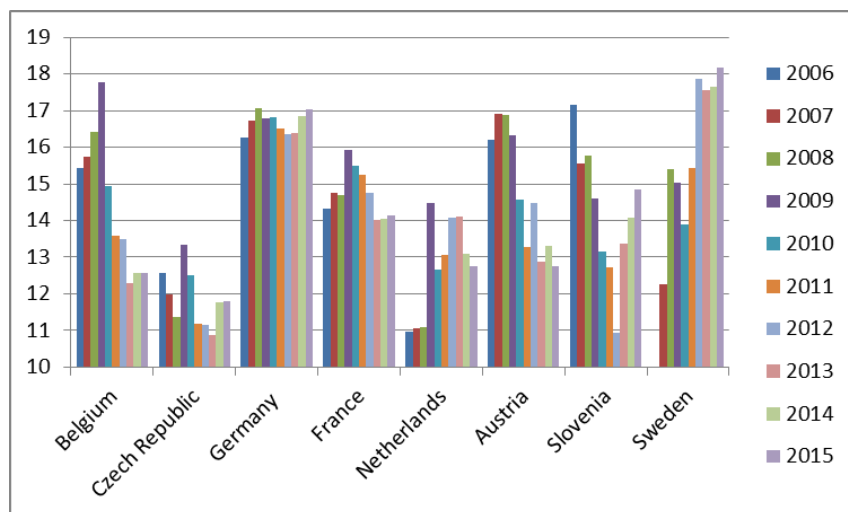
- Income effect: lower interest rates require a higher level of saving to generate the same income
- Substitution effect: reduction of savings in favour of spending as the reward for saving declines

∞ Saving rates combine several heterogeneous components:

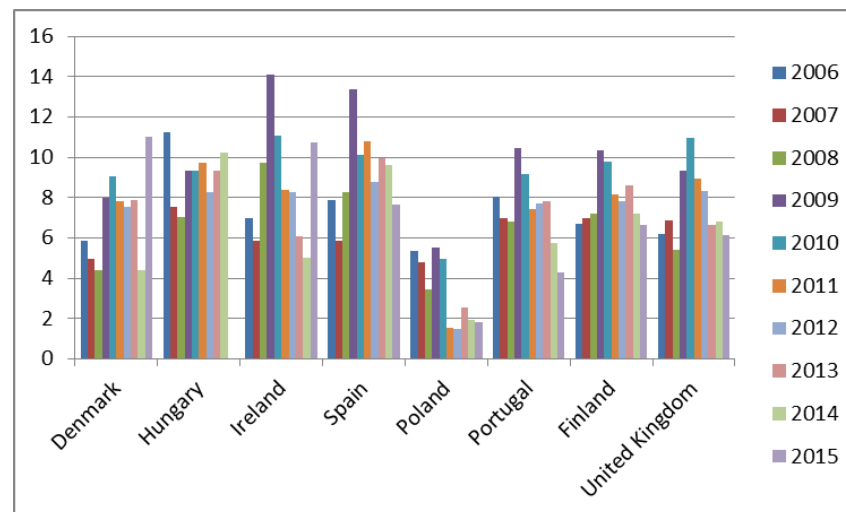
- Savings = Income less consumption
- Also: Savings = Financial investment
plus
real estate investment
less
recourse to credit

Diverging saving behaviours across countries (average/median: ~ 11%)

Above the average in 2016

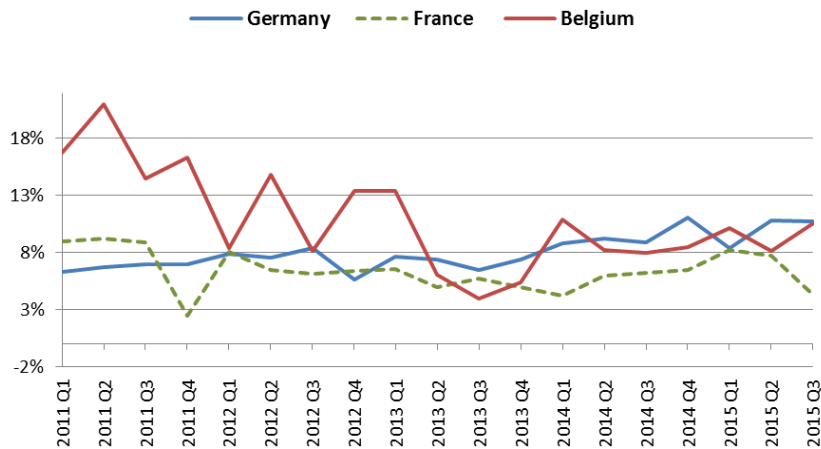


Below the average in 2016

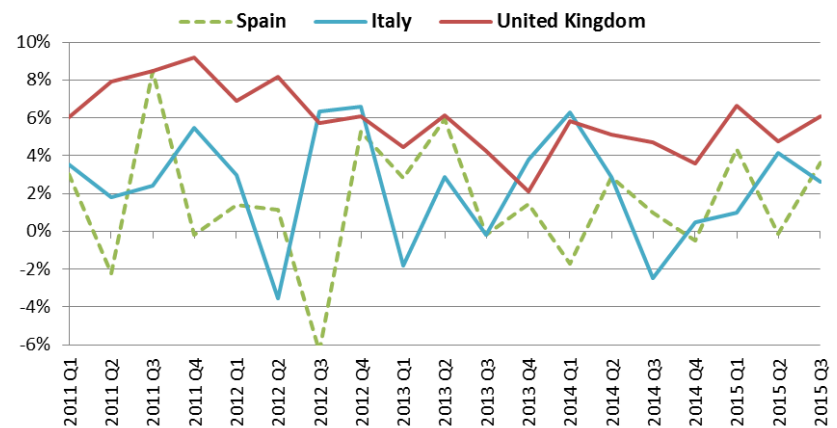


Diverging financial saving behaviours across countries

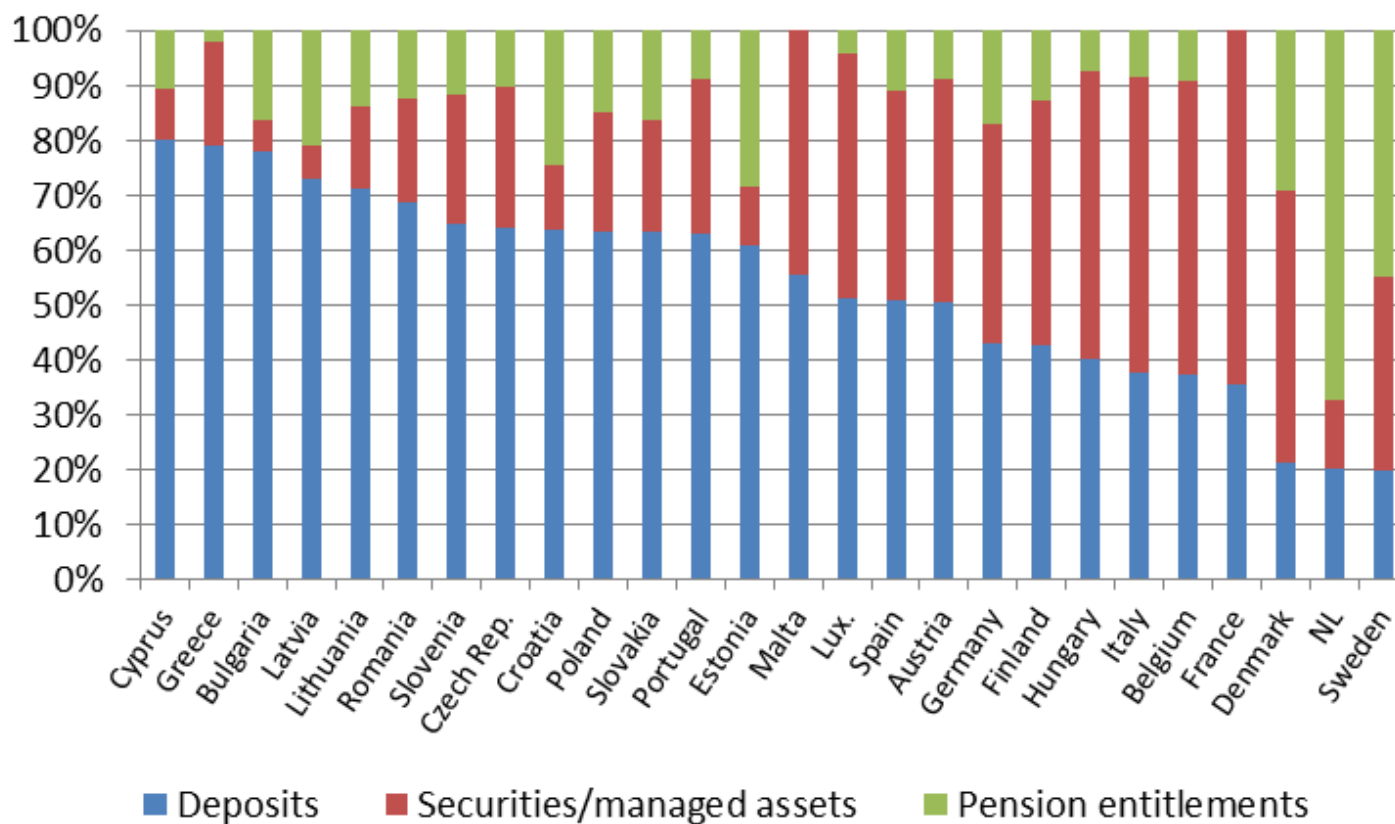
Relatively strong financial savings (% of household Gross Disposable Income)



Low and irregular financial savings (% of household Gross Disposable Income)



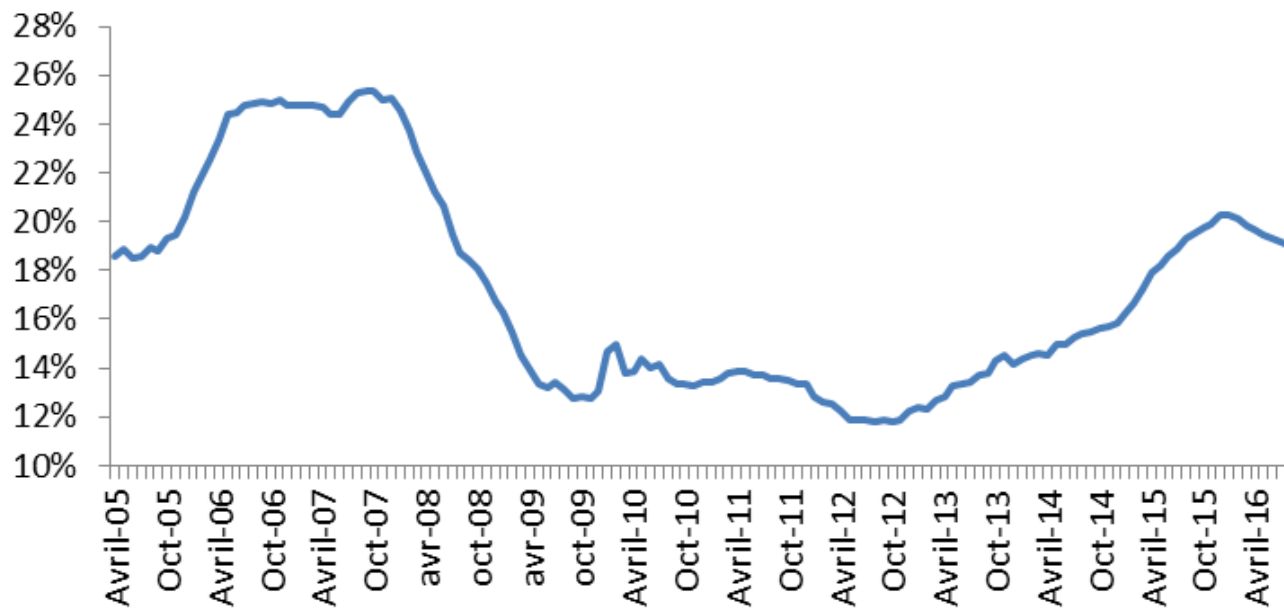
Discrepancies in the structure of financial wealth



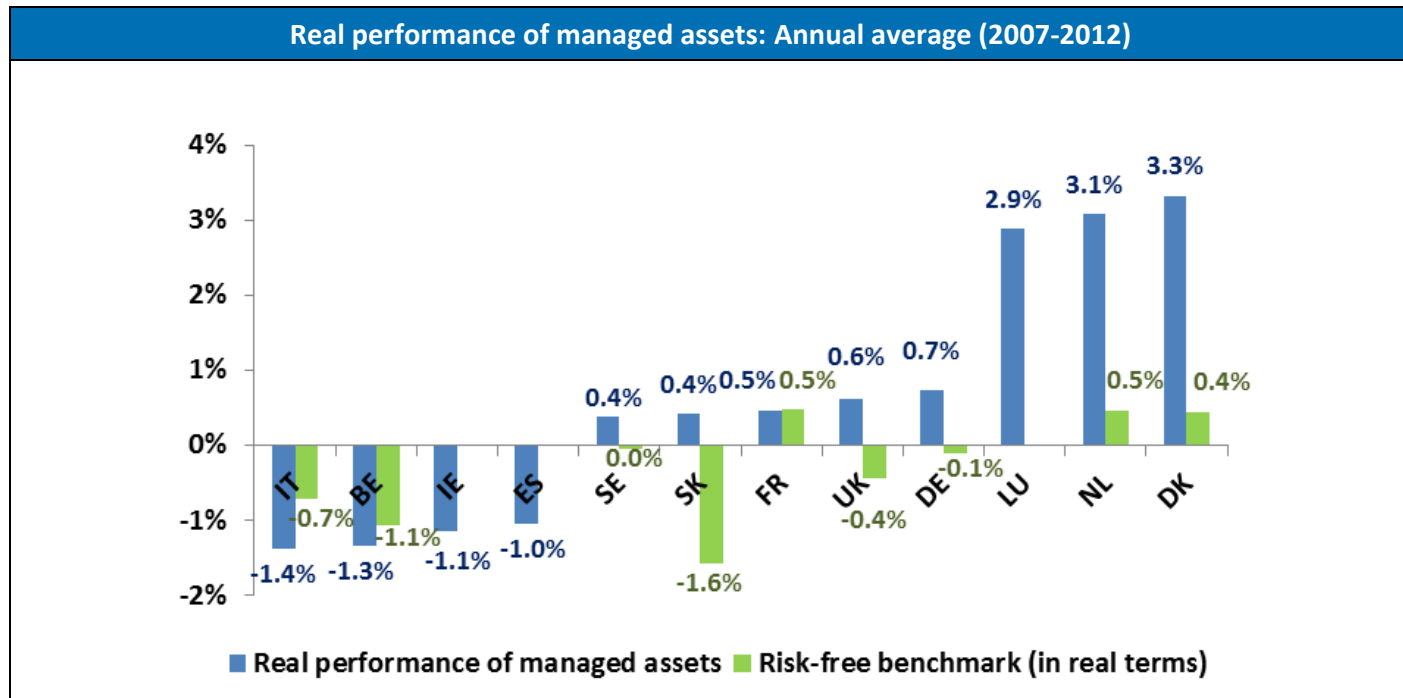
Can savers be forced to riskier investment profiles?

The field experiment of French life insurance

**Share of unit-linked contracts
in life insurance premiums**

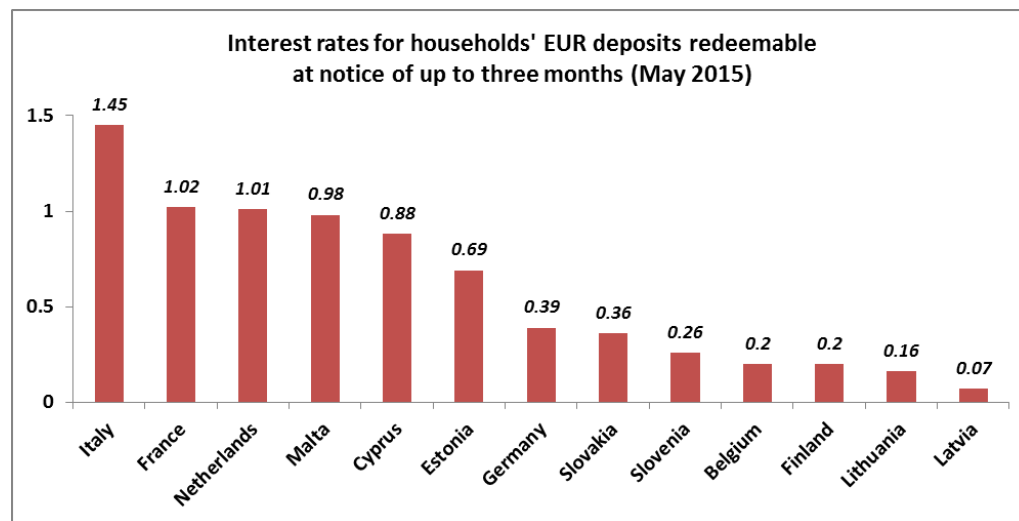


Switching to managed securities assets is not necessarily the winning bet



Obstacles to shopping around between countries

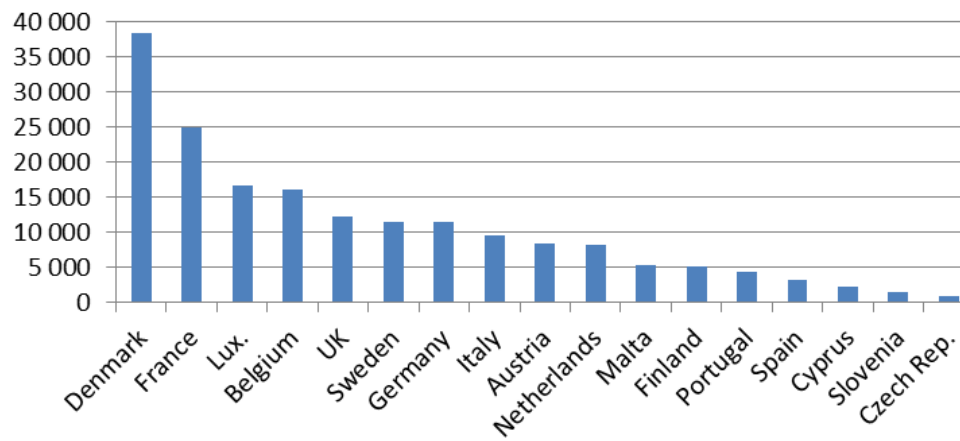
- ∞ Theoretical potential gain from switching all euro savings accounts to the country with the best remuneration: close to 10 Bn € per year in the EU
- ∞ But difficult to achieve in practice
 - Best on-line offers are for domestic savers only
 - The “best country” changes over time
 - Taxation is still heterogeneous and tax incentives are for residents only



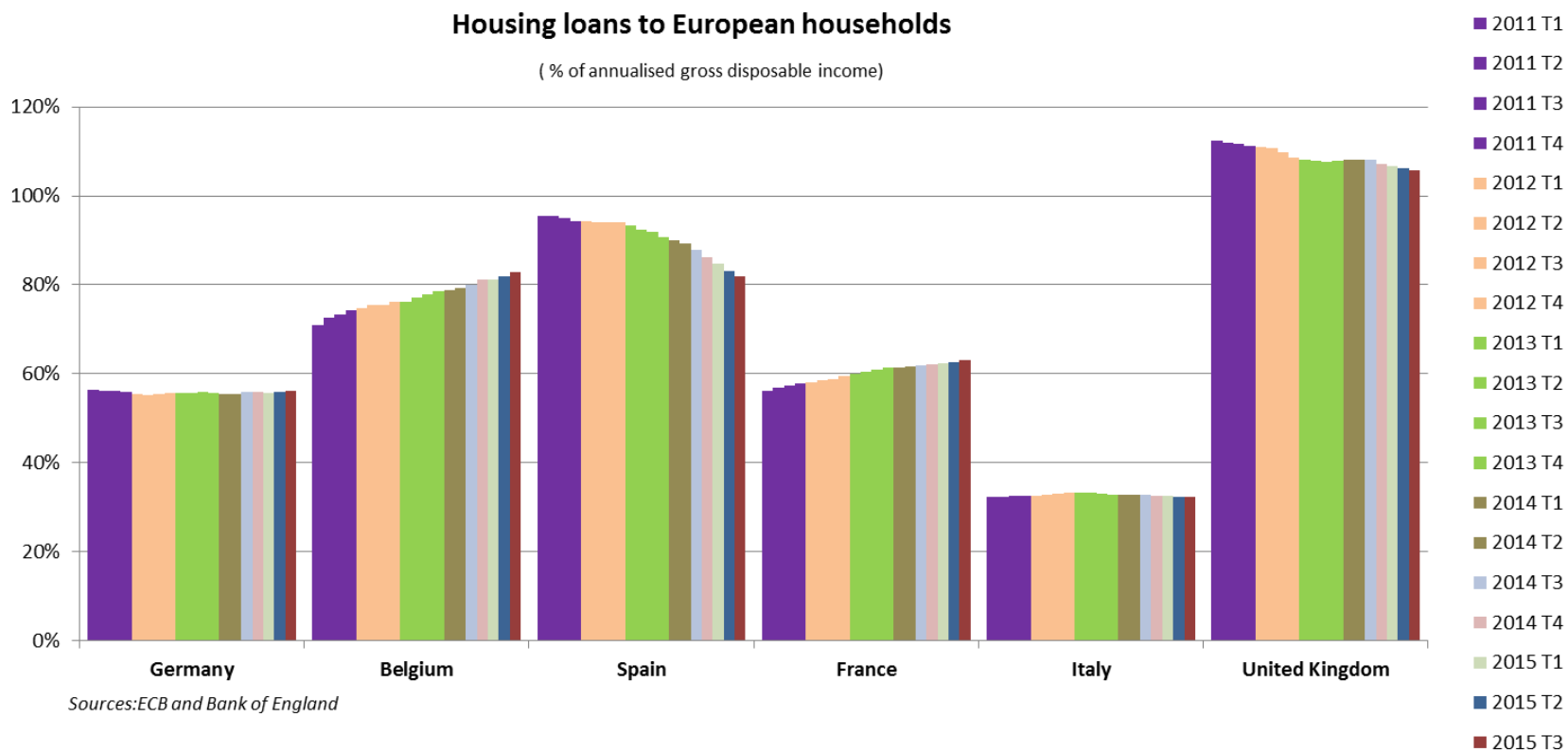
Potential risks from life insurance

- Income gap between promises and actual income of assets
- Potential capital losses when rates will increase
- Risk of private investors' liquidity run in a context of a declining supply of liquidity by market makers on bond markets

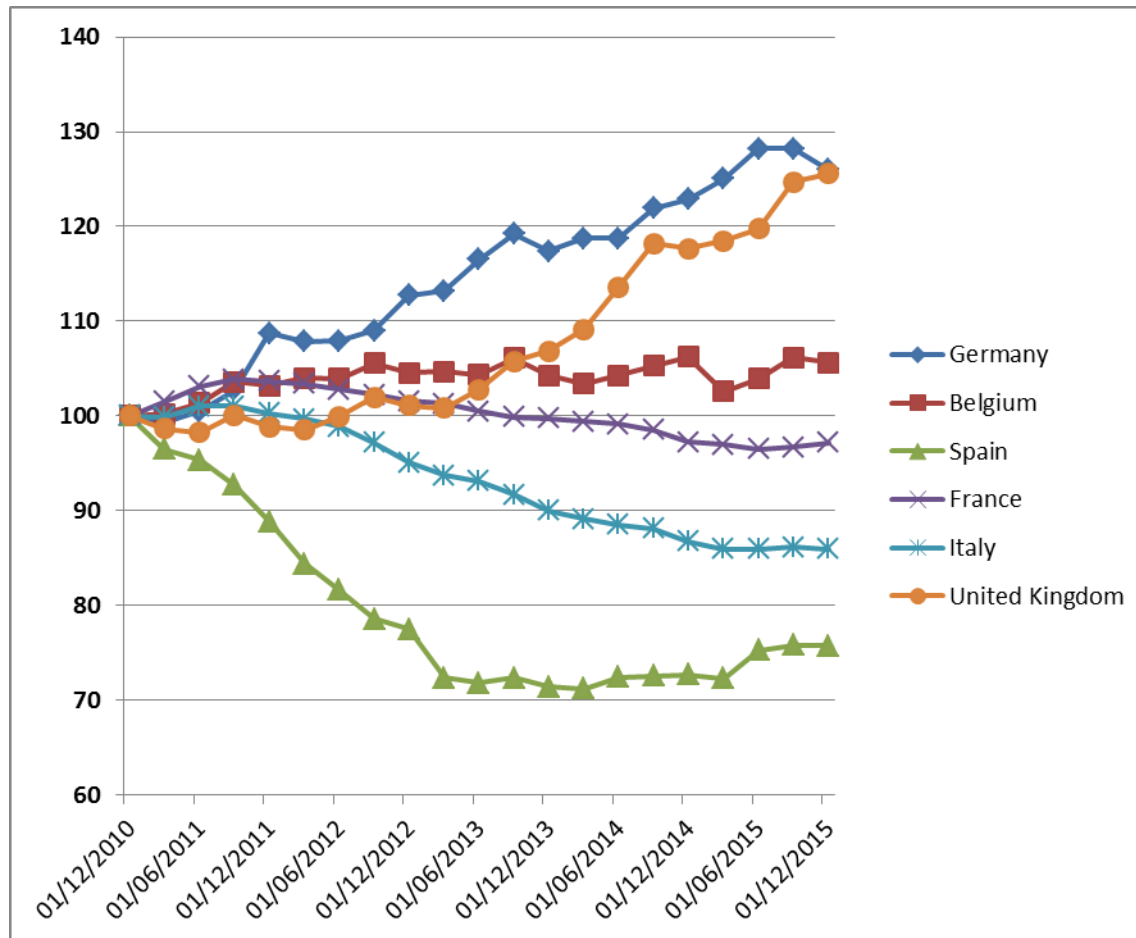
Life insurance and annuities: average holdings per capita (end of 2015)



Challenges of household lending

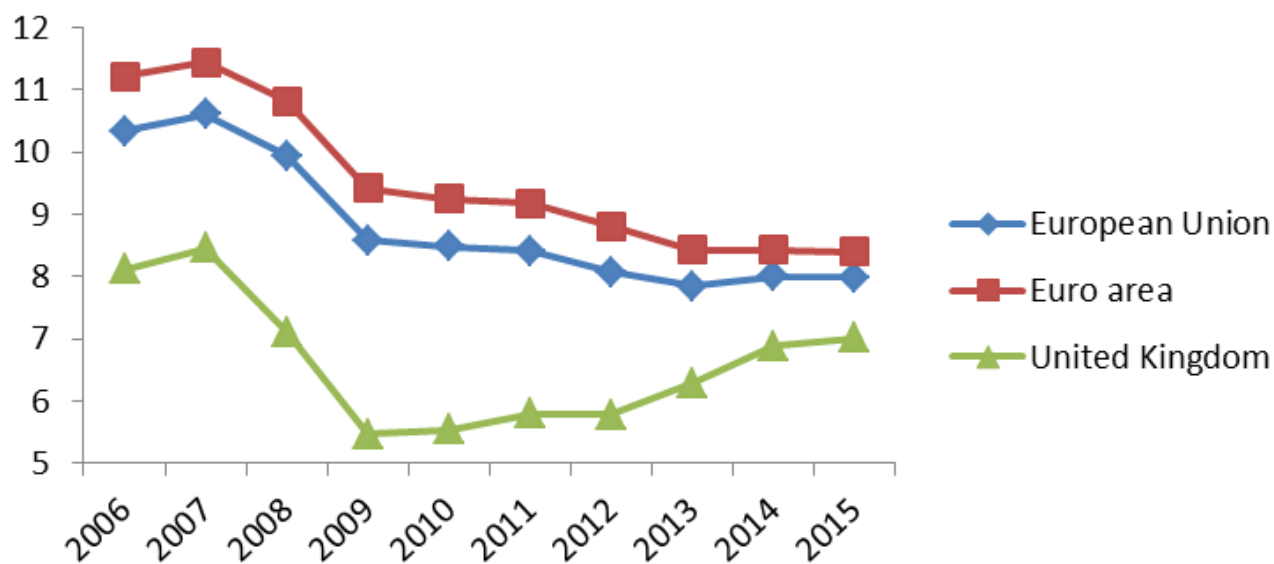


Diverging dwelling prices

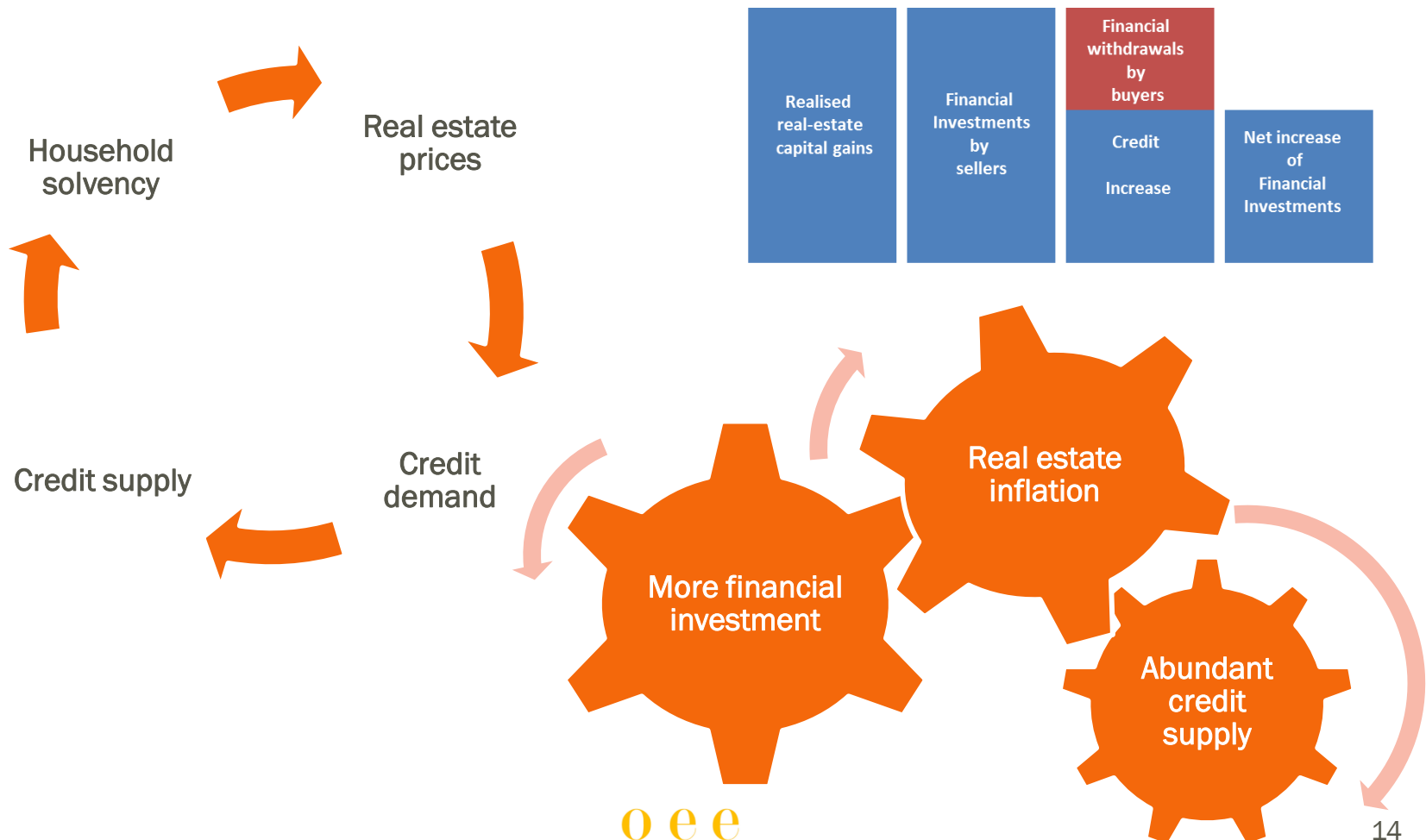


Dramatic decrease of household real estate investment

Gross investment rate of households (% of gross disposable income)



Credit and savings: two sides of the same coin



Conclusion

- ✎ It is difficult to anticipate the complex impact of low interest rates on saving and indebtedness behaviours
- ✎ Building of new dwellings dramatically decreased since the financial crisis
- ✎ The Brexit will not make the Europe of savers more homogeneous
- ✎ Switching to managed securities assets is not necessarily the winning bet and savers can not be forced to riskier investment profiles
- ✎ There are serious obstacles to shopping around for the best remuneration of savings in Europe
- ✎ Consumers need financial guidance



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