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Rethinking capital markets

# WIDENING RETAIL PARTICIPATION IN EQUITY MARKETS

## ANALYSIS OF THE SHIFTING DYNAMICS OF RETAIL PARTICIPATION IN EUROPEAN EQUITY MARKETS AND PROPOSALS FOR INCREASING ENGAGEMENT

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In partnership with:

euroclear

PrimaryBid

> *At a time when technology should enable more people than ever before to invest in the stock market, retail engagement has fallen over the past few decades in the UK and in many European economies. This report measures the levels of retail participation in equity markets; outlines the potential benefits to households, the economy, and the capital markets; and makes 12 recommendations to increase retail investor engagement.*

## Widening retail participation in equity markets - and why it matters

Technology should enable more people than ever before to invest more of their money, but retail engagement has fallen over the past few decades in the UK and most European countries. This may seem like a distraction at a time when millions of people are struggling with a cost-of-living crisis, but this report argues that in the long-term wider retail participation in equity markets could have a positive impact for millions of individuals and for the wider economy.

The decline in retail participation may seem surprising. Investing can be a powerful tool for individuals to improve their long-term financial security and wellbeing, and it has lower financial entry barriers than buying property. But while people can start buying shares with as little as £1 or €1, the cultural, structural, and regulatory barriers to investing in equity markets are significant.

There are good reasons to change this, and technology and digital solutions put us in a good position to change it, particularly as and when we emerge from the current cost-of-living crisis. Many people want to get on the property ladder, but it is time we start talking more about the 'equity escalator'.

The happy consequence of more people choosing (and being able) to invest more of their money is that it can have a positive impact on the economy. The social purpose of capital markets and the financial services firms that intermediate is to channel money from those that have it to those that need it. Some rightly see wider retail participation in the capital markets and improved access to funding for companies, in particular SMEs, as two sides of the same coin.

Philosophically, this would turn savers into investors, investors into owners that have a stake in the economy, and over time create people that are more engaged and more confident to take more ownership of their financial futures.

The first section of this report looks at the value of retail participation in equity markets. The second section measures the levels of retail participation in selected markets. We then discuss barriers to wider retail participation and the growth potential. Finally, we make 12 recommendations for policymakers, regulators, and the industry on how to widen retail participation in equity markets and reconnect households, issuers, and the capital markets.

We hope this research provides relevant insights and we are always interested in your thoughts and questions. I would like to thank Sheenam Singhal for collecting and analysing much of the data that underpins this report, William Wright for his support and feedback, S&P Global Market Intelligence for providing access to their data, the more than 40 individuals and organisations who made time to share their views with us, and Euroclear and PrimaryBid for partnering with New Financial and supporting this fascinating project.

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New Financial is a think tank that believes Europe needs bigger and better capital markets to help drive growth and prosperity.

We think this presents a huge opportunity for the industry and its customers to embrace change and rethink how capital markets work.

We work with market participants and policymakers to help make a more positive and constructive case for capital markets around four main themes: rebooting UK capital markets; reforming EU capital markets; driving sustainability; and driving diversity.

We are a social enterprise funded by institutional membership from different sectors of the capital markets industry.

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## Here is a short summary of the report:

1. **Retail participation in equity markets:** in this report, we measure the levels of retail participation in equity markets in key European and global markets, discuss its value, barriers, and growth potential, and outline the main steps that the industry, regulators, and governments can take to increase retail engagement.

2. **Defining 'retail participation':** retail participation can mean a lot of different things. We focus on direct ownership of shares, but many of the themes and recommendations in this report are immediately relevant to indirect investments through investment funds and pensions and to other areas of household engagement with the capital markets.

3. **The value of retail participation:** widening retail participation in equity markets presents an opportunity for individuals to increase their long-term financial wellbeing, for listed companies to connect with people in a new way, and for capital markets and financial services to reconnect with millions of households.

4. **In decline:** the share of households in the UK that directly own stocks and shares has halved in the last two decades (from 23% in 2003 to 11% in 2022). In many EU countries such as Germany, Italy, or Poland, less than 10% of households directly owned stocks and shares in the last year.

5. **The barriers:** issues such as low levels of financial literacy and a lack of an equity culture in many parts of Europe are well known. These need to be addressed, but one of the biggest problems is the gap between those who engage with their money and who have a good overview of their finances and those who do not. Digital solutions and open finance paired with a public information campaign supported by government and other public authorities can help close this gap.

6. **All eyes on Sweden:** in many respects, Sweden is the poster child for EU capital markets. The country has a highly engaged retail investor base (22% of households directly own stocks) that is powered by high adoption levels of tech, benefits from a simple and low annual flat tax on investments, and provides a healthy ecosystem and supply of capital for SMEs planning to list. Sweden shows what a well-developed capital markets union (CMU) paired with easier cross-border investment in the EU can achieve.

7. **Why now?** It feels like retail investors are about to have their moment. A few years ago not a lot of people in the industry, in government, or at the regulators spent much time thinking about retail investors, but now the topic seems to be very high up everyone's agenda. Given the cost-of-living crisis, the industry needs to clearly make the case for how it can help people.

8. **Widening retail participation:** there are a few essential building blocks that can help reconnect individuals and households with the capital markets, especially as we emerge from the current cost-of-living crisis. We make 12 recommendations to increase retail investor engagement and group them into four themes: i) individuals taking ownership of their financial futures ii) innovation and technology to make investing more accessible iii) providing the right incentives iv) removing structural and regulatory barriers.

9. **The growth potential:** if households in the UK were a bit more like their peers in Sweden or Australia and invested a quarter of their financial assets in equities and funds it would unlock an extra £740bn of capital. And if households in the EU increased their asset allocation to equities by just five percentage points it would unlock an extra €1.8tn that could support investment, innovation, jobs, and growth. These growth figures are ambitious but realistically achievable.

10. **Data challenges:** it is surprising how challenging it can be to find reliable figures on the levels of retail participation in different economies. Better data provided by all relevant market participants could help make a stronger case for the value of retail participation in markets and its impact on market functioning.

## Widening retail participation in European equity markets

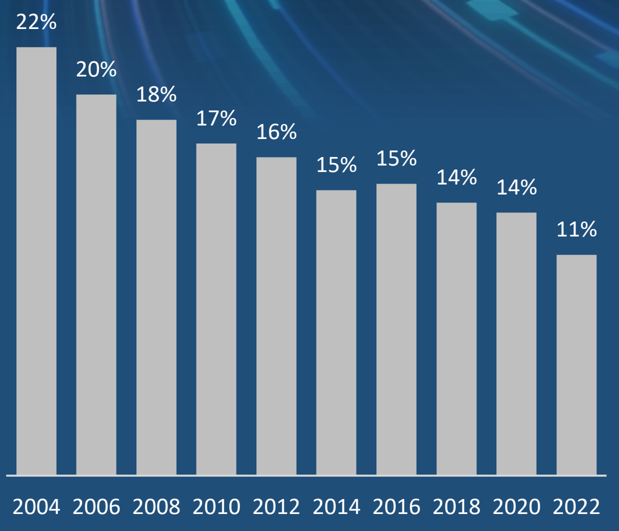
This section provides five key takeaways on the shifting dynamics and the growth potential of retail participation in European equity markets.

### 1. GOING DOWN

**11%** The share of UK households directly owning stocks and shares has halved from 2004 to 2022

The UK is the biggest financial market in Europe, but there seems to be a disconnect between households and capital markets. Share ownership figures skyrocketed after the privatisation of the UK's nationalised industries in the 1980s and 1990s, but the momentum was never used to develop a lasting equity and investing culture. In 2022, only little more than one in ten households in the UK directly owned stocks and shares. By using digital solutions and technology and addressing cultural, regulatory, and structural barriers, this can change.

The share of households in the UK that directly owned stocks and shares in the last two decades




### 2. A FOCUS ON SWEDEN

**22%** The share of the Swedish population that directly owned stocks in 2022

Sweden has a highly engaged retail investor base that is powered by high adoption levels of tech, benefits from a simple and low annual flat tax on investments, and provides a healthy ecosystem and supply of capital for SMEs planning to list.

### 3. SINGLE DIGITS

**<10%** The level of retail participation in equity markets in many EU countries

The share of households that invest their money has stagnated or fallen across much of Europe. In many EU countries such as Germany, Italy, or Poland, fewer than 10% of households directly owned stocks and shares in the last year.

### 4. GROWTH POTENTIAL IN THE UK

**£740bn** Potential additional capital that UK households could directly and indirectly invest

If households in the UK were more like their peers in Sweden or Australia and invested a quarter of their financial assets in equities and funds, instead of just 15%, this would unlock an extra £740bn of capital that could support the British economy.

### 5. GROWTH POTENTIAL IN THE EU

**€1.8tn** Additional capital available across the EU if households moved a fraction of their cash savings into equities

If EU households increased their asset allocation to equities by just five percentage points, it would unlock an extra €1.8tn that could support investment, innovation, jobs, and growth.

## Widening retail participation in equity markets

Wider retail engagement in European equity markets will not happen overnight but there are a few essential building blocks that can help reconnect individuals and households with the capital markets. Here is a summary of our 12 recommendations to increase retail investor engagement:

### 1) Individuals owning their financial futures

**i) A call to action to 'take ownership':** the UK, the EU, and member states should launch public information campaigns to encourage people to engage more with their own financial futures - and the capital markets.

**ii) Helping people to save and invest at all stages of life:** reinvent and turbocharge investment savings accounts for children and seed them with £ / €1,000 to help people get started and develop good habits.

**iii) Better understanding and better access:** roll out financial literacy programmes at scale at all levels (in schools, in workplaces, at important moments in lives) and talk about financial markets in plain language.

### 2) Innovation and technology to make investing user-friendly

**i) Nudge, nudge:** savers should receive an automated and tailored prompt to think about their investment options if their income or their bank balance goes above a particular level.

**ii) A digital (r)evolution to modernise the UK's shareholding framework:** improve communication between issuers and investors, remove any paper from the system, and use the 'dematerialisation moment' for a broader public information campaign to encourage more engagement with the capital markets (see above).

**iii) A single point of access:** use open finance to provide people with a low-cost overview of all their assets and liabilities in one place and pair it with personalised guidance on next steps based on data analysis and AI.

### 3) Providing the right incentives

**i) Reviewing arbitrary burdens such as transaction taxes:** review the economic case for transaction taxes such as stamp duty and introduce targeted reliefs in the meantime.

**ii) Providing clearer wrappers, vehicles, and incentives:** simplify investment (!) savings accounts, align tax incentives with public policy objectives, and improve public perception and awareness.

**iii) Getting people to engage more with the capital markets more broadly:** have an honest discussion about DC 'pensions' in the UK, introduce auto-enrolment in the EU, and open access to other 'less risky but risk capital' asset classes such as retail government bonds.

### 4) Removing structural and regulatory barriers

**i) The right balance between access and protection:** continue and accelerate the work underway in UK and EU to remove regulatory barriers to retail participation in sensible assets and activities in the capital markets.

**ii) Closing the advice gap:** accelerate the review of rules that separate guidance and advice in the UK and embrace a third option of 'personalised financial guidance'.

**iii) Rethinking risk and returns:** reframe the risk debate around potential returns.

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Valérie Urbain
Euroclear Group

## Connecting companies and citizen shareholders

Owners of publicly listed firms are all of us - whether we are direct shareholders in company stocks or investors in funds, or beneficiaries of pensions. In a world that is recognising demands for transparency and autonomy for investors to express their preferences as owners of companies, it is not only preferable but urgent, that they are able to exercise their rights.

Policymakers agree. Retail investors, charity endowments and fund managers should have the opportunity to express their views to management and effectively steer these global corporations and small businesses that they own.

This report represents a bold and necessary call to action to corporations, financial institutions, and policymakers about how we can turn more citizens into shareholders, and ensure digitisation enhances the communication between investors and boardrooms. Holders of paper share certificates should know that changes are intended to improve, not diminish, communications, including for secondary capital raising. Accommodating varying service requirements and levels of digital adoption will continue to be key considerations.

Euroclear Group is the world's largest group of central securities depositories (CSDs), with €36.8 trillion of assets under custody; as such, we have long had a significant role in providing services to promote sustainable good governance - the 'G' in ESG - through networks that facilitate investor engagement. Euroclear UK & International (EUI) operates the CREST settlement system, which settles an average of £349 billion in transactions each day, and is modernising the infrastructure for the secure and resilient financial and communication flows that modern society demands.

And as central bank-supervised Financial Market Infrastructures (FMIs), serving markets across Europe, we are working with authorities to ensure initiatives like the UK Digitisation Taskforce, and the EU Shareholder Rights Directive II, support the combined ambition of enlarging European equity markets, with the symbiotic requirements of investors.

**Valérie Urbain**
Chief Business Officer
Euroclear Group

Anand Sambasivan
PrimaryBid

## Bring the public back into our capital markets

Our listed capital markets exist to bring together individuals with enterprises in need of capital and liquidity. Their magic is that anyone can access equity in our largest blue-chips and smallest SMEs, building wealth while financing the innovation and ideas that secure our future prosperity. But we tend to overestimate the extent to which individuals are comfortable investing their savings, and the extent to which their capital is deployed productively. In fact, the public is scarcely present in our public markets today. No-one benefits from their absence.

This analysis from New Financial sets out the opportunity for unlocking the enormous pools of retail capital across Europe. Four interlocking building blocks covering barriers, incentives, technology and ownership illustrate how policymakers, regulators and industry can clear obstacles and foster a prosperous retail equity culture.

We're proud to support this report at a crucial time for capital markets. Change cannot come soon enough: just one of the major UK IPOs since 2020 has been open to retail, while our European clients are prevented from raising cross-border capital by arbitrary barriers so alien to the spirit of the Single Market. In our most liquid, transparent and democratic asset class, subject to the highest standards, retail investors should be permitted, enabled and educated to take risks. And they must be helped to understand the risk of taking no risk at all.

With people living longer and pressures on public finances rising, the challenge of getting willing and able citizens to invest with confidence is greater than ever before. But so are the opportunities: models spanning Nordic to North American markets demonstrate the economic value of an engaged retail capital base for capital formation, new listings and liquidity on our trading venues, fuelling company growth and job creation in the real economy.

**Anand Sambasivan**
Chief Executive Officer
PrimaryBid

Fig. 1 What is retail participation in equity markets?


## Different ways of participating

Retail investing seems to be very high up everyone's agenda, but it is not always entirely clear whether everyone is talking about the same thing.

Retail participation can mean a lot of different things, and different measures can touch on different activities and lead to different outcomes. Depending on who you ask, 'widening retail participation in equity markets' can mean: i) getting more people to buy shares directly in a company ii) getting more people to buy shares in an active or passive fund iii) getting more people to trade shares iv) getting people to contribute more to their defined contribution 'pensions' and making more active choices regarding their pensions v) getting more people to vote in AGMs and make use of their wider stewardship rights vi) any or all of the above.

While many of these are interlinked, conflating the different ways of participating in equity markets can lead to fuzzy policy, and any work on this topic needs to be clear about what it is discussing and what it is aiming to achieve. In this report, our focus will be on people buying shares directly in a company and making use of their stewardship rights (direct investment) as well as on people buying shares in an active or passive fund (indirect investment). Some of the problems and some of the solutions that we discuss can be applied to other ways of participating in equity markets, too, and the ultimate aim of any work in this area has to be to help people feel more confident when it comes to their money and to get them to engage more with financial matters and financial markets.

A final note: some argue that 'retail' is not the right word for this topic as investors are owners, not consumers, but to keep things simple and in line with other participants and contributions in this debate we are going to continue to use the term 'retail investors' and 'retail participation' in this report and in our work.

## Why does retail participation in equity markets matter?

Widening retail participation in European equity markets presents a huge opportunity: for individuals to increase their long-term financial wellbeing, for issuers and the economy to connect with households in a new way, and for the capital markets and the financial services industry to reconnect with millions of households in every corner of Europe and help them make the most of their money. It can help create a virtuous circle of investment and growth.

1. **A positive impact on the long-term financial wellbeing of people:** for many individuals, investment equals risk and risk equals losing money. This loss aversion is understandable, particularly in the current cost-of-living crisis, but the problem with it is that people often spend too little thought on the returns side of the equation, overestimate the likelihood of losing money from investing especially over longer time horizons, and underestimate (or are unaware of) how the value of their money is eroding when it is sitting in savings accounts with low interest rates. For reference, the annualised return of the FTSE 100 (including reinvested dividends) from its inception in 1984 to 2022 was 7.4%, and in the ten years to 2022 it was 6.3%, according to analysis by IG.

   Investing can be a powerful tool for individuals to improve their long-term financial wellbeing and to build wealth. This requires people to have the confidence to more actively engage with their money. Some people have the time and the motivation to study a company's annual reports and directly buy stocks and shares, whereas many others might feel more comfortable putting their money into an active or a passive fund. Done in the right and sensible way and over longer time horizons, investing money invariably trumps the cost for people of not engaging with their money at all.

2. **Connecting people and their savings with the economy:** the primary benefit of more retail participation in equity markets is that it can be beneficial for people's long-term financial security. A happy consequence of wider participation is that it could have a positive impact on the economy. The social purpose of capital markets is to channel money from those that have it to those that need it. More people choosing (and being able) to invest more of their money makes more capital available for the economy, closes existing funding gaps, lowers the cost of equity, and directly supports companies, jobs, and growth.

   In turn, this creates a closer connection between people and the economy. Deeper and more direct involvement with the performance of companies would help people develop a sense of ownership and turn them from savers into investors and, ultimately, owners who get to have a say and benefit directly from economic growth.

3. **Reconnecting capital markets and financial services with households:** trust in the banking and finance industry is low in the UK and even lower in many parts of the EU. People do not trust the industry, they do not understand it, and they do not engage with it. And when they do engage with it, they often feel that they cannot trust the guidance and advice they receive, that the fees they are paying are opaque, complex, and too high, and that 'the bank always wins'. The stock market appears to be something that happens far away in towers made of glass and steel, removed from people's everyday lives, and 'investing' seems to be an activity only a small circle can participate in instead of everyone.

   Higher levels of retail participation in equity markets can change this. It is an opportunity to reconnect capital markets with individuals and households, and to renew the social licence of the banking and finance industry. It is reasonable to assume that the industry would have a different standing in Europe if a quarter of households (or more) would own stocks and shares, and it would be a good reminder for the industry of the people it exists to serve.

## The levels of retail participation in key markets

A good first step to widening retail participation in European equity markets is to understand what is happening in key markets in Europe and around the world. Different markets are built on different economic models, and different populations have different attitudes towards money, investing, and risk.

This section analyses the levels of retail participation in the UK and comparable countries and looks at individual barriers or drivers that have a negative or positive impact on retail investing in each economy. The data presented is not always directly comparable, and for many markets only anecdotal data exist, but overall the data gives a good idea of the situation in each market in our sample and the key differences between them.

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## Going down

The UK is the biggest financial market in Europe but there seems to be a disconnect between households and the capital markets.

The privatisations of the UK's nationalised industries that began in the 1980s turned many people who had never owned shares before into shareholders. The well-known 'Tell Sid' campaign which advertised the privatisation of British Gas prompted a lot of people to buy shares in the energy company.

Share ownership figures skyrocketed in the UK but the momentum was never used to develop a lasting equity and investing culture. Fig.2 shows that the share of households owning stocks and shares in the UK halved between 2003 and 2022, and both the share of the UK stock market by value that is owned by individual investors and the composition of households' financial assets in the UK remained stubbornly unchanged over the last two decades.

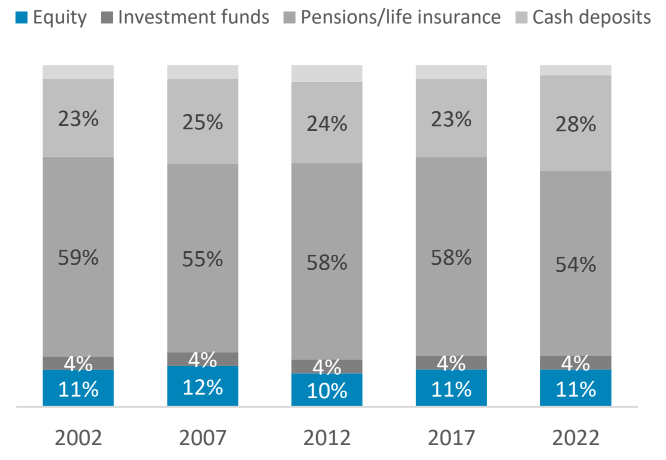
A number of barriers prevent willing and able UK citizens from investing more of their savings: some are cultural (people in the UK tend to be risk and loss averse and have low levels of financial literacy). Some are regulatory, some are product-based (the choice between four different individual savings accounts (ISAs) can be confusing and the introduction of cash ISAs meant people did not have to invest their money anymore to benefit from tax advantages), and some are more structural (the UK's complex and archaic shareholding framework disincentivises issuers to engage with small shareholders).

The good news is that recent pension reforms in the UK can help reconnect people with the capital markets. The shift to defined contribution 'pensions' and the introduction of auto-enrolment in 2012 has led to a big increase in the number of people that invest a share of their savings (although it is a problem that some people may not be aware of this).

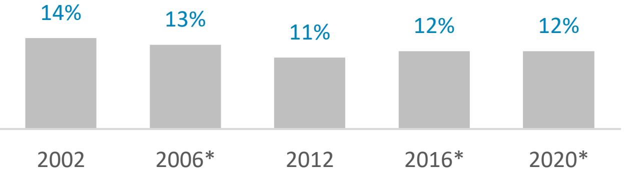
Combined with a renewed interest by policymakers and regulators in widening retail participation, digitisation, and the UK's strong (fin)tech landscape, this could be an opportunity to reverse the decline.

### Fig.2 Household engagement with stocks and shares

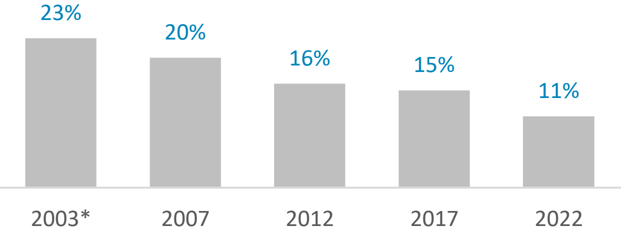
i) The composition of households' financial assets in the UK in the last two decades




ii) The share of the UK stock market by value owned by individual investors in the last two decades




iii) The share of households in the UK that directly own stocks and shares in the last two decades




*Source: New Financial analysis of data from the OECD, ONS, DWP*
*Note: *2002/2007/2017/2022 data not available*

## Hiding in plain sight

If there is something like a poster child for EU capital markets, it is probably Sweden. Over the past few years, the value of capital markets activity relative to GDP has grown much faster in Sweden than in the rest of the EU, and one of the reasons for this growth is that there is more direct and indirect household engagement with capital markets.

Sweden has a healthy retail investor base that is confident, willing, and incentivised to put capital and savings to work. A number of initiatives, organisations, and networks work to improve financial knowledge and awareness in Sweden. A good example is 'Unga aktiesparare' ('young shareholders'), an independent, not-for-profit organisation that offers financial literacy training and events through a network of more than 50 local branches across Sweden. Their 'young personal finance project' - delivered in collaboration with secondary schools - reaches more than 30,000 pupils every year.

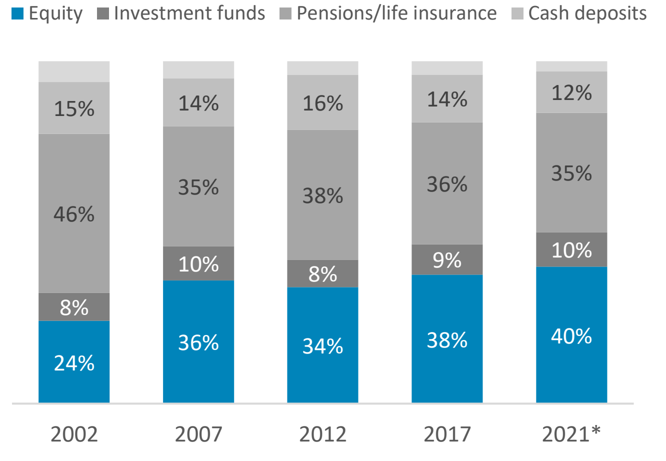
In 2012, Sweden introduced their version of the UK's ISAs: 'investeringssparkonto' or ISK. People holding stocks and shares in an ISK benefit from a simple and low annual flat tax on the estimated market value of holdings that is paid regardless of whether they make a profit or a loss in any given year. There is no upper limit for investments and no tax on interest, dividends, or capital gains. ISKs are very popular among Swedish households and savings moved into ISKs exceeded initial expectations by the Swedish government.

Adoption levels of technological solutions are high, and more than 80% of the Swedish population use a form of digital ID to verify their identity or to sign and authorise transactions. The Swedish shareholding framework is modern and allows for a high level of transparency between issuers and shareholders.

All this does not only benefit individuals but provides a very good foundation for Sweden's public markets. Swedish SMEs usually choose their domestic stock exchange to list due to high levels of investor engagement, a healthy ecosystem, and good supply of capital: more than 50% of trading on the First North SME market comes from retail.

### Fig.3 Household engagement with stocks and shares

i) The composition of households' financial assets in Sweden in the last two decades

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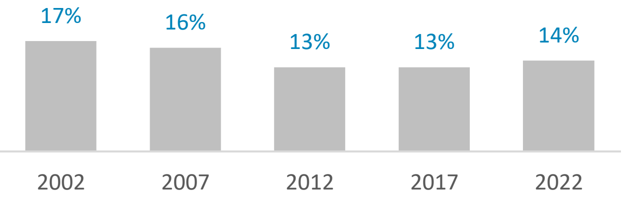
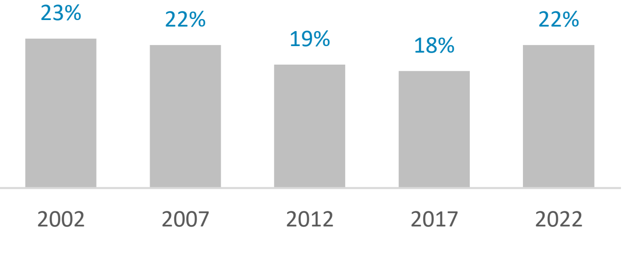



iii) The share of the population in Sweden that directly own stocks and shares in the last two decades




*Source: New Financial analysis of data from OECD, the SCB, Euroclear*
*Note: *2022 data not available*

## Positive change underway

Germany is a nation of savers, not investors, and for many Germans 'saving' and 'investing' is a contradiction. There is a long-standing historical lack of trust in banking and finance in Germany. Bigger capital markets are broadly associated with more foreign banks, more bonuses, more hedge funds, more speculation, and more crises; not with something that 'normal' households can engage with to increase their long-term financial wellbeing.

One of the reasons for this lack of trust is the direct experience of many Germans whose previous encounters with capital markets did not end well. For example, when Deutsche Telekom was privatised in the 1990s during the dot-com bubble, risk-averse Germans suddenly started buying stocks only for many to lose a lot of money. For many potential German retail investors, Deutsche Telekom (and the collapse of the Neuer Markt) is the reason they are still so suspicious of the stock markets.

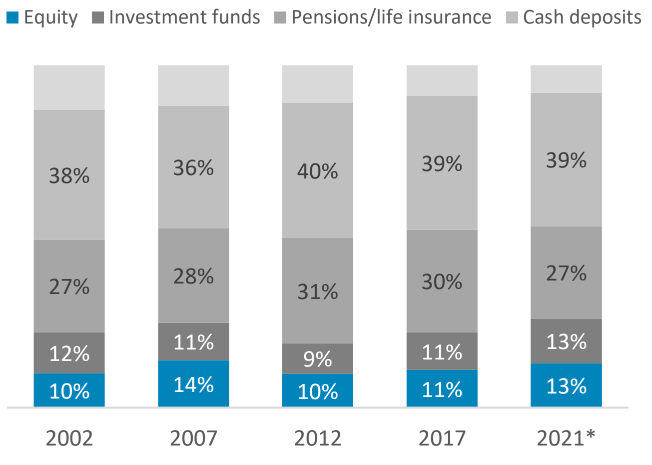
Add this negative experience with the capital markets to relatively low levels of financial literacy and a reliance on welfare state policies (that were in a good position to support people in the past but are coming under demographic pressure now) and you end up with a lot of Germans who feel uncomfortable engaging with or talking about money.

The good thing is that current capital markets reforms in Germany could lead to more structural changes and a renewed interest in and appetite for investing. This year, Germany introduced a pension fund modelled after the Swedish 'premium pension'. The 'Aktienrente' ('share pension') fund will invest in global equities and use returns to supplement Germany's state pension.

Designed and managed in the right way, the fund could generate higher returns for Germans who are saving for their retirement, reconnect them with the capital markets, and create positive experiences that could translate into more active engagement with their money and investments overall.

## Fig.4 Household engagement with stocks and shares

i) The composition of households' financial assets in Germany in the last two decades

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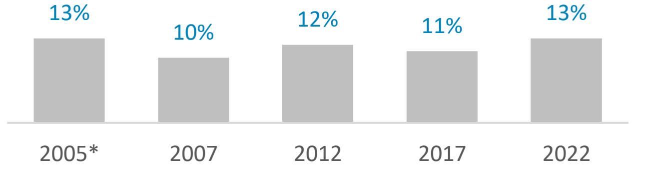


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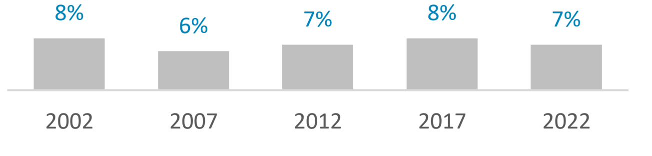



*Source: New Financial analysis of data from OECD, Bundesbank, Deutsches Aktieninstitut. Note: *2002/2022 data not available*

## A shift into indirect

With all their historic and cultural ties, you would think that the UK and Australia would have a similar attitude towards investing, but Australian households engage more with the stock markets than their British and many other international counterparts.

The starting point for the rise in Australian share ownership was the same as in the UK: a programme of privatisations in the 1990s led to a period of rapid growth in direct share ownership in Australia. Fig.5 shows that in the early 2000s, nearly four in ten adults in Australia directly owned stocks and shares.

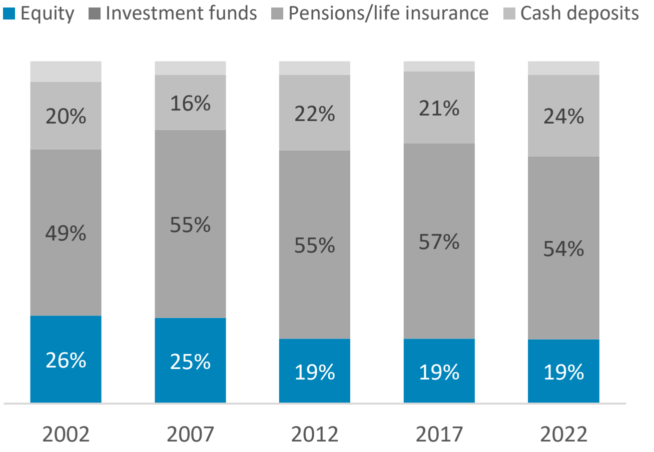
Since 2010, Australians have been diversifying their portfolios by moving some of their direct investments in stocks into indirect investments such as funds or exchange traded funds (ETFs). This shift sees the share of the adult population in Australia that directly owns stocks and shares decrease, but it does not reduce household engagement with the stock markets in Australia: in 2020, more than a third of adults in Australia held on-exchange investments - nearly as many as two decades earlier but with a different portfolio composition and investment approach.

Australians that still hold direct stocks and shares have a strong home bias: in 2017, the ASX Australian Investor Study showed that 75% of share owners in Australia hold only domestic shares. One of the reasons for this could be that those investors who aim to diversify their portfolios do so via other assets such as globally diversified funds - usually ETFs or people's superannuation pension funds.

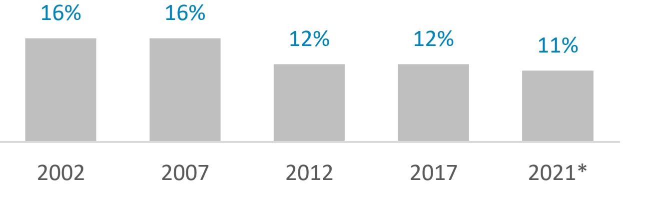
The Australian economy is very stable (of the world's high-income countries it is the one with the longest uninterrupted GDP growth) and many Australians who bought shares during the privatisations in the 1990s held them. Three quarters of Australia's well developed 'super' pension system is invested in equities and alternatives which leads to a lot of people having a stake in the system. Combined with a population where the majority of people are confident about managing their money, these factors provide a healthy environment for retail participation in equity markets.

## Fig.5 Household engagement with stocks and shares

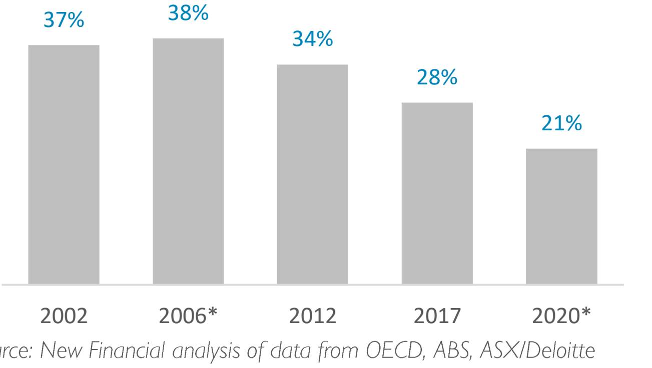
i) The composition of households' financial assets in Australia in the last two decades°




ii) The share of the Australian stock market by value owned by individual investors in the last two decades




iii) The share of the adult population in Australia that directly own stocks and shares in the last two decades




*Source: New Financial analysis of data from OECD, ABS, ASX/Deloitte*
*Note: *2007/2022 data not available °no equity/investment fund breakdown available*

## A nation of investors

The US is often considered to be the homeland of (retail) investing. This is perhaps unsurprising: Fig.6 shows that 40% of the US stock market by value is owned by individual investors and 39% of households' financial assets are invested in equity. But the country has not always been a nation of investors.

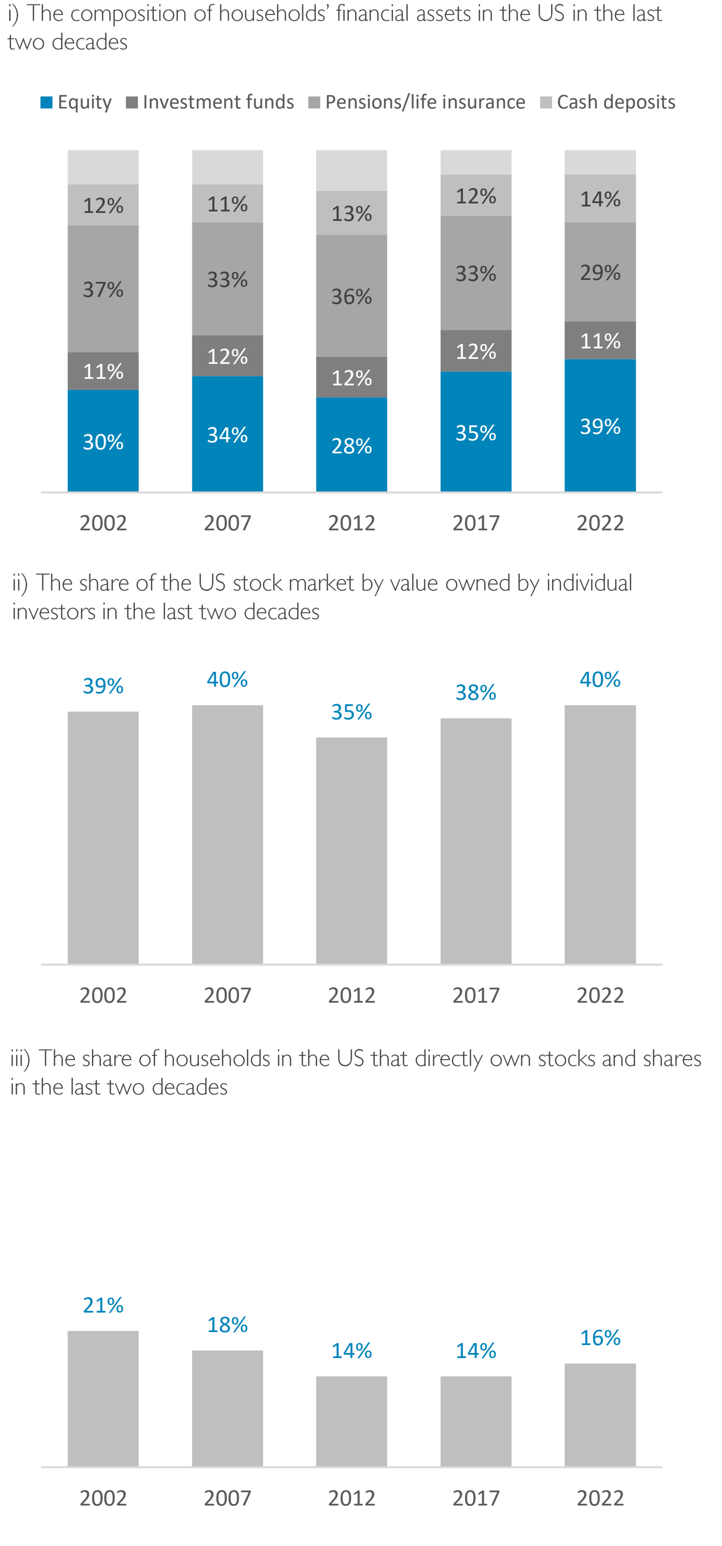
One key turning point was a public campaign that the New York Stock Exchange (NYSE) ran in the 1950s and 1960s. Named 'own your share of American business', the campaign aimed at getting more people to buy stocks in US-listed companies and advertised the possibility of long-term financial gain and greater power over corporate behaviour. As part of the campaign, stockbrokers set up shop in department stores to make a direct link between the stock markets and people in their everyday lives.

The NYSE's campaign helped rebuild an open and positive attitude towards equities and investing in the US. It is not unusual for people in the US to discuss investments with their family and friends, and many people watch the stock markets because a lot of their savings follow the markets.

The US' equity culture is underpinned by an openness towards risk. More than 60% of households in the US are willing to take financial risks compared to less than 30% in the euro area, according to an ECB paper. The level of risk aversion is decreasing with net wealth in both markets, but the relationship is much stronger in the US compared to the euro area. One of the stated reasons for this openness towards risk is the relative lack of welfare state policies in the US that are common in Europe: US citizens are more used to taking care of themselves. On the other hand, an argument can be made that existing safety nets in Europe should make people feel more comfortable to take a risk, especially over longer time horizons.

The example of the US also shows why it is important to take a look behind the headline figures: on paper, the share of households in the US that directly own stocks and shares is lower than in Sweden or Australia, but no one would doubt that the US has a strong equity culture.

### Fig.6 Household engagement with stocks and shares




*Source: New Financial analysis of data from OECD, the Fed*

## Retail participation in other selected markets

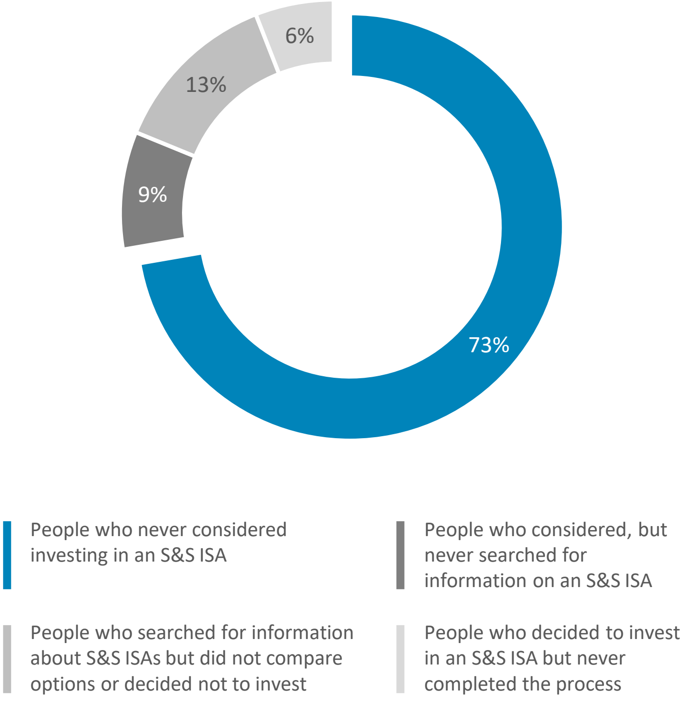
Given the emphasis placed on widening retail participation by many stakeholders in many key markets it is surprising how challenging it can be to find reliable figures on the levels of retail participation in different economies. Often data is not comparable, does not exist, or is only limited to anecdotal examples. To get an idea of the picture in other selected European and international markets, here are some of these anecdotal data points:

| | | |
|---|---|---|
| <10% | The level of retail participation in equity markets in many EU countries is lower than 10% | **Single digits:** the share of households that invest their money has stagnated or fallen over the past few decades across much of Europe. In many EU countries, fewer than 10% of households owned stocks and shares in the last year. |
| 2 | Only in two of the four largest EU economies do over 10% of households directly own stocks and shares | **The 'big four':** the levels of retail participation in Spain and France (around 12% of households in each country directly owned stocks and shares in 2022) are notably higher than they are in Germany and Italy (around 7% each). |
| ¼ | 24% of household financial assets in Italy are invested in equity | **Surprising figures:** at the same time, nearly a quarter of household financial assets in Italy are invested in equity - roughly the same as in France and much more than in Germany (13%). Italy's household equity investment is driven by fewer but wealthier households. |
| 53% | More than half of household financial assets in Poland are held in cash deposits | **Cash is king:** many European households prefer to keep their savings in a bank account. Across the EU, nearly a third of household financial assets are in bank deposits. This money is easily accessible but eroding in value. |
| ½ | Nearly half of Canadian household financial assets are invested in equity or funds | **The North American model:** across the pond, many people take a different approach to engaging with their money, and both the US and Canada have a much more nuanced and developed equity and investment culture. |
| 52% | More than half of Dutch household financial assets are held in pensions | **A pinch of salt:** not every headline figure tells the full story. The shares of households directly owning stocks and of household financial assets in equity in the Netherlands are low because the country has a sophisticated and well-funded pension system. |

*Sources: ECB HFCS, OECD, INSEE, Bank of Italy, Statistics Canada*

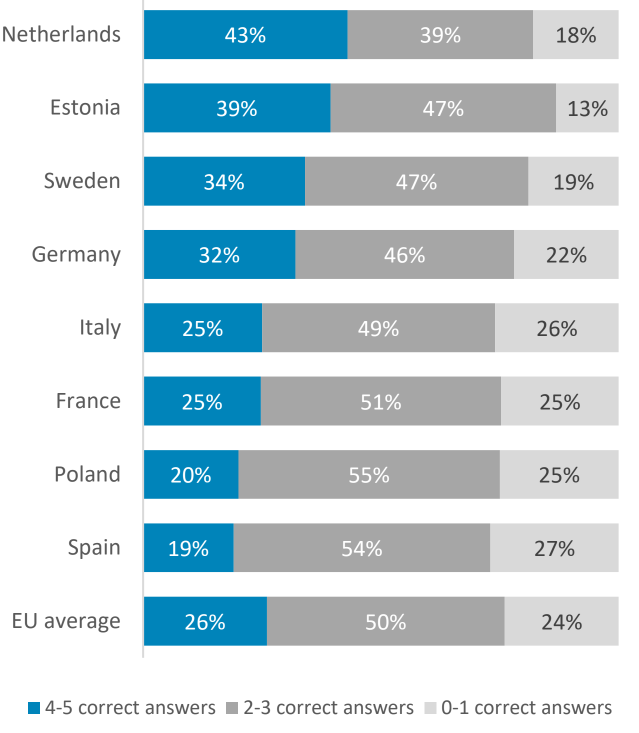
Fig.7 What is holding people in Europe back from investing more of their money?

i) Engagement with stocks and shares ISAs of people in the UK that have not invested in an S&S ISA but keep savings of £5,000+ in a bank account




Source: TISA/Oxera

ii) The number of correct responses to five financial knowledge questions by EU citizens from selected member states




Source: European Commission

## A number of longstanding barriers

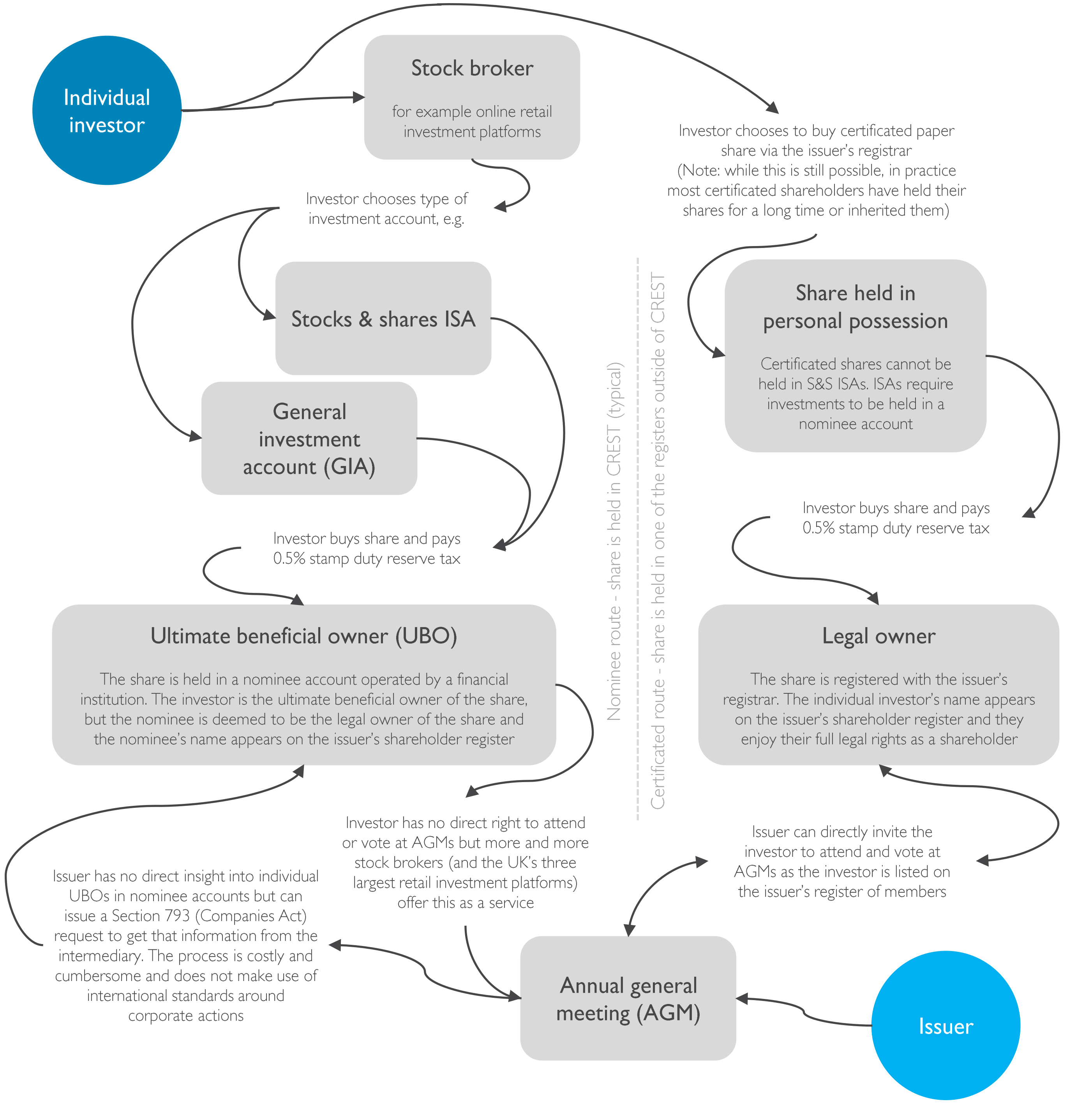
There is no single reason that can explain the decline in retail participation in European equity markets on its own. Instead, there are a number of barriers that keep people in Europe from investing more of their money. Some are being addressed: the difficulties for individuals to access equity markets have nearly vanished following the emergence of platforms and brokers that use technology and offer apps. Regulatory barriers continue to exist, but authorities in the UK and the EU are taking welcome steps to make regulation more retail friendly by for example reviewing rules that are currently calibrated to exclude people from participating in initial public offerings (IPOs).

Remaining challenges such as uncertain macro-economic conditions, the lack of financial literacy and education, and the lack of a widespread equity culture in Europe are well known. People need to make more active and informed money choices, but many do not have the knowledge to do so. In the US, it is not unusual for people to discuss investments with family and friends. Nasdaq even features in many well-known pop songs - something that is unthinkable for European stock exchanges (yet).

These challenges need to be addressed, but one of the biggest problems is the gap between those who engage with their money and have a good overview of their finances, and those who do not. Often the question is not so much about whether people should invest their money in company A or in company B but about how they should distribute their savings in the first place (if they have any) between their pensions, their mortgage, savings accounts, and direct and indirect investments. Digital solutions and open finance can help close this gap.

## Fig.8 How do people buy stocks and shares in the UK and how do issuers communicate with them?

This simplified (!) flowchart shows the process that is set in motion when a UK resident decides to buy a share in a UK company listed on the Main Market in 2023. The infographic shows the complexity around certificated shares that are held outside of CREST, the settlement system of the UK's central securities depository (CSD), and the challenges (and paperwork) that the existence of two parallel systems of retail ownership brings. Scale this up to millions of retail investors owning many millions of shares and you end up with an administratively too complicated framework that frustrates issuers wanting to engage more with their retail investor base and households in every corner of the UK. *Some say this is all more complicated than it should be…*



## Fig.9 What are the options proposed by the UK's Digitisation Taskforce for a fully digitised share model?

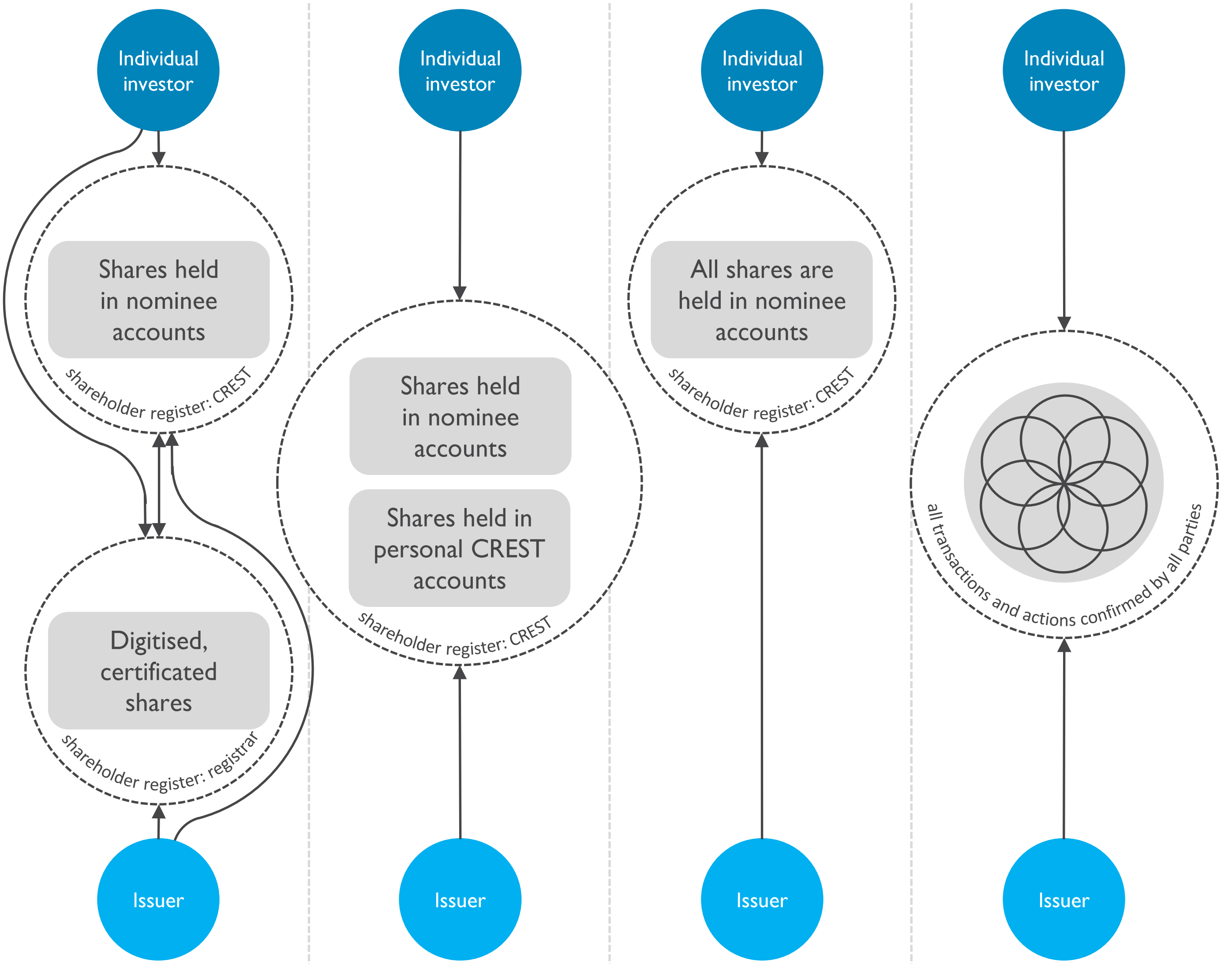
The UK's Digitisation Taskforce recently published its interim recommendations to digitise and modernise the UK's shareholding framework. It proposed four different models for the architecture of a future, fully digitised shareholding framework and infrastructure and identified one of the models as the leading option. This simplified infographic shows the four models and highlights each model's advantages and disadvantages.

i) 'As is but digital' model

ii) 'Personal CREST account' model

iii) 'Nominee' model
(the taskforce's 'leading' model)

iv) 'DLT' model




**i) 'As is but digital' model**

**Advantages:** replicates current system and is familiar to paper-based shareholders; preserves legal ownership of certificated shares

**Disadvantages:** retains the friction and cost of maintaining a second register of shareholdings

**Friends:** registrars (who maintain registers outside of CREST); certificated activist investors

**Foes:** all those in favour of a simple and streamlined model

**ii) 'Personal CREST account' model**

**Advantages:** investors can choose their preferred mode of holding shares; preserves legal ownership of certificated shares

**Disadvantages:** personal CREST accounts are a high-cost option for typically low-value shareholdings

**Friends:** highly engaged investors who would like to have a choice

**Foes:** registrars (who would have to reinvent their business model)

**iii) 'Nominee' model**

**Advantages:** removes friction and cost of maintaining a second register; brings UK holding model in line with many other developed economies

**Disadvantages:** current certificated shareholders need to be intermediated by nominee; does not preserve legal ownership of shares

**Friends:** all those in favour of a simple and streamlined model

**Foes:** registrars (who would have to reinvent their business model); certificated activist investors

**iv) 'DLT' model**

**Advantages:** complete reinvention of architecture; shared infrastructure provides 'one source of truth'

**Disadvantages:** distributed ledger technology (DLT) is still in early stages; previous implementation attempts were costly failures

**Friends:** tech geeks

**Foes:** Australia

## You wouldn't believe…

For most people, including politicians, retail investing is much more tangible and easier to understand than many other parts of the financial markets. But hidden behind polished trading apps are a few things that can be surprising (and not always in a good way). Here are five astonishing facts that might make even the most knowledgeable say, 'really?':

### …that investors pay stamp duty when they buy UK-listed shares but not when they buy US-listed shares

**£3.7bn**

HMRC tax income from stamp duty paid on share transactions in FY2022/23

**An arbitrary burden:** it is difficult to understand why investors pay tax when they buy British shares but not when they buy shares listed elsewhere. The removal of stamp duty on share transactions was announced in 1990's Budget - that was 33 years ago.

### …how complexity and bureaucracy are preventing UK savers from accessing their investments

**£1,900**

Average amount sitting in each matured but unclaimed Child Trust Fund account

**Too difficult:** the total value of matured but unclaimed Child Trust Funds in the UK is more than £1.7bn. Many young adults do not know that they have these savings, have lost track of them, or in the case of those lacking mental capacity are not allowed to claim them.

### …how much the UK's financial system is reliant on paper

**250kg**

Estimated amount of paper that each custodian receives from UK registrars every day

**Not so digital:** it takes abrdn three weeks to execute and costs £520,000 to distribute an AGM notice to the 502,000 shareholders who have not opted out from paper-based mailings. More than 6.5 million pages were printed for 98 shareholders to attend the AGM.

### …that there is virtually no reason why the UK cannot look a bit more like Sweden or Australia

**£740bn**

Potential additional capital that UK households could directly and indirectly invest

**Growth potential (1):** if households in the UK invested a quarter of their financial assets in equities and funds, instead of just 15%, this would unlock an extra £740bn of capital (30% of UK GDP) that could support the British economy. This is ambitious but achievable.

### …that a small change can unlock nearly two trillion euros of capital in the EU

**€1.8tn**

Additional capital available across the EU if households moved a fraction of their cash savings into equities

**Growth potential (2):** if households in the EU increased their asset allocation to equities by just five percentage points, this would unlock an extra €1.8tn (11% of EU GDP) that could support investment, innovation, jobs, and growth.

*Sources: HMRC, PAC, UK Digitisation Taskforce/abrdn, OECD, Eurostat*

## A turning point for retail investors

It feels like retail investors are about to have their moment. A few years ago not a lot of people in the industry, in government, or at the regulators spent much time thinking about retail investors, but now the topic seems to be very high up everyone's agenda.

There are various retail investment strategies by regulators in the UK and EU, many of the big financial services and capital markets reviews in the UK highlighted the need to involve retail investors more closely, and retail investment is now a topic people are happy to talk about at industry roundtables and discussion panels. This could provide necessary momentum. Here are three good reasons why now is a good time to put the focus on retail investing:

1. **Shifts in technology and emergence of new platforms:** it is easier than ever for people to access equity markets. The emergence of platforms and brokers using technology and offering apps has flattened the world of investment. Buying and selling shares can now be done at people's fingertips. New innovations such as fractional shares have enabled people to benefit from the growth of successful companies even when they cannot afford to buy a full share, and technology has brought the overall cost of engagement and finding information down.

   In an environment where too many people feel the most comfortable when they do not think about their finances at all, giving them access to stocks and shares via their smartphones in their pockets really moves the dial and is a great starting point for reconnecting people with the capital markets.

2. **A new kind of investor:** new investors are younger and more technologically savvy than they used to be. The average age of new Hargreaves Lansdown customers fell from 45 in 2012 to 37 in 2020. While recent experiences with GameStop, other 'meme stocks', and all sorts of cryptocurrencies do not really reflect the sort of engagement with financial instruments that is sensible for retail investors, they show that there is a renewed interest in investing. Something excites people about it, and there is an opportunity to translate this excitement into engagement with the capital markets and stocks and shares.

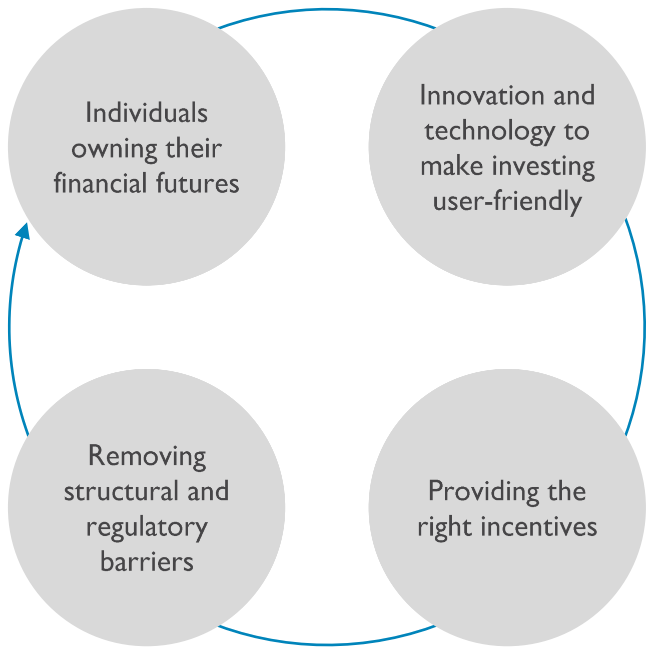
3. **The post-Brexit reform process:** the UK is at a turning point. Brexit provided the UK with an opportunity to recalibrate and tailor a rulebook written for 28 member states to the unique nature of UK markets and there seems to be appetite to include retail in the reform process.

   The good thing is that the EU is seizing the moment to reform its own markets, and while retail investing was an important element of the original CMU plans and led to the development of the EU's retail investment strategy, there is potential to do more. It is good to see that the IPO market is being reopened in both the UK and the EU, for example.

While investing in equity markets can have a positive impact on people's wealth in the long term, the current cost-of-living crisis poses a significant challenge to many people in the UK and across Europe. Rising grocery bills, mortgage payments, and rents led to a record outflow of savings in May 2023 in the UK, and more than a third of UK adults has no savings at all. At the same time, high inflation rates are acting as a catalyst for people to reengage with their money.

Encouraging people to invest more of their money when many are worried about paying their bills risks industry appearing a little out of touch, especially when most do not feel the financial services industry works for them in the first place. The industry needs to carefully tailor its public communication and guidance and clearly make the case for how it can help - particularly in challenging times. Now is an opportunity to bolster incentives and literacy for the inevitable upswing in people's disposable incomes.

Fig.10 What are the key building blocks to widen retail participation in equity markets?




### A few ideas to move the dial in the UK and other European countries

There is no silver bullet or magic wand that would help bring back the high levels of retail participation in equity markets that we saw in the UK a few decades ago, and wider retail engagement in European equity markets will not happen overnight, but there are a few essential building blocks that can help reconnect individuals and households with the capital markets. We make 12 recommendations to increase retail investor engagement and group them into four broad but interconnected themes (Fig.10).

1) **Individuals owning their financial futures:** i) a public campaign and call to action to 'take ownership' ii) helping people to save and invest at all stages of life iii) helping people to better understand and access finance and money

2) **Innovation and technology to make investing user-friendly:** i) using automated and tailored nudges to get people to think about their investment options ii) a digital (r)evolution to modernise the UK's shareholding framework iii) using open finance to provide people with a simple helicopter view of their assets and liabilities

3) **Providing the right incentives:** i) reviewing arbitrary burdens such as transaction taxes ii) providing clearer wrappers, vehicles, and incentives iii) getting people to engage more with the capital markets more broadly

4) **Removing structural and regulatory barriers:** i) finding the right balance between investor protection and empowerment ii) closing the advice gap iii) rethinking risk and returns

Getting these measures and cultural as well as regulatory and structural changes right would create a virtuous circle of more people investing more of their money, more capital supporting more innovation and jobs, and more people directly benefitting from economic growth.

### 1) Individuals owning their financial futures

The starting point for wider retail participation in equity markets is people who feel confident when it comes to their money, who have better knowledge of financial matters and financial markets, and who want to engage more with the capital markets and the economy.

**i) A call to action to 'take ownership':** too many people think the stock markets and investing are not for them. A public campaign calling people to take ownership can change that. There are plenty of examples of campaigns in the past that successfully made people consider buying shares for the first time: in the UK, 'Tell Sid' is remembered to this day; in the US, the NYSE's 'own your share of American business' campaign helped turn the country into a nation of investors; and outside of the Anglo-Saxon capitalist world, the Swedish governments of the 1960s and 1970s had the ambition to get households to benefit from economic gains more and worked with the financial sector to destigmatise capital markets and set up large pension funds that would connect households with the stock markets.

It is particularly helpful to launch campaigns when they can be tied to specific moments in time, making people more receptive to an education and information push. In the UK, 'Decimal Day' marked the day when the UK's currency went decimal and it was paired with posters, education booklets, and introductory packs of the new currency. The introduction of the euro was another one of those moments.

The upcoming 'dematerialisation moment' in the UK will provide a great opportunity to launch a wider public information campaign to encourage more engagement with the capital markets and to encourage people to take ownership of their financial futures. It should be paired with a financial literacy and education push across the country - tailored to different life stages and situations - and come with a strong narrative on how people can be part of a reinvigorated UK economy. The campaign could be coordinated by the industry, supported by the government, and should have a strong focus on digital solutions and tools. Everyone wants to get on the property ladder, but it is time to start a nationwide conversation about the equity escalator.

Things are a little more fragmented and a little more complicated in the EU, but one objective for a renewed and refocused CMU under the next EU Commission could be to develop an EU-wide campaign highlighting how citizens in every corner of the EU can own their share of a growing EU economy. The campaign would be supported by tailored communication in every member state. As part of this, the benefits of bigger and deeper capital markets in Europe would need to be framed less in abstract and technical language (which EU bodies tend to do) and more in concrete and accessible terms such as 'this is what your investment can mean for your financial wellbeing and for jobs, innovation, and growth in your country and across the EU'.

**ii) Helping people to save and invest at all stages of life:** a more radical idea would be to reinvent and turbocharge savings accounts that can be set up for children. Governments could commit to seeding these accounts at birth with, say, £ / €1,000 on condition that the majority of this money has to be invested in the capital markets. Such a scheme could kickstart a culture of retail investment and would not only provide young adults with a decent pot of savings once they turn 18 but also raise billions of risk capital over the years to fund the high growth companies of the future. A digital-first approach to setting up this system that would link these accounts to people's national insurance numbers or digital IDs could prevent the issues around access and losing track that plague Child Trust Funds in the UK.

To continue the good habits later in life, employers could be encouraged to offer stock options or employee share purchase plans through employer-driven investment programmes. This would establish voluntary but incentivised mid-term savings plans for employees in addition to long-term saving via pension auto-enrolment.

**iii) Better understanding and better access:** better financial literacy and education on its own will not automatically lead to more engagement with the capital markets, but wider retail participation in equity markets is impossible without it. In the UK, around half of working-age adults have the numeracy levels of a primary school child; in the EU, three quarters of EU citizens are unable to answer more than three of five financial knowledge questions correctly.

In a world where people can (but probably shouldn't) day trade stocks at their fingertips, they need to be able to make active and informed choices, but too many lack the knowledge to do so. It is not a short term fix, but a concerted programme at scale at all levels - in schools, in workplaces, and at important moments in lives via financial health checks - and a better understanding of basic concepts of (inflation-adjusted) returns, investment, and risk would increase levels of engagement in investment and capital markets.

At the same time, it would be helpful to speak about money and financial markets not in terms of abstract numbers but in terms of what matters to people ('here's what you'll need for a comfortable lifestyle, here's a few specific examples of how a comfortable lifestyle might look like, here's where you are, and here's a few steps you should consider to increase your financial wellbeing and to get to that level of lifestyle'). Digital solutions and data can tailor lifestyle examples and recommendations to the specific circumstances of people.

## 2) Innovation and technology to make investing user-friendly

People need easier and better access to capital markets. The emergence of platforms and trading apps has been a very good first step. Applying digital solutions across all parts of the market and across key stages of people's investment journeys can further flatten the world of investment, reduce paperwork, and bring the cost of engagement down.

**i) Nudge, nudge:** behavioural economics can play a significant role to nudge people into making better decisions. Savers could receive an automated and tailored prompt to think about their investment options if their income or their bank balance goes above a particular level. (Taking the concept of the UK's new consumer duty rules and its principle of firms having to put their customers' needs first seriously, this is becoming an imperative, not an option.) To provide a second pair of eyes, a panel of certified financial experts could review the automated nudges which should then be implemented and disseminated by financial institutions without recourse to their customers.

**ii) A digital (r)evolution to modernise the UK's shareholding framework:** fifty years after the first email was sent it is difficult to grasp why the UK's financial system is still so reliant on paper, why share certificates still exist, and why issuers are still required to communicate with their shareholders on paper by default.

The UK's Digitisation Taskforce led by Sir Douglas Flint recently published its interim recommendations to digitise and modernise the UK's shareholding framework. When the government (current or future) reviews their implementation, it should follow three key principles: to improve the transparency and communication between issuers and investors (no matter whether they are ultimate beneficial owners or legal shareholders); to remove any rules and legislation that stand in the way of digitising the framework; and to use the 'demat moment' for a broader public information campaign to encourage more engagement with the capital markets.

This is a moment to think beyond merely fixing the plumbing. While not directly in the remit of the Digitisation Taskforce, the modernisation of the UK's shareholding framework should be used by all relevant public and private sector stakeholders as an opportunity as much as a case study to think about how applying smart and open data principles more holistically can upgrade and streamline other frameworks and processes.

**iii) A single point of access:** in both the UK and the EU various forms of pension dashboards are under development. In both markets it is taking a long time to set these up, and particularly in the UK delivery of the pension dashboard programme has been delayed again and again. But the idea has merit.

Learning the lessons of pension dashboards and expanding the principles of open banking to all financial products and services under the umbrella of open finance there needs to be a push for more digitisation in all areas of banking and finance to provide people with a simple helicopter view of all of their assets and liabilities. This could be inspired by Singapore's securities dashboard: enabled by digital ID and facilitated through open finance principles, the dashboard gives a full picture of the different securities people own and where they might hold them.

Expand this to including an overview of all assets and liabilities in one place (savings, investments, insurance, mortgage, pensions), pair it with personalised guidance based on data analysis and artificial intelligence, and you would put people in a pretty good position to take control of their finances.

## 3) Providing the right incentives

There is still a lot of friction in the investment process: people need to consider *where* to invest, but also *how* to invest, and how much they will get charged for it. Removing some of that friction while at the same time providing better incentives can make the thought of investing a lot less daunting.

**i) Reviewing arbitrary burdens such as transaction taxes:** there are various financial transaction taxes in place in the UK and in some EU member states. They effectively penalise trading (and, consequently, liquidity) in companies incorporated and/or listed in those countries, depress share prices, and increase the cost of equity. They can distort trading behaviour (in the case of dual listed stocks) and can have a disproportionate effect on retail investors who are less able to trade more complex, synthetic instruments which might not attract financial transaction taxes.

In the UK, for example, the paradoxical consequence is that retail investors pay stamp duty when they buy shares in AstraZeneca or BP but not when they buy shares in Apple or Tesla. At a time when rebooting the UK's capital markets is very high up on everyone's agenda it seems odd and counterproductive to penalise those who choose to invest in British companies.

Abolishing stamp duty altogether would be the most straightforward option, but the impact on public finances would be significant. For reference, tax income from stamp duty paid on share transactions in the 2022-23 financial year was £3.7bn, which is roughly the price tag on offering free school meals to all primary and secondary pupils. In the short term, targeted reliefs such as those that exist for AIM-listed stocks could be expanded to newly listed companies or to certain growth sectors and paired with commissioning economic research into the implications of stamp duty paid on share transactions.

**ii) Providing clearer wrappers, vehicles, and incentives:** many retail investors in the EU would be happy to have access to something that looks like the UK's ISAs but that does not mean that the current ISA regime cannot be improved. With the UK government already looking at reforming ISAs, it should consider three key questions in doing so: how simplification can take place without creating an unnecessary burden on those that need to operationalise it (subsequently driving up costs); how tax incentives can be better aligned with public policy objectives; and how public perception and awareness of ISAs can be improved.

Too much choice can confuse consumers, especially when people are not as savvy with money as they could be. Folding cash ISAs and stocks and shares ISAs into one product could be a sensible first step before rethinking the ISA landscape more broadly and reviewing whether it would be better to have one type of ISA instead of four.

If the honourable aim of ISA simplification turns out to be too complex and costly to operationalise, another option could be to design incentives in a way that makes investing more attractive than merely putting savings into a cash ISA. While mandating investments is never a good idea, ISAs cost the Treasury more than £4bn in foregone revenue per year, and it is not unreasonable to think that there should be some form of quid pro quo. Tax breaks could be more generous for those who choose to invest a proportion of their savings, and there could be an extra bonus if a certain share is invested into UK listed equities. When PEPs (personal equity plans) were launched in the UK in the 1980s (effectively as the predecessors to ISAs), more than half of the holdings had to be invested in UK assets to qualify for the tax benefits.

Any reforms should also consider how to make investing via ISAs a more attractive and well-known option to people in the UK. As an anecdotal reference, many people in Sweden think that it is illegal to invest outside of an ISK, the Swedish equivalent to a stocks and shares ISA.

**iii) Getting people to engage more with the capital markets more broadly:** while this report focuses on direct and indirect retail participation in equity markets, ultimately we want more people to engage with the capital markets more broadly. In the UK, one way to achieve this would be to have an honest discussion about the current setup of workplace pensions. Despite their name, defined contribution 'pensions' are not so much a pension but a long-term investment account that comes with the added bonus of employer contributions and tax advantages. Many people do not know what happens once their contribution is taken off their payslips, but people need to be able and empowered to make active decisions about what to save in which way, for example through financial education and literacy programmes offered by their employers.

In the EU, auto-enrolment should be rolled out across the board to get more people to save and invest. Ireland will introduce auto-enrolment in 2024 and is expecting total savings to amount to around €25bn after ten years - a little more than €33,000 per worker - with the figure not including investment returns.
And in both markets, other 'less risky risk capital' asset classes such as retail government bonds should be made more accessible to retail investors to provide them with an easy entry into the world of investing in a relatively risk-free environment - ask Belgium, Italy, or Portugal who did this very successfully this year.

## 4) Removing structural and regulatory barriers

The latest global financial crisis showed that consumer protection is vital and necessary, but protecting retail investors to the point of exclusion puts them at a disadvantage and prevents them from accessing investment opportunities. Regulators in the UK and the EU need to continue rebalancing their approach to risk and returns.

**i) The right balance between access and protection:** too often, a too narrow understanding of consumer protection leads to the exclusion of retail investors from very sensible assets and activities in the capital markets when at the same time they can trade cryptocurrencies and other digital assets in a virtually unregulated, free for all environment. The good news is that policymakers and regulators appear to be moving on the issue and actively consult on removing barriers to retail participation. There will be some stumbling stones and pushback, as more people taking more risk will lead to some people losing money on an investment, but there are sensible balances to be struck.

For example, allowing wider retail participation in IPOs is a good first step that both the UK (via reform of the prospectus rules) and the EU (via the Listing Act) are taking, but they can go further and should consider asking issuers to always include retail investors in IPOs. Technology can make this as frictionless as possible. Following that, regulators should review all asset classes in equity as well as debt markets and assess where the exclusion of retail is appropriate and where it is not.

Another area where regulators have perhaps erred too much on the side of caution is rules around financial promotions. There is a question mark around whether the UK's famous 'Tell Sid' campaign would be permitted under today's financial promotion rules (some say it wouldn't be), and even a modern-day 'take ownership' campaign could end up being a lot less effective if any excitement is kicked out of it. The introduction of outcomes-based consumer duty rules is a good reason to review many of the more prescriptive rules-based regulations such as those around financial promotion.

**ii) Closing the advice gap:** people need to be able to access better guidance and advice to better make informed decisions around money and investments. Technology and open finance can facilitate this and provide a helicopter view of people's finances at lower cost, but regulation needs to allow this to be paired with personalised guidance or advice and tailored recommendations.

In the UK, government and the regulators should accelerate their work on reviewing the rules that separate guidance and advice, potentially embracing a third option of 'personalised financial guidance' to enable more people to engage with the capital markets. One could argue that consumer duty rules make the ban on inducements obsolete: if consumer duty is working as intended, there is no need to ban inducements as consumer duty on its own will prevent mis-selling.

And in the EU, while the debate around inducements has just been settled (more or less), any rules on financial advice need to take into account the fact that the levels of financial literacy and the maturity of retail investors diverge a lot between member states.

**iii) Rethinking risk and returns:** it feels like over the past decade or two the UK has been suffering from more and more risk aversion that acts as a significant barrier to more private investment in capital markets, and in many EU countries, this risk aversion is even more prevalent. For many individuals, investment equals risk and risk equals losing money. This loss aversion is very reasonable, particularly in the current cost-of-living crisis, but the problem with it is that people often spend too little thought on the returns side of the equation and overestimate the likelihood of losing money from investing especially over longer time horizons. This has created a vicious circle with much of regulation having been designed to virtually eliminate risk from the bottom up.

There are signs that this is changing. The new secondary growth and competitiveness objective for the UK regulators is an impetus for them to rethink their approach to risk. Perhaps an even better idea would be to expand existing objectives of regulators and supervisors in the UK and the EU to include outcomes-based mandates such as 'facilitating capital formation' (one of the SEC's mandates) or 'widening participation in banking and finance' which would introduce a rebalancing between protection and access.

It is difficult to say whether regulatory or cultural change needs to come first, but combining a more knowledgeable and confident investor base with a public information and education push and regulation that levels the playing field and reframes the risk debate around potential returns would create would be a pretty good starting point for a virtuous circle of more retail investment, more engagement, and better financial outcomes in the long run as we emerge from difficult macro-economic conditions.

NEW FINANCIAL
Rethinking capital markets

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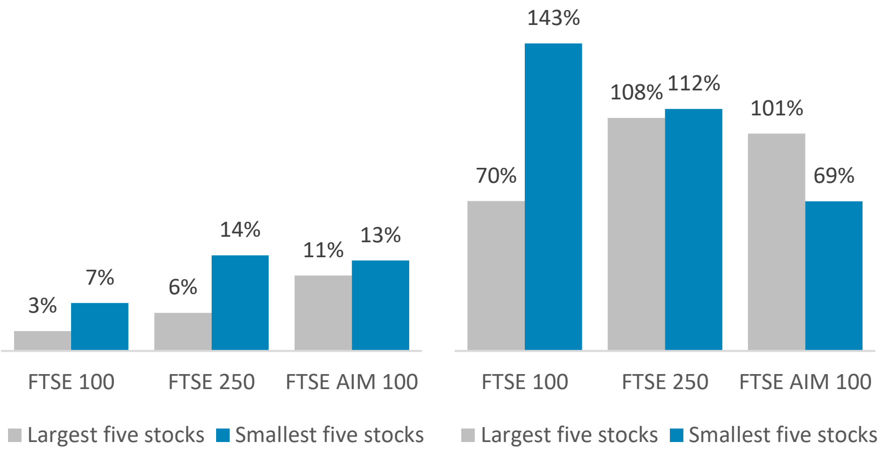
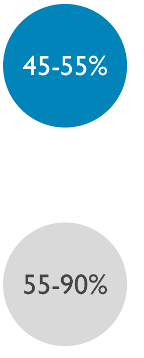
## Fig.11 Comparison between the degree of retail ownership and trading volumes of UK-listed equities

The estimated average ownership by UK retail investors of a selection of UK-listed equities in % and the average volume traded from April 2022 to March 2023 as a share of all common shares outstanding

i) Average estimated share of ownership by UK retail investors

ii) Average estimated annual volume traded as a share of all common shares outstanding




Estimated share of the total trading volume in FTSE 100 stocks that is traded through the London Stock Exchange

Estimated share of the total trading volume in FTSE AIM 100 stocks that is traded through the London Stock Exchange

*Source: New Financial analysis of S&P Global Market Intelligence, London Stock Exchange, and XYT data*
*Note: stocks included in sample are AZN, SHEL, HSBA, LVR, BP, FRAS, RS1, PSN, ABDN, JMAT (FTSE 100); HIK, DPH, MKS, DPLM, HWDN, LIO, CMCX, CPI, SYNT, GROW (FTSE 250); JET2, BUR, FEVR, EMIS, KWS, JSE, LBG, I3E, HOTC, WJG (FTSE AIM 100)*

### A positive impact on liquidity?

We tried to measure the impact of retail investors on the functioning of public markets and liquidity - but it is surprisingly difficult and resulted in a nonconclusive outcome.

Fig.11 indicates that i) retail ownership is higher and matters more at the smaller end of the market ii) retail activity should have a bigger impact on the liquidity of smaller stocks which in turn would improve their price formation and reduce the cost of equity iii) we need much better data to fully evidence the positive (or any) impact on liquidity.

We are grateful to Hargreaves Lansdown and Interactive Investor who went out of their ways to try and support this analysis, but our sample size is just too small to calculate robust correlations and it cannot evidence causation. Better, joined-up data provided by all relevant market participants (platforms/brokers, trading venues, market makers) could help make a stronger case for the value of retail participation in public markets and its impact on market functioning.

Our sample includes the five largest and smallest stocks by market cap as of 24 August 2023 in the FTSE 100, FTSE 250, and FTSE AIM 100 excluding investment trusts, companies for which we could not access their share register, and companies that only started trading during the FY2022/23. We identified 50 nominee accounts used by the UK's largest stock brokers and estimate the degree of ownership by UK retail investors by calculating the percentage of shares that is held in these nominee accounts. (This approach undercounts the true degree of retail ownership as the 50 nominee accounts cover a large part of the UK retail market but not *all* UK retail investors and *no* foreign retail investors.) We estimate the total trading volume in a stock based on figures reported by the London Stock Exchange and XYT data on trades done through other venues.