Finance Denmarks recommendation on savings and investment accounts

FINANCE DENMARK

Memo

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Finance Denmark supports the European Commission's initiative to develop a blueprint for savings and investment accounts (SIAs). We welcome the objective of mobilising more household savings into investments and believe that SIAs, if designed appropriately, can play a key role in achieving this goal.

An SIA is just one piece of the comprehensive national tax and pension system. For successful implementation, member states must be able to adapt the SIA to fit within the rest of the system. It is therefore crucial that the blueprint is sufficiently flexible and that any specific features are based on best practices, ensuring that no existing SIA becomes less favourable than it is today, as this would undermine the blueprint's purpose.

Experiences from Denmark and across the Nordic region, as outlined in the attached Nordic financial sector input paper, show that SIAs can foster a stronger investment culture by simplifying the investment process and offering attractive tax incentives. However, when restrictions are imposed on the use of the accounts, such as the size of deposits, geographical exposure, eligible assets, or holding periods, the SIAs become less attractive to households, making them less inclined to invest their savings. As concluded by New Financial in their report "*Designing Savings and Investment accounts in the EU*", the most successful SIAs are those who are simple and have no or minimal restrictions: "*The most successful accounts in our sample are simple to use; allow savers to invest in a broad range of assets (including cash); have no or reasonably high deposit limits; have no withdrawal restrictions such as minimum holding periods; and have an attractive tax incentive.*"

To ensure that the SIAs will be effective in mobilising household savings, the following best practices should be considered when designing the accounts' features:

1. No or a significantly high deposit limit: To ensure that SIAs will effectively transform household savings into productive investments, a deposit limit, if any, should be substantial.

2. Broad range of eligible assets: Households are a diverse group of potential retail investors. To appeal to a wide range of households with varying risk profiles and investment objectives, SIAs should entail a broad selection of eligible assets, including, but not necessarily restricted to, listed shares and bonds, and all UCITS, ELTIFs, and retail AIFs.

3. No geographical restrictions: Retail investors already exhibit a strong home bias. Increasing retail investor participation will thus automatically lead to more investment within the EU. Adding geographical restrictions would introduce complexity, reduce flexibility, and deter retail investor participation.

4. No minimum holding period: Retail investors with both longer and shorter time horizons should be encouraged to invest their savings, with risk adjusted according to their time horizons. Introducing minimum holding periods or making tax benefits dependent on time horizon could render SIAs redundant in member states with comprehensive pension systems.

5. Tax incentives and simple tax rules: Complex tax rules discourage households from investing their savings. Tax rules for SIAs should be simple and easy to understand for inexperienced retail investors. Tax incentives, even modest ones, can encourage investment among households.

6. User-friendly tax reporting: Tax reporting is often complex and a barrier for retail investors. To attract inexperienced retail investors, SIAs should be user-friendly in terms of tax reporting. This can be achieved by either ensuring that tax declaration is easy for the account owners, e.g. by not having to declare transactions within the SIA, or by assigning the responsibility of tax reporting to the service providers of the SIAs.