Retail Investments in Europe

Wealth Allocation and ISA, ISK, PEA, PIR Role and Usage

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Contents

Preface

by **Andrea Vismara**

As part of the long-standing partnership between EQUITA and Bocconi – aimed at examining and fostering the development of capital markets – last year position paper – "European Financial Ecosystems. Comparing France, Sweden, UK and Italy", edited by the BAFFI Centre on Economics and Finance – identified a set of structural features common to the most well-developed capital market infrastructures.

The presence of domestic institutional investors, broad fiscal incentives designed to foster active retail participation, high levels of financial education, and pension systems predominantly structured around funded schemes are all hallmarks of the Swedish and UK ecosystems — markets where capital has been at the heart of public policy for decades.

Italy, regrettably, has none of these foundations in place. A bank-centric financial system, a pay-as-you-go pension model, and a deeply rooted household preference for government securities, real estate, and cash deposits have historically constrained the development of our markets. Institutional inaction has compounded the problem.

Encouragingly, recent years have brought a growing recognition of the strategic importance of capital markets, both at the European and domestic level. This shift owes much to the work of institutions such as the OECD and the European Commission, and to the contributions of policymakers such as Mr. Letta and Mr. Draghi, who have placed capital market development at the forefront of the competitiveness agenda.

In Italy, this renewed attention has translated into a number of meaningful regulatory initiatives, most notably the Capital Markets Law (Legge Capitali) and the revised Consolidated Law on Finance (Testo Unico della Finanza). Yet, despite Italian household savings being repeatedly cited as the country's most valuable economic resource — and as the natural foundation for deepening our markets and financing our growth — no substantive steps have been taken to invest these savings productively. The much-discussed "channeling of savings towards the real economy" remains, for now, aspirational. The only concrete initiative in this direction has been the National Strategic Fund sponsored by Cassa Depositi e Prestiti, which has nonetheless attracted only tepid participation from institutional investors and has yet to achieve meaningful scale.

Meanwhile, fiscal policy has moved in the opposite direction: the Tobin Tax has been doubled and the ACE (Aiuto alla Crescita Economica, or Allowance for Corporate Equity) — a key incentive for companies to access equity capital, including through public listings — has been abolished.

Time for action is now. The regulatory groundwork has been laid; Borsa Italiana and Consob have streamlined their processes; and the European Union has intervened constructively through the Listing Act. But sound regulation alone is insufficient in the absence of listed companies, active investors, and strong intermediaries. Addressing these structural gaps has become increasingly urgent.

This year's research, through a comparative analysis of the same countries examined in 2025, clearly identifies pathways that have proven effective — approaches that could finally help Italian savers invest more productively while simultaneously channelling capital towards domestic businesses.

These are well-established solutions that require a long-term vision and a coherent industrial policy framework. Without concrete government commitment to this agenda, continuing to invoke Italian household savings as a national resource will ring hollow — it will remain rhetoric, nothing more.

The priority actions are relatively straightforward. First, the regulatory framework governing ordinary PIRs (Piani Individuali di Risparmio, or Individual Long-term Savings Plans) and alternative PIRs — launched successfully ten years ago — needs to be revisited and revitalised.

On ordinary PIRs, the situation is the following: distribution networks today use them almost exclusively to place fixed-income products, in direct contradiction with the original intent of the instrument, which was to promote equity investment. Alternative PIRs, meanwhile — many of which have adopted the European ELTIF legal structure — remain constrained by an overly narrow and outdated definition of eligible assets, one that has been wholly overtaken by the modernised ELTIF regulatory framework.

Second, Italy should follow the path set out by the European Union and move to implement Savings and Investment Accounts (SIAs), a model that has been adopted with remarkable success in Sweden and, in a different form, in the United Kingdom.

The research paper *"Retail Investments in Europe – Wealth Allocation and ISA, ISK, PEA, PIR Role and Usage"* — the thirteenth publication edited by Bocconi within its partnership with EQUITA — provides compelling evidence and actionable insights, confirming that mobilising retail investors is the right course of action, both in their own interest and in that of the broader economy.

These are the initiatives that must be placed at the centre of any credible capital market development policy. They are urgent and necessary — further delay is no longer an option. Without them, all the work undertaken to date risks being rendered entirely futile.

Executive Summary

Background and Scope. The report compares household wealth composition and portfolio allocation across Italy, the UK, France, and Sweden over 1998–2024, drawing on national balance sheet data from Istat, ONS, INSEE, and Statistics Sweden (SCB). Part 1 analyses the financial versus non-financial asset split and within-portfolio allocation; Part 2 evaluates four tax-advantaged retail investment instruments: Italy's PIR, France's PEA, Sweden's ISK, and the UK's ISA.

Key Aspects.

- **European** households hold substantial **private wealth**, yet a disproportionately large share remains allocated to deposits, real estate, and insurance products rather than productive financial assets, creating a persistent "**equity gap**" that constrains both long-term household wealth accumulation and capital market development.
- Compared with the United States, European households remain significantly underexposed to equity markets: approximately **31%** of financial wealth is held in **currency and deposits** versus **37% in equities**, while U.S. households allocate roughly 14% and 47%, respectively, highlighting a structural imbalance in risk-bearing investment behavior.
- The European Commission's Savings and Investments Union identifies five primary **obstacles limiting retail participation** in capital markets: fragmented regulation, low financial literacy, high transaction and reporting complexity, limited investment products, and cultural preferences for low-risk savings vehicles.
- **Italy** exhibits the most pronounced historical bias toward non-financial wealth, with household portfolios traditionally concentrated in residential real estate and deposits; although **financial assets increased from 35% to 46% of total wealth between 2011 and 2023**, households remain comparatively conservative and underexposed to growth-oriented investments.
- The **UK** presents the **most balanced wealth composition**, with financial and non-financial assets approaching parity, largely due to a mature three-pillar pension system and automatic enrollment reforms that systematically channel household savings into financial markets.
- **France** exhibits the most stable household wealth structure among the countries examined, maintaining a remarkably **constant allocation** between financial and non-financial assets **across multiple economic cycles**, reflecting strong homeownership culture, favorable housing taxation, and gradual institutional evolution.
- **Sweden** demonstrates the **strongest equity culture in Europe**, combining high and resilient equity participation with substantial liquidity buffers, suggesting that long-term investment behavior is supported not only by tax incentives but also by institutional design and financial norms.
- The **UK ISA** (1999) is the most mature and comprehensive retail investment instrument, with £726 billion in assets and complete tax exemption on both income and capital gains; its 39% adult penetration rate is among the highest across European schemes, though the dominance of Cash ISAs limits its contribution to equity market deepening.
- The **Swedish ISK** (2012) achieves the highest level of retail investment democratization, with a 52% penetration rate and 8% share of household financial wealth, driven by radical simplicity: a flat annual levy on portfolio value, no holding-period requirement, unrestricted contributions, and broad investment flexibility.
- The **French PEA** (1992) represents the most established equity-focused investment wrapper, accumulating approximately €115 billion in assets and 13% penetration, although its effectiveness is constrained by geographic restrictions, competition from life-insurance products, and a five-year lock-in requirement.

- The **Italian PIR** (2017) has generated limited adoption, with only 1.5% penetration and 0.5% of household financial wealth, reflecting a tension between generous tax incentives and restrictive domestic investment mandates that reduce diversification opportunities and discourage risk-averse investors.
- The comparative evidence suggests that **flexibility substantially increases household adoption,** as unrestricted withdrawals, broad investment universes, and the absence of lock-in periods better accommodate heterogeneous investor needs and liquidity preferences.
- **Simplicity and behavioral design** appear at least as important as tax generosity; reducing administrative burdens and minimizing decision frictions often produces larger effects on participation than increasing fiscal incentives alone.
- **Retail investment products** are more successful when **designed primarily around household financial behavior** rather than exclusively industrial policy objectives; Sweden's experience suggests that investor-friendly tools subsequently generate broader capital market benefits.
- The report proposes an **Italian adaptation of Sweden's ISK model** through a "Conto di Investimento a Tassazione Forfettaria," replacing traditional capital gains taxation with a simple annual presumptive levy designed to eliminate lock-in effects, simplify compliance, and encourage broader participation in equity markets.
- The central conclusion is that lower taxation alone is insufficient to transform retail investment behavior; successful systems require a **combination of tax efficiency, simplicity, flexibility, stable rules, and reduced behavioral frictions** to generate durable increases in household participation and capital market depth.

Initial Thoughts

European households hold substantial private wealth, yet a significant share of this wealth remains allocated to low-risk, low-yielding instruments such as bank deposits, real estate, and insurance-based products. This allocation pattern constrains the long-term accumulation of household wealth and reduces the volume of private capital available to support capital market development, corporate growth, and productive investment.

The magnitude of this gap is well documented. European households hold substantial financial wealth, yet their allocation to equity and risk-bearing assets remains significantly lower than in other developed economies, particularly the United States. According to European Central Bank data, as of 2023, European households held approximately 31% of their financial assets in currency and deposits, compared to only 14% in the United States (European Commission, 2025). Conversely, equity holdings (including both direct shareholdings and equity funds) represented only 36% of European household portfolios, compared to 47% in the United States. As discussed in the previous chapter, the "equity gap" has profound implications for economic growth, capital market development, and household wealth accumulation.

The European Commission's Savings and Investments Union (SIU) initiative, launched in 2024, explicitly recognizes the need to mobilize household savings toward productive investment (European Commission, 2025). The initiative identifies several structural barriers to retail investment participation, including: (1) fragmented national regulatory frameworks that impede cross-border investment; (2) insufficient financial literacy and investor education; (3) high transaction costs and complex tax reporting requirements; (4) limited availability of suitable investment products; and (5) cultural preferences for low-risk savings vehicles such as bank deposits and life insurance.

The issue is particularly relevant in Italy, where household wealth is high but financial portfolios remain conservative, with a persistent preference for deposits, government bonds, and real estate. Against this backdrop, tax-advantaged retail investment accounts have increasingly become a policy tool to encourage households to move from passive saving toward long-term investment.

The concept of retail investment accounts has a long history in developed economies. The United Kingdom pioneered this approach with the introduction of Personal Equity Plans (PEPs) in 1987, which were subsequently replaced by the more flexible Individual Savings Account (ISA) in 1999 (HM Revenue & Customs, 2025). France introduced the *Plan d'Épargne en Actions* (PEA) in 1992, explicitly modeled on the UK's PEP but with stricter geographic restrictions to channel investment toward European equities (Banque de France, 2023). Sweden's *Investeringssparkonto* (ISK) followed in 2012, introducing an innovative flat-rate taxation model that eliminated the need for transaction-level reporting (Swedish Financial Supervisory Authority, 2024). Italy's PIR, introduced in 2017, represents the most recent addition, with a specific focus on channeling retail savings toward Italian SMEs (Caselli and Zava, 2025).

These instruments reflect evolving policy priorities. Early schemes, such as the UK's PEP and France's PEA, emphasized broad-based equity ownership and long-term savings. Later iterations, including France's PEA-PME (2014) and Italy's PIR (2017), incorporated explicit industrial policy objectives, seeking to direct retail capital toward SMEs and domestic companies. Sweden's ISK, by contrast, prioritized simplicity and administrative efficiency, reflecting a different policy philosophy that emphasizes behavioral design over targeted allocation.

Retail investment accounts serve multiple, sometimes competing, policy objectives. The first is enhancing household wealth accumulation: by increasing after-tax returns, these instruments aim to improve long-term financial security for households, particularly in the context of aging populations and pressures on public pension systems (Fernández-López et al., 2010). The second is deepening capital markets, as increased retail participation enhances market liquidity, reduces volatility, and broadens

the investor base, contributing to more resilient and efficient capital markets (Panetta, 2006). Third, several schemes explicitly seek to channel retail capital toward smaller companies that face greater difficulty accessing bank financing (notably France's PEA-PME and Italy's PIR) thereby financing SMEs and growth companies (Cicchiello et al., 2019). Finally, by making equity investment more accessible and tax-efficient, these instruments aim to normalize stock market participation and enhance financial literacy; social comparisons and peer information can further increase savings contributions in this regard (Beshears et al., 2015).

However, the effectiveness of retail investment accounts in achieving these objectives remains contested. Empirical evidence from the United States, United Kingdom, and Denmark suggests that such schemes often result in asset reshuffling rather than net new savings, with benefits accruing disproportionately to wealthier households (Attanasio et al., 2004; Chetty, 2014). Thus, the need for a widespread and accessible equity culture arises as a social responsibility.

It is against this backdrop that this report compares the structure and effectiveness of four European retail investment instruments: Italy's PIR, France's PEA, Sweden's ISK, and the United Kingdom's ISA. The objective is not only to assess their tax treatment, but also to understand how design features such as simplicity, flexibility, investment restrictions, contribution limits, and holding-period requirements influence household adoption.

In this context, the report examines four major European economies that represent distinct institutional models: Italy (Mediterranean, PAYG-dominated, low equity participation), the United Kingdom (Anglo-Saxon, multi-pillar pensions, deep capital markets), France (Continental European, high savings rate, sophisticated financial product ecosystem), and Sweden (Nordic, universal welfare plus mandatory funded pension, exceptional equity culture). The analysis covers 1998–2024 and is structured in two parts: aggregate wealth composition and within-portfolio allocation (Part 1), and a comparative assessment of four tax-advantaged retail investment instruments (Part 2).

Within the financial portfolio, the four countries display equally pronounced heterogeneity. Deposits remain the dominant financial instrument in Italy and France, reflecting risk aversion, limited financial literacy, and the historical availability of high-yielding postal savings products. The 2023 Italian rotation into government bonds represents a partial but significant departure from this pattern, driven by yield differentials rather than a structural shift in preferences (Cocco et al., 2005; Guiso et al., 2008).

In the UK and Sweden, insurance and pension products account for the largest share of financial assets, consistent with the prominence of funded pension pillars in both countries. Equity holdings (both direct and through funds) are substantially higher in Sweden and the UK than in Italy and France, reflecting differences in equity culture, pension design, and the availability of tax-efficient investment wrappers.

Pension system architecture emerges as the overarching institutional determinant. Countries with generous PAYG public pensions (Italy, France) exhibit lower private financial asset accumulation because households rationally reduce voluntary saving when future retirement income is largely secured through public transfers (Giannetti & Laeven, 2009; Gomes & Michaelides, 2005). Conversely, the partial shift toward funded pensions in the UK and Sweden has expanded the stock of private financial assets and deepened equity market participation, with positive feedback effects on capital market liquidity and corporate governance (Giannetti & Laeven, 2009).

The second chapter has provided a comprehensive comparative analysis of four major retail investment accounts in Europe: Italy's PIR, France's PEA/PEA-PME, Sweden's ISK, and the United Kingdom's ISA. These instruments represent distinct policy approaches to encouraging household participation in capital markets, with significant differences in design, scope, restrictions, and effectiveness.

The four instruments embody different resolutions of a common set of design trade-offs. On tax structure, the ISA offers the purest exemption; the ISK the most innovative (and administratively simple) flat-rate approach; the PEA and PIR a conventional deferred-exemption model conditional on holding periods. On investment universe, the ISK and ISA impose no domestic restrictions, maximising diversification, while the PIR's 70% Italian mandate and the PEA's EU-equity requirement reflect explicit capital market development objectives. On liquidity, the ISK and ISA impose no lock-in, while the PIR and PEA require five-year holding periods for full tax benefit: a constraint that reduces flexibility and may deter participation among households with uncertain liquidity needs.

The analysis reveals a clear hierarchy of success. Sweden's ISK emerges as the benchmark for retail investment democratization, achieving a 52.3% penetration rate and 7.8% share of household financial wealth through a combination of simplicity (flat-rate taxation), flexibility (unlimited contributions, no holding period), and broad asset eligibility (no geographic restrictions). The UK's ISA achieves the highest penetration rate (39.2%) and substantial accumulated assets (£726 billion), though its impact on equity market deepening is constrained by the shift toward Cash ISAs. France's PEA represents a moderately successful model, with €115 billion in assets and 13.4% penetration, though its impact is limited by competition from life insurance and geographic restrictions. Italy's PIR has achieved minimal success, with only 1.5% penetration and 0.5% of financial wealth, reflecting the challenges of combining generous tax treatment with restrictive allocation mandates and low equity culture.

Several key lessons emerge from the comparative analysis:

- **Flexibility enhances participation**: Unlimited contributions (ISK), no holding period requirements (ISK, ISA), and broad asset eligibility (ISK, ISA) accommodate investors with varying needs and preferences, driving higher adoption.
- **Simplicity and behavioral design are at least as important as tax schemes**: The ISK's flat-rate model and the ISA's absence of holding period requirements demonstrate that reducing compliance costs and behavioral barriers is critical for mass adoption. Easiness of distribution is also essential.
- **Investor-friendly tools, not only capital markets tools**: Sweden's success with the ISK reflects decades of policies promoting equity ownership, including pension system reforms and financial education. Investor friendly tools are designed on family needs, and only later matched with capital markets objectives.
- **Long-term policy stability is essential**: The PEA's 30-year track record and the ISA's 25-year history demonstrate that building a successful scheme requires sustained commitment and predictable rules.

Therefore, we propose an alternative retail investment instrument that could meaningfully favour equity investment in Italy and address these structural imbalances. The **Italian ISK (Conto di Investimento a Tassazione Forfettaria)**, adapts Sweden's Investeringssparkonto model by replacing realization-based capital gains taxation with an annual presumptive tax on total portfolio value, calculated as (ECB reference rate + 1%) × 30%, i.e., approximately 1.2% under current rate conditions. This structure eliminates the lock-in effect inherent in conventional capital gains regimes, simplifies compliance, and encourages active portfolio rebalancing. Both instruments are geographically bounded to European Economic Area (EEA) assets, in alignment with the European Commission's Savings and Investments Union objectives, ensuring that the mobilization of Italian household savings is channelled toward European equity markets rather than dissipated into non-EEA vehicles.

For policymakers seeking to enhance retail participation in capital markets, the ISK model offers the most compelling template. Its flat-rate taxation eliminates compliance costs and lock-in effects, its unlimited contributions and withdrawals provide maximum flexibility, and its absence of geographic

restrictions allows optimal diversification. The ISK's success has made it a model for other European countries, with Luxembourg, Poland, and Ireland expressing interest in similar schemes.

However, the ISK model is not without challenges. Political debates about the generosity of the flat-rate levy and concerns about distributional effects have led to reforms, including the introduction of a tax-free threshold. Policymakers must balance the objectives of encouraging investment, ensuring adequate tax revenue, and addressing equity concerns.

The analysis is structured in three parts. The first section examines household wealth composition and portfolio allocation across Italy, the United Kingdom, France, and Sweden. The second section compares the main retail investment instruments adopted in these markets. The final section draws policy implications for Italy and proposes an alternative framework inspired by the ISK model. Three themes recur throughout, and shape the propositions developed in the conclusion: the relationship between the generosity of the tax treatment and the take-up of the instrument by households, the role of design features such as simplicity, flexibility, and the absence of behavioural frictions, and the tension between conceiving a retail investment account as an instrument of capital market development or as a household-facing savings product.

The comparative analysis presented in this chapter underscores a fundamental insight: **reduced tax, while necessary, is not sufficient for mass retail adoption of investment accounts**. Simplicity, flexibility, and the elimination of behavioral frictions are at least as important as the headline tax benefit. Sweden's ISK demonstrates that an instrument designed around the realities of household behavior, rather than around industrial policy objectives, can achieve transformative results in terms of equity market participation and capital market development. As European policymakers seek to close the continent's savings-investment gap, the ISK offers the most compelling template for a new generation of retail investment instruments.

Part 1. Overall Wealth Composition

1.1 Overall Wealth Composition: Financial vs Non-Financial Assets

The fundamental split between financial and non-financial assets in household balance sheets carries profound implications for financial flexibility, risk exposure, and economic stability. Non-financial assets, predominantly residential real estate, provide housing services, potential appreciation, and psychological security but remain illiquid, indivisible, and geographically concentrated. Financial assets offer liquidity, divisibility, diversification potential, and easier rebalancing but expose households to market volatility and require greater financial sophistication to manage effectively (Cocco, 2005; Cocco et al., 2005).

1.1.1 Italy: Gradual Rebalancing Toward Financial Assets

Italian household wealth exhibits a pronounced structural bias toward non-financial assets, predominantly residential real estate, reflecting deep cultural preferences for property ownership, favorable tax treatment of primary residences, and historical skepticism toward financial markets following multiple banking crises (Guiso et al., 2003; Pelizzon & Weber, 2008). As illustrated in **Figure 1** below, non-financial assets consistently represented between 54% and 65% of total household wealth over the 2005–2023 period, with significant cyclical variation driven by both market valuations and active portfolio reallocation.

Figure 1: Italy - Composition of Household Wealth: Financial vs Non-Financial Assets (2005–2023)

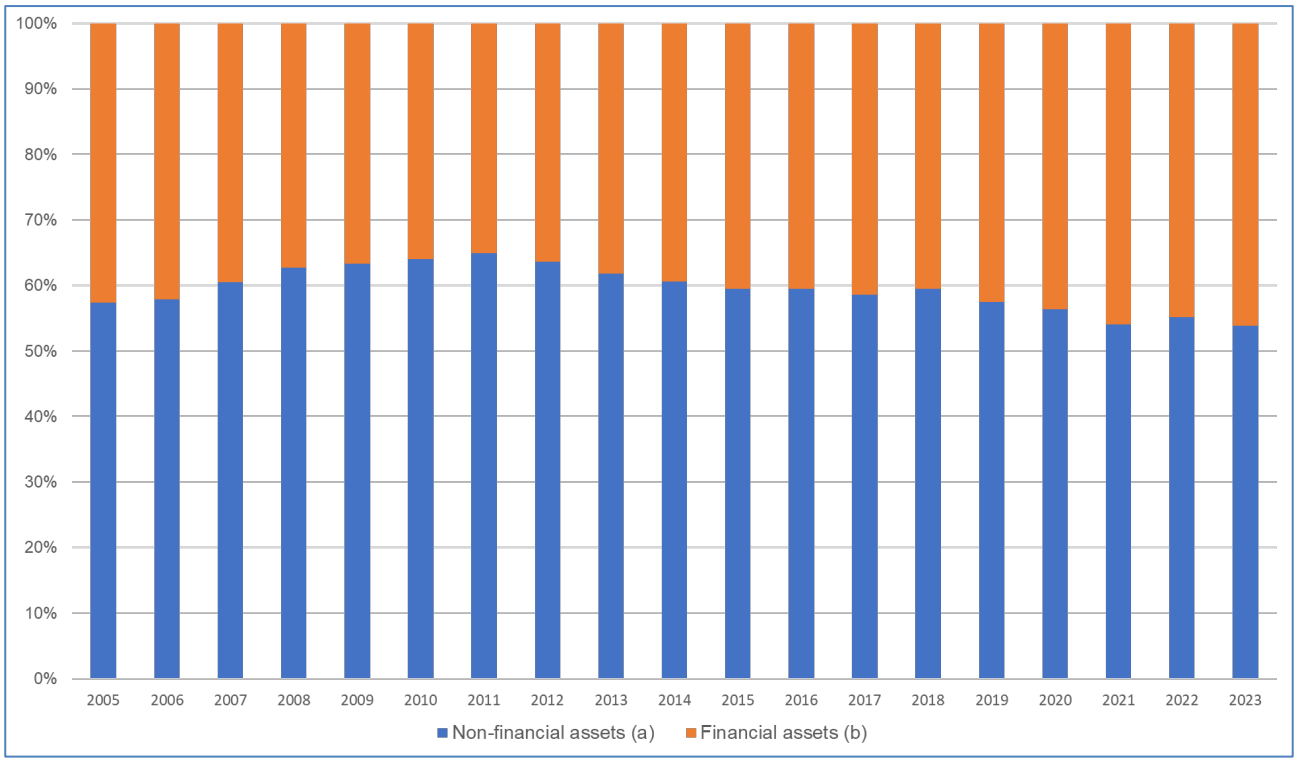


Figure 1 - Authors' elaboration based on data from Istat and Banca d'Italia - Italy Wealth Composition

The crisis-driven peak and subsequent rebalancing. The non-financial asset share peaked at 65.0% in 2011 during the acute phase of the European sovereign debt crisis, reflecting a confluence of factors. First, Italian equity markets and bond portfolios suffered severe valuation losses as sovereign spreads widened dramatically and bank stocks collapsed amid concerns about exposure to peripheral European debt. Second, households actively shifted toward perceived safety, reducing financial asset holdings and maintaining or increasing real estate investments despite weak housing markets. Third, the denominator effect amplified the shift, as financial asset values declined, the non-financial share mechanically increased even without active reallocation.

This 2011 peak represents more than a statistical artifact; it reveals fundamental vulnerabilities in Italian household balance sheets. The concentration in illiquid real estate during a period of economic stress limited households' ability to smooth consumption, adjust to income shocks, or relocate for employment opportunities. The retreat from financial markets meant that households missed the subsequent equity market recovery, creating opportunity costs that persisted for years (Campbell et al., 2007).

The gradual recovery and its drivers. Subsequently, the non-financial share declined gradually to 53.8% by 2023, representing an 11.2% rebalancing over twelve years. This shift reflects multiple reinforcing dynamics:

Market appreciation effects. The strong performance of global equity markets during the 2010s, particularly the post-2016 rally and the dramatic 2020–2021 pandemic recovery, increased financial asset valuations faster than real estate appreciation. Italian equities, while volatile, participated in the global equity bull market, and Italian households' mutual fund holdings benefited from international diversification.

Active portfolio reallocation. Beyond passive valuation effects, Italian households actively increased financial asset allocations, particularly after 2019. The data show positive net flows into equity mutual funds, increased direct equity purchases, and, most dramatically, a surge into debt securities as interest rates normalized in 2022–2023. This active reallocation suggests changing risk perceptions, improved financial literacy, and possibly generational shifts as younger, more financially sophisticated cohorts accumulate wealth.

Policy and institutional factors. The European Central Bank's accommodative monetary policy during the 2010s compressed yields on traditional safe assets (bank deposits, government bonds), pushing households toward higher-yielding alternatives. Italian pension reforms gradually increased private pension participation, channeling savings into financial markets. The growth of online investment platforms and robo-advisors reduced barriers to equity market access, particularly for younger investors.

Demographic and generational dynamics. Younger Italian households, entering peak wealth accumulation years, exhibit different preferences than older generations. Having grown up with digital financial services, online trading platforms, and greater exposure to global investment opportunities, they show higher propensity for equity investing and lower attachment to traditional real estate concentration (von Gaudecker, 2015; Lusardi et al., 2017).

The financial asset trajectory. The financial asset share followed an inverse trajectory, reaching a low of 35.0% in 2011 before recovering to 46.2% by 2023. This 11.2% increase over twelve years represents substantial portfolio transformation. To contextualize this magnitude: for a household with €500,000 in total wealth, an 11.2% shift represents €56,000 moving from real estate to financial assets, a significant reallocation with profound implications for liquidity, risk exposure, and return potential.

The post-2020 acceleration in financial asset accumulation coincides with pandemic-related savings patterns (forced savings due to consumption restrictions, precautionary savings amid uncertainty) and the strong performance of equity markets during the recovery phase. Italian households accumulated substantial excess savings during 2020–2021, and the data suggest that a meaningful portion flowed into financial assets rather than real estate or consumption.

Why this rebalancing matters. The gradual shift toward financial assets carries multiple implications:

Enhanced financial flexibility. Higher financial asset shares improve households' ability to respond to income shocks, smooth consumption during economic downturns, and adjust portfolios as

circumstances change. Liquid financial assets can be drawn down during unemployment or health emergencies without the transaction costs and delays of real estate sales.

Improved diversification. Financial assets, particularly equity mutual funds with international exposure, provide geographic and sectoral diversification that real estate cannot match. This diversification reduces idiosyncratic risk and improves risk-adjusted returns over long horizons.

Greater exposure to market volatility. The flip side of diversification is increased sensitivity to financial market fluctuations. The 2022 equity market decline, driven by inflation concerns and monetary policy tightening, directly impacted Italian household wealth through financial asset valuations, a transmission channel that was weaker when real estate dominated portfolios.

Implications for monetary policy transmission. As financial assets grow relative to real estate, monetary policy affects household wealth through additional channels. Interest rate changes impact bond valuations, equity risk premiums, and the relative attractiveness of different asset classes, creating more complex and potentially more powerful transmission mechanisms than when wealth was concentrated in real estate with fixed-rate mortgages.

Capital market development. Increased household financial asset allocation supports deeper, more liquid Italian capital markets. Greater household participation provides stable long-term capital for Italian firms, reduces dependence on bank financing, and improves market efficiency through broader price discovery.

1.1.2 United Kingdom: Balanced Wealth Structure with Pension Dominance

The UK presents a more balanced wealth composition compared to Italy, though non-financial assets remain dominant, reflecting the country's status as a major financial center, its well-developed pension system, and extensive use of tax-advantaged savings vehicles. **Figure 2** demonstrates that over the 2017–2024 period, non-financial assets accounted for approximately 43–50% of total household wealth, substantially lower than Italy's 54–65% range and closer to parity between real estate and financial wealth.

Figure 2: UK - Composition of Household Wealth: Financial vs Non-Financial Assets (2005–2023)

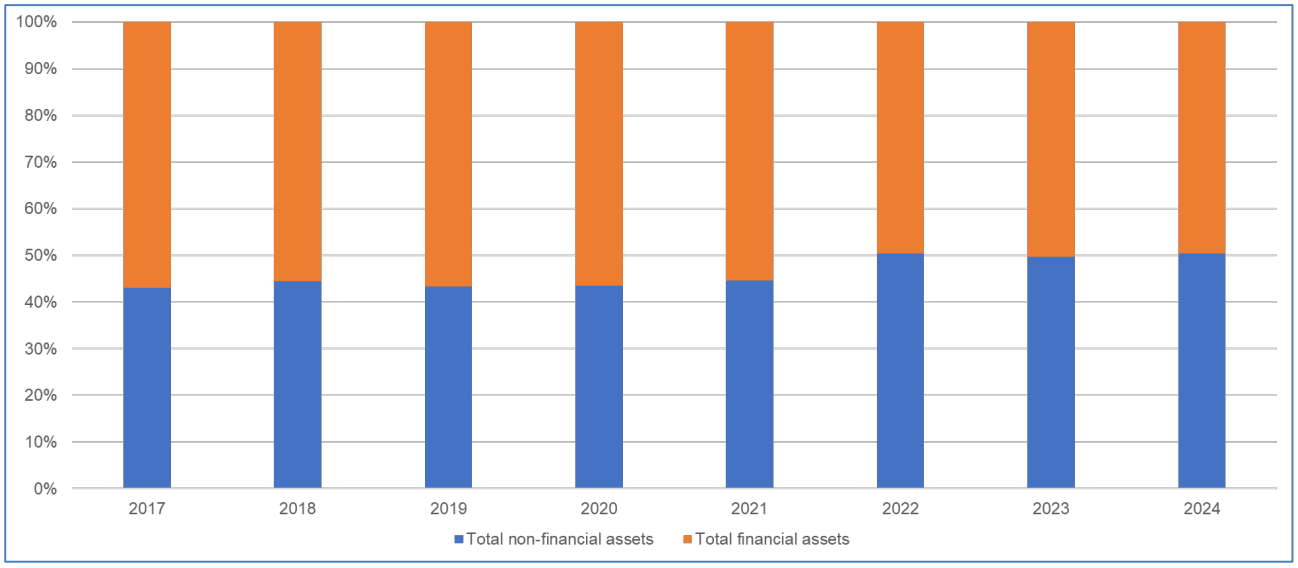


Figure 2 - Authors' elaboration based on data from ONS - UK Wealth Composition

The housing market cycle and its impact. The data reveal a notable increase in the non-financial share from 43% in 2017 to approximately 50% by 2022, level which is consistently maintained afterwards. This 7% increase over five years primarily reflects the sustained appreciation of UK residential property values during a period of strong housing demand, limited supply, and historically low interest rates.

Several factors drove this housing market strength:

Monetary policy accommodation. The Bank of England maintained near-zero interest rates from 2009 through 2021, with additional quantitative easing programs that compressed long-term yields. Low mortgage rates increased housing affordability (in terms of monthly payments, though not prices) and supported demand.

Pandemic-driven housing preferences. The COVID-19 pandemic triggered substantial shifts in housing preferences, with households seeking larger properties, outdoor space, and locations outside expensive urban centers. The "race for space" drove particularly strong price appreciation in suburban and rural areas during 2020–2021.

Supply constraints. The UK's restrictive planning system, limited new construction, and geographic constraints (particularly in Southeast England) created persistent supply-demand imbalances that translated into price appreciation.

Government support schemes. Programs like Help to Buy provided subsidized financing for first-time buyers, supporting demand particularly at the lower end of the market.

The subsequent moderation to 49.6% in 2023 reflects the impact of monetary policy normalization. As the Bank of England raised interest rates from 0.1% in late 2021 to 5.25% by mid-2023 (the fastest tightening cycle in decades), mortgage rates surged, housing affordability deteriorated, and price appreciation stalled or reversed in many markets. This cooling reduced the non-financial asset share through both valuation effects and potentially reduced net investment in real estate.

The financial asset structure. Financial assets correspondingly represented 50–57% of total wealth, with the share declining from 57% in 2017 to 50% in 2024. The UK's relatively higher financial asset share compared to Italy reflects several structural factors:

Pension system architecture. The UK's three-pillar pension system, comprising the state pension (basic public provision), occupational pensions (employer-sponsored schemes), and personal pensions (individual arrangements), channels substantial household savings into financial markets. The shift from defined benefit to defined contribution schemes over recent decades increased household exposure to financial market performance, as retirement income depends directly on investment returns rather than guaranteed benefits (Giannetti & Laeven, 2009).

Automatic enrollment success. The 2012 introduction of automatic enrollment in workplace pensions dramatically expanded pension participation, particularly among younger and lower-income workers who previously lacked coverage. By 2024, over 10 million workers had been automatically enrolled, channeling billions of pounds annually into pension funds invested primarily in equities and bonds (Daminato et al., 2024).

ISA utilization: Individual Savings Accounts, offering tax-free returns on both income and capital gains, have become a cornerstone of UK household savings strategy. With annual subscription limits of £20,000 (as of 2024), ISAs enable substantial tax-advantaged accumulation over time, supporting financial asset growth (von Gaudecker, 2015).

Financial sector depth. As a major global financial center, the UK benefits from sophisticated financial services infrastructure, competitive product offerings, and high levels of financial literacy relative to

many European peers. This infrastructure reduces barriers to financial market participation and supports higher financial asset allocations.

Why the UK's balanced structure matters. The near-parity between financial and non-financial assets creates distinctive dynamics:

Dual exposure to market cycles. UK households face significant exposure to both housing market and financial market fluctuations. The 2022 experience, with both equity markets declining and housing markets cooling, created negative wealth effects through multiple channels simultaneously, potentially amplifying consumption impacts.

Pension system vulnerabilities. The high concentration of wealth in defined contribution pensions creates retirement security risks, as individuals bear investment risk and longevity risk. Market downturns near retirement can dramatically reduce pension adequacy, and the complexity of decumulation decisions challenges many retirees (Gomes & Michaelides, 2005; Cocco et al., 2005).

Monetary policy transmission complexity. The balanced wealth structure creates multiple, potentially offsetting monetary policy transmission channels. Interest rate increases reduce housing wealth through lower prices but may increase pension fund income through higher bond yields. The net effect depends on household characteristics, age, and portfolio composition.

Intergenerational implications. The high housing wealth concentration among older households, combined with younger generations' difficulty accessing homeownership due to high prices, creates intergenerational tensions. Wealth transfers through inheritance become increasingly important for younger households' wealth accumulation, potentially reducing social mobility.

1.1.3 France: Remarkable Stability Through Multiple Cycles

France exhibits the most stable wealth composition among the four countries examined, with the split between non-financial and financial assets remaining remarkably consistent over nearly a quarter-century. As shown in **Figure 3**, non-financial assets consistently represented approximately 50–65% of total household wealth over the 1998–2022 period, while financial assets accounted for 35–38%.

Figure 3: France - Composition of Household Wealth: Financial vs Non-Financial Assets (2005–2023)

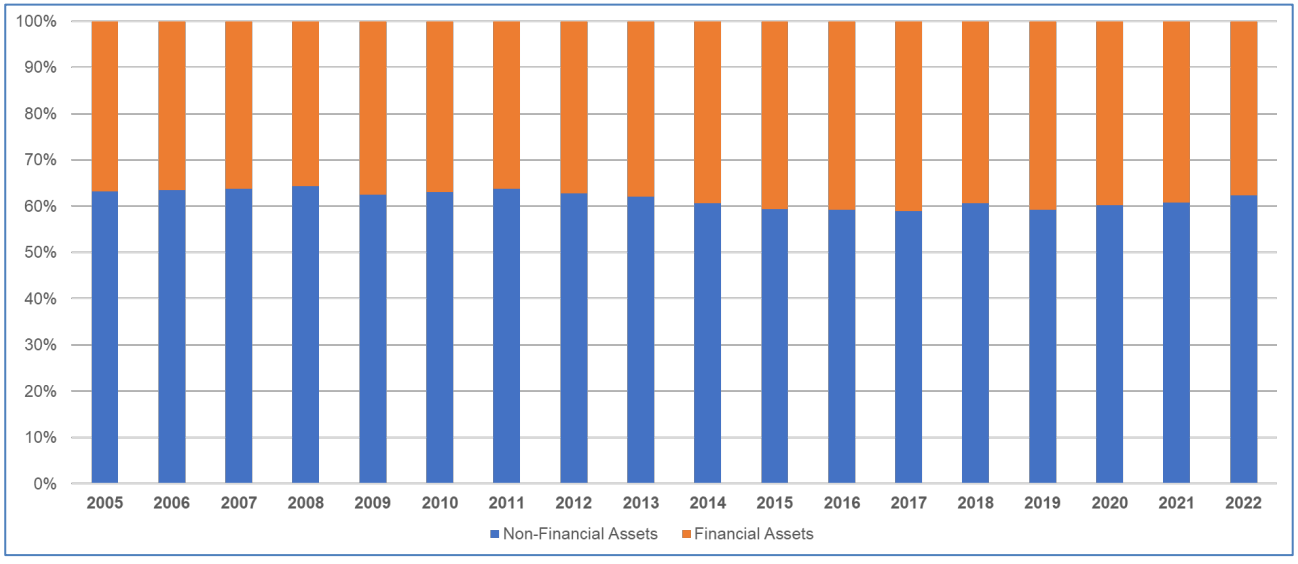


Figure 3 - Authors' elaboration based on data from INSEE - France Wealth Composition

Understanding the stability. This extraordinary stability, spanning the dot-com bubble, the 2008 financial crisis, the European sovereign debt crisis, and the COVID-19 pandemic, suggests deeply

entrenched household preferences and a mature equilibrium between real estate investment and financial market participation. Several factors explain this pattern:

Cultural attachment to property ownership. French households exhibit strong preferences for homeownership, particularly of primary residences, viewing real estate as both a consumption good (providing housing services) and an investment asset. The cultural ideal of "*la maison*" (the house) as a symbol of stability and family continuity reinforces this preference across generations.

Favorable tax treatment. French tax policy strongly favors primary residence ownership. Imputed rent (the theoretical rental value of owner-occupied housing) is not taxed, mortgage interest was historically deductible (though this has been phased out), and capital gains on primary residences are exempt from taxation. These provisions create powerful incentives for real estate concentration (Guiso et al., 2003).

Sophisticated financial services sector. Despite the real estate concentration, France maintains a sophisticated financial services sector offering diverse savings products tailored to different objectives and risk preferences. The coexistence of high real estate concentration with well-developed financial products suggests that households view these as complementary rather than substitutable.

Institutional stability. French financial institutions, regulatory frameworks, and savings products have evolved gradually rather than experiencing the dramatic disruptions seen in some other countries. This stability allows household preferences to reach equilibrium rather than constantly adjusting to institutional changes.

Balanced policy approach. French policy supports both homeownership (through *épargne logement* products, social housing programs, and tax incentives) and financial market participation (through assurance-vie tax advantages, employee savings schemes, and pension products). This balanced approach avoids creating extreme incentives in either direction.

The implications of stability. The remarkable consistency of French wealth composition carries several implications:

Predictability for policy design. The stability enables policymakers to design interventions with confidence about household responses. Unlike countries where wealth composition fluctuates dramatically, French policymakers can rely on relatively stable behavioral patterns when modeling policy impacts.

Resilience through crises. The fact that wealth composition remained stable through multiple severe crises suggests that French households maintain long-term perspectives and avoid panic-driven portfolio shifts. This resilience supports financial system stability and reduces pro-cyclical behavior that can amplify economic fluctuations.

Potential rigidity. The flip side of stability is potential rigidity. If economic conditions or policy objectives change substantially, the entrenched wealth composition patterns may prove difficult to shift. For example, if policymakers sought to increase equity market participation to support capital market development, the stable patterns suggest this would require sustained, substantial policy efforts.

Intergenerational transmission. The stability across decades suggests strong intergenerational transmission of wealth preferences and strategies. Children observe and often replicate their parents' approach to wealth allocation, creating path dependence that reinforces existing patterns.

Recent dynamics within the stable framework:

While the overall split remains stable, the composition within each category has evolved. Financial assets have shifted from traditional bank deposits toward assurance-vie contracts and employee savings schemes. Real estate wealth has become increasingly concentrated in primary residences as secondary home ownership has declined slightly. These within-category shifts suggest that households are adapting to changing conditions while maintaining the overall balance between real estate and financial wealth.

1.1.4 Cross-Country Comparison and Structural Drivers

Comparing wealth composition across the four countries reveals substantial variation that reflects deep structural differences in institutional frameworks, policy incentives, and cultural factors. **Table 1** summarizes the wealth composition as of the most recent data points:

Table 1: Household Wealth Composition by Country (Most Recent Year)

Country	Year	Non-Financial Assets	Financial Assets	Primary Driver of Non-Financial	Key Distinguishing Feature
Italy	2023	53.8%	46.2%	Residential real estate	Gradual rebalancing toward financial assets
UK	2024	50.3%	49.7%	Residential property, land	Near-parity; pension-dominated financial wealth
France	2022	62.0%	38.0%	Housing (primary + secondary)	Remarkable stability over 25 years

Table 1 - Authors' elaboration based on data from Istat, Banca d'Italia, ONS and INSEE

The 12% difference in non-financial asset shares between the UK (50%) and France (62%) represents substantial variation that requires explanation. Several factors drive these differences:

1. Pension system architecture:

The UK's three-pillar pension system, with substantial private pension accumulation, channels household savings into financial markets throughout working lives. French households, with a more generous pay-as-you-go public pension system, face less need for private pension accumulation and can allocate more wealth to real estate. Italian households, with an intermediate pension system, show intermediate financial asset shares.

This pension system effect operates through multiple channels. First, mandatory or automatic enrollment in workplace pensions creates forced savings in financial assets. Second, tax incentives for pension contributions (tax deductibility, tax-free growth) make pension saving more attractive than alternative uses of funds. Third, the long-term nature of pension saving encourages equity allocation, as the extended time horizon allows riding out market volatility (Perotti & von Thadden, 2006).

2. Tax treatment of housing vs. financial assets:

All four countries provide favorable tax treatment for primary residences (no taxation of imputed rent, capital gains exemptions), but the magnitude and scope vary. France's particularly generous treatment, combined with limited taxation of secondary residences, encourages real estate concentration. The UK's stamp duty (transaction tax on property purchases) and recent reforms to buy-to-let taxation have moderated real estate investment incentives. Italy's IMU (municipal property tax) creates ongoing costs of real estate ownership that may encourage financial asset allocation.

The tax treatment of financial assets also varies. The UK's ISA system provides generous tax-free savings opportunities (£20,000 annual limit with no lifetime cap). France's assurance-vie offers tax advantages but with more complex rules. Italy's financial asset taxation has been reformed multiple times, creating uncertainty that may discourage financial market participation (Kaplan et al., 2014).

3. Housing market characteristics:

Housing affordability, price volatility, rental market efficiency, and homeownership rates vary substantially across countries. The UK's high housing prices relative to incomes, particularly in Southeast England, create barriers to homeownership for younger households but generate substantial wealth for existing owners. France's more balanced regional housing markets and stronger tenant protections create viable alternatives to ownership. Italy's high homeownership rates (over 70%) reflect both cultural preferences and weak rental markets.

4 Financial market development and accessibility:

The UK's status as a global financial center provides households with sophisticated financial services, competitive pricing, and diverse product offerings. Sweden's well-developed capital markets and high financial literacy support equity participation. Italy's banking sector concentration and historical financial scandals may reduce household trust in financial institutions. France's specialized savings products provide accessible entry points but may also create complexity that discourages some households.

5. Cultural and historical factors:

Cultural attitudes toward risk, trust in financial institutions, and intergenerational wealth transmission patterns vary across countries. Swedish culture's acceptance of equity market participation, Italian households' historical preference for tangible assets following banking crises, British households' comfort with pension fund intermediation, and French households' attachment to homeownership all shape wealth composition in ways that transcend purely economic factors (Guiso et al., 2008).

These cultural factors prove remarkably persistent, often surviving policy changes and economic shocks. They operate through multiple mechanisms: parental influence on children's financial behavior, social norms about appropriate wealth management, and collective memories of historical events (banking crises, hyperinflation, property market crashes) that shape risk perceptions across generations.

1.2 Financial Asset Composition and Portfolio Allocation

While the previous section examined the overall split between financial and non-financial assets, this section provides granular analysis of how households allocate financial wealth across different asset classes. These allocation decisions reveal risk preferences, investment sophistication, time horizons, and the influence of institutional frameworks on household financial behavior.

1.2.1 Italy: Conservative Deposit-Oriented Portfolios and Recent Transformation

Italian household financial portfolios are characterized by high liquidity preference and conservative risk profiles, reflecting historical banking crises, limited financial literacy, and cultural preferences for capital preservation over growth (Pelizzon & Weber, 2008). However, recent years have witnessed substantial transformation as monetary policy normalization and generational shifts reshape portfolio allocation patterns.

Figure 4 provides a detailed breakdown of financial asset composition from 2005 to 2023, revealing several distinctive features:

Figure 4: Composition of Italian Household Financial Assets (2005–2023)

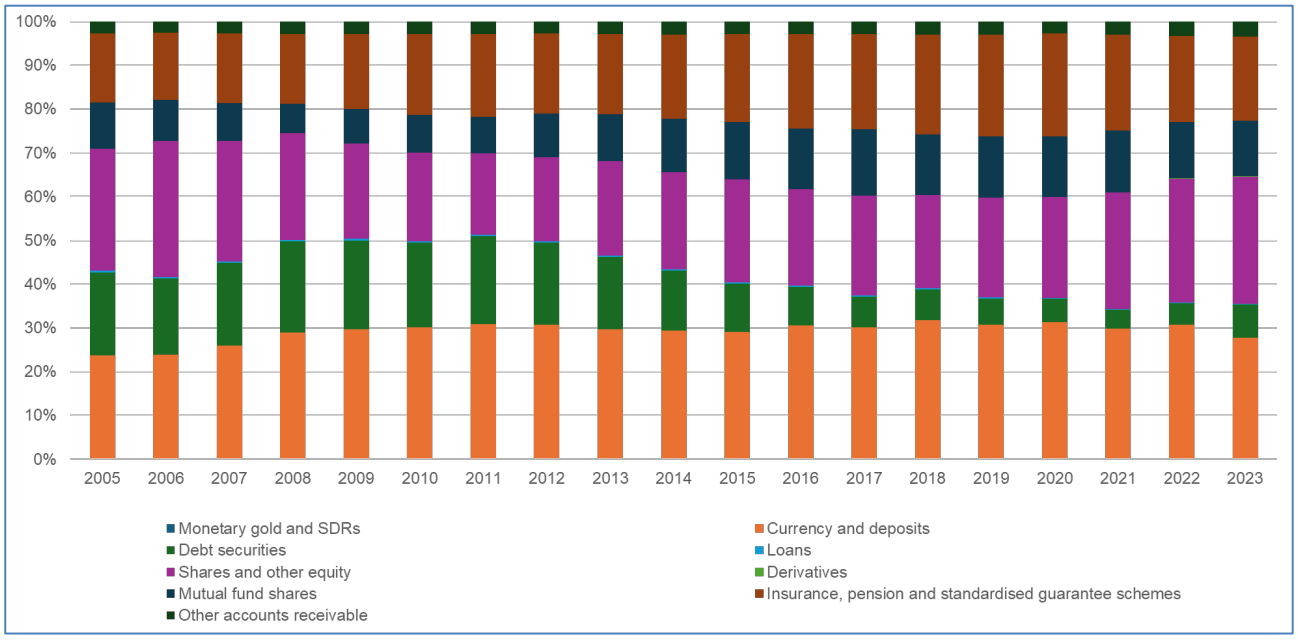


Figure 4 - Authors' elaboration based on data from Istat and Banca d'Italia - Italy Financial Assets Composition

Currency and deposits: The liquidity preference. Currency and deposits constitute the largest single category, representing approximately 24–31% of financial assets throughout the period. This high deposit allocation, substantially above levels in the UK or Sweden, reflects multiple factors:

Risk aversion and capital preservation. Italian households prioritize capital preservation over growth, particularly following the banking sector challenges of the 1990s and 2000s. Deposits offer perceived safety (reinforced by deposit insurance up to €100,000 per depositor per bank) and avoid the volatility of market-based investments.

Limited financial literacy. Surveys consistently show that Italian households exhibit lower financial literacy than peers in Northern European countries. Many households lack confidence in understanding equity markets, bond risks, or mutual fund structures, leading them to default to familiar deposit products (Lusardi et al., 2017; von Gaudecker, 2015).

Demographic factors. Italy's aging population includes many retirees who prioritize income stability and capital preservation over growth. Older households naturally gravitate toward deposits and away from volatile equity investments.

Banking sector structure. Italy's banking sector, historically dominated by local and regional banks with strong customer relationships, effectively channels household savings into deposits through branch networks and relationship banking. The convenience and familiarity of deposit products reinforces their dominance.

The deposit share increased notably during crisis periods, rising from 26% in 2007 to 31% in 2012 as households sought safety during the financial crisis and sovereign debt crisis. This flight to safety demonstrates how risk aversion intensifies during market stress, creating pro-cyclical behavior that can amplify economic fluctuations.

The subsequent stabilization around 27–30% in recent years suggests that deposits have found a new equilibrium level. However, the dramatic shift in 2023 (discussed below) indicates that this equilibrium is sensitive to interest rate conditions.

Insurance, pension, and standardized guarantee schemes. This category represents approximately 15–20% of financial assets, including life insurance products (which serve both protection and savings functions), private pension plans, and other long-term savings vehicles. The relatively modest share compared to the UK (where pensions dominate financial wealth) reflects Italy's pay-as-you-go public pension system, which provides generous benefits that reduce the need for private pension accumulation.

However, this category has grown gradually over the study period, reflecting several trends:

Pension reforms. Italian pension reforms over the past two decades have reduced public pension generosity and encouraged private pension participation. Tax incentives for pension contributions and the introduction of new pension products have supported growth.

Life insurance evolution. Italian life insurance products have evolved from pure protection toward investment-oriented products (unit-linked policies) that offer market exposure with insurance wrappers. This evolution has attracted households seeking equity exposure with perceived downside protection.

Aging demographics: As the population ages, demand for retirement income products and longevity protection increases, supporting insurance and pension product growth.

Shares and other equity: Volatility and recovery. Equity holdings (including both direct shareholdings and indirect exposure through mutual funds) fluctuated between 27–42% of financial assets, showing significant volatility related to market valuations. The category includes listed shares, unlisted equity (often family business stakes), and equity mutual funds.

The decline from approximately 28% in 2007 to 19% in 2012 reflects the combined impact of the financial crisis and sovereign debt crisis on Italian equity markets. The FTSE MIB index (Italy's main stock market index) fell from over 40,000 in 2007 to below 15,000 in 2012, a decline of over 60%, devastating household equity portfolios. Italian banks, which represented a large share of the index, were particularly hard hit by concerns about sovereign debt exposure and non-performing loans (Campbell et al., 2007; Calvet & Sodini, 2014).

The subsequent recovery to approximately 29% by 2023 reflects both market appreciation (the FTSE MIB recovered to over 28,000 by 2023) and active portfolio reallocation. Italian households, particularly younger cohorts, increased equity allocations through both direct purchases and mutual fund

subscriptions. The growth of online trading platforms, robo-advisors, and low-cost index funds reduced barriers to equity market access.

Why the equity allocation matters. The equity allocation level critically affects long-term wealth accumulation. Historical data consistently show that equities outperform bonds and deposits over long horizons (20+ years), though with higher volatility. Italian households' retreat from equities during 2007–2012 meant they missed the subsequent recovery, creating substantial opportunity costs.

Consider a household with €100,000 in financial assets in 2012. If allocated 20% to equities (the 2012 level), they would have had €20,000 in equity exposure. If instead allocated 30% (the 2023 level), they would have had €30,000 in equity exposure. Given the FTSE MIB's recovery from approximately 15,000 in 2012 to 28,000 in 2023 (an 87% increase), the additional €10,000 equity allocation would have generated approximately €8,700 in additional wealth, a substantial difference from a 10% allocation shift.

Debt securities: The dramatic 2023 surge. Debt securities showed a declining trend from approximately 19% of financial assets in 2005 to around 5% by 2020, as the European Central Bank's quantitative easing programs compressed yields to zero or negative levels. Italian government bonds (BTPs), traditionally a core holding for Italian households, became unattractive when 10-year yields fell below 1% and short-term yields turned negative.

However, the category then surged dramatically, increasing to 8% by 2023. This surge reflects the return of positive yields on government bonds following the European Central Bank's monetary policy normalization. As the ECB raised interest rates from -0.5% in mid-2022 to 4.0% by late 2023, Italian government bond yields rose correspondingly, 10-year BTP yields increased from approximately 1% in early 2022 to over 4.5% by late 2023.

Figure 5 highlights this adjustment, showing a 63.8% increase in the outstanding value of debt securities in 2023. Importantly, this figure reflects changes in stock values, incorporating both valuation effects and net investment flows, rather than a pure measure of portfolio reallocation.

Figure 5: Italy - Annual Growth Rates of Financial Asset Components (2019–2023)

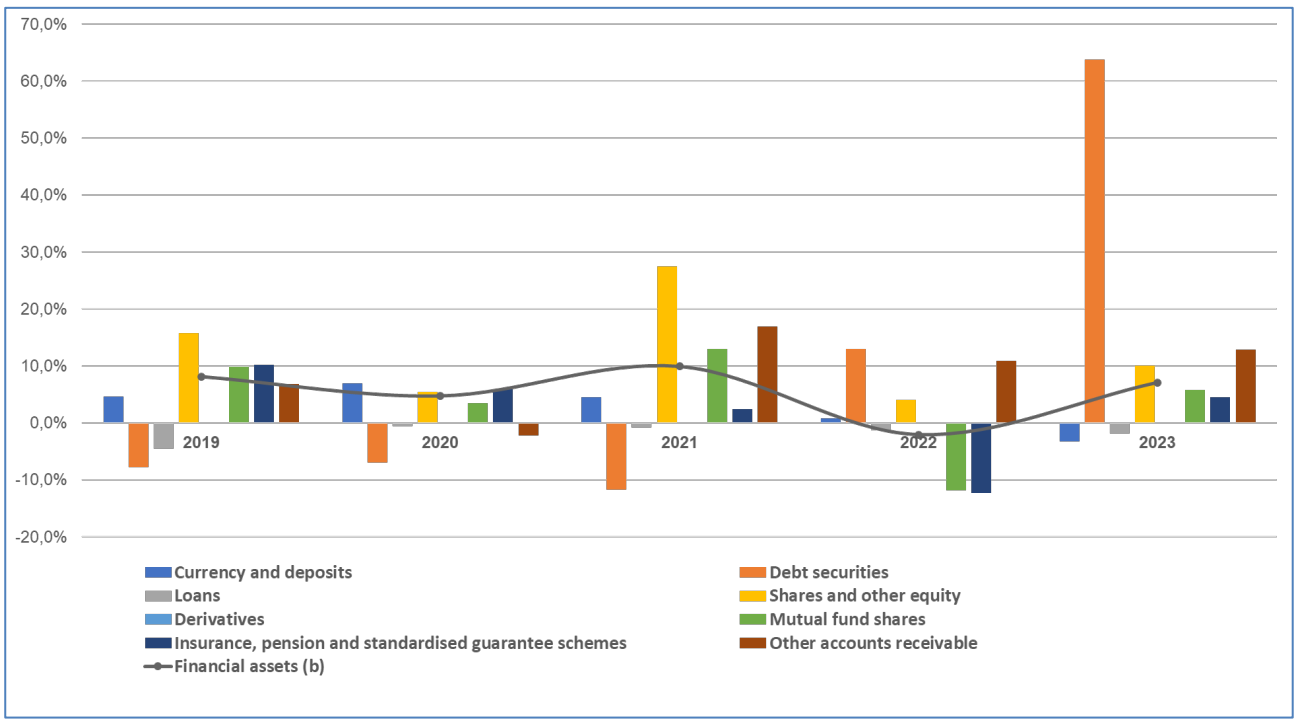


Figure 5 - Authors' elaboration based on data from Istat and Banca d'Italia - Italy Growth Rates

The monetary policy transmission channel. The 63.8% sharp increase in debt securities holdings in 2023, combined with the -3.2% contraction in deposits, is consistent with a rebalancing of household portfolios in response to changing relative returns. As interest rates rose, households shifted from zero-yielding deposits to higher-yielding bonds, creating a direct channel through which monetary policy affects household portfolio composition (Bach et al., 2020).

This transmission channel has important implications:

Effectiveness of monetary policy: The rapid portfolio reallocation suggests that Italian households are sensitive to relative returns and will adjust portfolios when incentives change. This sensitivity enhances monetary policy effectiveness, as interest rate changes quickly affect household behavior.

Financial stability considerations: The rapid shifts also create potential stability risks. If households have shifted into long-duration bonds to capture higher yields, they face interest rate risk, if yields rise further, bond prices will fall, creating mark-to-market losses. The concentration of household bond holdings in Italian government debt also creates sovereign risk exposure.

Banking sector implications: The deposit outflows create challenges for Italian banks, which rely on deposits for funding. Banks may need to raise deposit rates to retain customers or seek alternative funding sources, potentially affecting lending capacity and profitability.

Mutual fund shares: Professional management and diversification. Mutual fund shares maintained a relatively stable 7–15% (mean at 11%) allocation, providing households with diversified exposure to multiple asset classes through professionally managed vehicles. Italian mutual funds offer access to international equities, corporate bonds, and alternative assets that would be difficult for individual households to access directly.

The stability of mutual fund allocations, even during crisis periods, suggests that households view funds as long-term holdings rather than trading vehicles. This stability supports financial market stability, as fund managers can maintain long-term investment strategies without facing massive redemptions during market stress.

Portfolio allocation dynamics. Figure 6 illustrates the portfolio allocation dynamics through the lens of equity market participation versus deposit share, providing a complementary perspective on the data in Figure 4.

Figure 6: Italy - Household Portfolio Allocation: Equity Exposure vs Deposits Share (2005–2023)

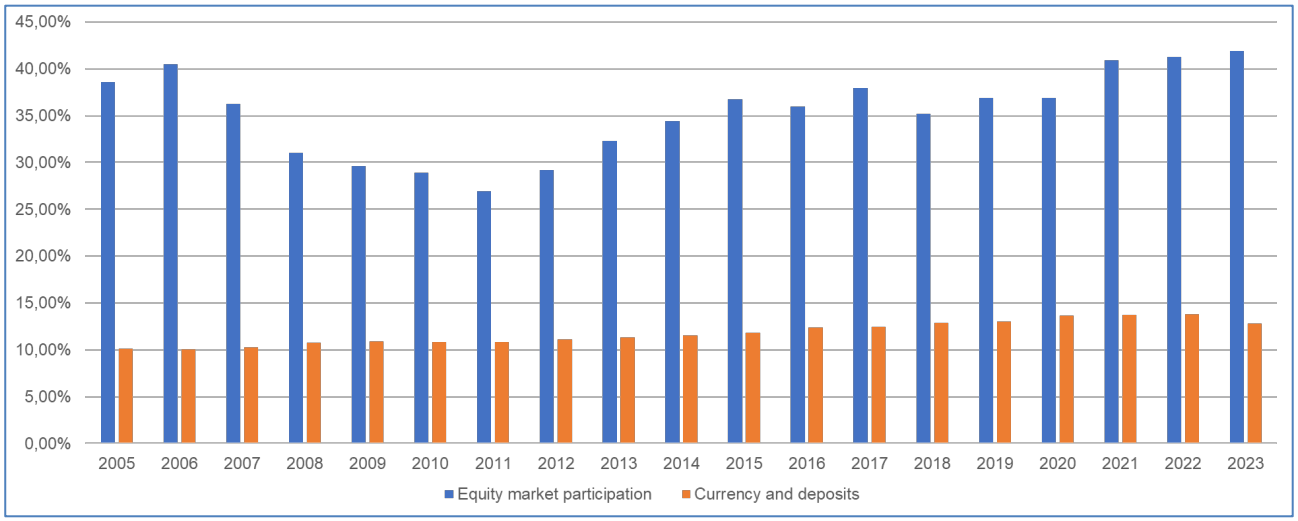


Figure 6 - Authors' elaboration based on data from Istat and Banca d'Italia - Italy Portfolio Allocation

The chart reveals the inverse relationship between equity participation and deposit holdings during crisis periods. As equity participation declined from 40% in 2006 to 27% in 2011, households shifted toward deposits and other safe assets. The subsequent recovery in equity participation to 42% by 2023 coincided with stable or declining deposit shares, demonstrating the portfolio reallocation dynamics.

Figure 7 tracks equity market participation over time with additional detail:

Figure 7: Italy - Equity Market Participation (2005-2025)

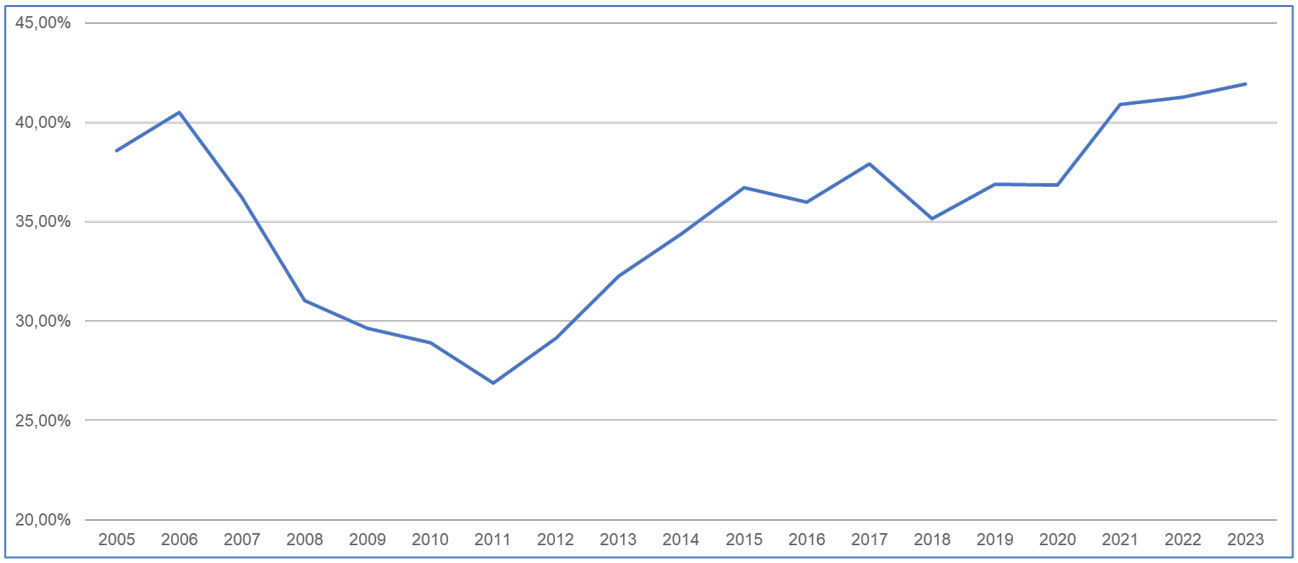


Figure 7 - Authors' elaboration based on data from Istat and Banca d'Italia - Italy Equity Participation

Implications for household welfare and policy. The Italian portfolio composition patterns carry several implications:

Opportunity costs of conservatism. The high deposit allocation and crisis-driven equity retreat created substantial opportunity costs. Households that maintained or increased equity exposure during the 2008–2012 crises benefited from the subsequent recovery, while those who retreated missed these gains.

Need for financial education. The patterns suggest that many Italian households lack the financial literacy and confidence to maintain long-term investment strategies during market stress. Financial education initiatives that help households understand risk-return trade-offs, diversification benefits, and the importance of long-term perspective could improve outcomes.

Pension system implications. The modest allocation to insurance and pension products, combined with public pension system challenges, raises concerns about retirement adequacy for future retirees. Policies that encourage private pension participation, through tax incentives, automatic enrollment, or simplified product design, may be necessary to ensure retirement security.

Capital market development. The gradual increase in equity and mutual fund allocations supports Italian capital market development, providing stable long-term capital for Italian firms. Continued progress in this direction would reduce Italian firms' dependence on bank financing and support economic growth.

1.2.2 United Kingdom: Pension-Dominated Financial Wealth and ISA Utilization

The UK financial asset composition reflects the country's mature pension system, extensive use of tax-advantaged savings vehicles, and sophisticated financial services sector. Unlike Italy's deposit-

dominated structure, UK financial wealth is heavily concentrated in pension and insurance products, with substantial equity exposure through both direct holdings and pension fund intermediation.

Figure 8 provides a comprehensive breakdown of UK household financial asset composition:

Figure 8: Composition of UK Household Financial Assets (2005-2023)

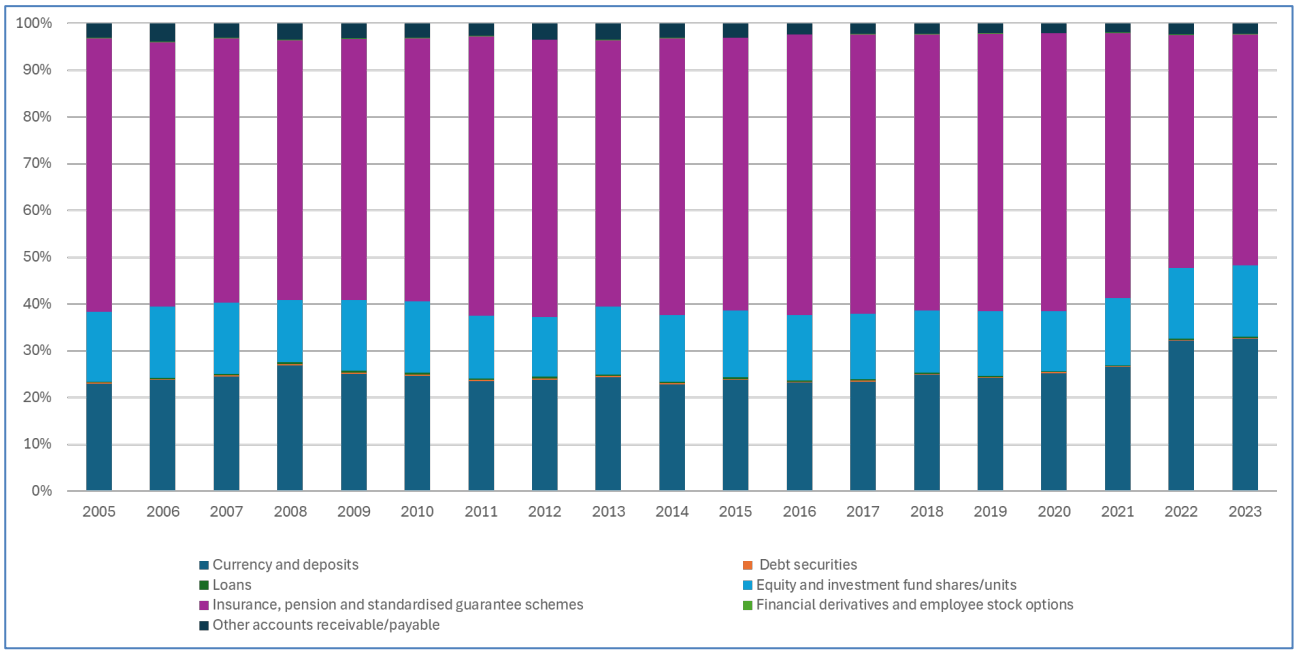


Figure 8 - Authors' elaboration based on data from ONS - UK Financial Assets

Pension and insurance dominance. Pension and insurance products represent the largest category of UK household financial assets, accounting for approximately 40–50% of financial wealth (the exact share varies by measurement methodology and data source). This dominance reflects several structural features:

Three-pillar pension system. The UK's pension system comprises the state pension (basic public provision), occupational pensions (employer-sponsored schemes), and personal pensions (individual arrangements). The combination of these three pillars channels substantial household savings into financial markets throughout working lives.

Defined contribution shift. The UK has experienced a dramatic shift from defined benefit pensions (where employers bear investment risk and guarantee retirement income) to defined contribution pensions (where individuals bear investment risk and retirement income depends on investment returns). This shift increased household exposure to financial market performance, as retirement security depends directly on portfolio returns (Cocco et al., 2005; Giannetti & Laeven, 2009).

Automatic enrollment success. The 2012 introduction of automatic enrollment in workplace pensions represented a transformative policy intervention. Under automatic enrollment, employers must enroll eligible workers in pension schemes with minimum contribution rates (8% of qualifying earnings as of 2024, split between employer and employee contributions). Workers can opt out but must actively choose to do so.

The automatic enrollment policy has been remarkably successful, with over 10 million workers enrolled by 2024 and participation rates among eligible workers exceeding 85%. The policy leverages behavioral economics insights about default effects and inertia, most workers remain enrolled despite the option to opt out. This success demonstrates the power of well-designed choice architecture in shaping household financial behavior (Daminato et al., 2024).

Tax advantages. Pension contributions receive generous tax treatment. Contributions are tax-deductible (providing immediate tax relief at the individual's marginal rate), investment returns grow tax-free within the pension wrapper, and 25% of the accumulated pension pot can be withdrawn tax-free at retirement (with the remainder taxed as income). These tax advantages make pensions highly attractive relative to alternative savings vehicles.

Why pension dominance matters. The concentration of financial wealth in pensions creates distinctive dynamics:

Retirement security dependence on markets. UK households' retirement security depends heavily on financial market performance, particularly equity markets where pension funds maintain substantial allocations. Market downturns near retirement can dramatically reduce pension adequacy, creating retirement security risks.

Illiquidity and inflexibility. Pension wealth remains largely inaccessible until retirement (typically age 55 or later), creating illiquidity that limits households' ability to respond to pre-retirement financial shocks. While this illiquidity supports long-term saving, it also creates hardship for households facing unemployment, health emergencies, or other financial stress.

Complexity and engagement challenges. Defined contribution pensions require individuals to make complex decisions about contribution rates, investment allocation, and decumulation strategies. Many individuals lack the financial literacy and confidence to make these decisions effectively, potentially leading to suboptimal outcomes.

Intergenerational implications. The shift from defined benefit to defined contribution pensions transfers risk from employers to individuals and creates greater variation in retirement outcomes. This variation may exacerbate inequality, as financially sophisticated individuals with higher incomes achieve better outcomes than less sophisticated, lower-income individuals.

Equity market participation. UK households maintain significant equity exposure through both direct holdings and pension fund intermediation. **Figure 9** and **Figure 10** provide insights into portfolio allocation patterns:

Figure 9: UK - Household Portfolio Allocation: Direct Equity Exposure vs Deposits Share (2005–2023)

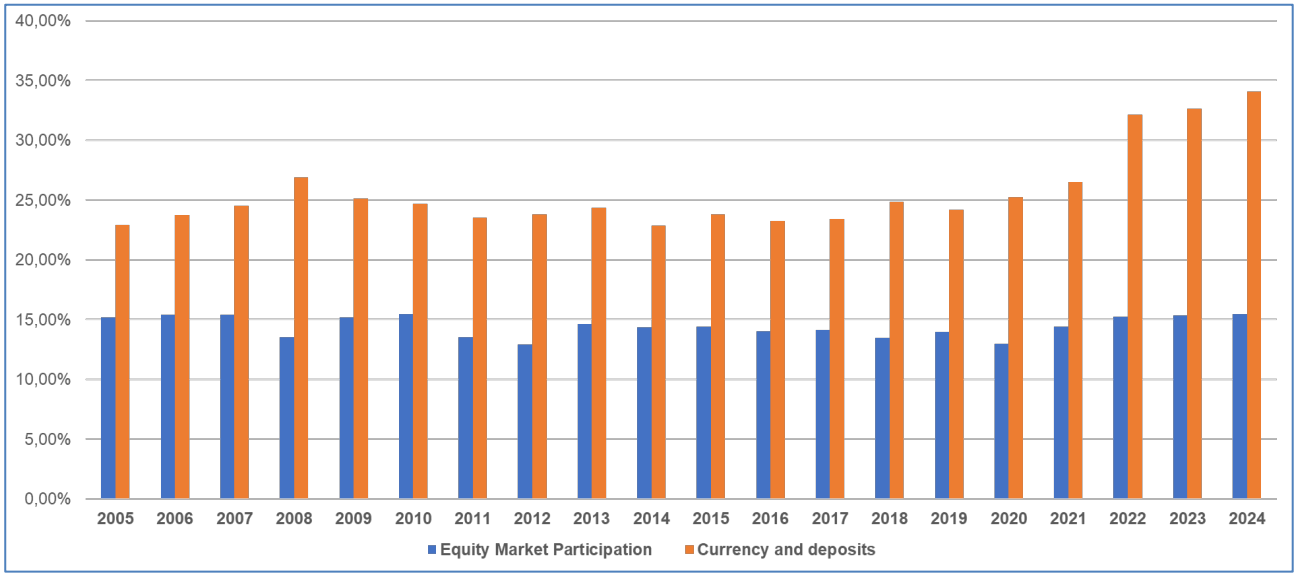


Figure 9 - Authors' elaboration based on data from ONS - UK Portfolio Allocation

Figure 10: UK – Direct Equity Market Participation

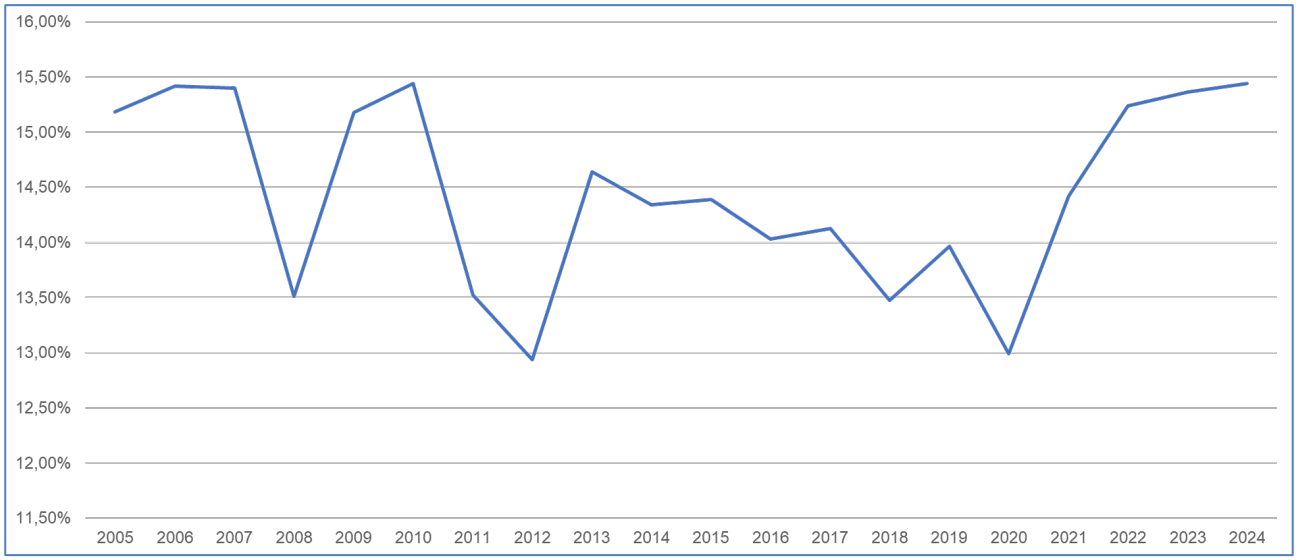


Figure 10 - Authors' elaboration based on data from ONS - UK Equity Participation

Direct equity market participation rates (measured as the percentage of adults holding shares directly or through investment funds outside pensions) ranged from 13.0% to 15.5% over the 2005–2024 period. This relatively modest direct participation rate masks much higher indirect participation through pension funds, which maintain substantial equity allocations (typically 40–60% of assets depending on fund type and member age).

The participation rate declined from 15.4% in 2007 to 13.5% in 2008 during the financial crisis, recovered to 15.4% by 2010, then experienced a prolonged decline to 13.0% by 2020 before recovering to 15.4% by 2024. This cyclical pattern reflects multiple influences:

Crisis effects. The 2008 financial crisis triggered risk aversion and portfolio reallocation toward safer assets, reducing direct equity participation. However, the relatively modest decline (1.9%) and rapid recovery suggest greater resilience than in Italy.

Brexit uncertainty. The prolonged decline during 2016–2020 coincides with Brexit-related political and economic uncertainty. UK equity markets underperformed international peers during this period, and households may have reduced UK equity exposure or shifted toward international investments.

Pandemic effects and recovery. The 2020 low coincides with the initial pandemic shock, but the rapid recovery to 15.4% by 2024 reflects the post-pandemic equity market rally and potentially increased retail investor participation through online trading platforms.

Individual Savings Accounts (ISAs). ISAs represent a cornerstone of UK household savings strategy, offering tax-free returns on both income and capital gains. **Figure 11** shows the detailed allocation of UK household financial assets, including ISA holdings:

Figure 11: UK Household Financial Asset Allocation

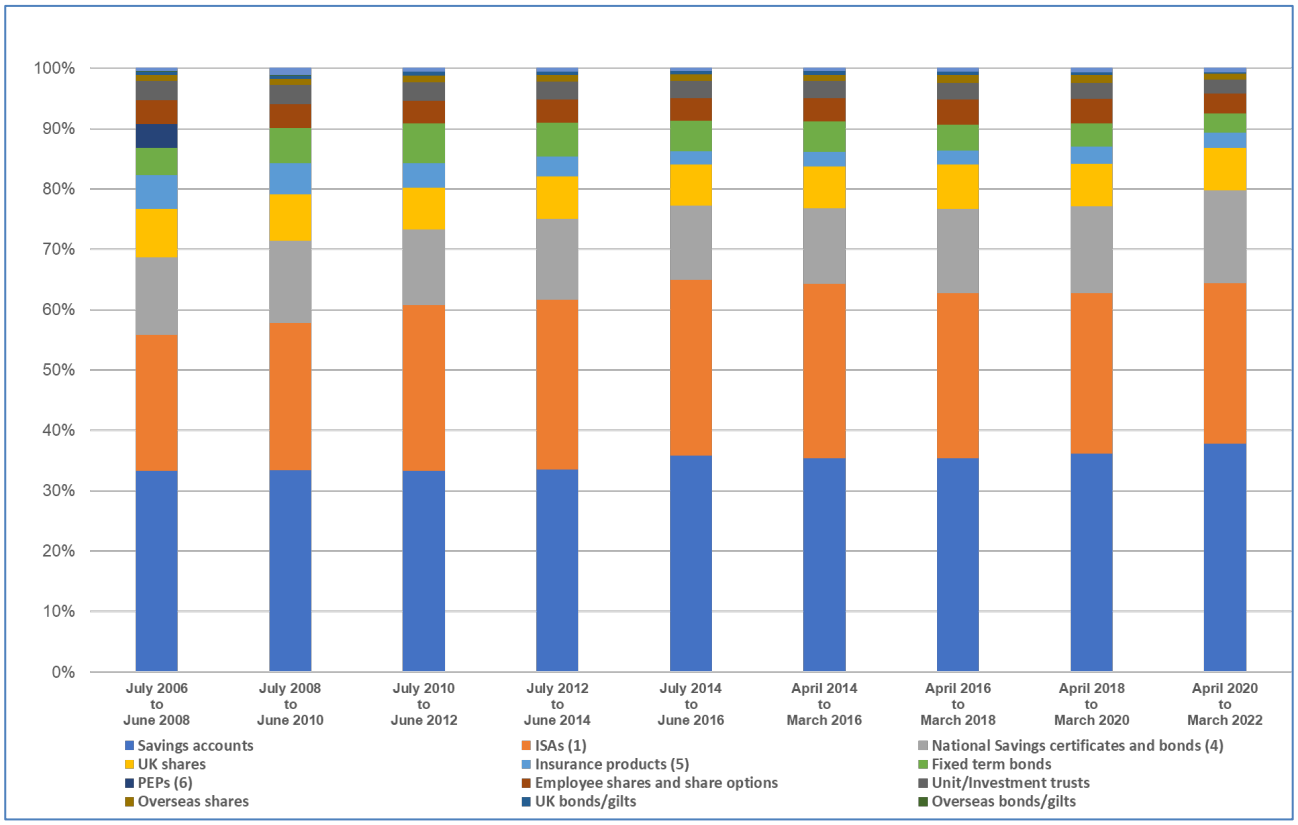


Figure 11 - Authors' elaboration based on data from ONS - UK Asset Allocation

Figure 12 compares Cash ISAs versus Stocks and Shares ISAs, revealing important patterns:

Figure 12: Cash ISAs vs. Stocks and Shares ISAs

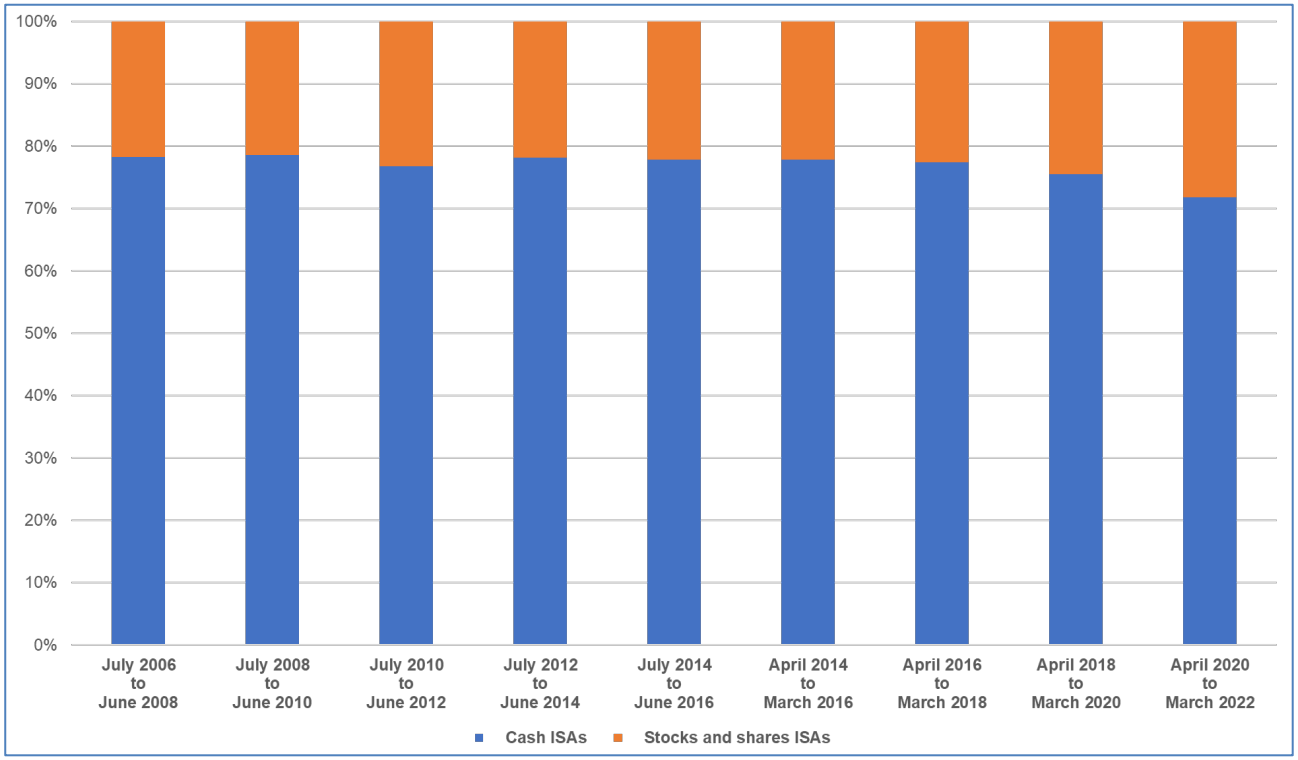


Figure 12 - Authors' elaboration based on data from ONS - UK ISAs

The data show that Cash ISAs (deposit-based) have historically dominated Stocks and Shares ISAs (equity and bond investments), though the gap has narrowed in recent years. This pattern reflects several factors:

Simplicity and familiarity. Cash ISAs are simple to understand and operate like regular savings accounts, making them accessible to households with limited financial literacy. Stocks and Shares ISAs require investment decisions and expose holders to market volatility, creating barriers for less sophisticated investors.

Risk aversion. Many UK households prioritize capital preservation over growth, particularly for short- and medium-term savings goals. Cash ISAs offer perceived safety (though inflation risk remains) while Stocks and Shares ISAs expose holders to market volatility.

Interest rate effects. During the low-interest-rate environment of 2009–2021, Cash ISAs offered minimal returns, potentially encouraging shifts toward Stocks and Shares ISAs. The 2022–2023 interest rate increases made Cash ISAs more attractive again, potentially reversing this trend.

Why the Cash ISA dominance matters. The preference for Cash ISAs over Stocks and Shares ISAs creates opportunity costs for households. Historical data show that equity investments outperform cash over long horizons (20+ years), meaning households holding Cash ISAs for long-term goals (retirement, children's education) sacrifice substantial wealth accumulation potential (Gomes & Michaelides, 2005).

Consider a household contributing £10,000 annually to an ISA for 30 years. With Cash ISA returns of 2% annually (approximately the long-term average), the account would grow to approximately £405,000. With Stocks and Shares ISA returns of 7% annually (approximately the long-term equity market average), the account would grow to approximately £945,000, a difference of £540,000 or 133% more wealth.

This opportunity cost suggests that financial education initiatives encouraging appropriate use of Stocks and Shares ISAs for long-term goals could substantially improve household wealth outcomes.

However, such initiatives must also ensure that households understand risks and maintain appropriate diversification.

Implications for policy and financial institutions. The UK's pension-dominated financial wealth structure creates several implications:

Pension system reform importance. Given the concentration of wealth in pensions, pension system design critically affects household welfare. Policies affecting contribution rates, investment defaults, fee structures, and decumulation options have outsized impacts on retirement security.

Financial advice gap. The complexity of pension and investment decisions creates demand for financial advice, but many households cannot afford or access quality advice. The "financial advice gap" for middle-income households represents a significant policy challenge, with potential solutions including robo-advisors, simplified guidance services, and employer-provided education.

ISA utilization opportunities. The underutilization of Stocks and Shares ISAs relative to Cash ISAs suggests opportunities for financial institutions to develop products and services that make equity investing more accessible and less intimidating. Simplified investment options, target-date funds, and educational resources could expand Stocks and Shares ISA adoption.

Intergenerational wealth transfer. The concentration of pension wealth among older households, combined with pension death benefit rules, affects intergenerational wealth transfers. Recent reforms allowing pension pots to be inherited tax-free (in many circumstances) may increase the role of pensions in intergenerational wealth transmission.

1.2.3 Sweden: High Equity Orientation and Cultural Factors

Sweden demonstrates the highest and most stable equity market participation among the four countries examined, reflecting a unique combination of institutional frameworks, cultural factors, and policy design that supports household equity investing. This Swedish model offers important lessons for other countries seeking to expand equity participation and improve household wealth outcomes.

Figure 13 reveals the relationship between equity market participation and liquid savings in Swedish household portfolios:

Figure 13: Equity Market Participation vs Liquid Savings in Swedish Household Portfolios

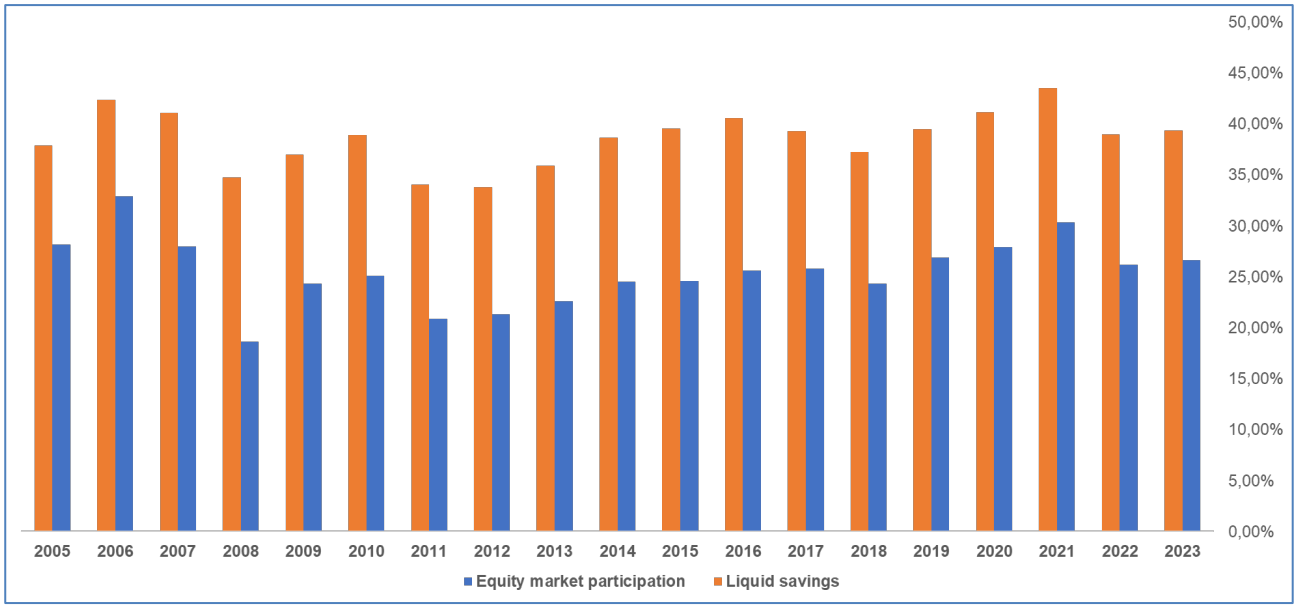


Figure 13 - Authors' elaboration based on data from SCB - Sweden Equity and Savings

High and stable equity participation. Swedish equity market participation rates (measured as direct equity holdings plus investments in funds as a percentage of financial assets) ranged from 19% to 33% over the 2005–2023 period, with most observations clustering around 25%. While these percentages may appear modest in absolute terms, they represent substantially higher direct equity ownership than in Italy or France, and the stability through multiple crises distinguishes Sweden from other countries.

Several features characterize the Swedish pattern:

Limited crisis sensitivity. Unlike Italy (where participation collapsed during 2008–2012) or the UK (where participation declined during Brexit uncertainty), Swedish participation rates showed minimal decline during crises. Participation remained above 19% throughout the entire period, suggesting strong commitment to equity investing even during market stress.

Cyclical variation without trend. The data show cyclical fluctuations around a stable mean rather than a clear upward or downward trend. Participation peaked at 32.9% in 2006 and 30.3% in 2021, with troughs around 19–21% in 2008 and 2011. This pattern suggests that Swedish households adjust equity exposure in response to market conditions (reducing exposure after strong appreciation, increasing exposure after declines) but maintain a structural allocation to equities.

Complementary liquid savings. **Figure 14** also shows that liquid savings (deposits and cash equivalents) consistently represented 34–44% of household financial portfolios. This substantial liquidity buffer may enable households to maintain equity positions during downturns without forced selling, as they can draw on liquid savings for consumption needs rather than liquidating equity holdings at depressed prices (Fagereng et al., 2017).

Figure 14 provides additional detail on Swedish portfolio allocation:

Figure 14: Sweden - Household Portfolio Allocation: Equity Exposure vs Deposits Share (2005–2023)

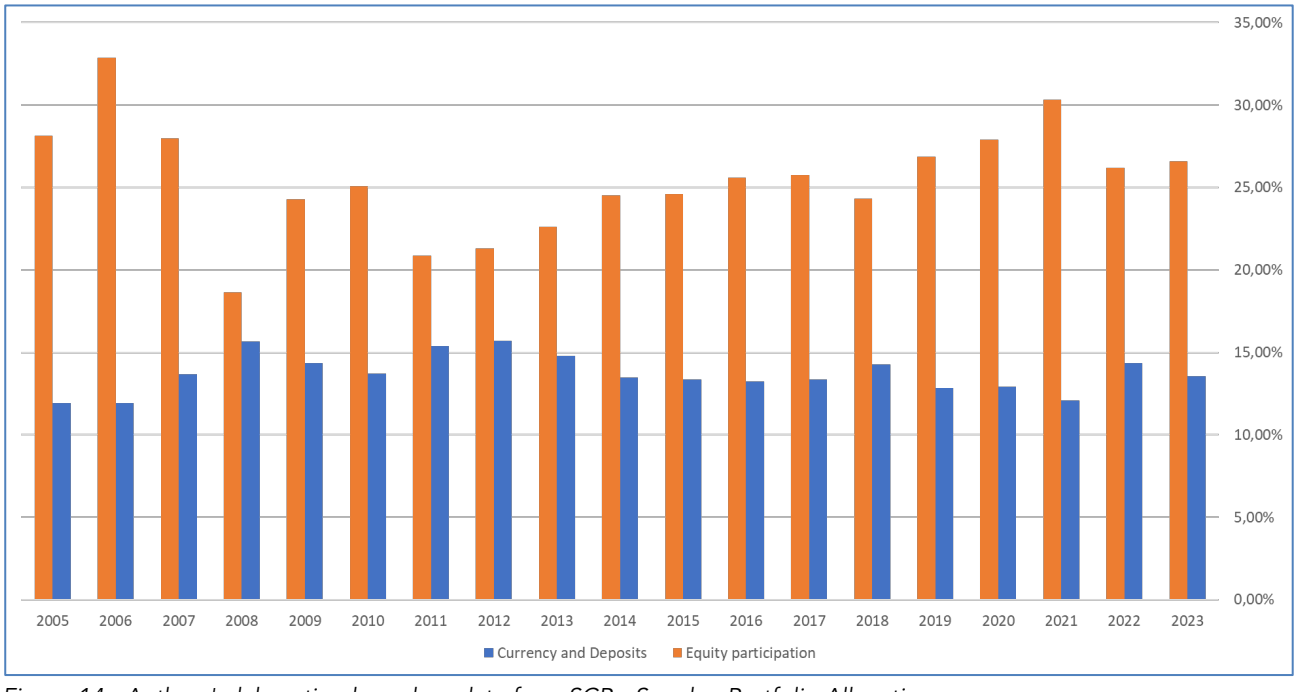


Figure 14 - Authors' elaboration based on data from SCB - Sweden Portfolio Allocation

Figure 15 breaks down the composition of Swedish household equity holdings, revealing the importance of different investment vehicles:

Figure 15: Composition of Swedish Household Equity Holdings (2005–2023)

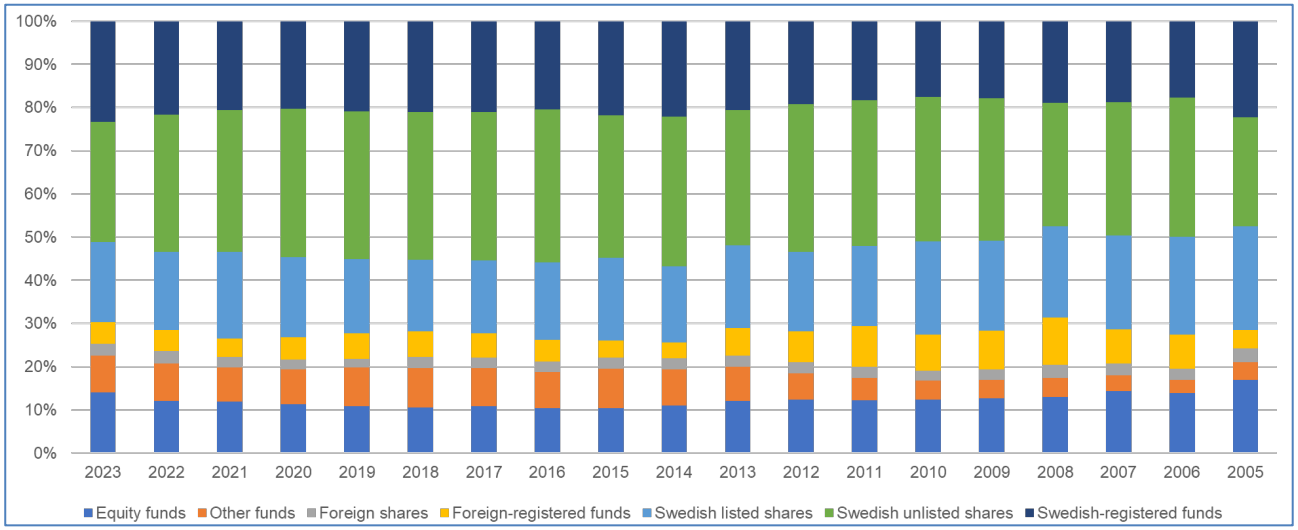


Figure 15 - Authors' elaboration based on data from SCB - Sweden Equity Composition

The granular breakdown distinguishes between: Equity funds (Swedish-registered mutual funds focused on equities); other funds (mixed asset funds, bond funds, alternative investment funds); foreign shares (direct holdings of non-Swedish equities); foreign-registered funds (mutual funds domiciled outside Sweden); Swedish listed shares (direct holdings of Swedish public companies); Swedish unlisted shares (direct holdings of private Swedish companies, often family businesses); Swedish-registered funds (all Swedish-domiciled mutual funds).

This diversity of investment vehicles demonstrates the sophistication of Swedish household equity investing. Households access equity markets through multiple channels, direct shareholdings, domestic mutual funds, and international investments, achieving diversification across geographies, sectors, and company sizes.

Institutional and cultural foundations of Swedish equity culture. Sweden's high and stable equity participation reflects multiple reinforcing factors:

1. Investment Savings Accounts (Investeringssparkonto - ISK):

Introduced in 2012, ISKs revolutionized Swedish household investing by dramatically simplifying taxation of investment returns. Under the ISK structure, investors pay a flat annual tax based on the account value and a standardized return (linked to the Swedish central bank's policy rate) rather than paying capital gains tax on actual realized gains.

This structure provides several advantages: *Simplicity*: Investors avoid complex capital gains calculations and record-keeping requirements; *Tax efficiency*: In low-return environments, the standardized return may be lower than actual returns, creating tax advantages; *Encourages long-term holding*: Since tax is based on account value rather than realized gains, there's no tax penalty for holding winning investments; *Reduces behavioral biases*: The elimination of capital gains tax on realization reduces the "disposition effect" (tendency to sell winners too early and hold losers too long).

ISK adoption has been rapid and widespread, with millions of Swedish households opening accounts. The success demonstrates how well-designed tax policy can dramatically expand equity market participation by reducing complexity and behavioral barriers (Vestman, 2019).

2. Premium Pension System (Premiepensionssystemet):

Sweden's pension system includes a mandatory defined contribution component (the Premium Pension) where workers allocate 2.5% of their salary to individual investment accounts. Workers choose from hundreds of mutual funds, with a default option (AP7 Såfa) for those who do not make active choices (Catherine, 2022).

This system creates several effects: *Universal equity exposure*: all Swedish workers accumulate equity exposure through the Premium Pension, creating familiarity and comfort with equity investing; *Financial education*: the need to make pension investment choices encourages financial literacy and engagement with investment concepts; *Normalization of equity investing*: when equity investing is a universal, mandatory part of the pension system, it becomes normalized rather than seen as risky or unusual.

3. High financial literacy:

International surveys consistently show that Swedish households exhibit high financial literacy relative to international peers. This literacy reflects quality education (financial concepts are taught in schools), accessible financial information (financial media, online resources), and cultural emphasis on financial responsibility.

High financial literacy enables households to understand risk-return trade-offs, diversification benefits, and the importance of long-term perspective, all critical for maintaining equity allocations during market stress (von Gaudecker, 2015; Fagereng et al., 2017).

4. Cultural factors and social norms:

Swedish culture exhibits relatively high trust in institutions (including financial institutions), acceptance of market-based solutions, and comfort with risk-taking in appropriate contexts. These cultural factors, while difficult to quantify, shape household financial behavior in ways that complement institutional frameworks.

Intergenerational transmission also plays a role. Children observe parents' investment behavior, discuss financial topics within families, and inherit not just wealth but also financial knowledge and attitudes. This transmission creates path dependence that reinforces equity culture across generations (Black et al., 2018).

5. Transparent, efficient capital markets:

Swedish capital markets are well-regulated, transparent, and efficient, with strong investor protections and low levels of market manipulation or fraud. This market quality builds household confidence in equity investing, as investors trust that markets are fair and that their interests are protected.

Why the Swedish model matters. Sweden's success in maintaining high, stable equity participation offers important lessons for other countries:

Institutional design matters. The ISK and Premium Pension systems demonstrate that well-designed institutions can dramatically expand equity participation. These institutions reduce barriers (complexity, taxation), leverage behavioral insights (defaults, simplification), and create positive feedback loops (familiarity breeds comfort).

Cultural factors complement institutions. However, institutions alone may not suffice. Swedish equity culture reflects cultural factors, trust, financial literacy, intergenerational transmission, that complement institutional frameworks. Countries seeking to replicate Swedish success must address both institutional and cultural dimensions.

Stability through crises requires multiple supports. Swedish households' ability to maintain equity allocations during crises reflects multiple supporting factors: liquid savings buffers, long-term perspective, financial literacy, and institutional frameworks that discourage panic selling. Building crisis resilience requires addressing all these dimensions.

Equity participation supports household wealth. Swedish households' consistent equity exposure positions them to benefit from long-term market appreciation. While short-term volatility creates discomfort, the long-term wealth accumulation benefits of equity participation are substantial, a lesson relevant for households in all countries.

1.2.4 France: Balanced Multi-Asset Approach with Specialized Products

French household financial portfolios exhibit a balanced multi-asset allocation strategy supported by diverse specialized savings products, each designed for specific objectives and offering distinct tax treatments. This product diversity reflects deliberate policy design to channel household savings toward multiple objectives, liquidity management, homeownership, retirement security, business investment, while maintaining flexibility for direct market participation.

Figure 16 presents the composition and growth of French household financial assets as of 2022:

Figure 16: Composition and Growth of French Household Financial Assets (2022)

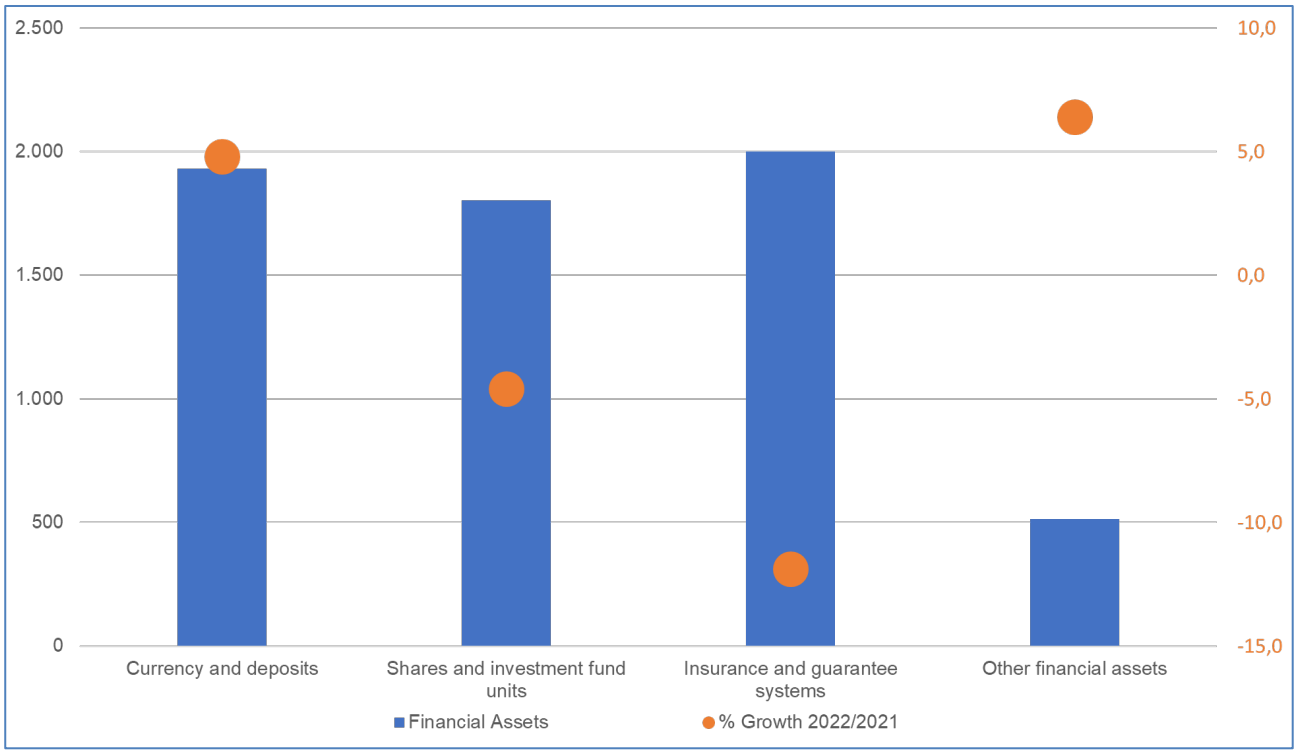


Figure 16 - Authors' elaboration based on data from INSEE - France Financial Assets 2022

The chart reveals four major categories with distinct characteristics:

1. Currency and deposits: €1,900 billion

Currency and deposits represent the largest single category, accounting for approximately 30% of financial assets. This includes: *Checking accounts (comptes courants)*: Used for daily transactions and bill payments; *Regulated savings accounts (livrets réglementés)*: Including Livret A, LDDS, and LEP, offering tax-free interest with government-set rates; *Term deposits (dépôts à terme)*: Fixed-term deposits offering higher rates than savings accounts; *Other deposits*: Including savings accounts at banks and credit unions.

The category experienced 5.0% growth in 2022, reflecting both inflation-driven nominal increases (as prices rise, households need more cash for transactions) and precautionary savings behavior (uncertainty about economic conditions encourages liquidity accumulation).

The high deposit allocation reflects similar factors as in Italy, risk aversion, liquidity preference, simplicity, but the French system's regulated savings accounts provide more attractive returns than Italian deposits, reducing the opportunity cost of liquidity.

2. Shares and investment fund units: €1,800 billion

This category represents substantial equity market exposure, accounting for approximately 28% of financial assets. It includes: *Listed shares (actions cotées)*: Direct holdings of publicly traded French and international companies; *Unlisted shares (actions non cotées)*: Direct holdings of private companies, often family businesses; *UCITS funds (OPCVM)*: Mutual funds offering diversified exposure to equities, bonds, and other assets; *Alternative investment funds (FIA)*: Including private equity funds, real estate funds, and hedge funds.

The category declined by 4.5% in 2022 due to negative equity market returns. Global equity markets fell approximately 15–20% in 2022 as central banks tightened monetary policy and recession concerns mounted. This decline highlights the valuation sensitivity of equity holdings, while equities offer long-term growth potential, they expose households to short-term volatility.

3. Insurance and guarantee systems: €2,000 billion

Insurance and guarantee systems represent the largest category, accounting for approximately 31% of financial assets. The category is dominated by life insurance contracts, which serve dual purposes in France:

Investment function. Life insurance contracts offer investment options ranging from guaranteed-return euro funds to unit-linked policies with equity and bond exposure. The flexibility to allocate between these options allows households to adjust risk exposure over time.

Estate planning function. Life insurance contracts receive favorable treatment for inheritance tax purposes, with beneficiaries receiving substantial tax exemptions. This treatment makes life insurance an attractive vehicle for intergenerational wealth transfers.

Tax advantages. Investment returns within life insurance contracts grow tax-free, and withdrawals receive favorable tax treatment after eight years. These advantages make life insurance highly attractive for long-term savings (Guiso et al., 2003).

The category declined by 11.5% in 2022, reflecting both market losses on unit-linked policies (which invest in equities and bonds) and withdrawals. The decline was more severe than for direct equity holdings, suggesting that households may have withdrawn from life insurance contracts to meet consumption needs or rebalance portfolios.

4. Other financial assets: €500 billion

This residual category includes bonds, loans to other households or businesses, and other instruments, accounting for approximately 8% of financial assets. The category grew by 6.0% in 2022, potentially reflecting increased bond holdings as yields rose.

Household participation in specialized savings products. Figure 17 provides additional detail on household asset holdings by type, showing participation rates in various specialized products:

Figure 17: Composition of Household Asset Holdings in France (1998–2021)

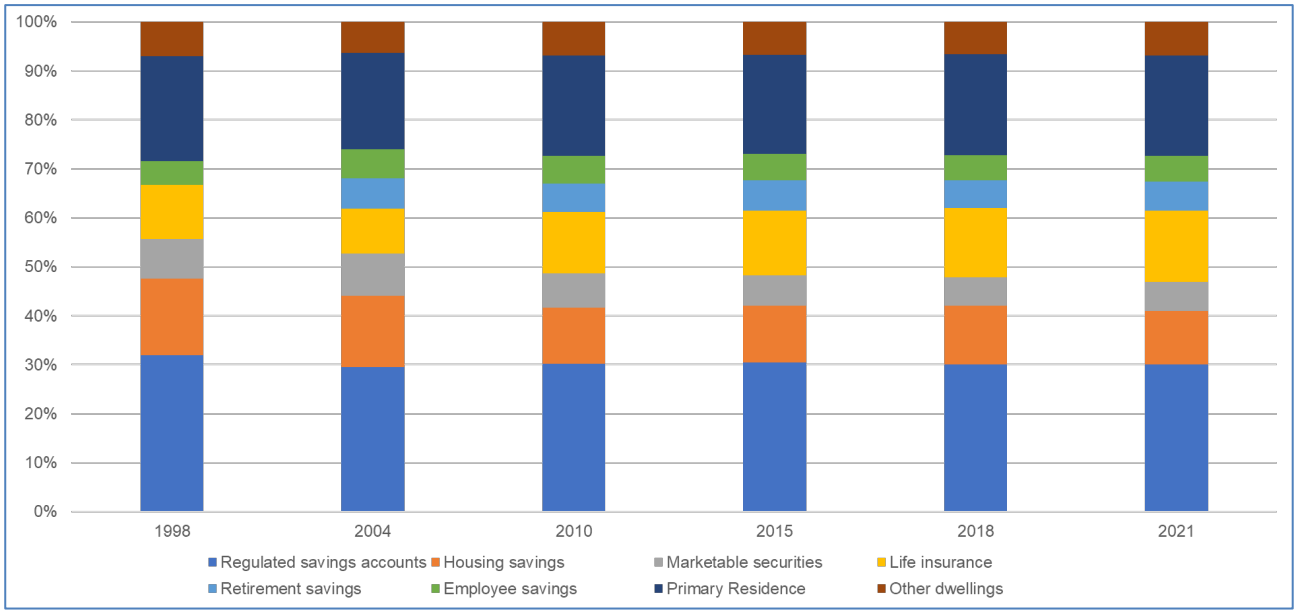


Figure 17 - Authors' elaboration based on data from INSEE - France Household Holdings

The data reveal participation rates in key products as of 2021:

Regulated savings accounts: 84.3% participation

Regulated savings accounts achieve near-universal participation, demonstrating their effectiveness as accessible, simple savings vehicles. The three main products are:

Livret A: The flagship regulated savings account, offering tax-free interest with rates set by the government (3.0% as of 2024, adjusted semi-annually based on inflation and interbank rates). The Livret A has no age restrictions, a deposit limit of €22,950, and funds can be withdrawn at any time without penalty. Over 55 million Livret A accounts exist in France (in a country of 67 million people), demonstrating near-universal adoption.

LDDS (Livret de Développement Durable et Solidaire): Similar to Livret A but with a lower deposit limit (€12,000) and funds earmarked for financing small businesses and sustainable development projects. The LDDS offers the same interest rate as Livret A and similar tax advantages.

LEP (Livret d'Épargne Populaire): Targeted at lower-income households (eligibility based on income thresholds), offering higher interest rates than Livret A (6.1% as of 2024) with a deposit limit of €10,000. The LEP provides particularly attractive returns for eligible households, supporting financial inclusion.

The near-universal participation in regulated savings accounts demonstrates their success in promoting savings accumulation and financial inclusion. The products' simplicity (no investment decisions required), safety (government guarantee), liquidity (no withdrawal restrictions), and tax advantages make them accessible to all households regardless of financial literacy or wealth level (Kaplan et al., 2014).

Housing savings: 30.7% participation

Housing savings products combine savings accumulation with preferential mortgage rates, supporting homeownership objectives. The two main products are:

PEL (Plan d'Épargne Logement): A long-term housing savings plan requiring regular deposits over 4–10 years, after which the holder can obtain a mortgage at a preferential rate (set at account opening) or

withdraw accumulated savings. The PEL offers tax advantages on interest earned and guaranteed mortgage rates, making it attractive for households planning future home purchases.

CEL (Compte d'Épargne Logement): A more flexible housing savings account with no minimum holding period or required deposit schedule. The CEL offers lower interest rates than PEL but greater flexibility.

The 30.7% participation rate demonstrates that housing savings products successfully channel savings toward homeownership objectives. However, the participation rate has declined from over 40% in the 1990s, potentially reflecting reduced attractiveness as mortgage rates have fallen to historic lows (reducing the value of preferential rates) and housing affordability has deteriorated in major cities.

Life insurance: 41.0% participation

Life insurance contracts achieve substantial participation, demonstrating their success as flexible, tax-advantaged long-term savings vehicles. The 41.0% participation rate represents approximately 27 million households holding life insurance contracts, with total assets of €2,000 billion (as shown in Figure 16).

Life insurance's popularity reflects multiple advantages: *Flexibility*: Holders can allocate between guaranteed-return euro funds and unit-linked policies based on risk preferences; *Tax efficiency*: Returns grow tax-free, and withdrawals receive favorable treatment after eight years; *Estate planning*: Beneficiaries receive substantial inheritance tax exemptions; *Liquidity*: Unlike pensions, life insurance contracts can be accessed at any time (though early withdrawals sacrifice some tax advantages).

However, the 41.0% participation rate also reveals that 59% of households do not hold life insurance contracts, suggesting room for expansion. Barriers may include complexity (understanding the different options and tax rules), minimum investment requirements, and lack of awareness among some population segments.

Retirement savings: 16.6% participation

Retirement savings products include both individual retirement savings plans (PER Individuel) and employer-sponsored schemes (PER Collectif). The relatively modest 16.6% participation rate reflects France's generous pay-as-you-go public pension system, which provides substantial retirement income and reduces the need for private pension accumulation.

However, public pension reforms (increasing retirement age, reducing replacement rates) are gradually increasing the importance of private pension savings. Recent reforms have simplified and harmonized retirement savings products (creating the unified PER framework in 2019), potentially supporting increased participation in coming years.

Employee savings: 14.6% participation

Employee savings schemes include profit-sharing plans (participation, mandatory for firms with 50+ employees) and employee savings plans (PEE, voluntary employer-sponsored savings plans). These schemes offer tax advantages for both employers (contributions are tax-deductible) and employees (contributions and returns receive favorable tax treatment).

The 14.6% participation rate reflects the fact that employee savings schemes are primarily available to employees of medium and large firms. Self-employed individuals, employees of small firms, and public sector workers generally lack access to these schemes, limiting overall participation.

Marketable securities: 16.9% participation

Direct holdings of marketable securities (stocks, bonds, and other traded instruments outside specialized wrappers) show 16.9% participation, substantially lower than regulated savings accounts (84.3%) or life insurance (41.0%). This pattern suggests that most French households prefer accessing financial markets through specialized products (life insurance, mutual funds, employee savings) rather than direct holdings.

The relatively low direct securities participation may reflect: *Complexity*: Direct securities investing requires understanding of markets, valuation, and portfolio construction; *Tax efficiency of alternatives*: Life insurance and employee savings schemes offer better tax treatment than direct holdings; *Minimum investment requirements*: Building a diversified direct securities portfolio requires substantial capital; *Behavioral barriers*: Direct investing requires active decision-making and ongoing monitoring, while specialized products offer professional management.

1.2.5 Comparative Analysis: What Drives Portfolio Differences?

Comparing financial asset composition across the four countries reveals substantial variation that reflects institutional frameworks, policy incentives, cultural factors, and historical experiences. Understanding these drivers provides insights for policy design and helps explain why similar households in different countries make different portfolio allocation decisions.

Table 2: Financial Asset Composition Comparison (Approximate Shares)

Asset Category	Italy	UK	Sweden	France
Deposits	24–32%	23–34%	12–16%	31%
Debt Securities	4–21%	Low	Low	8%
Equities (direct + funds)	27–42%	13–15%	12–23% (direct only)	29%
Insurance & Pensions	15–23%	48–60%	Substantial	32%
Other	2–4%	2–4%	Variable	8%

Table 2 - Authors' elaboration based on data from Istat, Banca d'Italia, ONS, INSEE and SCB

Key drivers of variation:

1. Pension system architecture:

The UK's high insurance and pension share (48–60%) reflects its three-pillar pension system with substantial private pension accumulation. France's intermediate share (32%) reflects a balance between generous public pensions and growing private pension participation. Italy's lower share (15–23%) reflects its pay-as-you-go public pension system with limited private pension penetration. Sweden's pension system includes both public and private components, with the Premium Pension creating universal equity exposure.

This pension system effect operates through multiple channels: mandatory or automatic enrollment creates forced savings, tax incentives make pension contributions attractive, and long-term horizons encourage equity allocation. Countries seeking to increase household financial asset accumulation should consider pension system reforms as a primary lever.

2. Tax policy and incentive structures:

Tax treatment of different asset classes profoundly shapes portfolio allocation. The UK's ISA system provides generous tax-free savings opportunities, supporting financial asset accumulation. Sweden's ISK dramatically simplifies equity investing taxation, encouraging equity participation. France's life

insurance tax advantages channel savings into these products. Italy's frequent changes to financial asset taxation create uncertainty that may discourage financial market participation.

The effectiveness of tax incentives depends on design details: simplicity (complex rules reduce take-up), generosity (small tax advantages may not change behavior), and stability (frequent changes create uncertainty). The Swedish ISK's success demonstrates the power of simplification, while the UK ISA's longevity (introduced in 1999) demonstrates the importance of stability.

3. Financial literacy and investor education:

Swedish households' high financial literacy supports equity participation and sophisticated portfolio management. UK households benefit from extensive financial education initiatives and workplace pension education. Italian and French households, with lower average financial literacy, show more conservative portfolio allocations and greater reliance on deposits and guaranteed-return products.

Financial literacy operates through multiple mechanisms: understanding risk-return trade-offs enables appropriate risk-taking, knowledge of diversification benefits encourages broader asset allocation, and confidence in financial decision-making reduces reliance on defaults or inertia. Countries seeking to improve household portfolio outcomes should invest in financial education, particularly for young people before financial habits become entrenched (Lusardi et al., 2017; von Gaudecker, 2015).

4. Financial services sector structure and competition:

The UK's competitive, sophisticated financial services sector offers diverse products at competitive prices, supporting financial asset accumulation. Sweden's efficient capital markets and low-cost investment platforms reduce barriers to equity participation. Italy's banking sector concentration and historical financial scandals may reduce household trust and participation. France's specialized savings products provide accessible entry points but may also create complexity.

Financial sector competition affects household outcomes through multiple channels: lower fees improve net returns, product innovation creates better solutions for household needs, and competition for customers drives quality improvements in advice and service. Regulatory policies that promote competition while maintaining appropriate consumer protection can improve household financial outcomes.

5. Cultural factors and historical experiences:

Cultural attitudes toward risk, trust in financial institutions, and intergenerational wealth transmission patterns vary across countries and prove remarkably persistent. Swedish culture's acceptance of equity market participation, Italian households' historical preference for tangible assets following banking crises, British households' comfort with pension fund intermediation, and French households' attachment to real estate all shape portfolio allocation in ways that transcend purely economic factors (Guiso et al., 2008).

Historical experiences create collective memories that shape risk perceptions across generations. Italian households' experience of banking crises in the 1990s and 2000s, UK households' experience of pension fund failures, Swedish households' experience of successful equity investing, and French households' experience of stable property values all influence current behavior.

These cultural factors operate through multiple mechanisms: parental influence on children's financial behavior, social norms about appropriate wealth management, and collective memories of historical events. While cultural factors change slowly, they can be influenced through sustained policy efforts, financial education, and positive experiences with financial markets.

1.3 Equity Market Participation Trends

Equity market participation, the extent to which households allocate wealth to equity-related instruments, represents a critical dimension of household financial behavior with profound implications for wealth accumulation, inequality, and capital market development. This section examines equity participation trends across the three countries with detailed data (Italy, UK, Sweden), exploring crisis sensitivity, recovery patterns, and the institutional determinants of resilience.

1.3.1 Italy: V-Shaped Pattern and Crisis Vulnerability

Italian equity market participation experienced dramatic volatility over the 2005–2023 period, exhibiting a pronounced V-shaped pattern that reveals both vulnerability to crisis-driven risk aversion and successful recovery through policy efforts and changing household preferences.

The crisis-driven collapse. As documented in Figure 6 and Figure 7, Italian equity market participation (measured as the share of financial assets allocated to equity-related instruments including direct shareholdings and mutual funds) declined sharply from approximately 40% in 2006 to 27% in 2011, a 13% collapse representing a 33% decline in equity exposure (Campbell et al., 2007; Calvet & Sodini, 2014).

This dramatic retreat reflects multiple reinforcing factors:

Valuation losses. Italian equity markets suffered severe declines during the 2008 financial crisis and 2011–2012 sovereign debt crisis. The FTSE MIB index fell from over 40,000 in 2007 to below 15,000 in 2012, a decline exceeding 60%, devastating household equity portfolios. Italian banks, which represented a large share of the index, were particularly hard hit by concerns about sovereign debt exposure, non-performing loans, and capital adequacy.

Active risk reduction. Beyond passive valuation effects, Italian households actively reduced equity exposure through net sales. Mutual fund redemptions surged during crisis periods, and households sold direct equity holdings to shift toward perceived safety. This active reallocation amplified the valuation-driven decline.

Loss of confidence. The severity and duration of the crises eroded household confidence in equity markets. Many Italian households experienced substantial wealth losses, reinforcing skepticism about equity investing and creating psychological barriers to re-entry even after markets recovered.

Liquidity needs. The economic recessions accompanying the financial and sovereign debt crises created unemployment, income losses, and financial stress for many households. Some equity sales reflected forced liquidation to meet consumption needs rather than voluntary portfolio reallocation, creating additional downward pressure on participation.

Generational effects. Older Italian households, who held substantial equity positions accumulated during the 1990s and early 2000s, experienced severe losses that affected their retirement security. Many responded by permanently reducing equity exposure, creating a cohort effect that persisted for years.

Why the collapse matters. The 13% decline in equity participation created substantial opportunity costs for Italian households. Those who sold equity holdings during the crisis missed the subsequent recovery, which saw the FTSE MIB rise from below 15,000 in 2012 to over 28,000 by 2023, an 87% increase.

Consider a household with €100,000 in financial assets in 2006, allocated 40% to equities (€40,000). If they reduced equity allocation to 27% by 2011 (€27,000, assuming no valuation changes for simplicity) they would have sold €13,000 in equities. If those €13,000 had remained invested and appreciated 87% by

2023, they would have grown to €24,310, a missed opportunity of €11,310 or 11.3% of initial financial wealth.

This calculation understates the true opportunity cost, as it ignores the compounding effects of dividends and additional contributions over the 12-year period. The actual opportunity cost for households who retreated from equities during the crisis likely exceeded 20–30% of financial wealth, a substantial penalty for crisis-driven risk aversion.

The recovery and its drivers. The recovery phase began in 2012 and accelerated after 2019, with participation rates reaching 42% by 2023, fully recovering to pre-crisis levels and slightly exceeding the 2006 peak. This recovery represents a remarkable transformation that reflects multiple factors:

Market appreciation. The strong performance of global equity markets during the 2010s, particularly the post-2016 rally and the dramatic 2020–2021 pandemic recovery, increased equity valuations and attracted new investors. Italian equities, while volatile, participated in the global equity bull market.

Generational shifts. Younger Italian households, entering peak wealth accumulation years, exhibit different preferences than older generations. Having grown up with digital financial services, online trading platforms, and greater exposure to global investment opportunities, they show higher propensity for equity investing. As younger cohorts accumulate wealth, they increase aggregate equity participation (Black et al., 2018).

Policy and institutional changes. Italian pension reforms gradually increased private pension participation, channeling savings into financial markets. The growth of online investment platforms and robo-advisors reduced barriers to equity market access. Financial education initiatives, while still limited, increased awareness of long-term equity investing benefits (Daminato et al., 2024).

Low interest rate environment. The European Central Bank's accommodative monetary policy during the 2010s compressed yields on traditional safe assets (bank deposits, government bonds), pushing households toward higher-yielding alternatives. With deposit rates near zero and government bond yields negative, equities became relatively more attractive despite their volatility.

Pandemic savings and market performance. The COVID-19 pandemic created forced savings (due to consumption restrictions) and precautionary savings (due to uncertainty). As markets recovered strongly in 2020–2021, some of these savings flowed into equities, supporting participation growth.

The resilience test. Notably, the COVID-19 pandemic did not trigger a sustained retreat from equity markets, unlike previous crises. Participation rates remained stable or increased during 2020–2023, indicating either greater resilience in household risk tolerance or the influence of younger, more equity-oriented investors entering the market.

This resilience may reflect several factors:

Learning from past crises. Households who maintained equity exposure through previous crises and benefited from recoveries may have developed greater confidence in long-term investing strategies.

Different crisis nature. The pandemic crisis, while severe, was perceived as temporary (caused by a health emergency rather than fundamental economic or financial problems), potentially reducing panic-driven selling.

Policy support. Massive fiscal and monetary policy support during the pandemic reassured investors that authorities would prevent economic collapse, supporting market confidence.

Retail investor platforms. The growth of online trading platforms and social media investment communities may have encouraged equity participation, particularly among younger investors.

1.3.2 United Kingdom: Cyclical Volatility and Brexit Effects

UK equity market participation exhibited cyclical patterns over the 2005–2024 period, with three distinct phases that reflect the influence of financial crises, political uncertainty, and policy interventions on household investment behavior.

Phase 1 (2005–2010): Financial crisis and rapid recovery

As shown in **Figure 10**, UK equity market participation rates remained relatively stable at 15.2–15.4% during 2005–2007, declined briefly to 13.5% in 2008 during the acute phase of the financial crisis, then recovered rapidly to 15.4% by 2010.

This pattern reveals several features:

Limited crisis impact: The 1.9% decline during the financial crisis was substantial but modest compared to Italy's 13% collapse. UK households demonstrated greater resilience, maintaining equity exposure despite severe market volatility.

Rapid recovery: The recovery to pre-crisis participation levels by 2010 was remarkably fast, suggesting that UK households maintained confidence in equity markets and viewed the crisis as a temporary disruption rather than a fundamental reason to abandon equity investing.

Institutional buffering: The UK's pension system may have buffered household behavior. Much UK equity exposure occurs through pension funds, where professional managers maintain long-term strategies and individual households cannot easily panic-sell. This institutional intermediation may have prevented the panic-driven selling seen in Italy (Giannetti & Laeven, 2009; Gomes & Michaelides, 2005).

Phase 2 (2011–2020): Prolonged decline during Brexit uncertainty

The second phase saw a prolonged decline in participation rates from 15.4% in 2010 to 13.0% by 2020, a 2.4% decline over a decade. This gradual erosion reflects multiple factors:

European sovereign debt crisis: The 2011–2012 sovereign debt crisis created uncertainty about the euro's survival and European economic prospects, potentially reducing UK households' appetite for equity risk.

Brexit referendum and aftermath: The June 2016 Brexit referendum and subsequent political uncertainty (2016–2019) created substantial economic and political uncertainty. UK equity markets underperformed international peers during this period, and households may have reduced UK equity exposure or shifted toward international investments.

Pension system changes: The 2015 pension freedoms, which gave individuals greater flexibility to access defined contribution pension pots, may have led some retirees to reduce equity exposure and shift toward cash or annuities (Cocco et al., 2005).

Demographic factors: The UK's aging population includes growing numbers of retirees who naturally reduce equity exposure as they shift from wealth accumulation to wealth decumulation.

Why the Brexit-era decline matters:

The prolonged decline during 2011–2020 created opportunity costs for UK households. Those who reduced equity exposure missed the global equity market appreciation during this period, particularly the strong performance of US and Asian markets. While UK equities underperformed due to Brexit uncertainty, globally diversified portfolios still generated substantial returns.

The decline also raises questions about the effectiveness of automatic enrollment in workplace pensions, which was introduced in 2012 and should have increased equity participation. The fact that

participation declined despite automatic enrollment suggests that other factors (Brexit uncertainty, demographic shifts, pension freedoms) created offsetting effects.

Phase 3 (2021–2024): Strong post-pandemic recovery

The third phase saw a strong recovery in participation rates from 13.0% in 2020 to 15.4% by 2024, a 2.4% increase in just four years, fully recovering the losses from the previous decade.

This rebound coincides with several factors:

Post-pandemic economic recovery: The strong economic recovery following the pandemic, supported by massive fiscal and monetary policy stimulus, created favorable conditions for equity investing.

Strong equity market performance: Global equity markets performed strongly during 2020–2021, with the MSCI World Index rising over 40% from pandemic lows. This performance attracted new investors and increased existing holdings through appreciation.

Retail investor platforms: The growth of online trading platforms, fractional share investing, and social media investment communities (particularly among younger investors) may have expanded equity participation. The "meme stock" phenomenon and increased retail investor activity during the pandemic may have had spillover effects in the UK.

Automatic enrollment maturation: The automatic enrollment policy, introduced in 2012, has had time to mature and accumulate substantial assets. Workers automatically enrolled in 2012 have now accumulated 12 years of contributions and investment returns, increasing aggregate equity exposure.

Brexit resolution: The UK's formal exit from the EU in January 2020 and the subsequent trade agreement resolved some political uncertainty, potentially supporting renewed confidence in UK equity markets.

1.3.3 Sweden: Remarkable Stability and Institutional Foundations

Swedish equity market participation demonstrates remarkable stability and resilience compared to Italy and the UK, with direct equity holdings ranging from 7.8% to 23% over the 2005–2023 period and showing minimal crisis sensitivity. This pattern reflects institutional frameworks, cultural factors, and policy design that support long-term equity investing.

Limited crisis sensitivity.

As shown in **Figure 13** and **Figure 14**, Swedish equity market participation showed minimal decline during the 2008 financial crisis and 2011–2012 sovereign debt crisis. Participation rates remained above 11% throughout the entire period, with the 2008 trough at approximately 11% representing only a modest decline from the 2006 peak of 16.5%.

This resilience contrasts sharply with Italy (where participation collapsed from 40% to 27%) and the UK (where participation declined from 15.4% to 13.5%). Several factors explain Swedish resilience:

Long-term investment culture: Swedish households maintain long-term investment perspectives and avoid panic-driven selling during market stress. This discipline reflects financial literacy, cultural factors, and institutional frameworks that encourage long-term thinking (Vestman, 2019; Catherine, 2022).

Liquid savings buffer: **Figure 13** shows that liquid savings consistently represented 35–44% of household financial portfolios, providing a substantial buffer. Households can draw on liquid savings for consumption needs during crises rather than liquidating equity holdings at depressed prices, enabling them to maintain equity positions through market downturns.

Institutional frameworks: The Premium Pension system creates universal equity exposure through mandatory contributions, normalizing equity investing and creating automatic buying during market downturns (as contributions continue regardless of market conditions). The ISK tax structure eliminates capital gains tax on realization, reducing incentives to sell during downturns.

Financial literacy: High financial literacy enables Swedish households to understand that market volatility is normal and that long-term equity returns remain attractive despite short-term fluctuations. This understanding supports disciplined behavior during crises.

Cyclical variation without trend.

The data show cyclical fluctuations around a stable mean rather than a clear upward or downward trend. Participation peaked at 16.5% in 2006 and 14.5% in 2021, with troughs around 9–11% in 2008 and 2011. This pattern suggests that Swedish households adjust equity exposure in response to market conditions but maintain a structural allocation to equities.

The cyclical pattern may reflect:

Valuation-driven rebalancing: Swedish households may practice disciplined rebalancing, reducing equity exposure after strong appreciation (when valuations are high) and increasing exposure after declines (when valuations are low). This contrarian behavior improves risk-adjusted returns and demonstrates investment sophistication (Fagereng et al., 2017).

Lifecycle effects: As households age, they naturally reduce equity exposure and increase allocation to safer assets. The cyclical pattern may partly reflect demographic shifts, with younger cohorts entering equity markets and older cohorts reducing exposure.

Market timing attempts: Some Swedish households may attempt to time markets, increasing exposure when they expect appreciation and reducing exposure when they expect declines. While market timing is notoriously difficult, the cyclical pattern suggests some households engage in this behavior.

Why Swedish stability matters.

The stability of Swedish equity participation through multiple crises demonstrates that institutional frameworks and cultural factors can support resilient household financial behavior. This resilience creates several benefits:

Improved household wealth outcomes: Maintaining equity exposure through crises enables Swedish households to benefit from subsequent recoveries, improving long-term wealth accumulation. The discipline to avoid panic selling during downturns proves highly valuable over multi-decade investment horizons.

Financial market stability: Stable household equity participation supports financial market stability by reducing pro-cyclical behavior. When households panic-sell during crises, they amplify market declines and create liquidity problems. Swedish households' stability reduces these destabilizing effects.

Capital market development: Consistent household equity participation provides stable long-term capital for Swedish firms, supporting corporate investment, innovation, and growth. The reliability of household equity demand enables firms to plan long-term investments with confidence.

1.3.4 Comparative Analysis: Institutional Determinants of Resilience

Comparing equity participation patterns across the three countries reveals that institutional frameworks critically determine household resilience during market stress. **Table 3** summarizes the patterns:

Table 3: Equity Market Participation Patterns and Crisis Resilience

Country	Pre-Crisis Peak	Crisis Trough	Decline	Recovery Time	2023/2024 Level	Resilience Characterization
Italy	40% (2006)	27% (2011)	-13 pp	12 years	42%	Low resilience; severe crisis impact; full recovery
UK	15.4% (2007)	13.5% (2008)	-1.9 pp	2 years	15.4%	Moderate resilience; rapid recovery; Brexit decline
Sweden	32.9% (2006)	18.7% (2008)	-13.9 pp	3 years	~26%	Low resilience; severe decline; stable long-term

Table 3 - Authors' elaboration based on data from Istat, Banca d'Italia, ONS and SCB

Key institutional determinants of resilience:

1. Pension system design and automatic mechanisms:

Countries with automatic enrollment in workplace pensions (UK) or mandatory pension contributions (Sweden) demonstrate greater resilience than countries relying primarily on voluntary savings (Italy). Automatic mechanisms create forced equity buying during market downturns (as contributions continue regardless of market conditions), supporting prices and preventing panic-driven selling.

The UK's automatic enrollment, introduced in 2012, came too late to affect the 2008 financial crisis but may have contributed to resilience during the 2020 pandemic. Sweden's Premium Pension system, in place throughout the study period, created consistent equity buying that supported market stability (Bach et al., 2020; Perotti & von Thadden, 2006).

2. Tax policy and behavioral incentives:

Tax policies that penalize selling (such as capital gains taxes on realized gains) may discourage panic selling during crises, while policies that eliminate this penalty (such as Sweden's ISK) may have ambiguous effects. However, the ISK's simplification benefits and elimination of record-keeping requirements may encourage long-term holding by reducing the salience of short-term market fluctuations.

The UK's ISA system, with tax-free returns, encourages long-term holding by eliminating tax on gains. However, the ability to access ISA funds at any time (unlike pensions) may enable panic selling during crises.

3. Financial literacy and investor education:

Countries with higher financial literacy (Sweden, UK) demonstrate greater resilience than countries with lower literacy (Italy). Financial literacy enables households to understand that market volatility is normal, that long-term equity returns remain attractive despite short-term fluctuations, and that panic selling locks in losses and sacrifices recovery gains.

Financial education initiatives that emphasize long-term perspective, diversification benefits, and the dangers of market timing can improve household resilience. However, such initiatives require sustained investment and must reach households before crises occur, as education during crises proves less effective.

4. Institutional intermediation vs. direct holdings:

Countries where equity exposure occurs primarily through institutional intermediaries (pension funds, mutual funds) may demonstrate greater resilience than countries with high direct shareholding. Institutional intermediaries employ professional managers who maintain long-term strategies and are

less susceptible to panic-driven selling. Individual households cannot easily panic-sell pension fund holdings, creating forced discipline.

However, institutional intermediation also creates agency problems (managers may not act in beneficiaries' best interests) and reduces household engagement with investment decisions. The optimal balance between direct holdings and institutional intermediation remains debated.

5. Social norms and peer effects:

Countries where equity investing is normalized and widely practiced (Sweden) may demonstrate greater resilience than countries where equity investing is seen as unusual or risky (Italy). Social norms operate through multiple channels: peer effects (observing friends and family maintaining equity positions during crises encourages similar behavior), information sharing (discussing investment strategies within social networks), and psychological support (knowing that others face similar challenges reduces anxiety) (Guiso et al., 2008).

Building equity culture requires sustained efforts over decades, as social norms change slowly. However, once established, equity culture creates self-reinforcing dynamics that support resilience through crises.

1.3.5 Implications for Capital Market Development

Household equity participation critically affects capital market depth, liquidity, and efficiency the determinants of economic growth and corporate financing.

1. Market depth and liquidity:

Higher household equity participation creates deeper, more liquid capital markets. Household investors provide stable long-term capital that supports market liquidity and reduces volatility. Countries with higher participation (Sweden, UK) maintain more developed capital markets than countries with lower participation (Italy).

Deep, liquid capital markets benefit the broader economy by: Facilitating corporate financing for growth and innovation; Improving price discovery and capital allocation efficiency; Reducing financing costs for firms through competitive capital supply; Supporting entrepreneurship and new firm formation through exit opportunities (IPOs, acquisitions).

2. Corporate financing patterns:

Countries with higher household equity participation support equity-based corporate financing, while countries with lower participation push firms toward bank financing. This difference affects corporate capital structure, risk-taking, and growth dynamics.

Equity financing offers several advantages over bank financing: No fixed repayment obligations, reducing bankruptcy risk during downturns; Alignment of investor and firm interests through shared upside potential; Longer-term capital that supports patient investment in innovation; Reduced leverage that improves financial stability.

3. Market efficiency and governance:

Broader household equity participation improves market efficiency through wider information aggregation and price discovery. More participants bring diverse information and perspectives, improving market prices as signals for capital allocation.

Household shareholders also play governance roles, voting on corporate decisions and holding management accountable. While individual households may lack expertise for effective governance, their collective voice (often channeled through institutional intermediaries) affects corporate behavior.

4. Financial system stability:

The relationship between household equity participation and financial system stability is complex and ambiguous. On one hand, higher equity participation diversifies household portfolios and reduces concentration in bank deposits and real estate, potentially improving stability. On the other hand, higher equity participation increases household exposure to market volatility, creating wealth effects that can amplify economic fluctuations.

The net effect depends on institutional details: if equity exposure occurs through long-term pension funds with professional management, stability benefits may dominate. If equity exposure occurs through direct holdings with frequent trading and panic-driven selling, stability risks may dominate.

1.4 Recent Dynamics and Growth Patterns

The 2019–2023 period witnessed dramatic changes in household wealth composition driven by the COVID-19 pandemic, unprecedented policy responses, and the subsequent monetary policy normalization. This section examines recent dynamics in Italy and France, revealing how households adjusted portfolios in response to rapidly changing economic conditions.

1.4.1 Italy: Post-Pandemic Asset Class Performance and Monetary Policy Effects

Figure 5 provides detailed insight into the annual growth rates of Italian household financial asset components over the 2019–2023 period, revealing significant heterogeneity across asset classes and dramatic shifts driven by monetary policy normalization.

Currency and deposits: From pandemic accumulation to monetary policy-driven outflows

Currency and deposits showed positive growth in 2019 (4.6%), 2020 (6.9%), and 2021 (4.5%), reflecting pandemic-related precautionary savings and limited consumption opportunities. During 2020–2021, Italian households accumulated substantial excess savings as lockdowns and social distancing restrictions limited consumption possibilities (particularly for services like travel, dining, entertainment) while income support programs (wage subsidies, unemployment benefits) maintained household income.

The 6.9% deposit growth in 2020 represents one of the highest growth rates in the entire dataset, demonstrating the powerful savings effects of consumption restrictions. This forced savings phenomenon occurred across developed economies, creating substantial household liquidity that would later affect portfolio allocation and consumption patterns (Kaplan et al., 2014; Bach et al., 2020).

However, deposits contracted by 3.2% in 2023 as households redeployed cash into higher-yielding alternatives following interest rate increases. This contraction represents a dramatic reversal from the pandemic accumulation phase and demonstrates the sensitivity of household portfolio allocation to relative returns.

Why the deposit outflow matters. The 3.2% deposit contraction in 2023, combined with the 63.8% surge in debt securities (discussed below), demonstrates powerful monetary policy transmission through portfolio reallocation. As the European Central Bank raised interest rates from -0.5% in mid-2022 to 4.0% by late 2023, the opportunity cost of holding zero-yielding deposits increased dramatically.

Italian government bond yields rose correspondingly, 10-year BTP yields increased from approximately 1% in early 2022 to over 4.5% by late 2023. This 3.5% yield increase made debt securities highly attractive relative to deposits, triggering massive portfolio reallocation.

The deposit outflow creates challenges for Italian banks, which rely on deposits for funding. Banks faced pressure to raise deposit rates to retain customers (reducing net interest margins) or seek alternative funding sources (potentially affecting lending capacity). The speed of the outflow, occurring within a single year, created challenges for banks' asset-liability management.

Debt securities: The dramatic 2023 surge

Debt securities experienced dramatic volatility, with holdings declining by 7.7% in 2019, 7.0% in 2020, and 11.7% in 2021 as yields remained compressed and households sought alternative investments. During the European Central Bank's quantitative easing programs (2015–2021), government bond yields fell to historic lows, Italian 10-year yields reached 0.5% in 2020, and short-term yields turned negative.

At these yield levels, debt securities holdings became unattractive relative to alternatives. Deposits offered similar returns with greater liquidity and simplicity. Equities offered growth potential that bonds

could not match. Life insurance products offered guaranteed returns that exceeded bond yields. The result was sustained outflows from debt securities as households rebalanced portfolios.

However, the category then surged dramatically, increasing by 12.9% in 2022 and 63.8% in 2023. The 63.8% growth in 2023 represents the strongest performance of any asset class in the entire dataset and one of the largest single-year growth rates observed across all countries and time periods.

This surge reflects the return of positive yields on government bonds following monetary policy normalization. As yields rose from near-zero to over 4%, debt securities became highly attractive, triggering massive inflows. Italian households, who had maintained cultural familiarity with government bonds (BTPs were traditionally a core holding for Italian savers), rapidly increased allocations as yields became attractive again.

The mechanics of the surge. The 63.8% growth in debt securities in 2023 reflects both price effects and flow effects:

Price effects: As yields rose during 2022, existing bond prices fell (bond prices and yields move inversely). This created mark-to-market losses for existing bondholders but made new purchases attractive at higher yields.

Flow effects: Italian households made substantial net purchases of debt securities in 2023, shifting funds from deposits and potentially from other asset classes. The combination of attractive yields, cultural familiarity, and perceived safety (Italian government bonds, while not risk-free, are viewed as relatively safe by Italian households) drove strong demand (Campbell et al., 2007).

The surge demonstrates the power of relative returns in driving household portfolio allocation. When the yield differential between deposits and bonds was minimal (2019–2021), households preferred deposits for their simplicity and liquidity. When the yield differential widened to 4+% (2023), households rapidly shifted to bonds despite their greater complexity and interest rate risk.

Shares and other equity: Resilience and sustained growth

Shares and other equity demonstrated resilience with positive growth in four of five years: 15.8% in 2019, 5.4% in 2020, 27.4% in 2021, 4.0% in 2022, and 10.1% in 2023. This sustained positive performance across the period indicates growing household confidence in equity investing and successful navigation of multiple challenges.

The 27.4% growth in 2021 represents exceptional performance, reflecting the post-pandemic equity market rally. Global equity markets surged during 2020–2021 as massive fiscal and monetary policy support, vaccine development, and economic reopening created highly favorable conditions. Italian equities participated in this rally, and Italian households benefited through both valuation gains and net purchases.

The continued positive growth in 2022 (4.0%) and 2023 (10.1%) is particularly notable given the challenging market conditions. Global equity markets declined approximately 15–20% in 2022 as central banks tightened monetary policy and recession concerns mounted. The fact that Italian household equity holdings still grew 4.0% suggests substantial net purchases that offset valuation losses, a sign of growing confidence and long-term perspective.

Why equity resilience matters. The sustained positive growth in equity holdings across 2019–2023, including during the pandemic crisis and monetary policy tightening, contrasts sharply with the crisis-driven collapse during 2008–2012. This resilience suggests that Italian households have developed greater confidence in equity investing, maintain longer-term perspectives, and are less susceptible to panic-driven selling.

This behavioral shift, if sustained, could have profound implications for Italian household wealth accumulation, capital market development, and financial system stability. Households that maintain equity exposure through market cycles benefit from long-term appreciation, support market stability through reduced pro-cyclical behavior, and provide stable capital for Italian firms.

Mutual fund shares: Volatility reflecting market conditions

Mutual fund shares showed strong growth in 2019 (9.8%), 2020 (3.4%), and 2021 (13.0%), followed by a sharp decline of 11.8% in 2022 due to negative market returns, then recovery of 5.8% in 2023. This pattern closely mirrors global equity market performance and highlights the valuation sensitivity of fund holdings.

The 2022 decline reflects both valuation losses (as underlying equity and bond holdings declined) and potentially some redemptions as households rebalanced portfolios or met consumption needs. However, the modest 11.8% decline, compared to the 15–20% decline in global equity markets, suggests that Italian households largely maintained mutual fund positions rather than panic-selling.

The 2023 recovery (5.8%) reflects both market appreciation and net inflows as households increased mutual fund allocations. The recovery, while positive, was more modest than the 10.1% growth in direct equity holdings, suggesting that Italian households may be shifting toward direct equity investing (facilitated by online platforms) rather than mutual funds.

Insurance, pension, and standardized guarantee schemes: Volatility and recovery

Insurance, pension, and standardized guarantee schemes grew steadily at 10.2% in 2019 and 5.9% in 2020, then slowed to 2.5% in 2021 before declining 12.3% in 2022 and recovering 4.5% in 2023.

The 2022 decline reflects multiple factors:

Market losses on unit-linked policies: Many Italian life insurance products offer unit-linked options where returns depend on underlying investment performance. The 2022 equity and bond market declines created losses on these policies.

Interest rate effects on policy valuations: Rising interest rates reduce the present value of future guaranteed payments, creating mark-to-market losses on traditional life insurance policies with guaranteed returns.

Withdrawals: Some households may have withdrawn from insurance and pension products to meet consumption needs or rebalance portfolios, creating outflows that contributed to the decline.

The 2023 recovery (4.5%) suggests that the 2022 decline was primarily valuation-driven rather than reflecting fundamental loss of confidence in these products. As markets stabilized and households adjusted to the new interest rate environment, insurance and pension products resumed growth.

1.4.2 France: Wealth Growth Drivers and Real Estate Dominance

Figure 18 decomposes the contributions of different asset components to annual growth in French household economic wealth over the 2003–2022 period, providing insights into the drivers of wealth accumulation and the dominant role of real estate.

Figure 18: Contributions of Asset Components to Annual Growth of French Household Economic Wealth

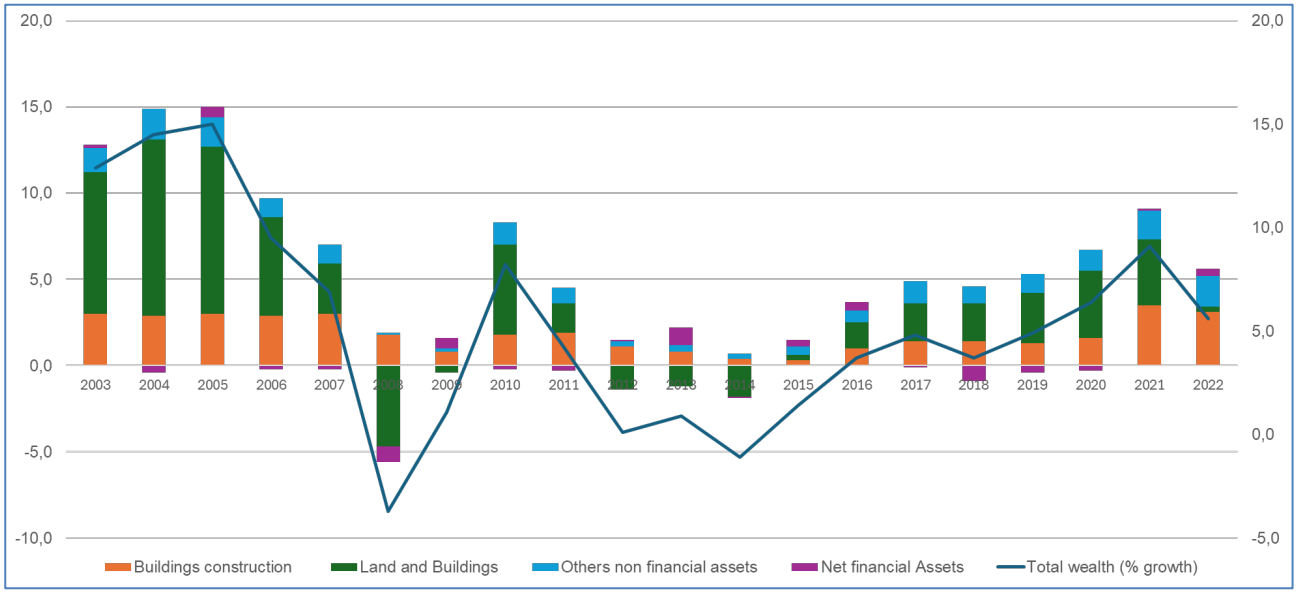


Figure 18 - Authors' elaboration based on data from INSEE- France Wealth Growth

The analysis distinguishes between four components:

1. Constructions (murs): The physical structure component

The physical structure component of real estate (buildings, improvements) contributed 0.3–3.5% annually to wealth growth. Contributions were highest during the pre-crisis housing boom (2004–2007, averaging 3.0% annually) and the post-pandemic period (2020–2022, averaging 2.0% annually).

These contributions reflect:

Construction cost inflation: The cost of building materials, labor, and land development increases over time, raising the replacement value of existing structures. During periods of strong construction activity and input cost inflation, this component contributes substantially to wealth growth.

Housing improvements and renovations: Households invest in home improvements, renovations, and expansions that increase property values. These investments add to the physical structure component of wealth.

Quality adjustments: Statistical agencies adjust for quality improvements in housing stock over time, as newer homes typically offer better amenities, energy efficiency, and construction quality than older homes.

The relatively stable contribution of the construction component (compared to the highly volatile land component) reflects the fact that physical structures depreciate gradually and require ongoing maintenance and replacement. This creates a steady flow of investment that supports construction sector employment and contributes to wealth accumulation.

2. Terrains bâtis (foncier): The land component

The land component of developed property shows the highest volatility, with contributions ranging from -4.7% in 2008 (during the financial crisis) to +10.2% in 2004 (during the housing boom). Land values are highly sensitive to credit conditions, interest rates, and economic sentiment, explaining the pronounced cyclicality (Cocco, 2005; Pelizzon & Weber, 2008).

The land component dominates wealth growth volatility because:

Land supply is fixed: Unlike physical structures (which can be built), land supply in desirable locations is fixed or grows very slowly. This fixed supply means that demand changes translate directly into price changes.

Credit conditions affect demand: Land values are highly sensitive to mortgage credit availability and interest rates. When credit is abundant and rates are low, demand for housing (and thus land) increases, driving prices up. When credit tightens and rates rise, demand falls and prices decline.

Expectations and sentiment: Land values reflect expectations about future economic conditions, population growth, and urban development. During optimistic periods, expectations of future appreciation drive current prices up. During pessimistic periods, expectations of decline drive prices down.

Leverage amplification: Most housing purchases involve substantial leverage (mortgages), which amplifies price movements. Small changes in expected returns or risk perceptions can trigger large changes in demand and prices.

The extreme volatility of the land component creates several implications:

Wealth effect volatility: Because land represents a large share of household wealth, land value fluctuations create powerful wealth effects that affect consumption. The -4.7% contribution in 2009 represented a substantial negative wealth shock that reduced consumption and amplified the recession.

Financial stability risks: The correlation between land values, mortgage lending, and bank balance sheets creates systemic risks. Housing market corrections can trigger mortgage defaults, bank losses, and credit contractions that amplify economic downturns.

Intergenerational inequality: Land value appreciation benefits existing homeowners (typically older households) while creating barriers for first-time buyers (typically younger households). The 10.2% contribution in 2005 represented substantial wealth gains for existing owners but made homeownership less affordable for younger generations.

3. Autres actifs non financiers (Other non-financial assets)

Other non-financial assets (vehicles, valuables, consumer durables) contributed a relatively stable 0.1–1.8% annually. This category is much smaller than real estate and shows less volatility, as vehicle and durable goods values depreciate steadily rather than exhibiting the cyclical appreciation seen in real estate.

The stability of this component provides a modest buffer against real estate volatility, but the small magnitude limits its impact on overall wealth dynamics.

4. Patrimoine financier net (Net financial wealth)

Net financial wealth (financial assets minus financial liabilities) contributed -0.9 to +1.0% annually, with negative contributions during crisis periods (2005, 2008–2009, 2019–2021) when financial asset valuations declined or households increased liabilities.

The relatively modest contribution of net financial wealth reflects several factors:

Offsetting effects: Financial asset appreciation is partially offset by liability accumulation (mortgage debt, consumer credit). During periods of strong housing demand, households increase mortgage debt to finance purchases, creating negative contributions from the liability side that offset positive contributions from asset appreciation.

Lower financial asset share: Because financial assets represent only 35–38% of French household wealth (compared to 50–65% for non-financial assets), even substantial percentage changes in financial asset values create modest contributions to total wealth growth.

Volatility and reversals: Financial asset values fluctuate substantially with market conditions, creating positive contributions during bull markets and negative contributions during bear markets. These fluctuations tend to reverse over time, limiting the long-term contribution to wealth growth.

Total economic wealth growth patterns:

Total economic wealth growth ranged from -3.7% in 2009 to +15.0% in 2006, with an average around 4–6% in normal years. The decomposition reveals that real estate (particularly land values) drives the majority of wealth volatility, while financial assets provide more stable but modest contributions.

The 2020–2022 period shows strong wealth growth (4.9%, 6.4%, and 9.1% respectively) driven primarily by real estate appreciation. Land values contributed 2.9, 3.9, and 3.8% respectively during these years, reflecting the pandemic-driven housing demand surge.

Why the real estate dominance matters:

The dominance of real estate (particularly land values) in driving wealth growth creates several implications:

Vulnerability to housing market corrections: French household wealth is highly exposed to housing market risk. A substantial housing market correction (like the 2009 experience) would create large negative wealth effects that reduce consumption and amplify economic downturns.

Geographic inequality: Land value appreciation is highly uneven across regions, with strong appreciation in Paris and other major cities but modest or negative appreciation in rural areas and declining industrial regions. This geographic variation in wealth growth contributes to regional inequality and political tensions.

Intergenerational tensions: The strong land value appreciation during 2020–2022 benefited existing homeowners (typically older households) while making homeownership less affordable for younger households. This dynamic creates intergenerational tensions and may reduce social mobility.

Policy challenges: The dominance of real estate in wealth dynamics creates difficult policy trade-offs. Policies that support housing affordability (increased supply, reduced subsidies for ownership) may harm existing homeowners through price declines. Policies that support existing homeowners (restricted supply, ownership subsidies) harm affordability for younger generations.

1.4.3 Implications for Monetary Policy Transmission

The recent dynamics in Italy and France reveal important insights about monetary policy transmission through household balance sheets, a channel that has received increased attention following the dramatic policy shifts of 2020–2023.

Portfolio reallocation channel:

The Italian experience demonstrates that monetary policy affects household behavior not just through traditional channels (borrowing costs, income effects) but through powerful portfolio reallocation effects. As interest rates rose during 2022–2023, Italian households rapidly shifted from deposits to debt securities, creating a 63.8% surge in bond holdings and a 3.2% contraction in deposits (Bach et al., 2020; Calvet & Sodini, 2014).

This portfolio reallocation channel operates through several mechanisms:

Relative return effects: Interest rate changes alter relative returns across asset classes, triggering portfolio reallocation. When deposit rates are zero and bond yields are 4%, households shift to bonds. When deposit rates rise to 3% and bond yields fall to 2%, households shift back to deposits.

Search for yield: In low-interest-rate environments, households "search for yield" by shifting from safe, low-yielding assets (deposits) to riskier, higher-yielding assets (bonds, equities). This search for yield can create financial stability risks if households take excessive risks or fail to understand the risks they are taking.

Liquidity effects: Portfolio reallocation affects bank funding and lending capacity. When households shift from deposits to bonds, banks lose funding and may need to reduce lending or seek alternative funding sources. This creates a transmission channel from monetary policy to credit supply.

Wealth effects and consumption:

The French experience demonstrates that monetary policy affects household wealth through multiple channels, directly through financial asset valuations and indirectly through real estate values. The 2020–2022 period saw strong wealth growth driven by real estate appreciation, supported by low interest rates and accommodative monetary policy.

As monetary policy tightened in 2022–2023, these wealth effects reversed:

Financial asset valuations: Rising interest rates reduced equity and bond valuations, creating negative wealth effects. The 4.5% decline in French household equity holdings in 2022 represented substantial wealth losses that reduced consumption.

Real estate values: Rising mortgage rates reduced housing affordability and demand, slowing or reversing real estate appreciation. While the full effects take time to materialize (real estate adjusts more slowly than financial assets), the eventual impact on household wealth and consumption can be substantial.

Heterogeneous effects: Wealth effects vary across households depending on portfolio composition, age, and leverage. Older households with substantial financial and real estate assets experience large wealth effects. Younger households with limited assets but substantial mortgage debt experience different effects through debt service costs (Kaplan et al., 2014; Lusardi et al., 2017).

Part 2.
Retail Instruments Analysis

Comparative Analysis of PIR (Italy), PEA/PEA-PME (France), ISK (Sweden), and ISA (United Kingdom)

This chapter provides a comprehensive comparative analysis of four major retail investment accounts in Europe: Italy's *Piani Individuali di Risparmio a Lungo Termine* (PIR), France's *Plan d'Épargne en Actions* (PEA) and its SME-focused variant PEA-PME, Sweden's *Investeringssparkonto* (ISK), and the United Kingdom's Individual Savings Account (ISA). These instruments represent distinct policy approaches to encouraging household participation in capital markets through fiscal incentives. Drawing on regulatory documents, market data, and scholarly literature, this chapter examines the historical evolution, regulatory frameworks, tax treatment, eligibility criteria, investment restrictions, distribution channels, and market performance of each instrument. The analysis reveals significant disparities in adoption rates and effectiveness: Sweden's ISK demonstrates the highest penetration rate (52.3% of adults) and share of financial wealth (7.8%), followed by the UK's ISA (39.2% penetration, 19.5% wealth share), France's PEA (13.4% penetration, 1.6% wealth share), and Italy's PIR (1.5% penetration, 0.5% wealth share). The comparative analysis identifies simplicity, flexibility, and automatic tax treatment as critical success factors, with Sweden's flat-rate taxation model emerging as the benchmark for retail investment democratization. Policy implications suggest that tax schemes alone are insufficient; behavioral design features, cultural factors, and integration with broader financial ecosystems are equally important..

2.1 Italy: Piani Individuali di Risparmio a Lungo Termine (PIR)

2.1.1 Historical Development

Italy's *Piani Individuali di Risparmio a Lungo Termine* (PIR), or Individual Long-Term Savings Plans, were introduced in 2017 as part of a broader effort to channel household savings toward Italian companies, particularly SMEs. The PIR initiative emerged in response to several structural challenges facing the Italian economy: persistently low equity market participation among households, heavy reliance on bank financing for corporate investment, and limited access to capital for small and medium-sized enterprises (Caselli and Zava, 2025).

The PIR framework was designed with explicit industrial policy objectives. Unlike earlier tax-advantaged schemes in other countries that emphasized broad-based equity ownership, the PIR sought to direct retail capital specifically toward Italian companies with a permanent establishment in Italy. This geographic focus reflected concerns about capital flight and a desire to strengthen domestic capital markets (European Commission, 2025).

In 2021, the Italian government introduced a second variant, the "alternative PIR," specifically targeting investments in unlisted companies and venture capital funds. This expansion aimed to address the particularly acute financing challenges faced by early-stage and growth companies in Italy's fragmented venture capital ecosystem (Gallo et al., 2025).

2.1.2 Regulatory and Tax Framework

The PIR offers full exemption from taxes on income derived from qualifying investments, including capital gains, interest, and dividends. Additionally, PIR holdings are exempt from inheritance tax, providing an intergenerational wealth transfer benefit not available in most other tax-advantaged schemes (European Commission, 2025).

However, these generous tax benefits are conditional on meeting strict requirements:

- **Minimum holding period**: Investments must be held for at least five years to qualify for tax exemption. Early withdrawals result in the loss of all accumulated tax benefits, a feature that distinguishes PIR from more flexible schemes such as Sweden's ISK.
- **Geographic and sectoral restrictions**: At least 70% of the portfolio must be invested in financial instruments of companies resident in Italy or other EU/EEA Member States with a permanent establishment in Italy. This requirement significantly constrains diversification opportunities.
- **SME allocation requirements**: Of the 70% domestic allocation, at least 25% must be invested in companies not listed in the FTSE MIB index (Italy's blue-chip index) or equivalent indices in other regulated markets. Furthermore, at least 5% of the 70% must be invested in companies not included in either the FTSE MIB or FTSE Mid Cap indices, effectively mandating exposure to small-cap and unlisted companies. (Equita, 2025).
- **Exclusion of non-cooperative jurisdictions**: Investments in companies resident in countries that do not exchange fiscal information with Italy are prohibited.

For alternative PIRs, the framework is more flexible but targets a narrower investor base. The annual contribution limit is €300,000, with a total cap of €1.5 million, compared to €40,000 annually and €200,000 total for traditional PIRs (Equita, 2025).

2.1.3 Eligibility and Contribution Limits

PIR accounts are available to all Italian tax residents, with no age restrictions. Each individual may hold only one traditional PIR and one alternative PIR simultaneously. The contribution limits are €40,000 per year, with a lifetime maximum of €200,000, for Traditional PIR, and €300,000 per year, with a lifetime maximum of €1.5 million, for Alternative PIR. The alternative PIR's higher limits reflect its focus on sophisticated investors and institutional-grade private equity investments.

2.1.4 Eligible Assets and Investment Restrictions

Traditional PIRs may invest in: Listed equities of qualifying companies; Corporate bonds issued by qualifying companies; Units in investment funds (UCITS and AIFs) that comply with PIR allocation requirements; Exchange-traded funds (ETFs) meeting PIR criteria

Alternative PIRs have a broader investment universe, including: Unlisted equity securities; Venture capital and private equity funds; Minibonds and other debt instruments issued by SMEs; Crowdfunding investments in qualifying companies

The strict allocation requirements, 70% in Italian or Italy-established companies, with sub-quotas for small-caps and unlisted firms, represent the most restrictive investment mandate among the four instruments examined in this chapter. While intended to channel capital toward domestic SMEs, these restrictions significantly limit diversification and may deter risk-averse investors (Calcagnini and Magliocco, 2018).

2.1.5 Distribution Channels

PIRs are distributed through multiple channels. Traditional banks offer PIR-compliant mutual funds and managed accounts, while insurance companies provide PIR-compliant unit-linked insurance products. Asset managers (both Italian and international) offer specialized PIR funds, and online brokers make available self-directed PIR accounts, though these remain less common due to the complexity of maintaining compliance with allocation requirements.The dominance of bank and insurance distribution channels reflects Italy's traditional financial intermediation structure, where households have historically relied on these institutions for savings and investment products.

2.1.6 Market Performance and Adoption

Despite generous tax incentives, PIR adoption has been modest. As of December 31, 2023: **Traditional PIRs**: 66 funds with approximately €17 billion in assets under management, representing a net outflow of €2.8 billion in 2023; **Alternative PIRs**: 17 funds with approximately €2 billion in assets under management, with a net inflow of €0.2 billion in 2023 (Equita, 2025; Equita, 2026).

The total PIR market of €19 billion represents only 0.5% of Italian household financial wealth, with a penetration rate of just 1.5% of adults (European Commission, 2025). This stands in stark contrast to Sweden's ISK (52.3% penetration, 7.8% of financial wealth) and the UK's ISA (39.2% penetration, 19.5% of financial wealth).

Several factors explain the limited adoption of PIRs. Italian households have historically favored government bonds and bank deposits, with limited participation in equity markets, reflecting a low equity culture that constrains demand for equity-oriented products. The mandatory 70% allocation to Italian companies, combined with sub-quotas for small-caps, limits diversification and increases portfolio risk, deterring more conservative investors. Compounding this, the requirement to invest in small-cap and unlisted companies exposes investors to liquidity risk, which is particularly problematic given the five-year lock-in period. Beyond these structural constraints, surveys indicate low awareness

of PIRs among Italian households, reflecting insufficient marketing and financial education efforts. Finally, Italian households exhibit strong preferences for government bonds (BTPs) and postal savings products, which offer perceived safety and liquidity, creating significant competition for PIRs as a savings vehicle.

The net outflows from traditional PIRs in 2023 suggest that initial enthusiasm has waned, possibly due to disappointing performance of Italian small-cap stocks and concerns about portfolio concentration risk (Equita, 2025; Equita, 2026).

2.2 France: Plan d'Épargne en Actions (PEA) and PEA-PME

2.2.1 Historical Development

France's *Plan d'Épargne en Actions* (PEA), or Equity Savings Plan, was introduced in 1992 as part of a broader effort to promote equity ownership among French households and deepen domestic capital markets. The PEA was explicitly modeled on the United Kingdom's Personal Equity Plan (PEP), which had been introduced in 1987, but incorporated distinctive features reflecting French policy priorities, particularly a focus on European rather than purely domestic equities (Banque de France, 2023).

The PEA emerged during a period of financial market liberalization in France, following the privatization of major state-owned enterprises in the 1980s. Policymakers sought to create a "shareholder democracy" by encouraging broader participation in equity markets, which had traditionally been dominated by institutional investors and wealthy individuals (Pfister, 2018).

In 2014, France introduced the PEA-PME (*Plan d'Épargne en Actions destiné au financement des Petites et Moyennes Entreprises*), a variant specifically designed to channel retail capital toward small and medium-sized enterprises. The PEA-PME reflected growing concerns about SME financing in the aftermath of the 2008 financial crisis and aligned with European Union initiatives to strengthen non-bank financing channels (Cicchiello et al., 2019).

2.2.2 Regulatory and Tax Framework

The PEA offers significant tax advantages for long-term equity investment:

- **Tax exemption after five years**: Capital gains and dividends generated within a PEA are exempt from income tax if the account has been held for at least five years. However, social security contributions (*prélèvements sociaux*) of 17.2% remain applicable.
- **Early withdrawal penalties**: Withdrawals before the five-year holding period generally result in account closure and taxation of gains at the flat tax rate (*prélèvement forfaitaire unique*) of 30% (12.8% income tax plus 17.2% social contributions). Limited exceptions exist for specific life events (unemployment, disability, retirement).
- **Comparison to standard taxation**: For investments held outside a PEA, capital gains are subject to the 30% flat tax. Thus, the PEA's primary benefit is the exemption from the 12.8% income tax component after five years, reducing the effective tax rate from 30% to 17.2%.

The PEA-PME offers identical tax treatment but with different investment restrictions and contribution limits. Importantly, individuals may hold both a standard PEA and a PEA-PME simultaneously, subject to combined contribution limits (Banque de France, 2023).

2.2.3 Eligibility and Contribution Limits

PEA accounts are available to French tax residents aged 18 or older. Each individual may hold only one standard PEA and one PEA-PME. The contribution limits are €150,000 per individual (€300,000 for a two-partner household)for Standard PEA and €225,000 per individual (€450,000 for a two-partner household), for PEA-PME. When holding both a PEA and PEA-PME, total contributions cannot exceed €225,000 per individual, while respecting the €150,000 ceiling for the standard PEA.

These limits are substantially higher than Italy's PIR but lower than Sweden's ISK (which has no contribution limit) and the UK's ISA (£20,000 annual limit, but no lifetime cap).

2.2.4 Eligible Assets and Investment Restrictions

The standard PEA may invest in: Shares of companies headquartered in the European Union or European Economic Area; Investment funds (UCITS and certain AIFs) with at least 75% exposure to EU/EEA equities; Exchange-traded funds (ETFs) meeting the 75% EU/EEA equity requirement; Units in private limited companies (*sociétés par actions simplifiées*) headquartered in the EU/EEA.

The PEA-PME has more restrictive eligibility criteria, targeting SMEs and intermediate-sized enterprises (*entreprises de taille intermédiaire*, ETIs): Companies must be headquartered in the EU/EEA and subject to corporate income tax; Companies must meet EU SME criteria: fewer than 5,000 employees and either annual turnover under €1.5 billion or total balance sheet under €2 billion; Eligible instruments include equities, certain corporate bonds, SME-focused investment funds, and private equity investments.

The PEA-PME's focus on SMEs reflects explicit industrial policy objectives, similar to Italy's PIR but with greater flexibility due to the pan-European scope (European Commission, 2025).

A critical distinction between the PEA and other schemes is the geographic restriction: investments must be in EU/EEA companies, excluding non-European equities. While this restriction was originally intended to support European capital markets, it limits diversification opportunities compared to Sweden's ISK and the UK's ISA, which permit global investment (Pfister, 2018).

2.2.5 Distribution Channels

PEAs are distributed through two primary channels: The **PEA Bancaire (Bank PEA)** is offered by banks and online brokers, allowing direct investment in individual stocks and funds. This is the most common form, accounting for the majority of PEA accounts. The **PEA Assurance (Insurance PEA)**: Offered by insurance companies through unit-linked capitalization contracts. This variant combines the PEA's tax advantages with insurance features, appealing to investors seeking additional protection or estate planning benefits.

The advent of online brokers and digital banks has intensified competition and reduced fees. Traditional custody fees of 0.4% and transaction fees capped at 0.5% have declined significantly, with some online platforms offering zero-commission trading for PEA accounts (Banque de France, 2024).

2.2.6 Market Performance and Adoption

The PEA has achieved substantial scale and represents a significant component of French household portfolios. As of end-2023, total PEA assets stood at €115 billion, comprising €112.7 billion in standard PEAs and €2.7 billion in PEA-PMEs, held across 7.3 million standard PEA accounts. In terms of broader household wealth, the PEA accounts for 1.6% of French household financial wealth, with a penetration rate of 13.4% of French adults.

The PEA market grew by 11% in 2023, driven primarily by strong equity market performance (the CAC 40 index rose 16.5% during the period) rather than net new contributions (Banque de France, 2023). The PEA-PME, despite its SME focus, remains a niche product with only €2.7 billion in assets, reflecting limited investor appetite for concentrated SME exposure.

Several factors contribute to the PEA's relative success compared to Italy's PIR. First, having been introduced in 1992, the PEA has had over three decades to build awareness and establish itself as a mainstream savings vehicle, giving it a longer track record than most comparable schemes. The pan-European investment universe also offers greater diversification than PIR's Italy-focused mandate, reducing concentration risk and broadening the appeal of the product. France moreover has a more

developed equity culture than Italy, with higher historical participation in stock markets, providing a more receptive environment for equity-oriented savings vehicles. Finally, PEAs are actively promoted by banks and financial advisors as part of comprehensive wealth management strategies, ensuring broad distribution and integration with financial advice.

However, the PEA's impact is constrained by several factors. French households hold over €1.8 trillion in life insurance contracts (assurance-vie), which offer tax advantages, capital protection, and estate planning benefits, making life insurance the preferred savings vehicle for most French households and limiting PEA adoption (Pfister, 2018). The requirement to hold investments for five years to obtain full tax benefits creates a behavioural barrier, particularly for younger or less affluent households who may need liquidity. The exclusion of non-European equities further limits exposure to high-growth markets in Asia and North America, potentially reducing returns and making the product less attractive relative to globally diversified alternatives. The distinction between the standard PEA and the PEA-PME, combined with detailed eligibility rules for funds and securities, also creates a degree of complexity that may deter less sophisticated investors.

Despite these limitations, the PEA represents a moderately successful model for tax-advantaged equity investment, achieving meaningful scale while supporting European capital market integration.

2.3 Sweden: Investeringssparkonto (ISK)

2.3.1 Historical Development

Sweden's *Investeringssparkonto* (ISK), or Investment Savings Account, was introduced in 2012 as part of a comprehensive reform of capital income taxation. The ISK represented a radical departure from traditional capital gains tax systems, replacing transaction-based taxation with a flat annual levy based on account value. This innovative approach aimed to simplify tax administration, reduce compliance costs, and eliminate behavioral distortions associated with "lock-in effects" under traditional capital gains taxation (Swedish Financial Supervisory Authority, 2024).

The ISK's introduction built on Sweden's long history of policies promoting equity ownership. In the 1980s, Sweden introduced tax-free equity savings accounts that coincided with strong market performance, embedding equity investment habits in Swedish households. The Premium Pension System, introduced in 1999, further normalized capital market participation by allocating 2.5% of each individual's salary to investment funds (SNAO, 2018).

The ISK's design philosophy prioritized simplicity and behavioral efficiency over targeted allocation or industrial policy objectives. Unlike Italy's PIR or France's PEA-PME, the ISK imposes no restrictions on asset allocation, geographic focus, or holding periods, reflecting a market-oriented approach that trusts individual investors to make optimal allocation decisions (Finansinspektionen, 2025).

2.3.2 Regulatory and Tax Framework

The ISK's tax treatment is unique among the instruments examined in this chapter:

- **Flat annual tax on account value**: Instead of taxing realized capital gains, the ISK levies an annual tax calculated as 30% of the Swedish government borrowing rate plus 1%, applied to the account's average market value. For 2025, this rate is 0.888% of assets (Finansinspektionen, 2025).
- **Tax-free threshold**: In 2025, Sweden introduced a tax-free allowance of SEK 150,000 (approximately €13,000), which will double to SEK 300,000 (approximately €26,000) in 2026. This reform addresses concerns that the flat-rate levy disproportionately burdened small savers (SIFA 2025).
- **No capital gains tax on transactions**: Investors may buy and sell securities within the ISK without triggering capital gains tax, eliminating the "lock-in effect" that discourages portfolio rebalancing under traditional taxation.
- **Tax-free dividends**: Dividends received on qualifying investments are not subject to additional taxation beyond the annual account-level levy.
- **No deduction for losses**: Unlike traditional capital gains taxation, losses within an ISK cannot be deducted against other income, though this is offset by the absence of gains taxation.
- **Unlimited withdrawals**: Funds may be withdrawn at any time without tax penalties, providing complete liquidity flexibility.

The ISK's flat-rate taxation offers several advantages over traditional systems:

1. **Administrative simplicity**: Investors need not track individual transactions or calculate gains and losses, dramatically reducing compliance costs.

2. **Behavioral efficiency**: The absence of transaction-level taxation eliminates the incentive to defer sales to avoid realizing gains, encouraging optimal portfolio management.

3. **Predictability**: The annual tax liability is known in advance based on account value and the government borrowing rate, facilitating financial planning.

However, the flat-rate system also has limitations. In periods of negative returns, investors still pay the annual levy despite experiencing losses. Conversely, in periods of high returns, the effective tax rate may be lower than under traditional capital gains taxation (Swedish Financial Supervisory Authority, 2024).

2.3.3 Eligibility and Contribution Limits

ISK accounts are available to all individuals with a Swedish *personnummer* (personal identification number). Companies and non-residents cannot open ISK accounts. Critically, the ISK has **no contribution limits**, allowing investors to allocate as much capital as desired. This unlimited contribution feature distinguishes the ISK from all other schemes examined in this chapter and reflects Sweden's confidence in the flat-rate taxation model's ability to generate appropriate revenue without artificial caps (European Commission, 2025).

2.3.4 Eligible Assets and Investment Restrictions

The ISK permits investment in a broad range of financial instruments: Stocks listed on recognized exchanges (domestic and international); Bonds and fixed-income securities; Mutual funds and exchange-traded funds (ETFs); Derivatives and structured products (subject to certain restrictions); Foreign securities traded on recognized markets.

Critically, the ISK imposes **no geographic restrictions**, allowing investors to build globally diversified portfolios. This contrasts sharply with France's PEA (EU/EEA only) and Italy's PIR (70% Italy-focused), providing Swedish investors with access to high-growth markets in Asia, North America, and emerging economies (SNAO, 2018).

The only significant restriction is that investments must be in securities traded on recognized markets. Direct investments in unlisted companies or private equity are generally not permitted within an ISK, though investors may access these asset classes through listed funds or investment companies.

2.3.5 Distribution Channels

ISK accounts are offered through several distribution channels. All major Swedish banks provide ISK accounts, typically integrated with broader banking relationships, while digital platforms such as Avanza and Nordnet have been particularly successful in attracting ISK customers by offering low fees and user-friendly interfaces. Some insurers also offer ISK-linked investment products, though these remain less common than bank and broker offerings.

The rise of online brokers has been particularly significant in driving ISK adoption. These platforms offer zero or minimal account fees, commission-free trading on many securities, and intuitive mobile applications that appeal to younger investors (Finansinspektionen, 2025).

2.3.6 Market Performance and Adoption

The ISK has achieved remarkable success, becoming the dominant retail investment vehicle in Sweden. As of 2024, total assets stood at approximately SEK 1,900 billion (€167 billion), with an estimated €176 billion by end-2024, held across 3.8 million accounts as of 2023. The ISK's penetration rate of 52.3% of Swedish adults is the highest among the four instruments examined in this chapter, and its 7.8% share of household financial wealth far exceeds comparable figures for France's PEA (2.3%), the UK's ISA (approximately 5%), and Italy's PIR (0.5%). Approximately €70 billion, representing 40% of total ISK assets, is invested in Swedish securities, reflecting a meaningful contribution to domestic capital market development (European Commission, 2025).

Several factors explain the ISK's exceptional success. The flat-rate taxation model eliminates the need for transaction tracking and complex tax reporting, dramatically reducing the psychological and administrative burden of investing and making the product accessible to a wide range of households. This simplicity is complemented by the scheme's flexibility: unlimited contributions and withdrawals, combined with no holding period requirements, provide maximum adaptability for investors with varying liquidity needs. The absence of geographic restrictions further allows investors to build optimally diversified portfolios, reducing risk and potentially enhancing returns in ways that more restrictive schemes such as the PIR or PEA cannot offer.

Beyond structural design, cultural and distributional factors have played an important role. Sweden's long history of equity ownership, supported by the Premium Pension System and earlier tax-advantaged schemes, has created a strong equity culture that the ISK reinforces (Swedish National Audit Office, 2018). The rise of low-cost online brokers has made ISK accounts accessible and affordable, particularly for younger investors, broadening participation beyond the wealthier households that tend to dominate equity ownership in other countries. Finally, the automatic taxation mechanism eliminates the lock-in effect that discourages portfolio rebalancing under traditional capital gains taxation, encouraging more active and efficient portfolio management and removing a behavioural friction that undermines the effectiveness of many comparable schemes.The ISK’s success has made it a model for other European countries. Luxembourg’s financial regulator (CSSF) has explicitly endorsed the ISK model, and Poland announced plans in 2025 to introduce an ISK-inspired account (SIFA, 2025). Ireland’s government has also expressed interest in Swedish-style savings schemes (Central Bank of Ireland, 2025).

However, the ISK’s favorable tax treatment has generated political debate. Some critics argue that the flat-rate levy is too generous, particularly for wealthy investors with large portfolios, and have called for higher taxation to ensure balanced public revenue (European Commission, 2025). The introduction of the tax-free threshold in 2025-2026 represents a partial response to these concerns, ensuring that small savers benefit more from the ISK while maintaining its core design features.

2.4. United Kingdom: Individual Savings Account (ISA)

2.4.1 Historical Development

The United Kingdom's Individual Savings Account (ISA) was introduced in April 1999, replacing earlier tax-advantaged schemes including Personal Equity Plans (PEPs, introduced 1987) and Tax-Exempt Special Savings Accounts (TESSAs, introduced 1990). The ISA represented a consolidation and simplification of these earlier schemes, offering a unified tax-efficient wrapper for both cash savings and equity investments (HM Revenue & Customs, 2025).

The ISA's introduction reflected the UK government's objective of encouraging household savings and investment while simplifying the tax system. Unlike its predecessor schemes, which had separate rules and limits, the ISA provided a single annual allowance that could be allocated flexibly across different asset types, enhancing investor choice and reducing administrative complexity (Attanasio et al., 2004).

Over the past two decades, the ISA framework has evolved significantly. The government has introduced multiple ISA variants to serve different policy objectives: **Cash ISA**: Tax-free interest on cash deposits; **Stocks and Shares ISA**: Tax-free returns on equity and bond investments; **Innovative Finance ISA** (introduced 2016): Tax-free returns on peer-to-peer lending; **Lifetime ISA** (introduced 2017): Designed for first-time home buyers and retirement savings, with a 25% government bonus on contributions up to £4,000 annually

In 2024, the UK government proposed a "British ISA" that would have provided an additional £5,000 annual allowance specifically for investments in London-listed stocks, aiming to boost the British economy. However, this proposal was abandoned in late 2024 due to concerns about complexity and limited investor demand (European Commission, 2025).

2.4.2 Regulatory and Tax Framework

The ISA offers comprehensive tax advantages:

- **Income tax exemption**: Interest earned on Cash ISAs and dividends received on Stocks and Shares ISAs are exempt from income tax.
- **Capital gains tax exemption**: Capital gains realized within a Stocks and Shares ISA are exempt from capital gains tax, which would otherwise apply at rates of 10% (basic rate taxpayers) or 20% (higher rate taxpayers) on gains exceeding the annual exemption (£3,000 for 2024/25).
- **No holding period requirement**: Unlike France's PEA and Italy's PIR, the ISA imposes no minimum holding period. Tax benefits apply immediately upon investment, and funds may be withdrawn at any time without penalty (except for Lifetime ISAs, which impose a 25% penalty on non-qualifying withdrawals).
- **No tax reporting**: Investors need not report ISA holdings or transactions on their tax returns, simplifying compliance.

The ISA's tax treatment is more generous than France's PEA in one critical respect: there is no minimum holding period, providing complete flexibility. However, the annual contribution limit (£20,000 for 2024/25) is lower than France's PEA lifetime limit (€150,000) and far below Sweden's ISK (unlimited), constraining the total amount that can be sheltered from taxation (HM Revenue & Customs, 2025).

2.4.3 Eligibility and Contribution Limits

ISAs are available to UK residents aged 18 or older (16 for Cash ISAs). Each individual may contribute up to £20,000 per tax year (April 6 to April 5), which can be allocated across different ISA types: the full

£20,000 may be placed in a single ISA type, or split across multiple ISA types (e.g., £10,000 in Cash ISA, £10,000 in Stocks and Shares ISA).

Importantly, the £20,000 limit is an **annual** limit, not a lifetime cap. Investors who maximize contributions over multiple years can accumulate substantial tax-sheltered wealth. For example, an investor contributing the maximum for 25 years would have contributed £500,000 (ignoring inflation adjustments to the limit), far exceeding France's PEA lifetime limit of €150,000.

However, recent policy developments have introduced uncertainty. In November 2025, the UK government announced plans to reduce the Cash ISA annual allowance to £12,000 for individuals under 55, while maintaining the £20,000 limit for those aged 55 and over (House of Commons Treasury Committee, 2025). This proposal, if implemented, would reduce the overall attractiveness of ISAs for younger savers and potentially shift allocations toward Stocks and Shares ISAs.

2.4.4 Eligible Assets and Investment Restrictions

Stocks and Shares ISAs permit investment in a wide range of assets: Shares in companies listed on recognized stock exchanges (domestic and international); Corporate bonds and government bonds; Investment funds (unit trusts, OEICs, and certain investment trusts); Exchange-traded funds (ETFs); Certain structured products and derivatives.

Critically, the ISA imposes **no geographic restrictions**, allowing investors to build globally diversified portfolios. This contrasts with France's PEA (EU/EEA only) and Italy's PIR (70% Italy-focused), providing UK investors with access to the full spectrum of global equity markets (HM Revenue & Customs, 2025).

Cash ISAs permit deposits in: Savings accounts offered by banks and building societies; Fixed-term deposits; Certain National Savings & Investments products; Innovative Finance ISAs permit investments in: Peer-to-peer lending platforms; Crowdfunding debt investments; Certain other alternative finance instruments.

The breadth of eligible assets, combined with the absence of geographic restrictions, makes the ISA one of the most flexible tax-advantaged schemes in Europe.

2.4.5 Distribution Channels

ISAs are distributed through a wide range of channels. Banks and building societies offer Cash ISAs and, increasingly, Stocks and Shares ISAs, providing broad access through existing banking relationships. Online investment platforms such as Hargreaves Lansdown, AJ Bell, and Interactive Investor offer Stocks and Shares ISAs with access to thousands of funds and individual securities, while digital wealth management services such as Nutmeg and Wealthify provide algorithm-driven ISA portfolios for investors seeking a more hands-off approach. Independent financial advisors recommend ISAs as part of comprehensive financial planning, and some employers facilitate ISA contributions through payroll deduction schemes, further broadening the accessibility of the product.

The diversity of distribution channels has contributed to the ISA's widespread adoption, ensuring accessibility for investors with varying levels of sophistication and wealth.

2.4.6 Market Performance and Adoption

The ISA has achieved substantial scale and represents a cornerstone of UK household savings. As of the end of the 2022/23 tax year, total ISA assets stood at £725.9 billion (approximately €849 billion), comprising £430.8 billion (approximately €504 billion) in Stocks and Shares ISAs and approximately £295 billion in Cash ISAs. In terms of account numbers, there were 6.3 million Stocks and Shares ISA

accounts and 24 million Cash ISA accounts as of 2020, with approximately 39.2% of UK adults holding an ISA of some form. Despite this high penetration rate (the highest among the four instruments examined in this chapter) the ISA's share of household financial wealth stands at approximately 5%, notably lower than Sweden's ISK at 7.8%. This discrepancy reflects the substantial proportion of ISA assets held in Cash ISAs, which generate lower returns than equity investments (HM Revenue & Customs, 2025).

Several factors contribute to the ISA's success. With over 25 years of history, including predecessor schemes, the ISA is deeply embedded in UK financial culture, giving it a long track record that few comparable instruments can match. The absence of holding period requirements and the ability to withdraw funds at any time provide maximum flexibility, appealing to investors with varying liquidity needs. The wide range of eligible assets, from cash deposits to global equities, allows investors to tailor ISAs to their risk preferences and investment objectives, while the unified annual allowance and absence of complex allocation requirements make the product straightforward to understand and use. The ISA is also actively promoted by banks, investment platforms, financial advisors, and employers, ensuring high visibility and accessibility across the income distribution.

However, the ISA faces several notable challenges. In recent years there has been a marked trend toward Cash ISAs at the expense of Stocks and Shares ISAs, driven partly by rising interest rates and concerns about equity market volatility, which reduces the ISA's contribution to capital market deepening (HM Revenue & Customs, 2025). The proposed reduction in Cash ISA allowances for younger savers and the abandoned "British ISA" proposal have created uncertainty about the future direction of ISA policy, potentially undermining household confidence in the scheme (House of Commons Treasury Committee, 2025). The proliferation of ISA types (Cash, Stocks and Shares, Innovative Finance, Lifetime, and Junior) has also increased complexity, potentially confusing less sophisticated investors despite the simplicity of the underlying annual allowance mechanism. Finally, empirical evidence suggests that much of the investment in ISAs represents asset reshuffling rather than net new savings, with benefits accruing disproportionately to wealthier households (Attanasio et al., 2004). Despite these challenges, the ISA remains a highly successful model for tax-advantaged savings, achieving broad-based adoption and substantial accumulated assets.

2.5. Comparative Analysis

2.5.1 Tax Treatment and Incentive Structures

The four instruments examined in this chapter employ distinct tax treatment models, each with different implications for investor behavior and policy effectiveness.

Italy's PIR offers the most generous tax treatment: full exemption from income tax on capital gains, interest, and dividends, plus exemption from inheritance tax. However, these benefits are conditional on a strict five-year holding period, and early withdrawal results in complete loss of accumulated tax advantages. This "all-or-nothing" structure creates a significant behavioral barrier, particularly for younger or less affluent households who may need liquidity (European Commission, 2025).

France's PEA provides income tax exemption on capital gains and dividends after five years, but social security contributions of 17.2% remain applicable. The effective tax rate thus falls from 30% (for non-PEA investments) to 17.2% after the five-year threshold. Early withdrawals generally trigger account closure and full taxation at 30%. The PEA's tax benefit is thus more modest than PIR's but still substantial, reducing the effective tax rate by 12.8% (Banque de France, 2023).

Sweden's ISK employs a fundamentally different approach: a flat annual levy of 0.888% (for 2025) on account value, with a tax-free threshold of SEK 150,000 (doubling to SEK 300,000 in 2026). This replaces transaction-based capital gains taxation entirely. The ISK's effective tax rate depends on investment returns: for high-return portfolios, the flat levy may be lower than traditional capital gains tax; for low-return or negative-return portfolios, the levy may exceed what would be owed under traditional taxation. The key advantage is simplicity and the elimination of lock-in effects (Finansinspektionen, 2025).

The UK's ISA offers complete exemption from both income tax and capital gains tax, with no holding period requirement. This represents the most generous and flexible tax treatment among the four instruments. However, the annual contribution limit of £20,000 constrains the total amount that can be sheltered, particularly for high-net-worth individuals (HM Revenue & Customs, 2025).

Comparative assessment: The ISK's flat-rate model and the ISA's no-holding-period approach are superior from a behavioral design perspective, as they eliminate the lock-in effects and liquidity constraints that deter participation in PIR and PEA. However, the PIR and PEA's holding period requirements may be justified if the policy objective is to encourage long-term investment rather than short-term trading. The empirical evidence suggests that simplicity and flexibility are more important than tax generosity in driving mass adoption (Attanasio et al., 2004).

2.5.2 Contribution Limits and Flexibility

Contribution limits vary dramatically across the four instruments:

Instrument	Annual Limit	Lifetime Limit	Flexibility
PIR (traditional)	€40,000	€200,00'0	Low (5-year lock-in)
PIR (alternative)	€300,000	€1,500,000	Low (5-year lock-in)
PEA	N/A	€150,000	Low (5-year lock-in)
PEA-PME	N/A	€225,000 (combined with PEA)	Low (5-year lock-in)
ISK	None	None (tax free up to SEK 300,000)	High (no lock-in)
ISA	£20,000 (~€23,400)	None	High (no lock-in)

Sweden's ISK stands out for having no contribution limits, allowing investors to allocate unlimited capital. This reflects confidence in the flat-rate taxation model's ability to generate appropriate revenue without artificial caps. The absence of limits is particularly beneficial for high-net-worth individuals and those seeking to consolidate wealth in a tax-efficient structure (European Commission, 2025).

The UK's ISA has an annual limit but no lifetime cap, allowing substantial accumulation over time. An investor maximizing contributions for 25 years would contribute £500,000, far exceeding France's PEA lifetime limit.

France's PEA has a lifetime limit of €150,000 (€225,000 for combined PEA and PEA-PME), which constrains long-term accumulation. This limit may be appropriate for encouraging broad-based participation but limits the PEA's utility for wealthier investors (Banque de France, 2023).

Italy's PIR has the most restrictive limits for traditional accounts (€40,000 annually, €200,000 lifetime), though alternative PIRs offer much higher limits (€300,000 annually, €1.5 million lifetime). The traditional PIR's limits are particularly constraining given the mandatory allocation to illiquid small-cap and unlisted securities (Caselli and Zava, 2025).

Comparative assessment: The ISK's unlimited contributions and ISA's annual-only limits provide maximum flexibility and long-term accumulation potential. The PEA and PIR's lifetime caps constrain their utility for long-term wealth building, particularly for higher-income households.

2.5.3 Eligible Assets and Geographic Restrictions

Geographic and asset restrictions vary significantly:

Italy's PIR imposes the strictest restrictions: 70% of assets must be in Italian or Italy-established companies, with sub-quotas for small-caps (25% of the 70%) and unlisted firms (5% of the 70%). This severely constrains diversification and exposes investors to concentration risk in the Italian market, which represents less than 3% of global equity market capitalization (European Commission, 2025).

France's PEA requires at least 75% exposure to EU/EEA equities, either through direct holdings or funds. While less restrictive than PIR, this still excludes high-growth markets in Asia and North America, limiting diversification opportunities. The PEA-PME further restricts investments to SMEs meeting specific size criteria (Banque de France, 2023).

Sweden's ISK and **the UK's ISA** impose no geographic restrictions, allowing investors to build globally diversified portfolios. This provides access to the full spectrum of global equity markets, including high-growth regions and sectors not well-represented in European markets (HM Revenue & Customs, 2025; Swedish Financial Supervisory Authority, 2024).

Comparative assessment: The absence of geographic restrictions in ISK and ISA is a significant advantage, allowing optimal diversification and access to global growth opportunities. The PIR's Italy-focused mandate and PEA's European restriction reflect industrial policy objectives but come at the cost of reduced diversification and potentially lower risk-adjusted returns. Empirical evidence suggests that geographic restrictions reduce investor participation, particularly among more sophisticated investors who understand the benefits of global diversification (OECD, 2007).

2.5.4 Investor Profiles and Penetration Rates

Figure 19 - Share of Total Financial Wealth

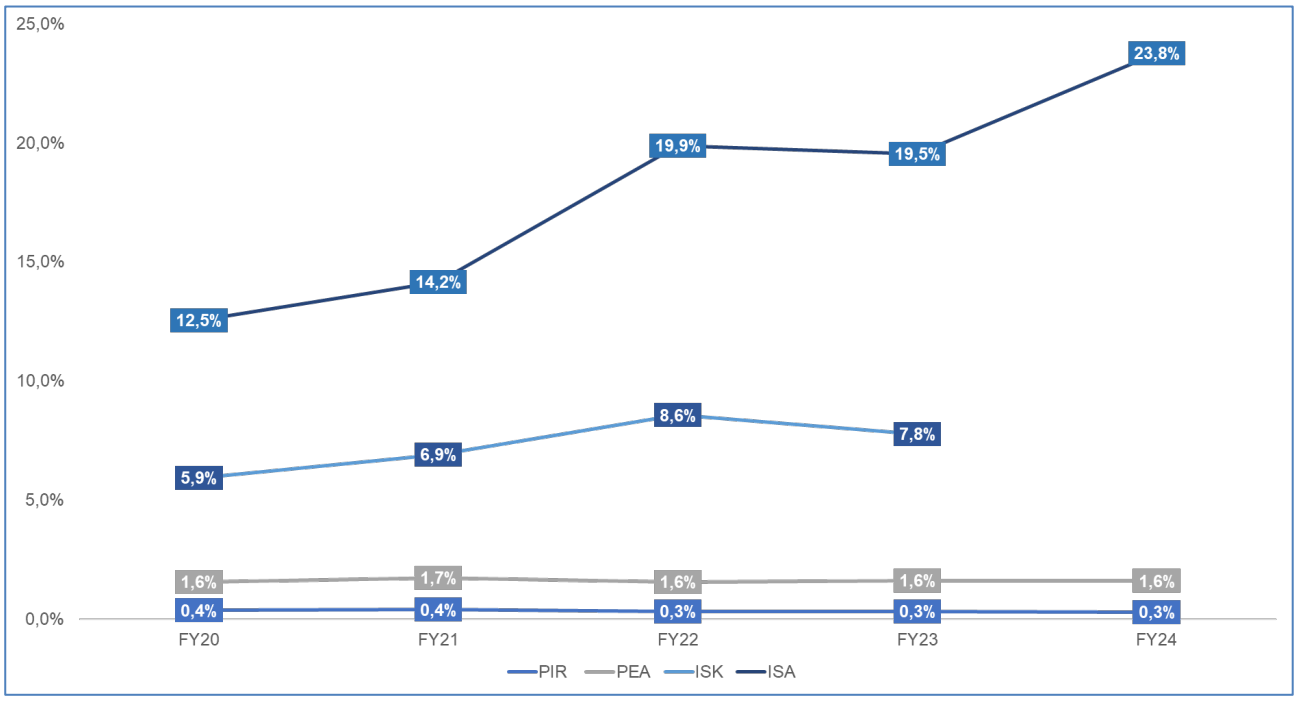


Figure 20 - Penetration Rate

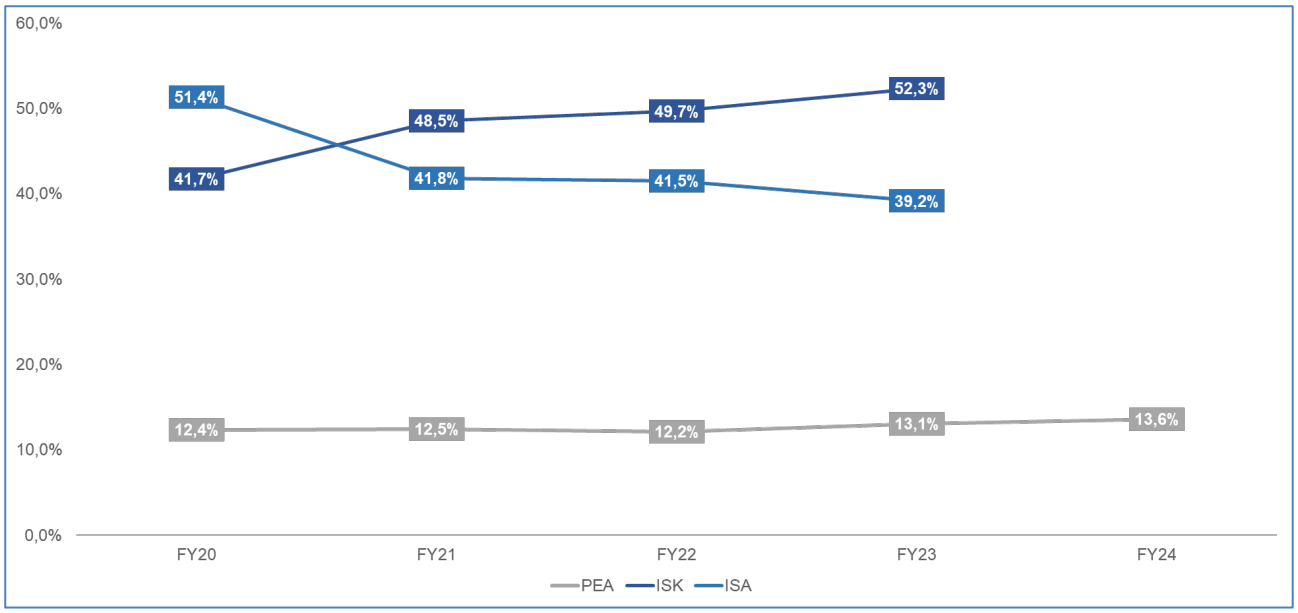
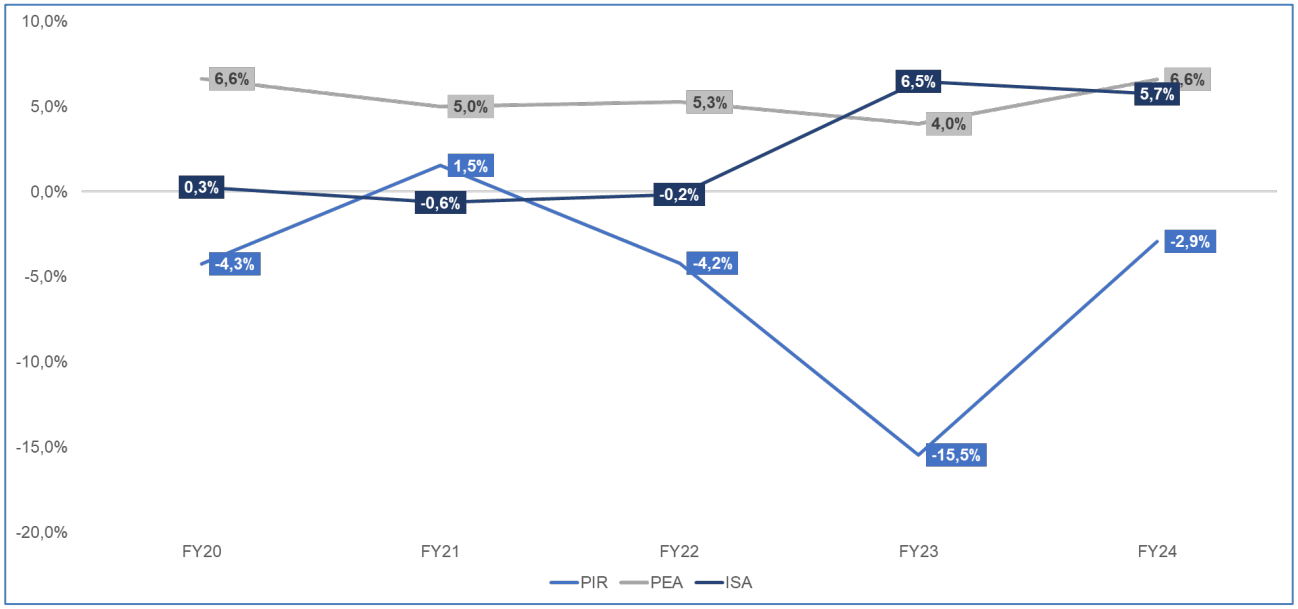


Figure 21 - Inflows/AUM



Sweden's ISK stands out for its widespread adoption and deep integration into household investment behavior, supported by automatic tax treatment and ease of use. The UK's ISA also demonstrates strong retail penetration and sizable accumulated assets, though recent momentum has slowed. France's PEA benefits from long-standing tax incentives and moderate uptake among wealthier households. Italy's PIR, despite generous tax treatment, has seen limited adoption, reflecting broader structural challenges in retail investor engagement and low equity market participation.

Penetration rates and investor profiles differ markedly:

Instrument	Penetration Rate	Share of Financial Wealth	Primary Investor Profile
PIR	1.5%	0.5%	Affluent, equity-literate
PEA/PEA-PME	13.4%	2.3%	Middle to upper-middle class
ISK	52.3%	7.8%	Broad-based, all income levels
ISA	39.2%	19.5%	Broad-based, all income levels

Sweden's ISK achieves the highest share of financial wealth (7.8%) and a very high penetration rate (52.3%), indicating deep integration into household investment behavior across income levels. The ISK's simplicity and flexibility have made it a mainstream savings vehicle, not just a niche product for affluent investors (SIFA, 2025).

The UK's ISA achieves the highest penetration rate (39.2%) but a lower share of financial wealth (5%), reflecting the substantial proportion of ISA assets held in low-yielding Cash ISAs rather than equity investments. The ISA's broad adoption across income levels demonstrates its success as a mass-market product (HM Revenue & Customs, 2025).

France's PEA achieves moderate penetration (13.4%) and a modest share of financial wealth (2.3%). The PEA is more concentrated among middle to upper-middle class households with existing equity market familiarity. Its adoption is constrained by competition from life insurance (*assurance-vie*), which remains the preferred savings vehicle for most French households (Pfister, 2018).

Italy's PIR has the lowest penetration (1.5%) and share of financial wealth (0.5%), indicating limited success in attracting retail investors. The PIR remains a niche product for affluent, equity-literate investors willing to accept the concentration risk associated with its Italy-focused mandate.

Comparative assessment: The ISK and ISA's broad-based adoption demonstrates that simplicity, flexibility, and absence of restrictive mandates are critical for achieving mass-market penetration. The PIR's limited adoption suggests that generous tax treatment alone is insufficient if accompanied by restrictive allocation requirements and illiquidity constraints.

2.5.5 Policy Objectives and Effectiveness

The four instruments reflect different policy priorities:

Italy's PIR explicitly prioritizes industrial policy objectives: channeling retail capital toward Italian SMEs to address financing gaps. However, the PIR's limited adoption (€19 billion in assets) suggests it has had minimal impact on SME financing. The net outflows in 2023 indicate waning investor confidence (European Commission, 2025).

France's PEA-PME similarly targets SME financing but with a pan-European scope. With only €2.7 billion in assets, the PEA-PME has also had limited impact on SME capital formation. The standard PEA's €112.7 billion in assets has a more significant impact on European equity market liquidity, though much of this is invested in large-cap stocks rather than SMEs (Banque de France, 2023).

Sweden's ISK prioritizes broad-based equity ownership and capital market participation, without attempting to direct capital toward specific sectors or company sizes. With €176 billion in assets and 52.3% adult penetration, the ISK has successfully deepened Swedish capital markets and enhanced household wealth accumulation. Approximately €70 billion is invested in Swedish securities, providing meaningful support for domestic equity markets without mandating such allocation (Swedish Financial Supervisory Authority, 2024).

The UK's ISA similarly prioritizes broad-based savings and investment without sectoral targeting. With £726 billion in assets, the ISA has created a substantial pool of tax-advantaged capital, though the shift toward Cash ISAs in recent years has reduced its contribution to equity market deepening (HM Revenue & Customs, 2025).

Comparative assessment: The evidence suggests that instruments prioritizing simplicity and broad-based participation (ISK, ISA) achieve greater scale and impact than those with explicit industrial policy mandates (PIR, PEA-PME). While targeted allocation requirements may seem appealing from a policy perspective, they deter investor participation and ultimately result in less capital flowing to the intended beneficiaries. A more effective approach may be to create simple, flexible instruments that achieve mass adoption, then rely on market forces and complementary policies (e.g., public co-investment funds) to channel capital toward priority sectors (European Commission, 2025).

2.5.6 Comparative Summary Table

The following table synthesizes key dimensions of comparison:

Dimension	PIR (Italy)	PEA/PEA-PME (France)	ISK (Sweden)	ISA (UK)
Introduction Year	2017 (traditional)2021 (alternative)	1992 (PEA)2014 (PEA-PME)	2012	1999
Tax Treatment	Full exemption (income tax + inheritance tax) after 5 years	Income tax exemption after 5 years; 17.2% social contributions remain	Flat annual levy (0.888% in 2025) on assets above threshold	Full exemption (income tax + capital gains tax); no holding period
Holding Period	5 years (mandatory)	5 years (for full benefits)	None	None
Annual Contribution Limit	€40,000 (traditional) €300,000 (alternative)	None	None	£20,000 (~€23,400)
Lifetime Contribution Limit	€200,000 (traditional) €1.5M (alternative)	€150,000 (PEA) €225,000 (combined)	None	None
Geographic Restrictions	70% Italy/Italy-established	75% EU/EEA	None	None
SME Allocation Mandate	Yes (25% small-cap + 5% unlisted of 70% domestic)	Yes (PEA-PME only)	No	No
Withdrawal Flexibility	Low (5-year lock-in)	Low (5-year lock-in)	High (anytime)	High (anytime)
Total Assets (2023-2024)	€19 billion	€115 billion	€176 billion	£726 billion (~€849 billion)
Penetration Rate	1.5%	13.4%	52.3%	39.2%
Share of Financial Wealth	0.5%	2.3%	7.8%	19.5%
Primary Distribution	Banks, insurance	Banks, online brokers	Banks, online brokers	Banks, platforms, advisors
Key Success Factors	Limited success due to restrictions	Moderate success; long track record	High success; simplicity + flexibility	High success; flexibility + broad assets
Main Limitations	Restrictive mandate; low equity culture	Competition from life insurance; EU-only	Political debate on tax generosity	Shift toward cash; policy uncertainty

Final Thoughts

Italy's household financial portfolio exhibits structural inefficiencies that constrain wealth accumulation and capital market development.

First, we observe a persistent preference for liquid, low-yielding assets in Italian household portfolios. As of 2023, Italian households held 27.7% of their financial assets in currency and deposits, above the euro area average and roughly twice Sweden's share of 13.5%. The United Kingdom has recently reached comparable liquid-share levels (34.1% in 2024), but the UK pattern reflects post-pandemic macro conditions, rising deposit rates and equity-market caution following the 2022 rate cycle, whereas Italy's allocation is structural and persistent, having remained above 27% throughout the past decade. This preference for low-yielding liquid assets reflects both cultural risk aversion and institutional factors, including limited financial literacy and historical banking sector instability.

Second, equity market is under-participated. Direct equity ownership stands at 6.4% of household financial assets, compared to 18.7% in the UK and 12.3% in Sweden. When combined with indirect equity exposure through investment funds and insurance products, Italian households' total equity allocation remains below 20%, versus 35-40% in Anglo-Saxon economies. This equity gap translates to an estimated 1.2-1.8 percentage points lower annual real return on household wealth over the past two decades.

This section proposes an alternative retail investment instrument designed to address Italy's structural challenges in household financial asset allocation and capital market participation. Drawing on best practices from Sweden's *Investeringssparkonto* (ISK), we propose the **Italian ISK (Conto di Investimento a Tassazione Forfettaria)**: a Swedish-style flat-rate presumptive tax account levying an annual tax on total portfolio value rather than realized gains. This eliminates lock-in effects, simplifies compliance, and encourages active portfolio rebalancing while providing predictable tax revenues for the state.

The instrument are geographically bounded to European Economic Area (EEA) assets, supporting the European Commission's Saving and Investements objectives while channeling Italian household savings toward European equity markets. These proposals address Italy's persistent equity home bias, low stock market participation (6.4% direct equity ownership versus 18.7% EU average), and over-concentration in low-yielding deposits (31.8% of household financial assets).

3.1 Italian ISK: Design and Implementation

3.1.1 Core Design Features

The Italian ISK (Conto di Investimento a Tassazione Forfettaria) adapts Sweden's Investeringssparkonto model, replacing realization-based capital gains taxation with an annual presumptive tax on portfolio value.

Flat-rate presumptive tax. Investors pay an annual tax calculated as a **fixed percentage of the account's average value during the tax year**, regardless of actual returns, realized gains, or income distributions. For Sweden, the tax rate is set at (Swedish Central Bank reference rate + 1%) × 30%, with a minimum floor of 0.5% of portfolio value. As explained in the next sections, assuming the same calculation is applied in Italy and the European Central Bank's main refinancing operations rate is 3%, the **flat rate would be 1.2%**.

Rationale for presumptive taxation. This approach eliminates the lock-in effect inherent in realization-based capital gains taxes, which discourages portfolio rebalancing and optimal asset allocation. By taxing the portfolio's presumptive return rather than actual returns, the ISK encourages active management, risk-taking, and diversification. The system also provides stable, predictable tax revenues independent of market volatility or investor trading behavior.

Geographic scope. As proposed for the Italian ISK, eligible assets must be EEA-domiciled or listed. This includes equities, bonds, UCITS funds, ETFs, and structured products, but excludes real estate, commodities, and non-EEA securities.

Liquidity and flexibility. Unrestricted withdrawals at any time, with withdrawn amounts not restoring contribution capacity. No minimum holding periods or asset allocation requirements, maximizing investor autonomy.

Administrative mechanism. Financial intermediaries calculate the annual tax based on monthly average account values, withhold the tax amount directly from the account. Investors receive annual statements but need not report ISK holdings in tax returns.

3.1.2 Tax Calculation Methodology

The Italian ISK tax is calculated as follows:

Step 1 - Determine reference rate: The European Central Bank's main refinancing operations rate as of November 30 of the tax year serves as the reference rate. For 2026, hypothesizing an ECB rate of 3.0%, the reference rate is 3.0%.

Step 2 - Calculate presumptive return: Presumptive return = (ECB rate + 1%) = 4.0% of average portfolio value.

Step 3 - Apply tax rate: Annual tax = Presumptive return × 30% = 4.0% × 30% = 1.2% of average portfolio value.

Step 4 - Apply minimum floor: If the calculated rate falls below 0.5%, the floor applies. In the current example, 1.2% > 0.5%, so the calculated rate applies.

Example: An investor with an average Italian ISK balance of €50,000 during 2026 pays €600 in annual tax (1.2% × €50,000), regardless of whether the portfolio gained 15%, lost 5%, or remained flat.

3.1.3 Comparative Analysis: ISK versus Traditional Taxation

Table 3.2 illustrates the tax burden under the Italian ISK versus standard 26% capital gains tax across different return scenarios:

Portfolio Value	Actual Annual Return	Actual Gain	Standard Tax (26%)	ISK Tax (1.2%)	Tax Difference
€50,000	3%	€1,500	€390	€600	+€210 (ISK higher)
€50,000	6%	€3,000	€780	€600	-€180 (ISK lower)
€50,000	10%	€5,000	€1,300	€600	-€700 (ISK lower)
€50,000	-5%	-€2,500	€0	€600	+€600 (ISK higher)
€100,000	8%	€8,000	€2,080	€1,200	-€880 (ISK lower)

The ISK becomes advantageous once actual investment returns exceed approximately 4.6% annually, reflecting the break-even point at which the presumptive return mechanism outperforms standard capital gains taxation; this corresponds to a gross return of about 15.4% (derived from 4.0% divided by the 26% tax rate) or an equivalent after-tax threshold of 4.6%. In high-return scenarios, particularly when investors achieve equity-like returns in the range of 8–10% per year, the ISK delivers substantial benefits, reducing tax burdens by roughly 40–50% relative to traditional realization-based taxation. However, this structure also implies that tax liabilities persist even in low-return or negative-return environments, as investors are taxed on the presumptive base regardless of actual performance, thereby ensuring a floor on tax revenues but potentially disadvantaging more conservative portfolios or those exposed to market downturns. At the same time, the ISK eliminates the lock-in effect inherent in standard taxation systems, as it imposes no additional tax penalty on rebalancing, selling appreciated assets, or realizing gains, thus promoting more efficient portfolio allocation and overall market efficiency.

3.2 Conclusions

The way European households allocate their wealth is no longer simply a matter of private preference: it has become a binding constraint on the depth of European capital markets, on the financing of European firms, and on the long-term financial security of households themselves. Italy stands as the limiting case of this broader European pattern, combining among the highest stocks of aggregate household wealth in the euro area with among the most conservative portfolio allocations. The motivation of the report was therefore not to catalogue the existing landscape of tax-advantaged retail investment accounts, but to ask why some have succeeded in moving households into capital markets and others, conspicuously, have not.

The analysis has unfolded across three layers of comparison. At the level of household wealth composition, the report has traced the divergent allocation patterns of Italian, French, British, and Swedish households over more than two decades, identifying in the architecture of national pension systems, the tax treatment of housing, and the legacy of historical capital-market trajectories the principal structural determinants of these differences. At the level of the retail investment instruments themselves, the Italian PIR, the French PEA, the Swedish ISK, and the United Kingdom ISA, the comparison has shown that despite a shared headline objective of mobilising household savings toward equity, the four schemes embody markedly different design philosophies, distinct treatments of liquidity, eligibility, and taxation, and consequently divergent records of adoption. At the level of policy, finally, the report has examined how these design choices translate into measurable outcomes, with penetration rates and accumulated assets that span almost two orders of magnitude across the four jurisdictions. The picture that emerges from these three layers is one in which the link between intent and result is mediated, at each step, by the specific form the instrument takes in the hands of the saver.

The answers, on the comparative evidence, are unambiguous. Fiscal generosity is not, in itself, a reliable predictor of household uptake: the most generously taxed wrapper in the sample, the Italian PIR, which combines exemption from capital gains and inheritance taxation, has achieved the lowest penetration, while the conceptually less favourable Swedish ISK has achieved the highest. The features that consistently correlate with adoption are those that lower behavioural and administrative friction for the saver, the absence of a holding-period requirement, broad asset eligibility, simple tax computation, and stability of the regime over time, rather than those that maximise the size of the fiscal advantage. And the schemes constructed primarily around industrial-policy considerations have, to varying degrees, traded breadth of adoption for targeted allocation, with the Italian PIR illustrating the limits of that trade-off most clearly. These three answers, taken together, sustain the three propositions developed in the remainder of this chapter.

Tax advantage is not enough. The Italian PIR demonstrates that even a generous fiscal incentive can fail to mobilise household savings if the underlying instrument is constrained by restrictive allocation mandates, mandatory holding periods, and a narrow investment universe. Despite offering full exemption from capital gains and inheritance tax (a treatment more generous than that of the PEA, the ISK, or the ISA) the PIR has achieved only 1.5% adult penetration and accounts for just 0.5% of Italian household financial wealth. The lesson is that fiscal generosity, however headline-attractive, cannot compensate for design features that limit diversification, impair liquidity, or expose savers to concentrated domestic risk.

Simplicity beats complexity. Sweden's ISK and the United Kingdom's ISA succeed precisely because they minimise frictions, lock-in effects, reporting complexity, and decision-making uncertainty for the retail saver. The ISK's flat-rate annual levy on portfolio value eliminates the need for transaction-level capital gains accounting; the ISA's complete exemption from income and capital gains tax, combined with the absence of a holding-period requirement, removes any behavioural disincentive to enter or exit

the wrapper. These features (rather than the absolute size of the tax benefit) explain why both instruments have achieved the deepest retail penetration in Europe. Behavioural design, in other words, dominates fiscal arithmetic when it comes to mass adoption.

Italy needs an investor-friendly tool, not only a capital markets tool. If the policy objective is genuinely to mobilise household retail savings, the instrument must be designed first around the needs and constraints of households, and only secondarily around capital market development objectives. Industrial policy considerations (such as channelling capital toward domestic SMEs) are legitimate, but they cannot be the organising principle of a retail product if that product is to achieve scale. The proposed Italian ISK framework set out earlier in this report follow this logic: they are anchored in simplicity, flexibility, and a broad EEA-wide investment universe, while preserving alignment with the European Commission's Savings and Investments Union objectives. Only an instrument that households can readily understand, access, and use without penalty will deliver, over time, the deepening of Italian capital markets that policymakers seek.

Taken together, the three propositions advanced above invert a common policy intuition. The lesson of the comparative evidence is not that Italy lacks a sufficiently generous tax-advantaged wrapper, but that the framing of the policy problem has so far been incomplete. Retail investment accounts, when treated principally as instruments of capital market development, tend to encode allocation constraints that compromise their attractiveness to the very households whose savings they are designed to mobilise. Reversing this sequence, designing first for the saver, and only then for the capital market, is the precondition for any meaningful narrowing of Europe's equity gap. The Italian ISK proposal developed in this report are offered in this spirit: as a deliberate attempt to align the design of the instrument with the structural realities of household behaviour, while remaining consistent with the European Commission's broader objective of building a more integrated and productive Savings and Investments Union.

Looking abroad, several advanced economies have already begun experimenting with policies explicitly designed to foster long-term household participation in capital markets from an early age. In the United States, recent policy proposals have introduced the concept of government-seeded investment accounts for children, under which each newborn would receive an initial publicly funded contribution invested in diversified equity portfolios, with families allowed to contribute additional savings over time. The objective is not only to support future education, housing, or entrepreneurial activity, but also to normalise participation in financial markets from birth and broaden household ownership of productive assets. Germany, similarly, has proposed the *Frühstart-Rente*, a state-supported investment account through which children would receive recurring public contributions invested primarily in low-cost equity funds or ETFs, with assets locked until retirement. While the German framework is explicitly pension-oriented and the American proposals are framed more broadly around wealth accumulation and opportunity creation, both reflect a common recognition: long-term household financial resilience increasingly depends on early exposure to capital market participation rather than exclusive reliance on traditional deposit-based savings or pay-as-you-go public systems. In this sense, the international policy trajectory is moving toward instruments that combine financial inclusion, long-term investing, and behavioural familiarisation with equity markets from a very early stage.

The comparative evidence developed throughout this report, together with these emerging international developments, points toward a broader structural conclusion. The challenge facing Italy, and Europe more generally, is not simply the absence of fiscal incentives for retail investment, but the absence of instruments capable of integrating households into capital markets in a manner that is simple, credible, flexible, and aligned with long-term household objectives. The countries that have succeeded most clearly in deepening retail participation are not necessarily those offering the largest

fiscal subsidy, but those that have reduced complexity, increased accessibility, and embedded investing into ordinary financial life. As demographic pressures intensify, public pension systems come under strain, and Europe seeks to mobilise domestic savings toward productive investment, the design of retail investment accounts will become increasingly central not only to capital market policy, but also to the future architecture of household wealth accumulation itself.

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All data visualizations referenced in this report (Figures 1-18) are derived from these official sources and represent the most recent available data as of March 2026.