German Investment Funds Association

Snapshot Fund Distribution

RETAIL FUND DISTRIBUTION AT A GLANCE

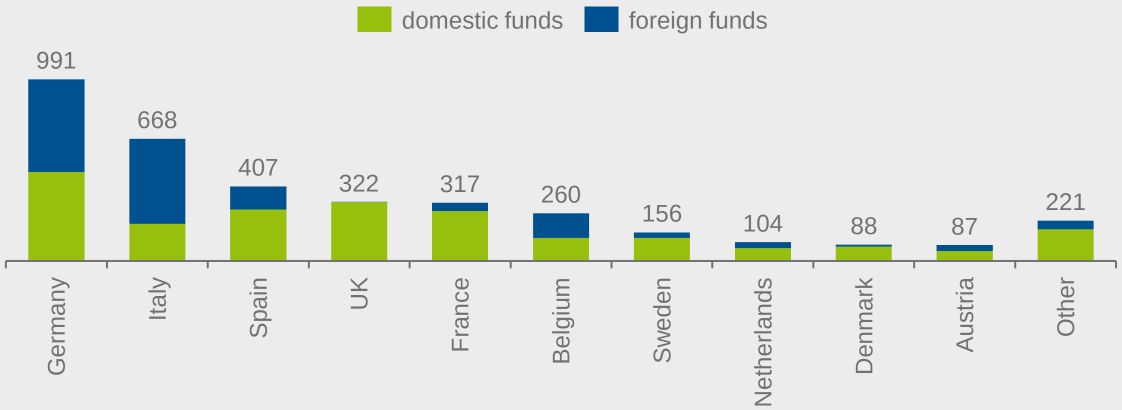
Germany is Europe's largest retail investor market with a share of 27 percent – distribution via banks dominates

Private German investors held investment fund shares worth almost EUR 1 trillion at the end of March 2023. This corresponds to 27 percent of the fund holdings of all private households in the EU and the United Kingdom. Germany is by far the largest retail fund market, ahead of Italy (EUR 668 billion) and Spain (EUR 407 billion). The three countries account for more than half of private investors' fund assets. The UK and France, which play a major role in the institutional sector, each only account for around EUR 320 billion. In France, funds are mostly held through insurance companies. The ECB figures only include fund shares held directly by private investors; unit-linked life insurance plans are therefore classified as institutional business.

Based on the ECB statistics, it is also possible to analyse the role played by funds domiciled abroad. Across all countries considered, their share is around 40 percent, which demonstrates the strong interconnectedness of the European fund markets. Cross-border distribution is particularly pronounced

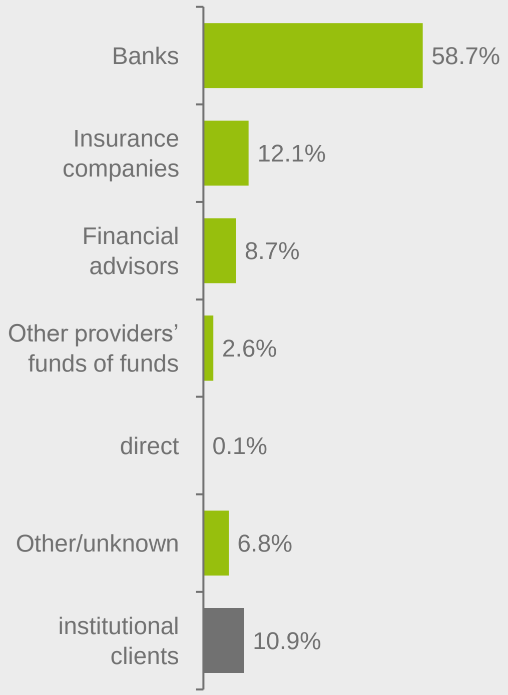
Fund shares held by private investors as at 31 March 2023

in EUR billions



Source: European Central Bank, Office for National Statistics

Share of distribution channels in retail fund sales



As at the end of 2022. Source: BVI survey, GDV

in Italy. Here the share of foreign funds is around 70 percent. In Belgium and Germany, it is more than 50 percent each. In Denmark, in contrast, private investors hold almost exclusively domestic products.

Due to the widespread cross-border distribution, German fund investors can choose from a large number of funds with various investment strategies. According to the Federal Financial Supervisory Authority (BaFin), in addition to 3,200 open-ended retail funds launched in Germany, around 11,000 foreign UCITS funds were licensed for distribution at the end of 2022, together with a further 5,300 Alternative Investment Funds (AIFs) from EU or non-EU countries. Individual share classes are not included in these figures.

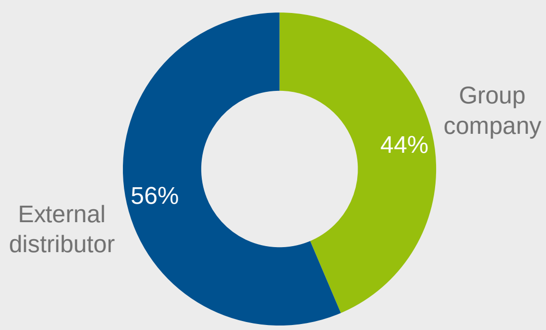
Both fund companies and investors benefit from a broadly diversified distribution landscape in Germany. This is shown by a recent BVI survey. The three pillars of the banking system – savings banks, cooperative banks and private banks – together account for 59 percent of total retail business. This includes both banks with a branch network and direct banks/online brokers, which play a major role in the distribution of ETF shares, for instance.

Unit-linked life insurance plans are the second-largest sales channel for retail funds, with a share of around 12 percent. According to the German Insurance Association (GDV), unit-linked plans managed over EUR 150 billion for their investors at the end of 2022. Almost every tenth euro invested in funds is channelled through financial advisors outside the banking and insurance sector. These include, on the one hand, large sales organisations such as DVAG and, on the other hand, independent financial advisers.

For many foreign managers, funds of funds offered by providers with a strong footprint in Germany represent a simple and efficient way of accessing the German market. While companies with their own distribution network or established cooperation partners rarely make use of them, they account for a share of well over 10 percent for some foreign providers. Direct sales, on the other hand, play virtually no role: only a few companies offer retail investors the option of ordering fund shares without intermediaries.

Unlike in many other European countries, institutional investors, such as pension funds or foundations, only account for a small part of retail fund assets in Germany. According to providers, their share is just about eleven percent. Institutional clients in Germany typically invest either directly or through Spezialfonds or discretionary mandates.

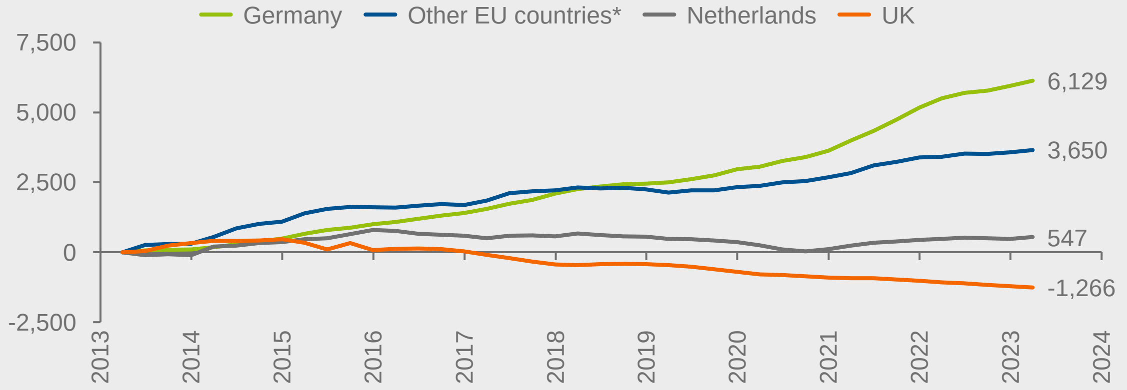
Retail fund sales by type of distributor



As at 31 December 2022
Source: BVI survey

Cumulative net investments in funds by private households, April 2013 to March 2023

in Euro per capita



* Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Luxembourg, Portugal and Spain.
Source: European Central Bank, Office for National Statistics

An important distinction in practice is whether distribution takes place predominantly through group companies or external providers. In the political discussion, it is often assumed that too close an integration of distributors and fund companies leads to fewer choices for investors: Advisors are suspected to mainly recommend in-house products, and these might not necessarily fit the investors' preferences and investment goals. However, our survey shows that less than half of all retail fund sales are made by affiliated companies. In fact, for two-thirds of the survey participants at least 80 percent are distributed through external distributors. Accordingly, there is strong competition between fund companies for the consideration of their products, e.g. in investment advice at banks and savings banks. In Germany, as in many other European countries, fund providers often pay commissions to compensate the distributor. However, the benefit for the investor, for example due to the special expertise of other providers in certain asset classes, is the primary consideration in the selection of the funds offered.

The German distribution model is extremely successful in encouraging private investors to invest in capital markets. In the last ten years, cumulative per capita fund investments (based on the population aged 15 and over) amounted to more than EUR 6,100 net, according to ECB data. In other EU countries that have not banned commissions in the distribution of financial products, the figure was as high as EUR 3,650. This corresponds to monthly savings rates of EUR 50 and EUR 30 per capita, respectively. In addition, there are indirect fund purchases via life insurance plans. In the United Kingdom and the Netherlands – the two countries with a ban on commissions – private investors were less keen to invest: Dutch investors ordered fund shares worth an average of EUR 550 only, British investors even sold funds worth EUR 1,300 on a net basis.

In the BVI study „Effects of bans on inducements revisited“ (Link), published on 14 August 2023, we examined the effects of the two commission bans on net investments in funds scientifically. The study shows that even after taking control variables into account, the impact of commission bans on fund purchases by private households is negative and statistically significant. Moreover, despite lower product costs, portfolio returns of private households do not increase. Both results show that private investors benefit from the distribution system established in Germany and many other EU countries.

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