ALLIANZ RESEARCH

CHANGE? WHAT CHANGE?

SAVING BEHAVIORS POST COVID-19

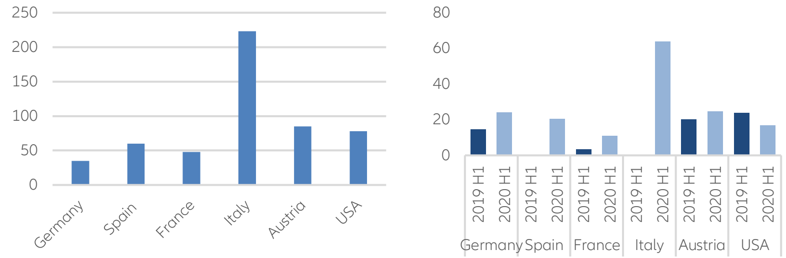
13 January 2021

ARNE HOLZHAUSEN
Head of Insurance, Wealth and Trend Research
arne.holzhausen@allianz.com

PATRICIA PELAYO ROMERO
Insurance and Wealth Expert
patricia.pelayo-romero@allianz.com

Covid-19 lockdowns changed saving behaviors: Not only did people save more, for the lack of consumption opportunities, they also saved differently, channeling more money into equities and investment funds. In all six countries we analyzed – Germany, France, Italy, Spain, Austria and the US – net acquisitions of financial assets increased significantly in the first half of 2020 (compared to H1 2019), ranging from 35% in Germany to a whopping 223% in Italy (see Figure 1). What's more, the share of equities and investment funds increased considerably in all countries. Spanish and in particular Italian households turned from net sellers of equities and investment funds into ardent buyers. In Germany (from 15% to 24%), France (from 3% to 11%) or Austria (from 20% to 25%) as well, equities and investment funds played a bigger role in savings than before (see Figure 1). The only exception was the US, where the share of these assets in fresh savings slightly declined, although the absolute amount jumped by 25%. A possible explanation: the spike in savings was mainly caused by generous unemployment benefits – i.e. triggered by relatively poorer savers who in general lack experience with capital markets. Thus, three quarters of fresh savings ended up in bank accounts, concealing the underlying rising interest in capital market products of more seasoned and regular savers.

Figure 1 – Acquisition of financial assets in H1 2020, change over H1 2019, in % (left panel) and share of equities and investment funds in total savings, in % (right panel)



Sources: Eurostat, Fed, Allianz Research.

Is this change just a deviation, triggered by extraordinary circumstances, or the beginning of a paradigm shift as more and more savers start to embrace riskier capital markets products following a decade of zero or even negative interest rates? Our survey[1] gives a sobering answer: The return to uninspiring pre-crisis savings patterns looks quite likely. Among other things, we asked participants the following question: "Regarding

[1] See Financial and risk literacy survey – Resilience in times of Corona (allianz.com)

EULER HERMES

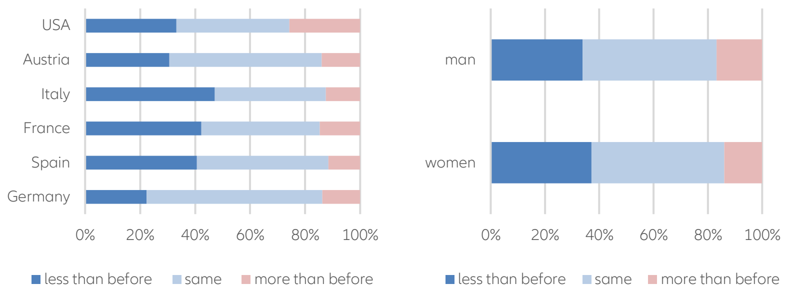
Allianz

your investments in equities, would you like to acquire less, the same, or more equities when the pandemic is over?" Predominantly, across all seven countries, respondents said they wanted to invest in equities as much as before the pandemic. However, 25.8% of the Americans we surveyed displayed an increased interest in dabbling into the stock market (see Figure 2). With American Fintech companies growing their (fan) membership base, and creating an accessible and "gamified" experience for everyday stock trading, this seems to be in line with what they reported. However, even in the US, the share of respondents who would like to invest less in equities is significantly higher (33%).

In Europe, the stock market has yet to recoup the loses experienced in March 2020. Therefore, it is unsurprising that the respondents from European countries in our sample show less future investment enthusiasm for stocks. There is a very small portion of our sample that would like to "reach for the yield" that the stock market currently offers, ranging from 12% in Italy to 15% in France. The high percentages of respondents who plan to acquire less equities than before, however, is surprising: In Spain, France and Italy, they top 40% – skepticism about the continuation of the stock market boom seems to prevail. In contrast to their reputation, Austrian and in particular German respondents are less keen to reduce their capital market exposure, although the number of them planning to do so is roughly twice as large as the number of those who would like to buy more equities (Figure 2).

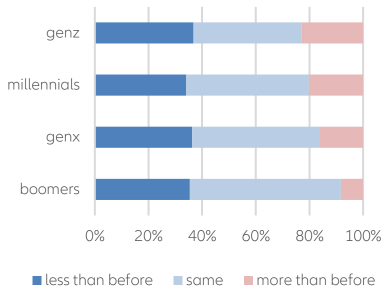
Looking at gender, men seem – in accordance with the stereotype – to be more inclined to take higher risks with their investment decisions; the difference, however, is rather small: 14% of women but 17% of men would like to invest more in equities after the pandemic. Moreover, as expected, the interest in equity investing is higher among younger generations: 20% of millennials and 23% of generation Z, for example, would like to invest more, against 15% of all respondents (and only 8% of boomers). However, even in these age groups, respondents who plan to invest less in equities after the pandemic are in the clear majority (34% for millennials and 37% for generation Z, see Figure 2).

Figure 2 – Interest in equities by country, gender and age group, answers in %



EULER HERMES

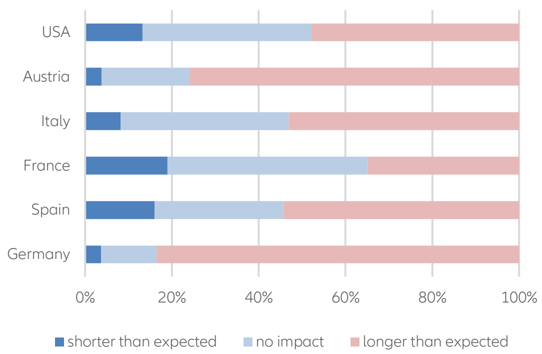
Allianz



Source: Allianz Research.

Most of our survey sample concede that something has changed with Covid-19: low interest rates are here to stay for much longer than expected before. Fifty-nine percent of all respondents think so when asked about their expectations regarding the duration of the low/negative yield environment after the end of the pandemic. Only 10% expect that Covid-19 will accelerate the escape from this environment while 31% see no changes to the outlook (see Figure 3). The differences between the countries are quite remarkable. On the one hand are the German and Austrian respondents who seem to be deeply pessimistic on the interest outlook – but this seems to have no bearing on their savings behavior. On the other hand are the French and American respondents who are a little more sanguine. In the case of the US, this attitude is understandable as the US Federal Reserve was able to raise interest rates several times in the last decade. In contrast, the French respondents' restrained pessimism is a little surprising, given the track record of the European Central Bank in this regard. That a majority of respondents (46%) think that the pandemic will not affect future interest rates might by an expression of the desire to leave the crisis behind as quickly as possible. In light of the soaring economic costs, however, this looks rather unlikely.

Figure 3 – Expectations on the duration of the low/negative yield environment after Covid-19, answers in %



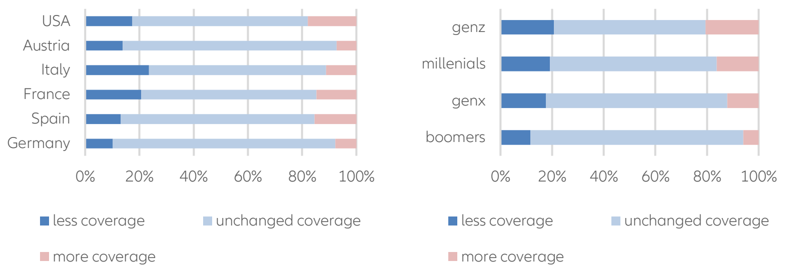
Source: Allianz Research.

Covid-19 revealed the fragility of our modern, hyper-connected lives and disclosed glaring protection gaps. In this context, risk awareness and demand for risk cover would be expected to rise. But again, our survey pours some cold water on such hopes: Most respondents would like to keep the same coverage that they had before. In order to better understand future demand for risk cover, we asked the following question: "Regarding your insurance, would you like to acquire less, the same, or more coverage when the pandemic is over?" The preferred default option for respondents was to return the pre-crisis level of coverage. However, the countries in our sample that suffered the most from the pandemic have the highest levels of interest in increasing their insurance coverage: the US (18%), Spain (16%), France (15%), and Italy (11%). In the US and Spain, these respondents outnumber those who say that they would like to decrease their risk coverage, albeit by a thin margin (see Figure 3). Austria (7%) and Germany (8%) show the lowest interest in increasing coverage.

What's surprising is that there is a significant amount of respondents, particularly in Italy (24%), and France (21%), that would actually like to decrease the amount of insurance coverage they had before the pandemic. In Austria and Germany, these numbers are lower but nonetheless higher than those for increasing insurance. Have the past nine months increased our risk awareness? Not for all of us.

While the answers of male and female respondents are almost identical, there are some differences between the age groups. The interest in increasing risk coverage falls with age – after all, the number of insurance policies increases with income and thus age. The protection gaps of younger respondents tend to be bigger – and at least some of them are aware of this fact. Somewhat surprisingly, however, the intention to lower risk coverage also declines with age i.e. the younger generations seem to be at the same time more likely to reduce their insurance uptake. But this could be less an expression of the carelessness of youth, owing more to economic restrictions.

Figure 4 – Interest in risk coverage after Covid-19 by country and age group, answers in %



Source: Allianz Research.

The upshot: The pandemic seems to have less of a lasting effect on investment decisions than many observers assume. It appears many respondents see Covid-19 as a momentary shock that will go away, requiring no change to plans, routines or preferences because of it.

These assessments are, as always, subject to the disclaimer provided below.