Are there UK savers who could become investors that grow the UK economy?

September 2024

About this report

Barclays' Group Policy Development team creates public policy thought leadership content on behalf of Barclays. Our work draws on the bank's expertise, data and insights, and is intended to inform the design and application of public policy solutions in response to pressing economic and societal challenges.

The intended audience for this report is public policy makers and other actors engaged in shaping public policy. Any views expressed in this report are those of the author(s) and may differ from those of the wider Barclays group. The report is general in nature and provided for information/educational purposes only. It does not take into account any specific investment objectives, the financial situation or particular needs of any particular person. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it aimed at any person or entity to whom it would be unlawful for them to access.

Any references to Barclays' products and services or those of any third party are for illustrative purposes only. Nothing in this document is intended as a financial or investment recommendation, inducement, marketing of any financial service or product, offer or investment advice. Our purpose with this work is exclusively to offer a perspective on public policy challenges.

Contents

Summary

Using the 2022 FCA Financial Lives Survey results, and after establishing a prudent emergency fund, we estimate that there is £430bn of UK consumer savings, held in cash by 13 million individuals that could be invested. We further illustrate the impact on UK capital markets of investing this cash using different diversified investment products, reaching the conclusion that anything between around £14bn and £74bn could be mobilised, depending on risk appetite and the level of diversification employed.

Gap analysis and research question

As stated by the FCA, ***"Well-functioning public markets enable companies to finance their businesses, which in turn create growth and jobs for the UK economy. Trusted public markets provide opportunities for investors...More companies listing at an earlier stage in their life cycle means more opportunities for investors to share in the returns of those companies as they grow."***[1]

One way to increase the vibrancy of capital markets is to increase the quantum and diversity of the capital that is invested. In the US, retail investors provide 40% of the capital on their capital markets.[2] In contrast, only 10.8% of UK shares were held by UK-resident individuals in 2022.[3] While it is a strength of UK capital markets that they are attractive to overseas investors, who at the end of 2022 held 57.7% of the value of the London Stock Exchange,[4] there may be an opportunity to improve the vibrancy of UK capital markets if UK retail investors could be encouraged to invest more.

Importantly, this would also be in line with FCA aspirations as part of their consumer investment strategy, where they have identified the enablement of consumers to make effective investment decisions as a priority. They have set themselves the target of achieving a 20% reduction in the number of consumers with a higher risk tolerance holding over £10,000 in cash, by 2025.[5]

Recent data from 2022 compiled by New Financial,[6] shows only 11% of UK households directly hold stocks and shares. This compares to 22% in Sweden and 21% in Australia. 28% of UK household assets are held in cash deposits. Various commentators have taken up the suggestion by New Financial that if UK retail investors could be persuaded to act more like their peers in Australia and Sweden then an additional £740bn could be invested in UK capital markets.[7]

While international comparisons can be helpful in considering the potential benefits of policy actions in this area, in order to consider more detailed policy recommendations we need to focus on the UK population's saving habits more specifically. This involves estimating how much a UK household should hold in cash for emergencies, as well as how much diversification would be desirable to incorporate risk appetite where possible.

[1]FCA, DP22/2 Primary Markets Effectiveness Review: Feedback to the discussion of the purpose of the listing regime and further discussion, May 2022
[2]New Financial, Widening Retail Participation in Equity markets September 2023
[3]Office for National Statistics, Ownership of UK quoted shares: 2022 December 2023
[4]Office for National Statistics, Ownership of UK quoted shares: 2022 December 2023
[5]FCA, Consumer Investments: Strategy and Feedback Statement September 2021 (updated June 2023)
[6]New Financial, Widening Retail Participation in Equity markets September 2023
[7]New Financial, Widening Retail Participation in Equity markets September 2023

In order to understand this and to support UK policy makers in assessing the need for policy measures to encourage UK consumers to invest their savings for the benefit of the wider economy, we set out to use our wealth management experience to more accurately assess the following research question:

What is the quantum of savings that could be invested, and what effect this could have on UK capital markets as part of a diversified strategy?

The purpose of this piece of work is to consider the potential impact of investing savings held in cash on UK capital markets. Future work will consider this from the perspective of the retail investor and what may be influencing their attitudes towards investing, as well as what might change them.

Methodology

Estimate how much of the UK population has savings that could be invested and yet is currently held in cash.

What is the gross amount of cash savings in this group of the population?

Consider how much cash should be held in an emergency fund that is accessible rather than invested.

Estimate the amount of surplus assets that are currently held in cash that could be invested.

Results

How much of the UK population has savings that could be invested and yet is currently held in cash?

The FCA Financial Lives Survey of 19,145 respondents, carried out at the start of 2022, showed that 42% of adults in the UK have savings above £10,000.[8] The FCA focusses their survey on this group of investors as they consider that £10,000 is the threshold above which people will potentially benefit from paying to receive financial advice, the provision of which is regulated by the FCA. Of those, 38% were holding all of their assets in cash, while 20% were holding 75% or more in cash. The current UK adult population is 52.9 million meaning that, we can estimate that 13 million people are not investing where they could be.

13 million

Estimated number of people not investing that could be

What is the gross amount of savings in this group of the population?

The FCA survey asked people what the value of their savings were, within ranges. By taking the midpoint of each range as a proxy, assuming some are near the top of the range and others are near the bottom, we are able to estimate that these 13 million people could be holding cash worth £735bn. (Annex: Table 1)

This estimate only includes those who are holding between 75% and 100% of their savings in cash. It is possible that the 27% of the population that hold between 25% and 75% of their assets in cash could also potentially be investing more than they currently do. However, as they have taken personal financial decisions to invest a proportion of their assets already, most likely influenced by their personal circumstances, we cannot assume that they would be likely to change this behaviour. This is an assumption we are actively making, leading to our decision to focus on those who hold more than 75% of their savings in cash.

£735bn

Gross amount of savings held in cash

[8] FCA, Financial Lives survey 2022, July 2023

How much cash should be held in an emergency fund that is accessible rather than invested?

When the FCA and HM Treasury conducted the Financial Advice Markets Review in 2017 they calculated how much a median earner would need to have saved to cover an emergency fund as well as have enough cash to then make paying for financial advice worthwhile:

"ONS data show that median income in the UK in 2015/16 was £26,300 which equates to approximately £1,750, net of tax, a month. The Money Advice Service (MAS) suggests an emergency fund of 3 months outgoings, which means an emergency fund of up to around £5,000 for a median earner. Therefore having £10,000 of investible assets might mean that an individual has an emergency fund of roughly £5,000 plus a further £5,000 potentially available to invest."[9]

Since then, MoneyHelper, the government sponsored provider of financial guidance that replaced the Money Advice Service, now recommends that individuals should have enough cash to cover between 3 and 6 months' worth of outgoings before they should consider investing.[10]

In order to estimate a value for how much individuals should hold in cash as an emergency fund, we have used the information gathered by the FCA Financial Lives survey on income levels, and worked on the basis that individuals should hold 6 months' worth of income. This results in an emergency fund for those who currently hold more than £10,000 in cash of £531bn. (Annex: Table 2)

It is worth noting that this is likely to be an over estimation as it works on the basis of a full 6 month period rather than 3-6 months and it considers income, rather than outgoings. An alternative approach would be to take 60% of 6 months income as a proxy for 3-6 months outgoings, taking the assumption that individuals who are saving are likely to only need a portion of their monthly income to cover 3-6 months' worth of outgoings. This would result in a smaller total emergency fund of £318bn.

However, as we do not have enough information to take on board MoneyHelper's caveat that some people may have saving goals that are less than 5 years away and so would be less suitable for investing, we consider it appropriate to use the larger, more conservative estimate.

Taking this estimate of an emergency fund of £531bn for the 22.7 million people with more than £10,000 in savings, we were able to estimate the corresponding emergency fund for just those people who held more than 75% of their savings in cash. This led to a total emergency fund of approximately £304bn for the 13 million people whose savings habits we are interested in. (Annex: Table 3)

[9] HM Treasury and FCA, Financial Advice Market Review, Baseline report June 2017
[10] MoneyHelper, provided by the Money and Pensions Service - "When should you start investing?"

How much could be responsibly invested?

In order to then establish the total amount of investable assets that is held in cash that could be responsibly invested, we subtract the conservative assumption of the emergency fund from the total amount held in cash. This results in cash savings of approximately £430bn that could be invested. (Annex: Table 4)

Total individuals with all/majority in cash	13 million
Total held in cash	£735bn
Total emergency fund	£304bn
Total investable assets	**£430bn**

What effect could investing £430bn, following a diversified strategy, have on UK capital markets?

It is important not to see this £430bn as the total amount of money that could be invested in the UK economy. It is not even a target that policy makers should aim for. It is also not a recurring amount that would be available every year but refers to savings individuals have built up over time.

Each of the 13 million individuals identified will have their own appetite for risk based on their own individual circumstances. Beyond this, the principle of diversification leads to holding investments:

- in different assets, regions and sectors
- with different risk exposures
- that tend to move in different directions.

Broadly, the intended outcome would be to: (1) protect the portfolio from a sudden drop in value of a single investment, or group of investments; (2) avoid the disproportionate effect of a poorly performing investment; and (3) minimise the impact of unpredictable events in a sector or region.

£430bn

Estimated cash that could be responsibly invested once emergency fund deducted

There will be differing impacts on UK capital markets depending on the choices made by each investor. The below shows an illustration of the different cumulative effects of using different, diversified, investment products on UK capital markets.

Both ready-made Investments and multi-asset funds have diversification built in to them – hence they are a useful tool for seeing what effect a diversified strategy could have, but importantly they can also be used as building blocks for more personalised diversification and decision-making. Different effects would be shown from using a wider range of products, or seeking additional personalisation for risk appetite, and investment time horizon.

Ready-made Investments

Ready-made Investments are funds that offer an easy way to start investing. They provide a very simple way for retail investors to get access to a diversified portfolio of cash, bonds and shares, and allow the investor to choose between five levels of risk. However, they typically take a globally diversified approach, and their allocation to UK capital markets (including gilts) is correspondingly small.

Example Barclays ready-made Investments[11]	% in UK Capital markets	Potential impact of investable assets on UK Capital Markets
Defensive	3.17%	£13.6bn
Cautious	3.20%	£13.8bn
Balanced	3.26%	£14.0bn
Growth	3.21%	£13.8bn
Adventurous	3.60%	£15.5bn

Multi-Asset Funds

A different approach is taken by multi-asset funds which aim to provide capital growth and income over a 5 year time horizon. In contrast to merely tracking the market, they provide retail investors with access to multimanager funds. Most importantly, this allows for a more specialised approach to investing. Multi-asset funds more broadly can be used for individuals to direct their savings to allow for more personalisation – e.g. towards UK capital markets or sustainable investment strategies. They can also be used in combination with one another.

By way of example, the below table shows the allocations of five Barclays multi-asset funds to UK equities across five risk strategies, as well as a further multi-asset fund dedicated to UK equities that could be used as part of a broader portfolio. Similar to the broader multi-asset funds, the UK-focussed fund[12] seeks to provide capital growth over a period of at least five years. However, it invests primarily in equity securities issued by companies domiciled in, or which have significant operations in, the UK.

Barclays Multi-asset fund[13]	% in UK equities	Potential impact of investable assets on UK Capital Markets
Multi-asset Defensive	3.43%	£15bn
Multi-asset Cautious	7.77%	£33bn
Multi-asset Balanced	11.95%	£51bn

[11] The ready-made investment funds referred to in this table use Barclays Ready-made investments (as at March 2024) as representative examples, and are for illustrative purposes only. Other funds are available, and may deliver slightly different outcomes.
[12] For illustrative purposes we have used the Barclays UK Alpha Fund – KIID
[13] The multi-asset funds referred to in this table use Barclays Multi-asset funds (as at March 2024) as representative examples, and are for illustrative purposes only, other funds are available, and may deliver different outcomes. UK equity allocation of these products can be reviewed leading to a different geographical split of the equity component of the asset allocation over time. Barclays Multi-Asset Defensive KIID, Barclays Multi-Asset Cautious KIID, Barclays Multi-Asset Balanced KIID, Barclays Multi-Asset Growth KIID, Barclays Multi-Asset Adventurous Growth KIID.

Barclays Multi-asset fund[13]	% in UK equities	Potential impact of investable assets on UK Capital Markets
Multi-asset Growth	15.13%	£65bn
Multi-asset Adventurous	17.08%	£74bn
UK Alpha Fund	88.47%	£381bn

Conclusions and policy recommendations

> These illustrations, using a small range of products, show that anything between around £14bn to £74bn could be invested in UK capital markets depending on risk appetite and the level of diversification employed if those people currently holding more than 75% of their savings in cash invested instead. This obviously doesn't include the more radical approach of encouraging people to invest in UK-focused funds that could result in up to £381bn going to UK capital markets.

This is just a small range of investment options that are available to retail investors. In other jurisdictions the range for retail investors is even more diverse, with corporate bonds forming a larger part of the mix, offering other alternatives for diversification, as well as bringing in new risks to manage – e.g. currency risk.

Yet, a recent study by The Investing and Saving Alliance (TISA) has reached the conclusion: *"Consumer disengagement remains the major problem, with the research showing that over 70% of people holding large cash balances who have not invested in Stocks and Shares ISAs have never even considered doing so. People perceive S&S ISAs to be riskier than they are and avoid them as a result."*[14]

How to re-engage this group of savers should be the focus of policy makers, with the aim of enabling them to make financial decisions suitable to their circumstances and risk appetite. While connecting investing with growing the wider UK economy could be a way to kick start this re-engagement, encouraging inexperienced retail investors to directly invest in stocks and shares without further support and guidance regarding diversification and wider financial education could be counter-productive. Without the benefit of diversification to avoid the disproportionate effect of a poorly performing investment, we run the risk of scaring away a new generation of investors from UK capital markets.

[14] TISA and Oxera, The keys to unlocking greater investment in Stocks and Shares ISAs November 2023

Data annex

Table 1: Savings held in cash by UK adults

Savings range £ (mid-point)	Percentage of UK adult population	Proportion who hold 100% in cash	100% Cash available to invest	Proportion who hold 75-100% in cash	83%cash available to invest
10k-20k	10%	63%	£49.99bn	16%	£10.54bn
20k-50k	12%	49%	£108.87bn	22%	£40.57bn
50k-100k	7%	37%	£102.76bn	24%	£55.32bn
100k-250k	7%	18%	£116.64bn	22%	£118.33bn
250k+	6%	5%	£39.68bn	14%	£92.20bn
		Sub-total	**£417.94bn**	**Sub-total**	**£316.96bn**
				Total	**£734.90bn**

Source – FCA Financial Lives survey 2022 – Combining FCA analysis of the survey data as produced in Sector slide deck: Consumer investments and Financial advice (slide 29), as well as data included in Data table 8 - Consumer investments.

Table 2: Emergency fund calculation for those with more than £10,000

The FCA Financial Lives survey asked people what their income was within bands. Using this information but limiting it to those with savings over £10,000, we then established what percentage of the population was in each income band, took the mid-point of each band, and calculated the after tax earnings on a monthly basis. To better reflect the savings behaviour of the extremes at the bottom end of the sample size, we took a higher income level for those earning less than £15,000 of £10,000.

Taking the most extreme end of the MoneyHelper advice, we then calculated an emergency fund of 6 months income for each income group. We excluded those who fell into the highest, and therefore widest, income bracket of +£250k, as this group had the potential to be most diverse in terms of spending behaviours and the smallest number of people fell into this category.

Income £	% of pop 52,900,000	Proportion with + £10,000	Mid-point, Net of tax	6 month emergency fund	Total emergency fund
<15k	17%	19%	£10,000	£5,000	£8.54bn
15k-30k	22%	38%	£19,324	£9,662	£42.73bn
30k-50k	23%	47%	£31,224	£15,612	£89.28bn
50k-70k	14%	52%	£43,853	£21,927	£84.44bn
70k-100k	9%	63%	£58,353	£29,177	£87.51bn
100k-250k	11%	69%	£108,688	£54,344	£218.20bn
>250k+	5%	58%	£201,438	£100,719	£154.51bn
				Total	**£685.21bn**
				Total excl. £250k+	**£530.70bn**

Source – FCA Financial Lives survey 2022 – data included in Data table 8 - Consumer investments. Net of tax figures calculated using the HMRC income tax calculator (assumes still working, English tax payer, PAYE tax payer).

Table 3: Emergency fund calculation for those with more than 75% of savings in cash

Having established an estimate for the total emergency fund for all those with savings of more of than £10,000, appropriately calibrated by income bracket, we were able to use this to estimate a total emergency fund just for the UK savers who held all or the majority of their savings in cash.

	No of people	Emergency fund
Emergency fund for those with £10,000+ in savings	22,715,260	£530.70bn
Emergency fund per person	1	£23,363
Emergency fund for those with all/majority of savings in cash	13,029,270	**£304.41bn**

Table 4: Investable assets

This then allows us to estimate a value for investable assets currently held in cash by subtracting the emergency fund from the total amount of cash savings.

	Amount
Total to invest	£734.90bn
Total emergency fund	£304.41bn
Total investable assets:	**£430.50bn**

BARCLAYS

Are there UK savers who could become investors that grow the UK economy?
September 2024
Author: Rhiannon Price (rhiannon.price@barclays.com)