

Trust and the Societal Construct in European Capital Markets Growth

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Introduction

Europe's capital markets have long lagged behind those of the United States, a gap with growing consequences. Despite the EU's economic size, its stock and bond markets remain comparatively shallow and fragmented (European Securities and Markets Authority, 2024). This underdevelopment is more than a financial quirk – it poses a real challenge as Europe faces trillions of euros in investment needs for its future. The EU's ambitions, such as the Green Deal (climate transition), digital transformation, and bolstering defense capabilities, all require vast amounts of private financing. Official estimates project about €5.4 trillion in additional investment needed from 2025 to 2031 to manage climate change, become digital and

defend itself (Dorrucci, Nerlich and Bouabdallah, 2024). Public budgets alone cannot cover this; private capital must shoulder the lion's share (Dorrucci et al. 2024).

Policymakers recognize that vibrant capital markets are essential to finance innovation and sustain growth. Healthy capital markets would allow European businesses – from green energy startups to defense manufacturers – to raise funds for expansion and give households more avenues to invest in the continent's future. However, a host of structural and cultural hurdles deter many Europeans from investing and limit the capacity of markets to meet these financing needs. EU leaders often point to low financial literacy as a key barrier, suggesting that better education will draw more people

into investing. But evidence indicates the problem runs deeper: a deficit of trust in financial markets and enduring socio-political habits may be the real culprits behind European citizens' reluctance to invest.

This article explores the contrasts between European and U.S. capital markets, examines why Europeans remain cautious market participants, and discusses how issues of literacy, trust, and culture intertwine. Ultimately, it considers what reforms could truly revitalize Europe's capital markets so they can support the continent's strategic goals in a sustainable and realistic way.

Europe's capital markets vs. the US: a gap in depth and participation

By many measures, Europe's capital markets are far less developed than those in the US. Market depth and liquidity illustrate the divide. At the end of 2023, the entire EU27 made up only about 11% of global equity market capitalization, compared to 45% for the US (SIFMA, 2024). This disparity is also evident relative to the size of each economy: Europe's stock market capitalization is about 66% of GDP, whereas the US's is approximately 157% of GDP (Burkl *et al.*, 2024). In other words, US capital markets are more than twice as large as Europe's when scaled to economic output.

Perhaps the most telling gap is in retail investor participation. In the US, investing in stocks and bonds – directly or via mutual funds and retirement accounts – is relatively common across the middle class. Over 50% of US households have some exposure to the stock market (often through pension funds or 401(k) plans) according to surveys (Gallup, 2023; DeSilver, 2024). In contrast, most Europeans keep their savings in banks rather than capital markets. A recent European Commission study found that 72% of EU respondents had not invested in any financial product (beyond deposits), and nearly a quarter had “no interest” in investing their savings (European Commission, 2023). Households in the euro area hold over 40% of their financial wealth in cash and bank deposits, a share that has risen in the past decade (Delbecque, 2024). By contrast, the share of wealth Europeans channel into capital market instruments such as stocks, bonds, investment funds, and pensions has not kept pace. The ratio of investments to deposits actually fell from 1.73 to 1.43 between 2015 and 2022 (Delbecque, 2024).

European companies consequently rely heavily on bank loans for financing, rather than tapping bond or equity markets. Roughly 75% of corporate borrowing in the EU comes from banks, whereas in the US about 75% comes from capital markets (corporate bonds) (Asimakopoulou, Hamre and Wright, 2022). This in-

version underscores Europe's bank-centric financial system. Banks have long been the primary financial intermediaries in continental Europe, while US firms routinely issue bonds or stocks to raise capital. The outcome is that Europe has "shallower" capital pools available. In effect, US capital markets mobilize far more money relative to the economy than Europe's do.

These differences have concrete implications. Europe's fragmented, lower-participation markets mean fewer funding options for businesses and lower returns for savers. For example, an innovative European startup might struggle to find venture capital (VC) or go public domestically, whereas a similar US firm can access deep pools of capital on Nasdaq or via large VC funds. Fewer listed companies and IPOs in Europe (the EU accounted for only 15% of global IPO value in recent years, vs 32% in the US (European Securities and Markets Authority, 2024)) translate to fewer opportunities for Europeans to invest in high-growth ventures at home. Policymakers worry that in their current form, EU capital markets will struggle to finance the green transition and post-Covid recovery (Asimakopoulos et al. 2022). The post-Brexit landscape has further shrunk Europe's markets – with the UK gone, the EU's share of global financial activity dropped from 22% to 14%, and could slide toward 10% without reform (Asimakopoulos et al. 2022).

In summary, Europe's capital markets are smaller, less liquid, and engage far fewer retail investors than US markets. This underdevelopment did not happen overnight; it stems from historical choices and structures. But today, with Europe's strategic investments on the line, the cost of underdeveloped markets is more apparent than ever. The next sections explore why European citizens remain reluctant to participate in these markets and whether lack of knowledge is the only factor to blame.

Policymakers' emphasis on financial literacy

Policymakers often tout financial literacy as a key to increasing retail investment. But what exactly is financial literacy? Financial literacy is commonly defined by economic institutions as the combination of financial awareness, knowledge, skills, attitude, and behaviors necessary to make sound financial decisions (Atkinson & Messy, 2012). In simpler terms, it means having the understanding and ability to manage personal finances effectively – from budgeting and saving to investing and borrowing wisely (Yoong, Mihaly, Bauhoff, Rabinovich and Hung, 2013). This definition underpins many educational and political initiatives, as it suggests that informed, skilled consumers will make better financial choices and could help boost European capital markets.

This emphasis is evident in recent EU initiatives. The European Commission's Capital Markets Union (CMU) project explicitly puts financial literacy front and center. Experts advising the Commission in 2020 about the CMU action plan concluded that from a market perspective, increased financial literacy would result in higher retail investor participation, which would help EU capital markets grow and increase the volume of funding available to the real economy.

Given these linkages, EU leaders have understandably seized on financial literacy as a policy lever. If Europe's savers learn the principles of investing, perhaps more of them will move a portion of their €14 trillion-plus in bank savings into funds, stocks, or bonds. Even a small shift could have an impact: New Financial (a think tank) estimates that a mere 5% of European household savings moving from deposits to capital markets would unlock €1.8 trillion in funding for growth and innovation (European Securities and Markets Authority, 2024).

There is some empirical evidence to support the view that there is a correlation between literacy and participation. Studies have found that more financially knowledgeable households are indeed more likely to own stocks (Demertzis, Moffat, Lusardi and Mejino-Lopez, 2024). Educated investors may understand better the long-term benefits of

equity investing and how to manage risks – for example, through diversification – making them more willing to participate. Additionally, literacy can boost investor confidence – not overconfidence, but a sense of control that one can navigate financial decisions. For example, one study found that “under-confident” individuals who lack confidence in their financial skills are less likely to hold stocks, even when they have adequate knowledge (Bucher-Koenen, Alessie, Lusardi and Van Rooij, 2024). Education can bridge that confidence gap.

Are Europeans financially illiterate when compared with Americans?

Despite the existing empirical evidence supporting a correlation between literacy and financial markets participation, there are certain observations that indicate that education on its own may not be the “silver bullet” to solve retail participation in European capital markets. For example, comparative data about the relative levels of financial literacy of Europeans and Americans shows that, surprisingly, they are fairly similar overall, undermining the notion that Europeans lack basic financial knowledge. According to a global S&P survey, in the US about 57% of individuals are financially literate, while in the EU the percentage average is about

51–52% of adults (Klapper, Lusardi and Van Oudheisden, 2015). This means most adults in both regions can correctly answer standard questions about concepts such as interest rates, inflation, and risk diversification. The gap is only on the order of 5–6 percentage points, with Americans scoring slightly higher.

Such a small difference does not justify the huge discrepancy in capital market participation between the US and Europe. If lack of knowledge were the main barrier, we would expect Europeans' investment behavior to be only marginally behind Americans'. In reality, the divergence in retail investor engagement is far more dramatic than the literacy gap.

In sum, while improving financial literacy is a worthwhile policy goal, it alone cannot bridge the wide gulf in capital-market participation between Europe and the United States. The data makes it clear that knowledge gaps are too small to explain behavior gaps. Instead, intangible factors such as trust in financial institutions, investor confidence, and tangible structural features of the financial system (pension arrangements, market infrastructure, and incentives) play a much larger role in determining whether individuals become investors. European policymakers are coming to recognize that restoring trust, adjusting structural incentives (even though the concepts are less prioritized than financial literacy) are crucial to truly

revitalizing European capital markets, in addition to education.

Trust: the missing ingredient in retail investment

If lack of knowledge were the only barrier, one would expect Europe's relatively affluent, educated citizens to invest far more than they do. In reality, many Europeans who understand investing still choose not to participate, pointing to issues beyond literacy. A growing body of research and surveys suggests that a lack of trust in financial markets is a critical deterrent to investing.

Consider the findings of a 2022 EU survey on why savers are not investing. The main reason was not complexity or lack of knowledge – it was not having enough money (47% of respondents), which was a practical constraint. But beyond that, 21% said they were simply afraid of losing money and a further 15% feared getting poor returns. These are issues of risk perception and skepticism about outcomes. Additionally, 12% said they did not trust investment advice (European Commission, 2022). This is telling: even if advice is available, many doubt that advisors will act in their best interest. In fact, a Eurobarometer survey in 2023 found that less than 40% of Europeans feel confident that the investment advice they receive is in their best interest.

This trust deficit extends to financial institutions and markets at large. Memories of past crises and scandals loom large in the public psyche. From the 2008 global financial meltdown and the eurozone's sovereign debt crises, to bank failures or frauds in various countries, such as the collapse of Wirecard in Germany and regional bank scandals in Italy and Spain, Europeans have seen multiple episodes where financial institutions have betrayed trust. Each incident has left scars. Guiso, Sapienza and Zingales (2007, p.4) have shown that "a general lack of trust can have an effect on stock market participation". For instance, one cross-country study concluded that trust in others and in institutions is a significant predictor of whether households invest in stocks (Georgarakos & Pasini, 2009). If people believe the stock market is "rigged" or that companies cannot be trusted to treat shareholders fairly, they will understandably stay away.

Crucially, trust issues often override knowledge. Research by the European Central Bank (ECB) found that even after accounting for financial literacy, lack of trust in financial institutions had a statistically significant effect in reducing stock market participation, especially for more risk-averse households (Georgarakos & Inderst, 2011). In an ECB Consumer Expectations Survey, many respondents who had the means to invest still would not do so, even with a hypothetical windfall,

implying that factors beyond entry barriers were at play. The researchers noted that this reluctance strongly suggested that "consumers may hold negative beliefs about stock markets (e.g. related to perceived risks) or lack trust in financial institutions" (Christelis, Georgarakos, Jappelli and Kenny, 2024). Additionally, data demonstrates that trust in financial institutions across Europe has been notably low compared with other sectors. According to the 2023 Edelman Trust Barometer, the financial services sector is among the least trusted industries globally, with a trust level of 44%, placing it at the bottom among the sectors surveyed (Edelman, 2023). In short, even if knowledge is adequate, a person who fundamentally mistrusts the financial system will likely opt out of it.

Prioritizing trust in the political debate is indispensable

The end result is a vicious circle: because trust is low, fewer people invest; with fewer retail investors, markets remain shallower and even small incidents can have an outsized impact on sentiment, further undermining trust. European regulators are acutely aware that confidence is key to deeper market participation. The European Commission's new Retail Investment Strategy (2023) explicitly aims to "enhance retail

investors' trust in capital markets as a cornerstone of increasing participation" (European Commission, 2023). Policymakers now speak not just of educating investors, but also of protecting them to build confidence. This includes proposals to tighten rules on how financial products are sold (for instance, scrutinizing the commissions and incentives that might bias advice) and ensuring clearer, comparable information for consumers. These steps acknowledge that even a financially literate public will stay away unless they trust the marketplace to treat them fairly.

In summary, the trust deficit is a critical piece of the puzzle, which currently is not as prioritized as other barriers. It suggests that Europe's challenge is not just teaching people how to invest but also convincing them that investing is not a fool's errand rigged against them. This goes beyond textbooks and into the realm of transparency, ethics, and aligning the financial system with consumers' interests.

Next, this paper examines how deeper socio-political factors – from welfare policies to cultural values – also influence Europeans' financial behavior, in many cases reinforcing low levels of literacy and trust.

Socio-political constructs and investment behavior

Europe's cautious approach to capital markets cannot be fully understood without considering the broader socio-political context. Europeans' financial habits have been shaped by decades of policy choices – strong social safety nets, bank-dominated finance, and a certain skepticism toward the “Anglo-American” model of capitalism. These constructs create a cultural backdrop that often deprioritizes personal investing.

One major factor is Europe's comprehensive welfare and pension systems. In many European countries, people rely on state-provided or employer-provided pensions and benefits for their long-term security, rather than private investment accounts. For example, most EU nations have statutory public pension schemes that replace a significant portion of income in retirement, funded by taxes or social contributions. This is very different from the US, where social security is comparatively modest and individuals are expected to invest through vehicles like 401(k)s and IRAs to ensure a comfortable retirement. In Europe, if citizens believe the government (and employers via defined-benefit plans) will take care of retirement, there is less incentive to learn about investing or take risks in the stock market. As one analysis put it, the dominance of pay-as-you-go public pensions in Europe means a lot of savings never see the capital market – the state effectively “invests” on citizens' behalf by redistributing

income across generations (Burkl *et al.*, 2024).

By contrast, countries that do have significant funded pension assets such as the Netherlands, Sweden, and Denmark, which each has large national pension funds or private pension pillars, tend to have higher capital market participation. Indeed in these countries, households hold less than 30% of their wealth in deposits (they invest more), compared with more than 70% in some countries with smaller funded pensions (Delbecque, 2024). The role of pensions is crucial: a European Fund and Asset Management Association (EFAMA) report identified the extent of funded pensions versus expected state pension as a major factor explaining differences in household portfolios across Europe (Delbecque, 2024). Where the welfare state shoulders more of the savings burden, individuals leave the task of long-term investing to institutions.

Another aspect is Europe's historical reliance on banks and government interventions in finance. Culturally, many Europeans have long viewed banks (often local or state-linked banks) as the proper place for money, not the stock market. Banks were seen as safe custodians, and in some countries there was even a patriotic element to keeping money in national banks or government bonds – for example, Italy's post-war culture of holding government

savings bonds). Additionally, European governments have frequently intervened to stabilize markets or protect citizens from losses – for instance, through strong job protection legislation that reduces the need for precautionary savings, or bank bailout traditions that imply deposits are always safe. This interventionist culture can create a moral hazard: people may stick to deposits expecting the state to guard them, while perceiving that stock investments have no such safety net. The flip side is also true: when governments have not protected investors, as in some bank bond bail-ins or failed supervision of scams, it has reinforced mistrust. In sum, the social contract in Europe has generally not pushed individuals to be self-reliant investors to the same extent as in the US.

Risk aversion is a bottleneck

Cultural attitudes toward risk and wealth play a role too. Surveys often find Europeans to be more risk-averse financially than Americans. This is partly individual temperament, but also societal. In societies where wealth inequality is viewed skeptically or where speculative behavior is frowned upon, stock investing can carry a negative stigma – seen as gambling or as something only “the rich” or “the greedy” do. For example, in countries such as Germany and Italy, there has traditionally been a cultural preference for “safe” assets (cash, physical gold,

insurance policies) and a mistrust of the stock market as volatile or elitist. In Germany, the memory of past hyperinflation and stock market crashes has fed a conservative savings culture despite a very high national income; only a modest share of Germans own equities compared with, say, Swedes or Americans. Such attitudes correlate with lower market participation.

Furthermore, Europe's experience with capital markets is more recent and has sometimes been fraught. The US has had a mass market investing culture for more than a century, including the post-World War Two expansion of stock ownership and mutual funds, and the rise of 401(k) funds in the 1980s. Europe, by contrast, did not democratize stock ownership on the same scale. Some countries such as the UK, France and Italy had major privatization waves in the 1980s and 1990s which brought in retail shareholders, but others did not. And when people did come into markets, some had bad experiences: for example, the dot-com bust of 2000 hit nascent retail investors in Europe hard, while the global financial crisis in 2008-9 resulted in heavy losses in equities. Without a long tradition of market success stories and with fewer widespread equity-based pension schemes, the "investment culture" in Europe remains weak.

Finally, tax and regulatory policies have sometimes unintentionally

discouraged retail investment. Many European countries impose higher taxes on capital gains, dividends, or financial transactions than the US, making investing less attractive. If a bank offers 0.5% on a savings account in a period of low interest rates, and government bond yields are near zero, as was the case through much of the 2010s, one might think people would turn to stocks. But if they also face capital gains taxes, potential wealth taxes, and a fear of losing principal with no safety net, many simply stick to the known, low-return path. In essence, the structure of incentives did not strongly favor taking the leap into equities.

All these socio-political factors interweave. Europe's strong social safety net and interventionist philosophy have delivered stability and reduced the urgency for individuals to invest on their own, but at the cost of a population that is less financially independent in building wealth. It has also arguably contributed to the trust gap: people trust the state and banks (to an extent) because they are part of that social contract, but not necessarily the market. The challenge now is that to finance enormous new priorities (green, digital, defense, aging populations), Europe may need its citizens to become more active investors. The comfort of the old model – leave money in the bank, rely on public pensions – is being tested by demographic and fiscal pressures. Encouraging more

personal investment without undermining social protections is a delicate balancing act.

In summary, European investment behavior cannot be divorced from the wider context of welfare policies and cultural norms. Changing this behavior will likely require shifting some of those underlying conditions, which is not an easy task.

What can be done? Reforms beyond literacy

If Europe is to deepen its capital markets and engage more of its citizens in investing, a multifaceted approach is needed. Financial literacy programs are a start, but as we have seen, they alone will not crack the code. Building trust and aligning the financial system with savers' needs is paramount. There are several potential avenues for reform:

Strengthen investor protection and trust-building regulations

Investors need to feel that the market is not a trap. This means robust regulations and enforcement against fraud, insider trading, and misconduct. European regulators can build trust by demonstrating that bad actors are caught and punished and that transparency is non-negotiable. One concrete issue is the quality of financial advice.

Simplify and incentivize retail investment options

For a hesitant public, making investing easy and rewarding is crucial. This could involve creating simple, low-cost investment vehicles specifically tailored for new investors. For example, a suggestion floated at the EU level is a “basic” pan-European investment product – a straightforward, diversified fund with low fees and no gimmicks (European Securities and Markets Authority, 2024). Such a product, if coupled with a user-friendly “guided” online platform for purchase, could give first-time investors a safe gateway. Alongside simplicity, incentives matter. Additionally, tax incentives have proven effective in some member states in encouraging long-term investing.

Leverage institutional channels (pensions and insurance)

One of the most powerful ways to increase market participation indirectly is through institutions. If more Europeans are enrolled in funded pension plans or collective investment schemes, their money will reach capital markets even if they never buy a stock directly. Policymakers can encourage the expansion of occupational and personal pensions that invest in markets. The new Pan-European Personal Pension Product (PEPP) is an example, aiming to provide a portable, EU-wide retirement savings plan that channels funds

into capital markets. Auto-enrollment policies could be considered in EU countries to get more workers contributing to investment funds. Additionally, insurance companies and sovereign wealth funds could be incentivized or nudged to invest more in European equities and ventures, providing the supply of capital that can fuel market growth. As an OliverWyman analysis noted, countries such as Sweden and Denmark have capital deployment rates similar to the US, largely thanks to their pension funds (Burkl et al., 2024). This is a model to emulate.

Enhance financial literacy, with the focus on trust and behavioral biases

While literacy alone is not enough, it is still a necessary component. But education efforts should also be modernized to address why people fear investing, not just how to invest. This means acknowledging common biases (loss aversion, inertia, mistrust) and teaching strategies to manage them. For example, programs can emphasize how long-term diversified investing can mitigate risk of loss, or how historical data shows that staying in the market through volatility tends to reward investors. Real-life success stories of average Europeans who benefited from investing (rather than just stories of market crashes) could balance the narrative. Education should also cover scam awareness and critical thinking, for to build trust, one must

also be savvy about avoiding the real pitfalls.

Foster a culture of equity ownership through public campaigns and role models:

Cultural change is hard, but not impossible. Governments and industry could launch awareness campaigns highlighting the value of being a “shareholder in Europe’s future.” Just as homeownership was promoted in some countries as a path to prosperity, share ownership could be encouraged as a patriotic or community-minded act; for example, investing in European clean energy companies as a way to support the Green Deal, while building personal wealth. Some countries have had success with employee share ownership programs, which both boost participation and align workers’ interests with their firms. High-profile public figures, celebrities or influencers speaking about their positive experiences in investing might also help destigmatize it. Essentially, Europe needs to make investing “cool” and socially acceptable, not seen as merely speculative or greedy.

There is a way forward

In essence, trust-building and structural reforms go hand in hand. Europe must ensure that those who take the leap into investing have a positive experience: fair treatment, reasonable returns, and a sense of

contribution to Europe's growth story. This means the financial industry also has a responsibility to develop transparent products, embrace ethical standards, and perhaps simplify the overly complex array of funds and instruments that can overwhelm newcomers. If the industry continues business-as-usual, no amount of literacy campaigns will create trust. By contrast, more people might give markets a chance if they saw a new era of investor-friendly practices, such as low-cost index funds, no hidden fees, digital tools that make investing as easy as shopping online, and visible enforcement of rules when companies misbehave.

Conclusion

Europe stands at a crossroads in financing its future. The underdevelopment of European capital markets, once a niche financial topic, has become a pressing economic challenge when viewed against an investment gap of more than €5 trillion for green technologies, digital innovation, and defense over the coming decade (Dorrucci et al., 2024). Simply put, Europe needs its vast pool of private savings to get off the sidelines. Achieving this is not just a matter of instructing people on how stocks and bonds work. It requires rebuilding the relationship between citizens and the financial system.

This paper has highlighted that while financial literacy is indeed important, the crux of the issue is deeper. A persistent trust deficit – born from historical experiences, cultural attitudes, and perceptions of an unfair or risky market – keeps even knowledgeable Europeans from investing. Add to that a social model that has not strongly incentivized personal investing, thanks to generous pensions and a bank-centric tradition, and it becomes clear why Europe trails the US in market participation and depth. Literacy, trust, and culture are intertwined: a less trusting public is less motivated to become financially literate about markets, and a culture unused to investing breeds both lower knowledge and trust.

The path forward for Europe must therefore be holistic. Yes, continue to ramp up financial education, but make it relatable, and pair it with visible efforts to make markets worthy of the public's trust. European policymakers have begun to recognize this, shifting their focus to areas such as fair advice, transparency, and investor protection as central pillars of the EU's Capital Markets Union agenda.

If implemented boldly, such measures could gradually change perceptions. Imagine a Europe where buying a simple investment fund is as straightforward as opening a

bank account, where one can do so knowing the fees are minimal and clearly disclosed, the advisor is not pushing a product for a kickback, and the regulators are proactively preventing scandals. In such a scenario, a financially literate citizen would have far fewer psychological barriers to becoming an investor.

Cultural change is slow, but there are reasons for optimism. Younger Europeans are more digitally savvy and open to new ideas. They have embraced fintech apps, and many dipped into investing during the pandemic market rally, some who used US stock-trading apps or even ventured into crypto investments. Harnessing that openness and guiding it toward sustainable, long-term investing in Europe is a real opportunity. For example, aligning investment opportunities with Europe's collective goals through vehicles such as climate action bonds and startup equity crowdfunding, could give investing a purpose beyond profit, which would resonate with socially conscious youth. The more people see investing as participation

in the economy rather than a zero-sum gamble, the more the cultural dial will move.

In conclusion, reviving European capital markets is not about copying the US model outright, but about creating a European model that fits its people – one that blends education with strong protections, and market incentives with social values. By addressing literacy gaps, repairing trust, and adjusting the cultural and policy environment, Europe can gradually unlock more of its capital for productive use. This will not only support big-ticket initiatives such as the Green Deal or defense modernization but also benefit citizens by broadening their financial opportunities. A Europe with deeper capital markets could mean more innovation, jobs, and wealth creation staying within the continent rather than seeking capital elsewhere. It is a long journey ahead, but with sustained effort, Europe can indeed deepen its capital markets sustainably, ensuring they serve society's needs and win the trust of the very people whose money fuels them.

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