

# AMF HOUSEHOLD SAVINGS NEWSLETTER

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## EDITORIAL

### A downward trend in financial charges

As it has done every year since 2012, the AMF Household Savings Observatory is publishing the average fees for financial investments in equities.

Savers have access to equities through funds or, if they have the necessary time and experience to do so, by building an equity portfolio themselves.

Investors in collective investments are most often charged annual ongoing management and operating fees of 1.5% to 2%. These fees have been falling since 2010. For example, for French equity funds, they declined from 2.3% on average in 2010 to 1.9% in 2016. They also decreased for equity, bond and money-market funds.

Direct investors in equities have also benefited from lower buy and sell fees for equities on the main exchanges. The average cost of a EUR 5,000 order on the Paris Bourse thus fell by a third between 2011 and 2016, driven by online investment specialists.

The objective here is not to compare the cost of two very different types of services: a broad range of highly diversified investments on the one hand and a stock market order transmission service on the other. The goal of publishing this information is to encourage savers to take these fees into account when choosing their investments.

MiFID II, which will come into force on 3 January 2018, will also contribute to this goal by strengthening the requirement to disclose more information on the costs and fees paid by investors. ■

## FOCUS

### Financial advice: what do savers think of the questionnaires?

The AMF submitted six know-your-customer questionnaires to 20 savers to gather their feedback.

To provide appropriate advice, a financial advisor has to ask clients about their needs, their financial situation, and their knowledge and experience in financial matters. To that end, financial institutions have developed know-your-customer questionnaires.

#### Questionnaires could be improved

The savers mostly viewed the six questionnaires, which were all very different, as specific, useful and appropriate. However, they thought that the questionnaires did not sufficiently address their needs.

Some found them too technical, jargonistic and detailed, and thought they were meant for people who were already knowledgeable or even the wealthy. They sometimes felt a lack of "empathy", as some questionnaires even appeared to be "in the banks' best interest".

It is therefore important that the process be properly explained.

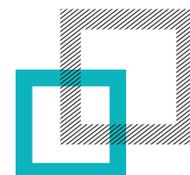
#### Improving The risk Profile assessment

The savers surveyed also wanted the concept of risk to be explained and highlighted more clearly and concretely in the questionnaires. They would like the questionnaires to include more warnings. They were disappointed that some of the questionnaires relied on self-assessment to evaluate knowledge and experience in financial investment.

They would like the language used in the questionnaires to be more accessible to help them understand a world they perceive as opaque. They liked that the questionnaires gave a personalised assessment at the end. ■

The primary aim of this qualitative study, commissioned by the AMF and conducted in May 2017, was to evaluate whether the know-your-customer questionnaires were understandable and clear to savers. Several actual questionnaires from different institutions, used in the branches or online, were tested by means of individual interviews with clients who had already made financial investments. These were not mystery shopping visits: these savers were not placed in real-life situations in which they had an appointment at a branch, spoke one-on-one with an advisor, or signed up online.

# Financial investment fees



This special report presents the average fees charged for investments made directly in equities and through collective investments.

## Fees for direct Online investments in equities

Fees for buy and sell orders for equities and custody fees vary widely from one firm to the next and depending on the channel selected (internet, phone, branch).

Placing orders over the web is less expensive than over the phone, which is less expensive than in-person contact at a branch (for banks).

For example, a EUR 1,000 purchase of equities on Euronext Paris will cost EUR 8 on the web, EUR 14 over the phone and EUR 19 in a bank branch.

### ➤ No decline in fees charged by banks

The brokerage fees clients are charged for online buy and sell orders for equities on Euronext by the major banks were fairly stable between 2016 and 2017.

At 1 August 2017, the total average cost of an online order of EUR 5,000 on Euronext Paris was 0.53% (0.52% in 2016), or EUR 26.40.

Rates vary significantly among banks: staying with the EUR 5,000 order on Euronext Paris, the cost ranges from 0.30% to 0.79% (from EUR 15 to EUR 40 per order).

Table 1: Average fees charged by banks for Online brokerage, at 01/08/2017

	Average fees	
Online order on Euronext Paris	€1,000 order	€8.0 0.8%
	€5,000 order	€26.4 0.53%
	€10,000 order	€47.9 0.48%
Online order on the New York Stock Exchange (NYSE): €5,000	€50,1	1.00%

Source AMF. Fees to buy or sell equities listed on Euronext Paris. Calculations based on the rates of nine banks<sup>1</sup>

### ➤ Custody fees stable

Custody fees pay for the custody of securities and the administrative processes carried out by the institution for account holders.

In 2017, the average cost rose slightly, as some banks raised their rates. Overall, however, these fees remained stable.

For a portfolio totalling EUR 10,000 split among 10 investments, annual custody fees represented on average 0.67% of the amount invested at 1 August 2017.

Table 2: Average custody fees at banks, at 01/08/2017

	Average fees	
€10,000 portfolio	5 investments	€49.0 0.49%
	10 investments	€67.2 0.67%
€60,000 portfolio	5 investments	€140.0 0.23%
	10 investments	€158.4 0.26%

Source AMF. Portfolio of equities listed on Euronext Paris. Calculations based on the rates of nine banks<sup>1</sup>

### ➤ Specialists' brokerage fees fall even further

Fees for orders placed through the sites of more specialised intermediaries continued to fall. The average cost of a buy or sell order of EUR 5,000 for equities on Euronext Paris was EUR 7.7 compared with EUR 8.4 in 2016 and EUR 11.25 in 2011.

Table 3: Average fees charged by Online specialists, at 01/08/2017

	Average fees	
Online order on Euronext Paris	€1,000 order	€3.7 0.37%
	€5,000 order	€7.7 0.16%
	€10,000 order	€15.5 0.16%
Online order on the New York Stock Exchange (NYSE): €5,000	€15.5	0.31%
Online order on the Frankfurt Stock Exchange: €5,000	€19.6	0.39%

Source : AMF. Fees to buy or sell equities listed on Euronext Paris. Calculations based on seven "online brokers"<sup>2</sup>

### A number of different rates charged by online investment specialists

Unlike retail banks, savings specialists do not charge custody fees. They may, however, charge subscription fees when investors do not place the number of orders specified in the formula they selected (for example, EUR 5 per month with no stock market orders). Investors must therefore carefully analyse the various rate formulas proposed in order to choose the one that best suits their behaviour and portfolio.

1. List of banks used for these simulations: BNP Paribas, Banque Populaire (5 regional banks), Caisse d'Épargne (5 regional banks), Crédit Agricole (5 regional banks), CIC, Crédit Mutuel (3 federations), LCL, La Banque Postale, Société Générale. The averages are not weighted by any criterion.

2. List of intermediaries used for these simulations: Binck, Bforbank, Boursorama Banque, Bourse Direct, Fortuneo, ING Direct, Saxo Banque. The averages are not weighted by any criterion.

## Ongoing fees for collective investments

Average fees for funds and SICAVs have been declining overall since 2010 for all fund categories.

Fees paid by investors in collective investment undertakings (CIUs) differ from one fund category to the next and from one fund to the next. In addition to any entry fees, ongoing operating and management fees are charged annually based on the value of the investment.

### ↗ Fees are higher for diversified funds and for equity fundset pour les fonds d'actions

In 2016, ongoing fees for all French CIUs open to the public (5,900 funds) were higher overall at 1.4%<sup>3</sup>.

Equity funds, all categories combined, had average ongoing fees of 1.65% (1.67% in 2015).

Average fees were 1.63% for diversified funds (1.65% in 2015), 0.16% for euro money-market funds (0.22% in 2015) and 0.63% for euro bond funds (0.65% in 2015).

Table 4: Ongoing fees in 2016 for a selection of CIU categories

Six Financial Information categories	Number of funds	Fee average (%)
US equities	155	1.36
Asia/Pacific equities	155	1.30
Europe equities	1318	1.68
of which French equities <sup>4</sup>	187	1.89
of which UE equities <sup>4</sup>	365	2.00
of which euro area equities <sup>4</sup>	521	1.48
International equities	321	1.85
Theme and sector equities	269	1.50
Euro area diversified	184	1.52
Europe diversified	82	1.56
International diversified	492	1.89
Target date funds	73	1.41
Total guarantee funds	87	1.10
Multi-strategy	34	2.55
Euro convertible bonds	58	1.08
Europe convertible bonds	90	1.13
International convertible bonds	39	1.41
Euro bonds	739	0.63
High-yield bonds	159	0.99
International bonds	138	0.96
Absolute performance - arbitrage	108	1.21
Absolute performance - directional strategy	556	1.97
Euro cash	391	0.16

Source: Six Financial Information, marketable French CIUs, October 2017.

3. Source: Six Financial Information, a fund analysis and measurement agency, has tracked the TERs of public French funds (about 6,000 funds) since 2008 and ongoing fees since 2012. Fee averages are calculated without weighting for fund size.

4. AMF category.

## ↑ FOCUS ON

### Active and passive equity management

The 281 equity exchange-traded funds (ETFs) reported average fees of 0.36%.

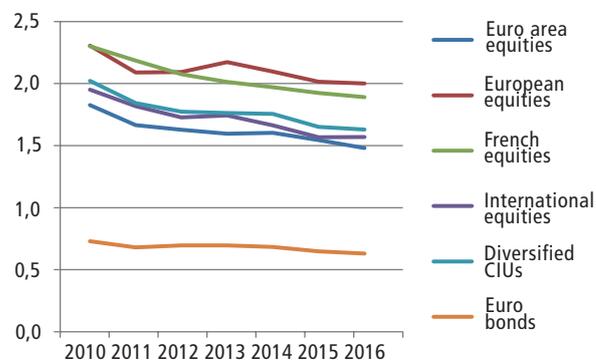
The fee average for "actively" managed equity funds (excluding CIUs classified as "index" funds and excluding ETFs) was 1.95% (2.31% for 337 European equity funds and 2.19% for 180 French equity funds).

### ↗ A downward trend in ongoing fees for equity funds

Between 2010 and 2016, average ongoing fees fell for the main categories of equity funds. They declined from 2.3% to 2.0% for European equity funds and from 2.3% to 1.9% for French equity funds.

In the AMF category of diversified funds, which comprises 2,000 different kinds of funds, average ongoing fees fell from 2% to 1.6%.

Figure 1: Change in average ongoing fees for French CIUs from 2010 to 2016, as %



Source: Six Financial Information, marketable French CIUs, AMF categories, October 2017.

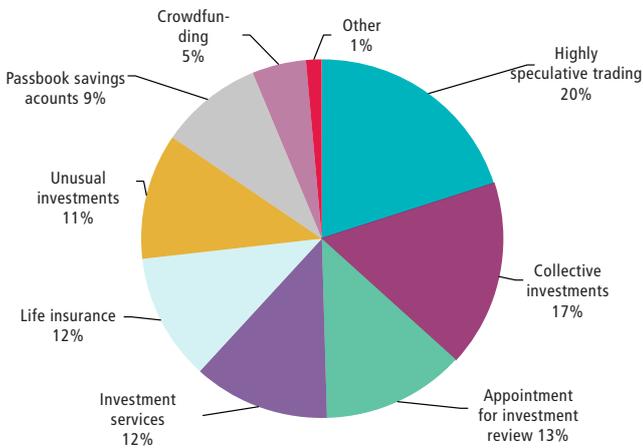
Ongoing fees do not include performance fees. In 2016, these were 0.26% on average for French equities and 0.16% for European equities. The total expense ratio (TER), the sum of ongoing fees and performance fees, stood on average at 2.15% for French equity funds and 2.0% for European equity funds. ■

**Online advertisements for investments**

**Over the first nine months of 2017, the number of online trading advertisements remained fairly high.**

Twenty percent of web-based advertisements were still for online trading (forex, binary options, etc.), a percentage that was nonetheless down sharply on the same period in 2016 (44%) as advertising for certain risky products was banned under the Sapin 2 law. The number of advertisements for collective investments (17%), in particular for real estate investment companies (SCPIs), and to prompt viewers to make an appointment with an advisor (13%) was greater than in 2016.

**Figure: Breakdown of Online advertisements by category of investment, from January to September 2017**



It is worth noting the growing share of advertisements for unusual investments (11%, compared with 5% in 2016), in particular for diamonds. ■

Source: Kantar Media, AMF calculations.

**Strong growth in crowdfunding**

**Inflows to crowdfunding platforms rose by 48% year on year in first-half 2017.**

They took in EUR 154 million in first-half 2017 to crowdfund 11,652 projects.

Investments in equity stood at EUR 32 million, in bonds at EUR 46 million and in loans at EUR 34 million. The average contribution of an equity investment was EUR 5,860 (EUR 4,340 for bonds). ■

Source: KPMG Survey of Crowdfunding in France for Financement Participatif France, September 2017.

**Employee savings at a record high in 2017**

**Amounts invested in employee savings increased by 11% year on year at end-June 2017.**

Payments into employee savings plans as a whole stood at EUR 10.3 billion in first-half 2017 (up 5% on first-half 2016). Of these payments, 30% were invested in money-market funds, 25% in diversified funds and 17% in equity funds.

Total amounts invested in company savings plans (plans d'épargne d'entreprise, or PEEs) and group retirement savings plans (plans d'épargne pour la retraite collectifs, or PERCOs) were EUR 130 billion at end-June 2017. Diversified funds (equities, bonds) represented 62% of assets compared with 38% for employee share ownership funds, which invest at least 30% of their assets in the employer's shares.

The share of employee savings invested in equities represented

60% of the total (40% through employee share ownership funds and nearly 20% through equity and diversified funds).

The number of PERCO participants increased by 15% in one year and doubled in five years.

At end-June 2017, assets invested in PERCOs stood at EUR 15.3 billion (up 17% year on year). About one-third of these assets were invested in diversified funds, one-fourth in money-market funds and just under one-fourth in equity funds. ■

Source: French Asset Management Association (AFG), September 2017

**1 in 10 French labour force participants have retirement savings plan**

**At end-2016, 9.8% of French labour force participants had a retirement savings plan (plan d'épargne retraite populaire, or PERP) and had paid in EUR 16.2 billion.**

At end-2016, 2.4 million PERPs had been opened and had average assets of EUR 6,500 (EUR 5,900 in 2015). Thirty-one percent of amounts invested were placed in unit-linked products and 69% in capital guaranteed non-unit-linked funds.

In 2016, PERP holders invested EUR 2.2 billion in these plans. ■

Source: French Insurance Federation (FFA), September 2017.

**More than 1 million "solidarity" savers**

**Solidarity savings represented assets of nearly EUR 10 billion.**

At the end of 2016, solidarity investments represented EUR 9.8 billion, of which EUR 6.2 billion (65%) in employee savings and EUR 3 billion in the form of bank savings or life insurance. Assets of solidarity employee savings funds have risen sharply in the last few years (up 19% in 2016).

Solidarity investments support associations or companies that have a very socially or environmentally useful purpose. ■

Source: Responsible Finance Observatory, Finansol, September 2017.