

AMF HOUSEHOLD SAVINGS OBSERVATORY NEWSLETTER



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EDITO

Structured products: improving the legibility of information

The AMF acts to protect French people's savings, in particular by promoting financial literacy. Its objective is to help investors become more autonomous and to better understand the information presented by financial professionals.

The AMF also monitors the quality of investment advice given and that of the documents provided to investors.

Regulations specify that the information given must be accurate, non-misleading, and understandable to an average saver.

This goal of legibility can be harder to achieve for investments that follow a formula - often complex - to calculate the amount that will be reimbursed upon maturity. These formulas complicate the client's understanding of the risks and potential returns of the product proposed.

To evaluate their understanding and their grasp of the documentation surrounding structured products, the AMF asked savers to read marketing brochures and regulatory documents.

The main conclusion of this study, the results of which are published in this Newsletter, is that while the objective of providing accurate and non-misleading information has been reached, the objective of clarity has yet to be achieved. Savers were dissatisfied with the format of the documents, which they found to be intimidating, and which did not help them to grasp the information. They noted the high density of information, which was often too technical, and the lack of emphasis on key messages.

This feedback can be applied to the documentation for all investment products. They called attention to many elements that can be improved in terms of both form and content. The AMF will share this feedback with financial professionals. The objective is for the information to be read, understood, and to encourage dialogue between the client and his or her adviser. ■



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SRI accounts for 9% of funds' assets under management

At end 2017, SRI accounted for €310 billion in assets in France.

According to the figures published by the AFG (French Asset Management Association), in collaboration with the FIR (French Social Investment Forum), total assets in socially responsible investment (SRI) stood at €310 billion at the end of 2017. This figure, encompassing investment funds and management mandates, increased by 12% over one year.

According to the definition given, SRI strategies select the most advanced companies in terms of sustainable development.

Half of SRI funds held by individual investors

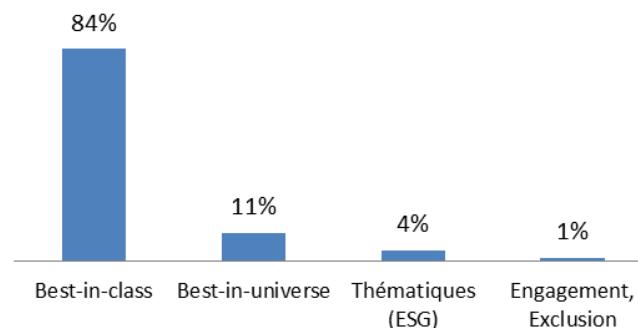
SRI funds (€156 billion) account for 9% of assets of investment funds managed in France (€1,670 billion).

Individual investors hold 49% (€76 billion), primarily in savings products (life insurance, PEA, securities accounts, etc.), of which 12% in employee savings schemes (€19 billion).

"Best-in-class", the dominant approach

The dominant SRI strategy in France is "best-in-class" (84% of assets), followed by "best-in-universe" (11%). The best-in-class approach entails selecting the best issuers within each industry, with no industry being excluded. The best-in-universe approach selects the best issuers in all sectors combined, thereby eliminating sectors in which all companies are poorly ranked. ■

The dominant SRI strategies



Source: AFG, September 2018

Structured products: the legibility of information documents



Savers found that the marketing materials and regulatory documents presented to them could be improved.

Structured products with formula¹ are unique in that before making an investment, the investor knows the formula used to calculate the redemption value as well as the maturity date of the investment.

These formulas - the complexity of which varies according to the investment - can be an obstacle to the saver's understanding of the risks and potential rewards of the product.

Does the documentation presented meet savers' needs in terms of information? How do savers perceive these documents? Do they find them sufficiently clear?

To evaluate the usefulness of the documentation surrounding structured products, the AMF asked 16 savers to read two marketing brochures and key information documents.

Demand for simplification and transparency

The savers are a diverse group. They include structured products holders and non-holders, with varying levels of knowledge and interest in investments. They have different investment appetites and different expectations vis-à-vis information.

The group with the most difficulty: "uninvolved" savers

These savers rarely read documents related to investments: they rely completely on their adviser to provide a summarised "translation" of the products, their advantages and disadvantages.

In reading the documents presented, they intuited the risk level of investments based on their detection of an alarmist vocabulary. This sense of anxiety was exacerbated by the perceived complexity of the documents and the use of many technical terms. The length and density of the information reinforced their impression of a complex and incomprehensible investment.

The documentation, difficult for them to understand, seems to keep them at a distance from the product. It leaves them with the image of a highly risky product aimed at experts and those dabbling in stocks, rather than average savers.

These savers, some of whom are holders of structured products, were aware that they did not sufficiently understand financial products and expressed a strong need for simplified and educational information in a summarised form.

1. In the form of investment funds or structured bonds. In return for a limitation of possible performance, they guarantee all or part of the capital invested upon maturity. Most often, performance depends on changes in a stock index.

Objectives and methodology of the study

The AMF's objective was to use the information documents to assess the savers' level of understanding and grasp of the product and the proposed formulas.

The service provider asked participating savers (eight holders of structured products and eight non-holders) to read attentively and in full 2 marketing documents and 3 regulatory documents relating to structured products² via an online forum for a period of five days.

In a real-life situation, the difficulties encountered while reading the documents would most likely lead savers to reject the information. ■

"Intentional" savers access information, though with difficulty

"Intentional" savers have a less dependent and more autonomous profile. They aim to understand the technical aspects of financial products. They maintain a critical distance from their banker's suggestions. They seek out information on the products suggested. They desire complete and transparent information in order to expand their knowledge.

Faced with the documents presented in the context of this study (which remains far removed from real life, given the level of involvement requested), "intentional" savers demonstrated a better understanding of the product and its risk level, but only with significant effort. Their level of understanding was limited by the technical nature of the conditions and concepts presented. They found that the documentation lacked clarity: many terms were considered abstruse.

Two savers, however, demonstrated a higher level of understanding and were at ease with the documents presented. The wide range of examples gave them an impression of transparency, even if they found the mechanism of the formula to be complicated and difficult to memorise.

"Intentional" savers desire greater clarity, completeness and transparency.

2. One KID Priips and two KIID.

Information documents can be improved

The participants found that the documents presented - both marketing materials and regulatory documents - could be improved. They did not find the documents to be understandable at first sight. All savers were dissatisfied with the format of the documents, which did not help them to grasp the information.

The participants found the high density of information, the lack of emphasis or prioritisation of key messages, and the lack of reading aids to be sources of difficulty.

However, one of the documents, which was shorter with more white space, colourful graphics and a moderate amount of text, was read through to the end. This document allowed savers to better grasp the product, even if the least involved savers did not correctly understand it.

Elements that facilitate comprehension

The format of documents is very important, as it gives savers an entry point into the text. They appreciated:

- the use of white space in the documents;
- the highlighting of key information via the layout (bold font, colours, etc.);
- the diagrams (for the most attentive and advanced profiles).

In terms of content, savers appreciated:

- the questions/answers;
- the performance scenarios;
- the large number of warnings with regard to risk level;
- the summarised presentation of the list of the product's advantages and disadvantages.

Elements that prevent comprehension

The format of the documents presented was globally found to be off-putting.

The inadequacies found included: long, dense, and redundant documents, a lack of white space, small font size and a layout sometimes found to be off-putting.

In terms of content, the prioritisation of information in both marketing materials and KIDs was often found to be unsuitable. The investment horizon, the cost of exiting before maturity and the level of risk are only rarely stated from the outset.

For savers, this key information should always be stated within the first few lines and on the last page. Further details on the product, in particular the description of the variable behaviour of the investment, with examples and diagrams, should be placed at the centre of the document.

Additional elements that discouraged reading: unclear abbreviations, an overly technical vocabulary, needlessly long explanations.

Focus on regulatory documents

Savers found the regulatory information documents to be complete. They recognised the neutrality and objectivity of these documents.

In the majority of cases, the investment horizon was found to be legible (except in the case of the early exit scenario). Savers found the "risk and return" section with its visual risk scale to be clear, providing key information in an understandable manner. The section dedicated to the behaviour of investments, when depicted using curves, was also considered very useful. The table of advantages and disadvantages was highly appreciated. Finally, the section on fees was often complimented.

But in the end, the presentation of the KID was perceived as very off-putting. For many savers, it was difficult to understand and discouraged them from reading. Many terms and passages were found to be too technical. The reading experience left them feeling overwhelmed, confused, defeated or inattentive. ■

The findings of this study show that certain improvements could easily be implemented by producers of packaged investment products.

The models of regulatory documents (KID PRIIPS and KIID), standardised at the European level, cannot be structurally modified. However, the regulation gives professionals a certain amount of latitude to make these documents easier to understand.

To make regulatory documents more informative and understandable, it is necessary to apply the current principles of legibility:

- emphasise important information,
- use short sentences in the active voice,
- eliminate unnecessary abstract words, financial jargon, and superfluous details,
- use an attractive template.

Regulatory requirements

European regulation³ specifies that the purpose of a key information document is to provide the investor with a summary of the information that is essential and necessary to their decision-making.

It must be presented and laid out in a way that is easy to read, in particular by using characters of readable size.

It must be clearly expressed and written in language that facilitates the investor's understanding of the information communicated, using language that is clear, succinct and comprehensible, and avoiding the use of jargon and technical terms. ■

3. Extracts from the EU regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs), published on 26/11/2014.



Household savings rate: 14.3% in 2017

In 2017, household consumption spending increased at a slower rate than gross disposable household income (+ 2.2% compared with + 2.6%). Consequently, their savings rate rose after a decline in 2016. In 2017, it stood at 14.3% (13.9% in 2016), at a level close to its long-term average, but below its average between 2008 and 2016 (15%).

Source: Insee, June 2018

Listed shares: 12% of outstanding investments

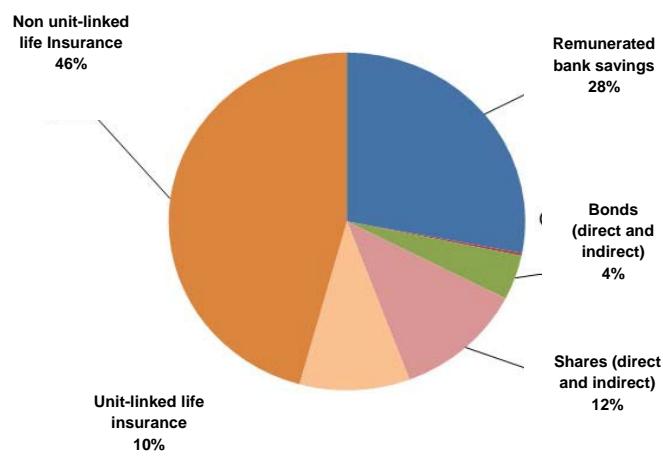
At end 2017, the outstanding amount of French people's main investments (excluding cash, sight deposits and unlisted shares) stood at €3,500 billion.

Life insurance accounted for 56% (46% in non-unit-linked contracts and 10% in unit-linked contracts) and remunerated bank savings (savings accounts, home savings, etc.) accounted for 28%.

Listed shares, held directly or via collective investments (excluding life insurance) accounted for 12%.

Overall, the share of risky assets (shares, bonds, unit-linked life insurance) in household investments was 26%, a percentage that has remained stable for the past several years.

Main investments of the French at end 2017*



* Excluding cash, unremunerated deposits and unlisted shares. Source: Banque de France, August 2018

Awareness of SRI remains low

While around 6 out of 10 French people said they attach importance to environmental and social issues in their investment decisions, only a third had heard of SRI (including investment holders and non-holders). 9 out of 10 savers said they had never invested in an SRI product. However, the percentage who said they had invested in an SRI product rose from 2% in 2013 to 5% in 2018.

Source: Ifop survey for Vigeo-Eiris and the Forum pour l'investissement responsable (French Social Investment Forum - FIR), September 2018

Mandatory and discretionary profit-sharing: 60% to employee savings schemes

Of the net €13.9 billion saved in 2017 from mandatory and discretionary profit-sharing by employees of companies with 10 or more employees, €7.8 billion went to employee savings schemes, of which 88% to PEEs (employee savings plan ownership) and 12% to PERCOs (collective retirement savings plans), while €0.6 billion went to locked-up current accounts. The remaining €5.5 billion was received directly by the beneficiary employees. This percentage (40%) is stable with the amounts received.

Source: Dares Résultats, August 2016

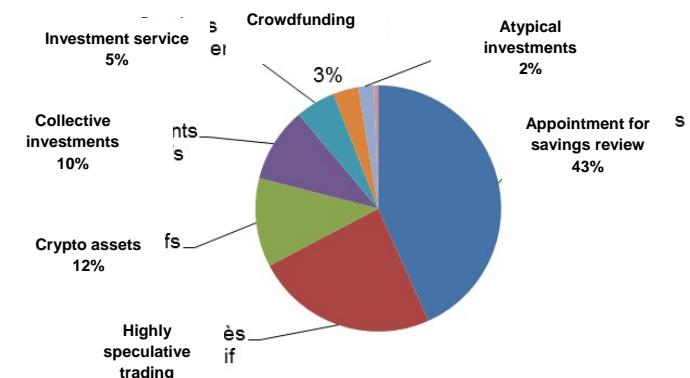
Online advertisements for investment products

Over the first nine months of 2018, advertisements encouraging the public to make appointments for a wealth or savings review were numerous: they accounted for nearly half of all advertisements for investment products seen on websites aimed at the general public.

Moreover, advertisements for speculative trading (CFDs, etc.) accounted for a quarter of advertisements. Until 2016, they had represented nearly half of all adverts. They are now more balanced and limited to less risky products, for which the potential loss cannot exceed the amount initially invested (Sapin II Act).

Online advertisements for the purchase/sale of crypto assets accounted for 12% of advertisements seen. This rate was below 3% for all of 2017.

Breakdown of online advertisements for investment products, from January to September 2018



Source: Kantar Média, AMF calculations, October 2018