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STIMULATING LONG-TERM EQUITY INVESTMENTS



Risk and Trends

AUTORITÉ
DES MARCHÉS FINANCIERS



STIMULATING LONG-TERM EQUITY INVESTMENTS

EXECUTIVE SUMMARY

Savings are abundant but insufficiently invested in equities. When preparing for their retirement, investors prefer risk-free real estate and life insurance, even if a higher rate of share ownership was recorded in 2017, for the first time since 2008.

The AMF has carried out a qualitative study that reveals that a certain number of misconceptions on equities are deeply entrenched in people's minds.

Equities are not part of the saver's natural investment landscape: they are not spontaneously seen as suitable for long-term savings. Savings in shares are considered to be random, risky, or even unprofitable. Shares are not considered as easily accessible and affordable assets.

It is up to the regulator to take the beliefs and attitudes of investors into account as part of its task of raising awareness of potential risks involved.

Identified barriers become levers for action to change investor perception and behaviour.

An in-depth learning approach is necessary in order to establish long-term investor reflexes and incite investors to better diversify their savings without ruling out equity investments too quickly to equity investments.

Saving for retirement is an appropriate angle from which long-term equity investments can be approached with the general public. The right type of preparation for their financial future is at stake, notably well in advance of the long period that retirement can represent.

The regulator has a role to play in this process by providing educational content, or by running communication campaigns. But the AMF cannot be left to act on its own. The levers for action described in this publication are usable by all types of actor and in particular those who have a greater ability to reach a large number of investors.

INTRODUCTION

Risk aversion, difficulty making long-term projections, successive stock market crises, are just a few of the reasons for the low level of French equity holdings, Despite the growing need for long-term pensions, and equity investments clearly match to this long-term horizon.

To meet this need to prepare for retirement, everyone should start long-term retirement savings as soon as possible. This is also true for those who prefer to focus on investing in real estate and life insurance with guaranteed income annuity.

After an overview of French savings patterns, the Pater survey¹ provides us with insight about why the French are less keen to make long-term equity investments.

To better understand them, the AMF has supplemented these findings with a qualitative study conducted with the Kantar TNS institute with investors aged 30 to 45 years. This original study enabled us to understand investor feelings about these issues.

With this in mind, here we propose to consider the levers that would make it possible to change the beliefs and attitudes of the French through education, which would plead in favour of a better diversification of their long-term savings.

Although the allocation of household savings is also a matter of public policy, notably with regard to taxation, the viewpoint chosen here is that of the interest of the saver to whom we wish to provide the keys so they may exercise greater control over their savings choices.

¹ Pater (Patrimony and Preferences with respect to Time and Risk) measures preferences based on lotteries and in terms of attitudes, opinions and behaviours of the French in different aspects of life

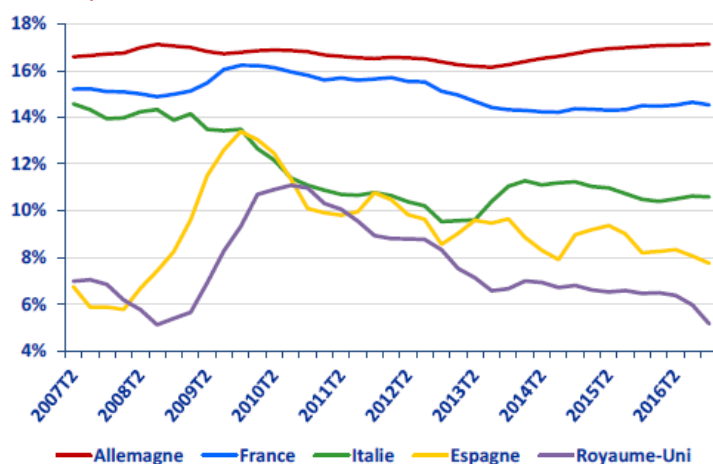
1. ABUNDANT SAVINGS BUT LITTLE OF IT INVESTED IN EQUITIES ²

1.1. A HIGH SAVINGS RATE

In comparison to other European countries, the savings rate has been steadily at a high level in France for many years.

In national accounting terms, household savings are the unconsumed portion of their gross disposable income. In 2016, the French household saving rate stood at 14.6%, close to its average over 30 years (around 15%); their financial saving rate (excluding loan repayments for new home purchases) amounted to 5.5%.

GRAPHIQUE 1 : HOUSEHOLD SAVINGS RATES IN DIFFERENT EUROPEAN COUNTRIES



SOURCE : NATIONAL ACCOUNTS BASED ON 2010 DIVIDED OVER 4 QUARTERS (INSEE, EUROSTAT), SAVINGS AND HOUSEHOLD ASSETS, BANQUE DE FRANCE, MAY 2017

Wide disparities in savings ? ³

Saving behaviour varies greatly depending on household characteristics. In 2009, half of French households saved more than 13% of their income. This high median savings rate hides disparities between households: overall, households save a large part of their income, but for 26% of them, current income does not cover their consumption expenditures. In contrast, 25% of households set aside more than 33% of their annual income. Therefore, in 2009, the 25% of households saving the largest share of their income (over 33%), contributed to 72% of national annual savings.

Who saves the most?

- The socio-professional category with the highest incomes (managers and professionals): their saving rate is 47% for those with incomes in the top 20% income bracket.
- Owners and those with significant assets.

Thus, for 20% of households owning the most assets, half of this group banks 21% of its annual income, vs. 6% for households with few or no assets.

² For more detailed information, please see the AMF's 2016 and 2017 Risk Mapping, under the section [Publications / Lettres & cahiers / Risques & Tendances](#)

³ Les revenus et le patrimoine des ménages, Insee Références, édition 2014

1.2. MORE THAN THREE-QUARTERS OF RISK-FREE INVESTMENTS

At the end of 2016, life insurance (in euros and in account units) accounts for about 49% of the amounts outstanding for the main household investments⁴, excluding unlisted equities and other investments⁵. Cash and bank savings total 36%.

The share of securities is 15% (excluding unlisted equities), and this share rises to 22% when incorporating account units of insurance contracts. Equities held directly represent 6%. Indirect holdings are higher, mainly due to life insurance and collective investment schemes (including employee investment undertakings).

In total, the share of household financial savings invested risk free represents 78% of the outstanding financial investments of French households, excluding unlisted equities and other investments.

Highly concentrated financial assets

Of the determinants of the amount of assets, disposable income directly influences household savings capacity. The higher the income, the higher the level of assets.

Outstanding investments are highly concentrated because in 2010, 10% of the wealthiest households held 55% of outstanding financial investments⁶.

In addition, the amounts held increase with age. Those aged over 60 have an average financial wealth five times higher than the under-30s and twice as high as those aged 40-49⁷.

1.3. SECURITIES OWNERSHIP FELL UNTIL 2016

L'enquête The INSEE Survey on Wealth regularly assesses the investment holdings of French households.

The rate of securities ownership (stocks, bonds, collective investments) has fluctuated over the past 20 years: in 2004, almost one in four households held shares, up 3 points from 1998. Between 2004 and 2015, the decline was steady, with the rate decreasing by almost 7 points.

FINANCIAL ASSET OWNERSHIP RATES OF FRENCH HOUSEHOLDS (IN %)

	1998	2004	2010	2015
Saving accounts	83,5	83,2	85,0	85,9
Home purchase savings plan	40,9	41,3	31,2	32,2
Life insurance	28,9	26,2	34,7	36,5
Pension scheme	-	17,4	15,7	16,4
Employee investment scheme	12,7	16,7	15,1	14,5
Securities	21,2	24,2	19,3	16,5

SOURCE : INSEE, ENQUETES PATRIMOINE.

Life insurance holdings rose steadily: after a 3-point decline in the early 2000s, the holding rate grew by 7.3 points. Life insurance is the preferred investment of French households (most frequently held) after savings accounts.

Main determinants of holding savings in securities: income and age

Securities holders are more likely to be older and come from higher occupational categories because wealthier households invest more in equities.

Retirement savings and securities holding rates rise with income, and the increase is more pronounced for the top 20% of the wealthiest households.

⁴Including the self-employed.

⁵Unquoted shares are largely held for professional reasons by individual entrepreneurs or company managers.

⁶French households financial wealth: which changes in 20 years? J-B. Bernard and L. Berthet, Insee working paper, December 2015

⁷Insee Première, novembre 2016.

Equity ownership over the past year

The annual Kantar TNS survey⁸ details the changes in ownership of securities since 2008.

Equity holdings have been falling since the 2000s, but they appear to have rebounded in 2017. Representing 13.8% in 2008, the direct holding rate stood at 7.6% in March 2017 after reaching a low point in 2016 (6.2%). In March 2017, 5.9% of the French interviewees responded that they hold collective investments, of which 2.9% was a fund invested in equities (vs.7.5% in 2008).

More broadly, ownership of securities (stocks, bonds, and collective investments) dropped from 18.7% of the population in 2008 to 10.3% in March 2016, and thereafter rebounded to 11.7% in early 2017⁹.

1.4. UNDERDEVELOPED RETIREMENT INVESTMENTS

Retirement investments remain underdeveloped. Compulsory pay-as-you-go schemes (basic scheme and supplementary schemes) may be supplemented by optional supplementary pensions. According to INSEE, in 2015, only 16.4% of the French held a retirement investment (collective company contracts, PERP (retirement savings plans)¹⁰, PEP (personal savings plan)¹¹ etc.).

In total, these schemes accounted for €197 billion in outstanding investments in 2014 (slightly less than 5% of household financial savings).

ESTIMATED OUTSTANDING RETIREMENT INVESTMENTS IN 2014

Scheme	Amount (EUR billion)	In %
PERP (Personal retirement plan)	12,4	6
Products for civil servants and elected officials	23,7	12
Other (Veteran pension scheme, etc...)	7,1	3
Self-employed retirement scheme (Madelin contracts, etc...)	37,6	19
PERCO (Collective retirement savings plans)	10,3	5
Other occupational saving schemes	105,3	54
Total	196,7	100

SOURCES : DREES, ENQUETE RETRAITE SUPPLEMENTAIRE DE 2014 ; FFSA ; AFG.

Entitlements and individual retirement preparation

France distinguishes itself with its well-developed public pension system¹². A 2016 Insee survey¹³ showed the replacement behaviours between household savings and their pension entitlements. A higher level of mandatory pensions leads to a reduction in voluntary retirement savings.

This finding is corroborated by international comparative studies: pension savings, and in particular funded pension funds invested in equities are more developed in countries where public pensions are relatively smaller.

⁸ Since 2008, this annual survey examines a panellised sample of more than 12,000 French people aged 15 and over on their holdings of financial products.

⁹ This rate, which is different from the INSEE wealth survey, applies to households with individuals aged 15 and older.

¹⁰ Retirement savings plans.

¹¹ Personal savings plan. Marketing the PEP was interrupted in 2003.

¹² Public expenditure on pensions represented 13.8% of GDP in France in 2013 according to the OECD, compared with an average of 8.2% in other OECD countries.

¹³ Patrimoine privé et retraite en France, Blanchet, Dubois, Marino et Roger, document de travail de l'Insee, novembre 2016.

1.5. THE MAIN AIMS OF SAVINGS: PRECAUTIONARY AND RETIREMENT SAVINGS

When asked by INSEE to choose the main reason for saving out of a possible 13 choices, the vast majority (76%) of household savers were split between only three responses ¹⁴.

Building up a precautionary reserve for unforeseen events is by far the most often cited reason (42%). Almost one fourth of household savers stated that for them the goal was above all to be “ready for old age”.

MAIN REASON FOR SAVING IN 2015

	Taux
Build up precautionary savings for unforeseen events	41,7 %
To get ready for old age	23,3 %
To buy a primary residence	10,0 %
Travel and holidays	5,6 %
Pay for school or help their children or grandchildren	5,5 %
Other significant purchases (vehicles, furniture, etc.)	4,2 %
Estate planning	3,4 %

SOURCE : INSEE, ENQUETE PATRIMOINE 2014-2015

Precautionary savings falls in line with unforeseen events proactive thinking, which covers the majority of reasons for contingencies for the French. It goes far beyond the need to merely build up a cash reserve for a rainy day. This protective savings (for oneself and for close family members) must, in the minds of many respondents, remain liquid and secure. It cannot therefore be "locked-in" savings.

Saving "to prepare for old age" goes beyond merely building up assets for retirement. Even the remote risk of dependence is now better perceived by the French who think in the "long-term" without necessarily assigning any specific aim to it.

The goal of financial preparation for retirement

When asked about retirement, many French people say they are worried about the amount of their future pension and are aware of the need to put money aside individually.

72% of the active population say they are concerned and 77% believe that they will have to add additional resources for their retirement ¹⁵.

In a recent survey, 29% of the French believe that they will have sufficient financial resources to live decently ¹⁶. This number drops to less than 20% for those surveyed under age 50. 54% of those surveyed said they saved for retirement, but only 23% did so regularly.

In another survey, only 38% of the French surveyed say they put money away ¹⁷. 63% say they were concerned about “going on retirement with a pension that was too small”. Only a third say that they have “put money aside in preparation for their retirement”.

In another survey, only 10% of the active population said that they would be financially comfortable during their retirement, given the evolution of retirement savings, and 40% have not yet begun to start saving for retirement. ¹⁸ This same survey confirms that real estate (in the broadest sense of the term) is perceived as a good way to save for retirement, with 45% of the active population believing that this option offers the best returns. 32% have opted for “precautionary savings”, 15% for private retirement plans, 12% for securities and 2% for government/corporate bonds.

¹⁴ Insee, La détention d’actifs patrimoniaux début 2015, Insee Références, édition 2016.

¹⁵ Harris Interactive on behalf of Deloitte, Les Français et la préparation de la retraite, avril 2016

¹⁶ Survey by IFOP on behalf of CECOP, Les Français, l’épargne et la retraite, février 2017

¹⁷ Survey by Ipsos, on behalf of France Bleu, conducted in December 2016 and based on a sample of 1,089 people aged 16 and over

¹⁸ HSBC, L’avenir des retraites, a survey conducted with 1,000 French people aged 21 and older, March 2017

The role of life insurance

The role of life insurance in preparing for retirement is often emphasised in opinion polls. Consequently, 48% of insurance policy holders believe that their contract meets their goal of preparing for retirement¹⁹. But their contracts simultaneously meet objectives other than long-term savings, such as "dealing with unforeseen events" (57%) or "leaving something to their families" (52%). The same survey asked the French about whether they want to take greater risk with their contract by investing in more equities. 78% answered no.

Life insurance and the very long-term investment horizon

Life insurance is the top medium and long-term savings product for the French.

Due to its main characteristics (it is liquid and interests are capitalised so that the minimum guaranteed capital grows each year), life insurance is relatively little invested in equities (in 2016, 17% of total main assets, including via investment funds).

In this regard, it is not well-suited to a very long-term investment horizon (20 years or more).

However, unit-linked life insurance products inflows are gaining ground, increasing the investment in shares of those who have a long term view.

The savings rate of the French is high, and their savings abundant, but it is insufficiently channelled towards equity investments. They prefer investing in risk-free real estate and life insurance to prepare for retirement. However, long-term savings objectives require building stable and high-yield savings.

It seems that diversifying French assets can be improved to benefit savers. In fact, the relatively small share of assets invested in equities and held over a long period penalises the saver's ability to amass capital for retirement in a world where, despite a slower growth rate, growth has held steady at a healthy level, driven by innovation and the development of emerging economies. Investors with both a long horizon and a precautionary saving already amassed are in a position to diversify their savings with equities.

¹⁹ Ipsos conducted a survey on behalf of FFA, The French, Savings and Life Insurance, mars 2017

2. NUMEROUS BARRIERS TO LONG-TERM EQUITY INVESTMENTS

Researchers regularly study the barriers to equity investments. Here we first summarise the findings from the Pater survey²⁰.

2.1. MEASURING FRENCH PREFERENCES AND EXPECTATIONS

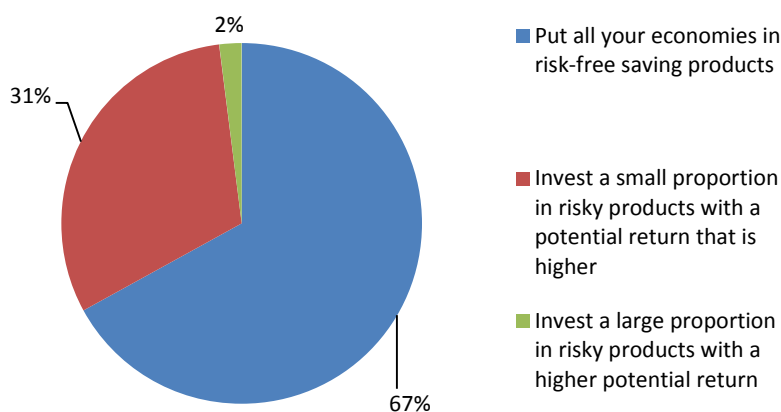
With the Pater survey, researchers²¹ attempted to measure the individual investor preferences for risk and in terms of the future. Based on their findings, investment choices depended on three major types of factors :

- The resources available to the individual: their financial assets as well as their health, education level and financial knowledge, etc.
- The perception of the environment and expectations for the future. These expectations include economic information (changes in salary, risk of unemployment, amount of future retirement, etc.) and the expectations in terms of health, life expectancy or even those concerning the social safety net.
- Individual preferences in terms of risk and time: their level of risk aversion and their preference for the present, which influences choices between consumption and saving.

2.1.1. The French prefer risk-free investments

In general, the French have a strong aversion to risky investments. Only 2% surveyed are inclined to invest the majority of their savings in risky investments.

SOME FRENCH PEOPLE ARE PARTICULARLY CAUTIOUS IN A RISKY SITUATION; OTHERS ARE MORE LIKELY TO TAKE A RISK. WITH REGARD TO FINANCIAL INVESTMENTS, WHAT DO YOU PREFER?



SOURCE : PATER 2014

A recent survey confirmed this aversion to risky investments: 74% of the French preferred to invest their savings in investments with low returns, though with low risk²².

²⁰ Pater (Patrimony and Preferences with respect to Time and Risk) measures preferences from lotteries and based on the attitudes, opinions and behaviours of the French in different areas of life. The Pater survey was conducted in 2014 (5th edition) with a representative sample of 3,600 French aged 18 and older.

²¹ The findings reported are based on the work of Luc Arrondel (CNRS-PSE, Banque de France) and André Masson (CNRS-PSE, EHESS).

²² OpinionWay survey on behalf of Robin'Finance, The French and savings, conducted with 1,000 people aged 18 years and older surveyed online, February 2017

Aversion to losses

Behavioural finance has shown that an investor's choices could be guided by their emotions, intuition or behavioural biases. Some of them explain why equity ownership is low.

Thus, investors overweighted the risk of loss vs. the risk of gain (loss aversion). In other words, losses carry more psychological impact than earnings. The French prefer the prospects of safer earnings to higher yet more less certain earnings.

2.1.2. Equities are considered risky

When asked about investments they consider risky, the French cite unit-linked life insurance (UC) and equities (46% and 76%, respectively) as risky financial products.

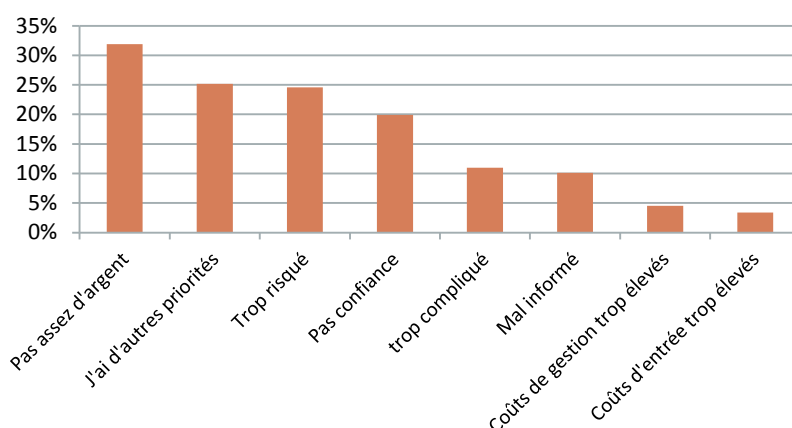
FOR EACH OF THE FOLLOWING PRODUCTS, INDICATE ON A SCALE OF 1 (LOW RISK) TO 10 (HIGH RISK) IF THEY SEEM RISKY TO YOU

	Obligation	Livret A (saving account)	Real estate	Life insurance in euros (capital guarantee)	Funds in life insurance	Equities
0 to 4	39%	84%	56%	48%	19%	5%
5 to 6	29%	8%	29%	32%	35%	18%
7 to 10	32%	8%	15%	21%	46%	76%

SOURCE : PATER 2014

When those not holding equities are asked about the reasons why they do not own equities, they often respond that they do not have enough money and that equities are too expensive or that they lack confidence.

BASED ON THE REASONS GIVEN BELOW, WHY HAVE YOU NEVER INVESTED (OR NO LONGER INVEST) IN LISTED COMPANIES? (MORE THAN ONE ANSWER IS POSSIBLE)



SOURCE : PATER 2014

The French are naturally less inclined to risk-taking

Inherently cautious, the French are naturally reticent to make risky investments.

“Imagine that you’ve won a €100,000 prize. Your bank offers to invest some or all of this money in a risky investment and the rest of it in a no-risk investment. With this risky investment, you can double your money. But you also have a 50% chance of losing it all. How much would you put into this investment?”

In response to this question, approximately 6 out of 10 French answered that they did not want to put their money into this risky investment and would rather settle for the money they made rather than attempting to earn more by risking the money invested.

Approximately, 2 out of 10 investors plan to invest less than €10,000, 1 out of 10 an amount between 10 and €20,000. Only 2.5% surveyed would be ready to invest €40,000 or more in such a risky investment.

The higher the amount invested, the less individuals are inclined to wager, even if the potential earnings might be high.

2.1.3. French financial literacy needs improvement

The results of the Pater survey highlight the weakness in the financial literacy of those surveyed and partially explain the timidity of households with regard to investing their savings in the financial markets. According to the researchers, financial literacy has a positive impact on the ability to plan out savings over the long-term.

Seven out of 10 French say that their financial literacy is too limited to understand the financial press. Only five out of 10 believe that they can assess the profitability and risk of their investment.

On balance, 71% of the French believe that their financial literacy is poor or even very poor. Therefore, many of those surveyed do not over-estimate their level of financial literacy.

WOULD YOU SAY THAT YOUR FINANCIAL LITERACY IS...

Very poor / Poor	70,6%
Average / Good	29,4%

SOURCE : PATER 2014

Assessment of level of financial literacy

To evaluate the financial literacy level, certain questions are usually asked on diversification, the aim of an investment, the impact of inflation, the cost of a loan or even about calculating a percentage.

The findings show a poor level of financial literacy (see further details in the Annex). For example, 82% of the individuals did not know if it was less risky to buy a listed equity or a unit in a collective investment undertaking. Very few (2.4%) answered all questions correctly.

WHAT DO YOU THINK ABOUT THE FOLLOWING AFFIRMATION? IT IS LESS RISKY TO BUY A LISTED EQUITY THAN A UNIT IN A FUND

True	2,6%
False	15,2%
I don't know	82,1%

SOURCE : PATER 2014

The role of financial literacy

The role of financial literacy is underscored in the 2009 report by the Conseil d'Analyse Économique: "The limited level of financial literacy of French investors and since they are not well informed prevents them from taking advantage of investment opportunities offered to them. Household asset allocation with limited financial literacy offers a sub-optimal risk-return profile. The lack of knowledge about the role that long-term investments can play in France penalises the return on the financial investments of savers. The most highly financially literate households have a higher share of risky savings."

In December 2016, France, following OECD recommendations, adopted a national financial literacy strategy, for which the Banque de France has been designated as a national operator. The AMF is also playing a key role in certain aspects of financial savings.

2.1.4. Gloomy expectations

The PATER survey explores the optimism of the French and their expectations going forward. It helps us understand why households are increasingly cautious.

The saver is highly attentive to their economic environment. A worse economic climate has been fuelling their "precautionary savings". The savers' choice between consumption and savings, and between saving products, is itself very dependent not only on circumstances but also on their expectations such as rising or falling unemployment, etc.

Long-term financial savings depend quite directly on household "confidence". Economic uncertainty is not at all conducive to long-term commitment for all players, including savers.

In general, the French believe that the recent financial crises (2008-2011) have had or will have a significant negative impact on many variables, particularly on their taxes (74%), and on purchasing power (68%).

A majority of them also think that the crisis has had or will have an impact on their savings or on their financial situation.

DO YOU THINK THE CRISIS HAD OR WILL HAVE A SIGNIFICANT IMPACT ON YOUR...

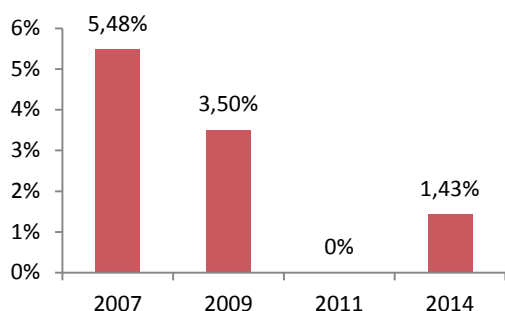
	Savings and assets	General financial situation
Very significant	14%	15%
Quite significant	43%	47%
Insignificant	39%	39%
Totally insignificant	4%	4%

SOURCE : PATER 2014

Gloomy stock market expectations

At the height of the financial crisis, the French were highly pessimistic about the stock market. Calculations based on the households that responded to several series of the survey, average expectations of future stock market returns confirm the following trends: 5.5% in 2007, 3.5% in 2009, 0% in 2011 and 1.4% in 2014.

MIDDLING EXPECTATIONS FOR STOCK MARKET RETURNS OVER THE NEXT 5 YEARS



SOURCE : PATER 2007 TO 2014

In 2007, more than half of households anticipated a stock market rise over the next 5 years. This proportion was only one third in 2011. By 2014, slightly more of them anticipated an increase (4 out of 10), but remaining at a relatively low level.

Similarly, expectations of changes in work-related income have worsened in recent years, with the proportion of people anticipating a positive trend declining from 50% in 2007 to 33% in 2014.

The relationship between the “preference for the present” and equity holdings

Households are making a choice between present and future consumption. The Pater survey highlights their level of impatience and their ability to save.

The ability to make long-term projections often coincides with a higher level of risk aversion: prudent and forward-looking people amass greater financial wealth than others and most often do so through life insurance or retirement savings rather than through equity investments. But the "preference for the present" also partly explains the probability of holding shares: less "forward-looking" people tend to hold fewer equities.

The survey shows less of a preference for the present if future gains are higher. On the other hand, the lower the expected future earnings, the stronger the preference for the present.

Main lessons learned from the Pater survey

The low equity ownership rate can be explained mainly by the following 2 findings:

- financial literacy is correlated with the propensity to plan and explains the rate of equity ownership (but not the share of equities in the portfolio);
- the portion invested in equities is determined by risk-aversion and expected returns.

The researchers have summarised the explanatory factors as follows ²³:

"Risk and time preference scores have the expected significant effects: the less we are tolerant (to risk), the less we are attracted to risky assets, whether in terms of equity holdings or investment intentions; the more we plan, the more we invest in this asset type.

The asset amount has a significant positive effect (on the holding rate and on the intentions), the amount of labour income only has on the holding equities, the anticipated risk on this income has no effect. Age and education are also important factors in explaining risk-taking (stock and amassing information). Finally, with regard to expectation variables, the expected return on equities has an important (positive) effect, the significance of which is often comparable to that of the risk score."

²³ « Les épargnants français dans la « grande récession » : Préférences, anticipations et choix de portefeuille », Luc Arrondel et André Masson, CNRS, PSE, février 2016

The Pater study highlights one of the most important barriers to equity investment: the strong, natural aversion French investors have to loss. This aversion is well documented in the findings of behavioural economics. In addition, we have observed that the economic crises or stock market "accidents" had a particularly pronounced impact on the French. Almost 8 years after the crisis, memories of the events are still vivid in French memory, which seem to have created inertia with regard to investment or disinvestment decisions.

Savers also had difficulty making long-term future projections and therefore implementing a long-term investment plan.

Thus, lack of affection for equities affects all savers, including those who have developed significant saving reflexes and those who would objectively have had the possibility to invest in equities.

To add to these findings, the AMF sought to carry out a qualitative study to understand the barriers expressed by savers concerning long-term investments, particularly with regard to equities.

2.2. THE PSYCHOLOGICAL BARRIERS EXPRESSED BY SAVERS

The AMF chose the Kantar TNS institute, which has in-depth knowledge of investors, which it has built up over the years through the numerous surveys its teams have conducted. The qualitative study to better understand the barriers to long-term savings was based on the institute's internal model designed to provide the additional insight desired by the AMF.

It chose a target group from the active population aged from 30 to 45 years. This age bracket is a good choice for a target to promote long-term savings: those over 30 are beginning their active lives, and those under 45 have at least 20 years ahead of them in the labour market to prepare for their retirement.

The study was based on a series of 18 two-hour interviews²⁴. The interviewees (all residing in greater Paris region) were divided into 3 profiles (6 persons per profile) :

- "Short-term savers" pay little attention to retirement: they do not really make projections on their long term future and invest through guaranteed savings and liquid investment products.
- "Safe investors" are concerned about their retirement and have an appetite for guaranteed long-term savings products.
- "Speculative investors" are concerned about their retirement and have an appetite for risky long-term investments.

2.2.1. The French have varied relationships with savings

The interviews made it possible to identify savers as distinguished by the degree of involvement in the management of their finances and by their state of mind (security or fear/apprehension).

- The "frail", who feel helpless, vulnerable and can be a bit skittish.
- The "managers", who anticipate and who think about protecting themselves and their loved ones.
- The "carpe diem", who are careless, passive and tend to be short-sighted.
- The "players", who take things rather calmly and who think about optimisation and profitability.

Investors assign different roles and reasons for saving:

- the "pleasure saver", which is short-term,

²⁴ Usual metrics of qualitative studies were used

- the "protective saver", for times of hardship and unforeseen events, which can be short-term savings, but which is above all an unlimited-term,
- The "constructive saver", which is a medium/long-term savings (schooling for children, real estate, professional life changes, etc.).

Individuals do not all have such a clearly defined understanding of their savings products and their functions. Rather, many reason generally with regard to their savings, in which products can intertwine and can change their use. The sample investors demonstrated a certain lack of knowledge with regard to savings products and their specific characteristics, which may lead to misrepresentations.

Preparing for retirement falls into a slightly different category, both with protective and building savings. It generally falls within the medium/long-term investment category.

Three major product groups are cited:

- Saving accounts, to manage current assets,
- life insurance and housing investments, to prepare projects (purchasing housing and preparing for the future), and which have the characteristic of being perceived as locked-in,
- employee schemes, which is poorly known and understood.

Real estate is often used and perceived as protective and building savings (asset acquisition).

A relationship with money determined by one's family's core values and personal background

According to the authors of the study, the relationship with savings is closely linked to one's family core values as a continuation thereof or in opposition thereto. Long-term savers often come from families that play a role in teaching good financial management and savings practices. The way parents manage household finances and save throughout their lives influences how their children save money. Saving practices might develop either in reaction or in opposition to a management style that is considered too lax, risky, short-term, and may lead to a need for financial assistance from parents, or on the contrary these money management core values may be reproduced, whether judicious or risk-taking, in a model that corresponds to said core values.

One's own circle of friends is not necessarily conducive to good money saving and investment practices over the long-term since money remains slightly too intimate and personal a topic to be shared with this circle.

2.2.2. Shares not cited and not associated with the long-term

The notion of long-term savings is not naturally mentioned by savers. The reasoning is based on the products and their objectives, not based on the duration (even if the duration is derived from the objective).

Long-term savings is envisaged for major life projects and around the concepts of construction, family and inheritance, safety, protection, precaution as well as long-term performance. Long-term savings are often understood as opposed to the notion of "pleasure" and immediately brings to mind the notion of involvement, commitment and responsibility.

It is primarily associated with life insurance, even housing savings, and never with savings invested in equities, apart from a few savvy investors.

The idea of transforming financial products into equities as a means of taking the long view of savings seems difficult for many to grasp. Equity savings are associated with the short-term, risk, randomness, abstraction, and opacity. Only the savviest investors cite risky investments (PEAs (equity savings plans), funds) as long-term products because investment over the long term in order to be profitable.

The economic environment prompts little long-term projection

For the authors of the study, the global economic context marked by successive financial crises over the past 15 years (the bursting of the Internet bubble in 2000, and the subprime crisis in 2007-2008) and even more markedly the European banking crisis has been a great blow to confidence in the system and in global financial institutions.

- The awareness among savers of the fragility of this banking system, of how quickly it can be destabilised/ become unsettled, and the scale of the consequences it can have from an individual investor's perspective.
- Erosion of confidence in banks and financial advisers themselves: seen as sellers rather than advisers, too often suspected of putting the interests of the bank before those of the client.
- Indeed for some individuals, erosion of confidence in the State, which was unable to and may not be able to prevent a future crisis.

This context does not appear favourable to investing in equities as investors have tended to prefer non-locked-in guaranteed financial products and real estate.

2.2.3. Many preconceived ideas about equities

Equity savings are considered to be uncertain, risky or even unprofitable. They are associated with a perceived risk that does not diminish over time. The perception of un-guaranteed returns may sometimes even be imagined as always unfavourable ("someone has to lose").

It is not considered to be an easily attainable and accessible type of asset. The entry barriers are perceived to be high and reserved for those with sufficient financial resources, knowledge, and time to track their investments.

Equity savings are seen as locked-in and illiquid.

Consequently, this type of savings is associated with those who have the requisite financial resources and with a population of insiders.

Equity savings suffer from a perception of disparity between the cost invested, whether it be the financial cost (money saved is perceived as a sacrifice), a investment in terms of time (regular monitoring, searching for information, etc.), and the associated benefits, which are considered quite random, contingent and far off in the distant future.

This is less the case for funds. Nonetheless these appear obscure in the case of a type of savings whose movements, behaviour, trade-offs, or companies in which one invests are not fully understood.

2.2.4. Equities "under consideration"

When asked to consider equities, savers "rationally" confirm that they have a dim view of equity investments, i.e. a certain imbalance between the efforts expended, the risks incurred and the benefits ultimately generated by long-term savings.

The "cost/benefit ratio" is unclear in view of the sacrifices made in daily life in contrast to the random and risky nature of equities. This savings effort seems to them to be quite incompatible with the efforts already made.

The argument of the past performance of equities, which is greater than that of other investments over the past twenty years comes as a pleasant surprise, but this surprise quickly gives way to scepticism, and may even arouse some mistrust.

However, potential returns appear to be an argument that could change perceptions, if accompanied by sufficient reassurance.

2.2.5. Equities and social pressure

Equity savings are not hindered by strong social pressure.

Savers who are less favourable to long-term equity savings may question an opaque, unfair financial model, from which they are going to distance themselves, but without disrupting the value system and without ultimately leading to a veritable outcry.

However, they are not seen as beneficial to society and the economy: they are associated rather with large corporations and crises, profitable for the markets, large companies and for banks.

Thus, equity savings raises many questions, and even suspicion, about its ability to be compatible with a more ethical financial paradigm.

Nevertheless, the authors of the study stress that the ethical and solidarity argument could well serve as a means of attracting investors, triggering their awareness and whetting an "appetite" for such savings.

The Risky investment offer

If investors turn away from risky investments, it may also be that they are in relatively short supply. The mystery visits conducted by the AMF since 2010 regularly show this is the case. Account managers take into consideration the differentiated profiles of prospects (risk-averse or risk-taking). However this consideration remains limited whereas the scenarios "young active" and "risk-taking" would lend themselves to risky investment proposals.

After the stock market and financial crises of the 2000s, industry professionals, held in check by regulations requiring them to verify their client's risk appetite have greatly reduced the amount of product investment advice they give.

Although based on a limited number of interviews, this qualitative study reveals that equities are not part of the saver's natural investment landscape. This type of saver is little aware of them, convinced that they are only meant for those dabbling in stocks, and who have an utterly different profile to their own.

Equities are not spontaneously perceived as suitable for long-term savings, and particularly for retirement savings. Equity savings also appear to run contrary to the current financial constraints and the notion of protection and security that take precedent in the investor's mind.

They also suffer from the social, economic and political environment, contributing to weakening the long-term projection and risk-taking capacity of individuals. Finally, there is a core group of representations and strong biases that have persisted over time. These representations can lead to fear and apprehension and put a brake on long-term equity savings.

3. LEVERS FOR STIMULATING LONG-TERM EQUITY SAVINGS

First and foremost, the qualitative study emphasises that it is essential to undo savers' automatic reflexes. Sufficient time must be taken to correct false representations and this must be done with restraint and for educational purposes. Undo misconceptions associated with equity investments is necessary to change investor behaviour.

The regulator can play a role in this initiative by providing educational content, or by leading communication campaigns. Furthermore the regulator should not be left alone in this endeavour. The arguments presented hereafter constitute material that can be used by all players, especially those with a greater capacity to reach a large number of savers.

Education as protection

The AMF's primary aim, as an authority, is to contribute to protecting savers by disseminating accurate and useful information. This information should not under any circumstances be used to mislead savers. The goal of its instruction is to convince them that **protecting their savings is linked to better equity diversification.**

3.1. EDUCATE FIRST: INFORM TO RAISE AWARENESS

3.1.1. Explaining equity investments; investment solutions made simple

One of the main pitfalls concerning long-term savings is the lack of knowledge of a world that appears opaque, vague, technical and not readily/easily accessible to investors.

Industry professionals and those promoting investment solutions clearly underestimate this pitfall.

Against this backdrop of widespread ignorance, teaching on equity investments should first and foremost start by defining what long-term savings is (its duration, its objectives and the related products, in particular pension savings plans).

The goal is to explain in simple terms the connections between equities and long-term savings, and to inform clients about the financial markets. It will be crucial to focus on the investor's individual interests. This approach must be practical even if it is underpinned by economic concepts.

Instruction must focus on why equity savings can/must be considered as long-term savings. Clients must be informed about the duration of such savings and that the earlier one gets started, the greater the advantage will be going forward. Risk must be recognised for what it really is: uncertainty about the future. To better control risk, equities provide a practical form of diversification, which helps limit this risk (see below).

3.1.2. Unravelling misconceptions about equity savings

Unravelling misconceptions is an ambitious endeavour because it is difficult to change deeply ingrained ideas. Certain biases focus on the "why" while others on the "how".

The main psychological barrier focuses on the random nature of equity savings and the real risk (which should be seen in relative terms) of not recouping the original investment.

The other barriers, for those who would even consider taking such a "risk", are the minimum amount to be invested in order to access equities savings, the availability of the amounts invested and accessibility for those who have neither the requisite knowledge nor the time for such an endeavour. They refer to access conditions, which are assumed to be restrictive and limited.

The goal is to breakdown these barriers as reported by Kantar TNS, and to take the time to discuss them individually. None of these preconceptions is totally unfounded. Each of them may, however, constitute a lever, if recognised and qualified properly.

Below, the reader should not disassociate the arguments put forward from the nuances added.

Barrier n° 1: equity savings are only for those with considerable savings

Lever n° 1: long-term equity savings is in practice accessible.

It is possible to put money away regularly in very small amounts in diversified equity funds, which is a virtuous practice. When this capacity to save does not upset the budget, it is usually "painless" and the long-term snowball effect of regular payments plays a significant role in amassing capital.

Nuance: as equity savings constitutes a long-term project, it is more advantageous to start building a portfolio as early as possible. However, this decision must take into account the investor's personal financial situation and the attitude towards risk and must be weighed against the need to build up precautionary savings first and thereafter to finance short- or medium-term projects.

Barrier n° 2: equity savings is locked-in

Lever n° 2: savings invested in equities is not locked-in.

Although intended to remain invested over a long period, equity savings can be recovered at any time at its current value. The investor can build up, accumulate and "decumulate" depending on their priorities. Similarly, investments in collective investment equity schemes are also entirely liquid.

Nuance: the savings invested in equities should be considered a precautionary investment available at any time. In fact, the need to sell for one reason or another could force the investor to divest while the value of his portfolio hits a trough. The paradox is that savers must act as if this saving is locked-in over the long-term while being reassured of its availability in the event of hardship or if the saver's priorities change.

Barrier n° 3: equities are only for savvy investors

Lever n° 3 : long-term equity savings does not require being a financial markets or companies expert

Diversified, professionally managed collective investment schemes (funds and SICAVs) offer "turnkey" solutions for savers who have neither the time nor the knowledge to make investments for themselves in the financial markets. They merely need professional advice, to make an appropriate investment that suits them, in particular with regard to its risk level. Information on the management strategy and the performance of collective investments can be easily obtained.

Nuance : this element of "convenience" must not lead investors to become overly passive. They must understand the investment strategy of their investment and regularly question its performance and its relevance with regard to their objective and its capacity to withstand market fluctuations.

Investors who wish to manage their investments in funds and SICAVs themselves need to be more involved in their own choices (what diversification strategy to implement; which funds to choose?).

Barrier no. 4: equities are not profitable, and a highly risky investment too

Lever no. 4: over 20 years, savings invested in equities is profitable and not very risky.

Savers clearly express doubt about the potential returns of equity investments.

The most recent stock market and financial crises and great uncertainty about economic growth have been causing significant distrust, exacerbated by pessimism concerning the future returns of equities. Savers are risk-averse, overestimating the high risks of loss, and do not believe in the superiority of long-term equity investments.

However, one is often led to the same conclusion about the performance of years past for financial assets: historically, equity investments in the main stock markets have yielded positive actual returns over time.

Over a long period of time (20 years and more), the frequency of stock losses has been historically low and equity investments have offered, along with real estate in Paris, good protection for savings purchasing power, greater than fixed rate bonds and money market investments²⁵.

Nuance: studies on past performance focus on investments that drive the development of the stock market indices, assuming that all dividends are systematically reinvested, which is not always easy to put into practice. The observation of the past gives indications about investment risk, but should not be a prediction for their future performance. The risk entailed in equity investing cannot be totally ruled out, even over a very long period. What is more, the returns reported in historical studies never take into account fees and taxes.

To counter the misconceptions of many savers (equities have been loss-making investments for 15 or 20 years, the stock market is not ready to return to the level reached in 2000), the AMF calculated the average past yield of regular investments in equities.

²⁵ Read « Les placements de l'épargne à long terme », J.F. de Laulanié, *Economica*, 2016. The author who studied the performance of various investments from 1857 to 2015 notes that for French equities the risk of loss of purchasing power is lower than that of bonds and money market investments after 5 years of holding, and becomes statistically "marginal after 15 years of holding".

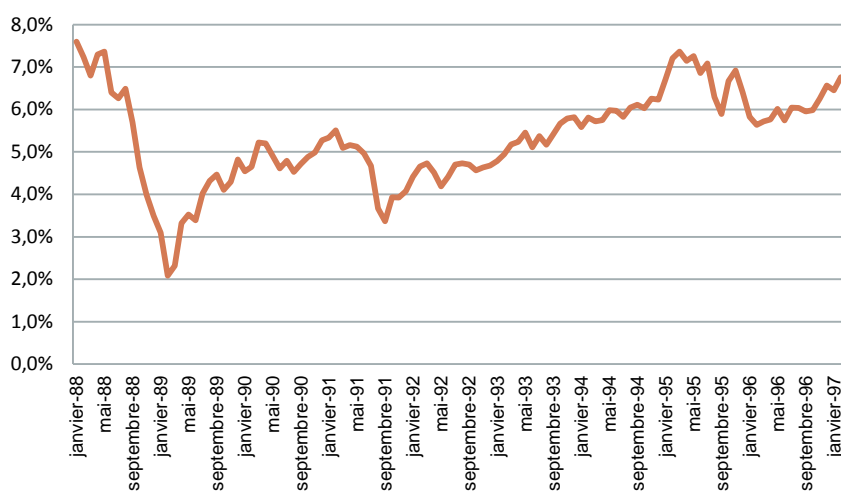
+5.3%, is the average annualised return on progressive diversified equity investments with 20-year maturity

The risk of investing in equities is reduced by the spread of investments over time, as well as by geographical diversification in different markets.

With hindsight, it is interesting to note what a regular diversified investment in international equities (French, English, German, American, and Japanese) would have earned over the 1988-2017 period²⁶. The duration of this investment was set at 20 years, which led to many observations (110 investments over 20 years initiated every month between 1988 and 1997).

These simulations show that the annualised nominal return on such a regular and diversified investment was 5.3% on average over this period.

ANNUALISED NOMINAL RETURNS FOR PROGRESSIVE DIVERSIFIED INVESTMENTS IN EQUITIES OVER A 20-YEAR PERIOD



SOURCE : AMF

Note to the reader: 110 regular 20-year investments have been considered, the first of which started in January 1988 and the last started in February 1997. Consequently, an investment initiated in February 1997 resulted in an annualised return of 6.8% (excluding fees and taxes) after 20 years.

Bearing in mind the two stock market and financial crises, over the past 29 years it is remarkable to note that, on average, 20-year equity investments have always posted a positive nominal return.

The annual returns of each of these 110 investments were between 2% (investments initiated in 1989) and 7% per year (investments initiated in the beginning of 1988 and in 1995). All investments initiated after 1993 had annual returns greater than 5% (before fees and taxes).

Please note: these results should be put in perspective because they focus on a relatively short observation period (1988 to early 2017) compared to the duration of the simulated investments (20 years). This leads to a certain over-representation of the 1997-2008 period. The simulated investments are passive: investments are allocated to the various indexes in constant proportions and no rebalancing was done. Exchange rate fluctuations are not offset. It is not easy in practice to replicate such an investment: even if index funds are available, they cannot seamlessly reproduce the evolution of the reinvested dividend stock indexes. The taxation for the different components varies.

²⁶ The monthly payments are constant, as is the breakdown of the investments in different markets, represented by their main stock indexes into which dividends are reinvested: CAC 40 (24%), FTSE 100 (14%), Dax 30 (14%), S&P 500 (34%), Topix (14%).

Planned investments curb fluctuations of the value of an investment

The historical performances vary depending on the date of the start of the investment in equity markets. If over 20 years and more, the return dispersion is lower, it still remains relatively high. It should be borne in mind that a difference, even a low yield, is reflected over time by significant amount differences in euros.

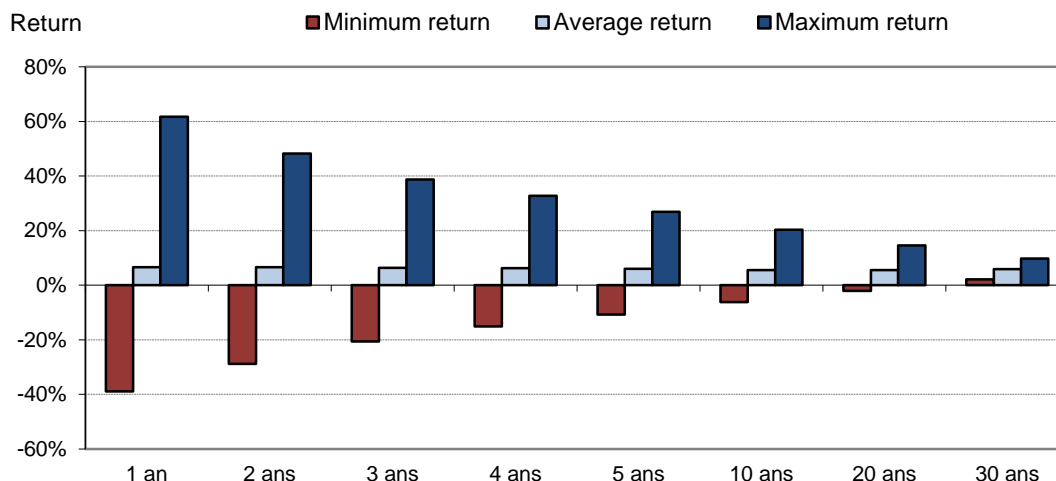
Planned investment turns out to be an effective method to curb the risk of starting a diversified equity investment “at a bad time”. Regular investments smooth out the fluctuation curve of equity investments, thereby contribute to lowering the reported return dispersion²⁷.

Time lowers risk but does not dispel it completely

It is a generally accepted notion that the return spread is relatively low over the long-term.

The following graph, published in a teaching infographic of the Institut d’éducation financière du public (IEFP), in partnership with the AMF, shows the narrowing of the range of actual annual returns (adjusted for inflation) for the Paris Bourse, from 1950 to 2015 when the investment period was extended.

ACTUAL RETURNS FOR FRENCH EQUITIES (CAC ALL-TRADABLE), FROM 1950 TO 2015²⁸



SOURCES : GLOBAL FINANCIAL DATA, CALCULS HARVEST, 2016

Since 1950, the investment period was long and less often French equity investments lost money. For example, over 3 years, actual returns (after deducting inflation) ranged from -20% to +39% per year and, over 20 years, between -2% and +15% per year.

However, it should be noted that over a 20-year period, the value of French equities might have declined by 2% per year, resulting in a one-third capital decrease. It is only over a 25-year observation period or more that the actual returns recorded for French equities have always been positive.

²⁷ For further information about the simulations made by the (Association française de la gestion financière or the French Association of Financial Management) in its White Paper on retirement savings; Annex 3, December 2016.

²⁸ Outside observations were withdrawn (1% of higher values and 1% of lower values; 98% of the values obtained were kept).

Based on past observation, reports of equity investment performance provide some guidance on the length of the investment required to significantly curb equity investment risk. But the past is not an indicator of the future performance of the financial markets and this finding does not make it possible to conclude that the risk of investing in equities, even over a very long period, can be ruled out completely.

It is difficult to provide investors with comprehensive information that is not misleading about the past performance of equities. It is a perilous exercise to say that equities offer solid long-term returns without downplaying the risk involved.

To be credible and useful, financial instruction must be sound and circumspect:

- In an expanding economic environment and a relatively stable financial one, the value of a diversified equity investment fluctuates, but most often and over time (20 years or more) ends up yielding higher returns than other investments,
- Even over time, the risk of loss is never inexistent. Therefore, to minimise this risk, we suggest taking the following precautions:
 - do not invest all long-term savings in equities,
 - diversify the portion invested in international equities,
 - make regular investments to reduce the risk of making an investment just before the market bottoms out.

3.2. CONVINCING, INVOLVING AND MOTIVATING SAVERS TO CHANGE THEIR ATTITUDE

The idea that investors can be convinced of the aim in diversifying their long-term assets in equities based on objective, rational, and highly balanced information is probably quite illusory. This theoretical information may be viewed as suspicious, even manipulative, as it goes against well-established misconceptions.

To get over this stumbling block, the different solutions offered must be discussed using practical terms and moreover investors need to be reassured via testimonials.

3.2.1. Emphasising the appropriateness of equity investments

The principle of a comparison of average returns between different savings products appears to be a convincing tool that might have a significant impact. This requires that the performance arguments advanced be sound (in particular the observation period must be long enough).

It is necessary to reassure savers about the volatility of equities and to explain that performance should be interpreted over the long-term.

It is also enlightening to show the long-term benefit of additional yield over 20 or 30 years. To do this, it would be useful for savers to have access to long-term savings simulators, which would make it possible for them to compare the impact of different returns (e.g., the capital difference acquired in euros at the end of the savings phase).

Future performance simulators

Investors can find many calculators online to run simulations of savings based on a chosen duration or the amounts invested. But most of these tools do not offer any assistance in a “real-life situation”. The user can indicate the rate of return of their choice, at no time are they guided based on investment solutions. These tools are not related to the reality of possible and reasonable returns depending on different investments and risk levels.

Recently, new websites (investment service providers, financial investment advisers, management companies, among others) offer simulations of diversified investments in equities and bonds. These performance simulators show all the possible results within a certain range of probabilities, based on yield and risk assumptions²⁹.

These simulators have an undeniable interest in terms of educating savers about risk. The saver, who must be well-informed about the limitations of such simulations (the assumptions used are "opinions" and are not indicators of future performance), can thus visually understand the effect of diversification and the extension of the investment period with in relation to the risk they are assuming.

In order to be useful, these simulators must unquestionably be for educational purposes only.

3.2.2. Fostering the ability of savers to feel involved

Long-term savings is for many a reality far removed from their daily life, habits, and ways of thinking. It is therefore essential to be able to remove these barriers based on a message on accessibility.

It seems essential to allow savers to realise this for themselves; in other words, recognise their situation and their need for savings. Testimonials of other initially leery long-term savers, discussing their investments and recounting their successes as well as their fears and failures, will go a long way to establishing credibility and reassuring newcomers about long-term equity investments.

Distinguishing the individual shareholder from the long-term saver

The recommendation to diversify equity holdings is intended for a saver who has already built up precautionary saving and has a long-term investment horizon (retirement). This saver is looking for the "snowball" effect of accumulated savings gradually and expecting a higher return than those of risk-free investments. With little time and knowledge, they will regularly save through legal and tax solutions giving them access to highly diversified collective investments.

Discussions about the benefits about this diversification over the long-term is aimed less at the direct equity investor who in principle has the time, knowledge and appetite to build and manage a securities portfolio. This saver's horizon is shorter and their character is that of a speculator who is looking for good performance per security within a relatively short time frame (a few years at most). This saver has capital to invest along with other investments and does not follow a planned investment strategy.

3.2.3. Emphasising the ethical dimension of equities

For many, equities are not associated with the real economic life of companies and employment. Some believe that stock markets have a negative impact on the world.

However, the possibility of financially supporting companies via this investment constitutes an ethical argument that may involve the investor in managing their investment and thus give them the feeling of having control over it. Greater emphasis on this argument would allow more transparency in the stock market world and make the practice of long-term savings more meaningful. It offers great appeal for raising awareness and for whetting an “appetite for long-term savings.

²⁹ The AMF published a [recommendation](#) on the performance simulations offered to investors. It identified a few overly optimistic assumptions and the risks of misleading information about the random nature of the simulations [rUN](#).

3.2.4. Encouraging companies to participate in employee savings schemes

Relatively well invested employee savings schemes in equities could be a powerful vehicle for long-term savings.

Collective retirement savings plan (PERCO), alongside company savings plans (PEE), the funds of which are available after 5 years, are a suitable vehicle for long-term equity savings investments.

But the dissemination and assets of this savings (PERCO assets under management amounted to €14 billion in late 2016³⁰) remain limited, far off the mark of financial preparation for retirement. In addition, the funds invested are largely invested in money market funds, excluding employee shareholding funds invested in the employer's shares, which is inconsistent with the long-term aim of PERCOs.

Employee share ownership funds, which are a special investment category in employee savings schemes, help to spread a culture of equity investments.

A recent survey³¹ has confirmed that from the viewpoint of employee savers, the company is a key player in preparing the employee for retirement. 74% of those surveyed believe it is the company's role to offer a retirement plan; 70% also believe that it is a genuine advantage to work for a company offering a PERCO, and they believe it to be a particularly attractive offer if the company tops it up.

3.3. THE RETIREMENT PREPARATION LEVER

Interviews with savers confirmed that saving for retirement is an appropriate way to address long-term equity savings with the general public.

This concern is reflected in different ways:

- those less affluent, "the frail", feel vulnerable and worried;
- those who cannot project themselves into the future, the "carpe diem," segment think they are too young to be concerned about retirement;
- the "managers" have started to show their interest, but do not know which products to turn to and how to proceed.

It should be noted that there is a genuine lack of knowledge about the financial preparation for retirement and retirement products. On balance, the French state that they are insufficiently informed both about their financial resources and their retirement needs, and about available methods of savings to supplement financing their retirement.

3.3.1. Speaking in support of retirement savings solutions

Interviews with savers have shown that one must exercise caution when using the selling point about financially preparing for retirement. This may be because the link between retirement and long-term savings seems obvious to most savers, while the connection between retirement and equity products is less spontaneously obvious.

Clarifying the link between equities and retirement savings

Equity products are not normally considered a retirement solution. In many cases, savers who have started to financially prepare their retirement have done so through guaranteed savings products (life insurance) and/or through company savings plans.

It will be beneficial for savers to be informed upstream of such decisions to counter biases and to foster their better understanding of equity investments. Clarifying the link between equity savings and retirement should be done as a second step by explaining the benefits of equity savings.

³⁰ Press release by the Association française de la gestion financière (AFG or the French Association of Financial Management), March 2017

³¹ Audirep on behalf of Amundi, survey of 14,000 people with a space to manage their retirement product on the Amundi website, 2016

It will be especially important to explain the way savings are released at retirement (capital or annuity) and the principle of a lifetime annuity, which is little known and which the public mainly perceives as a disadvantage (dispossession of capital).

Encouraging savers by speaking in favour of and optimistically about retirement

Retirement is a sensitive, potentially anxiety-provoking issue that should be dealt with empathy, care and support. Interviews with savers have shown that it will be more effective to use an optimistic and reassuring tone ("solutions exist"), and to ask questions without being alarming (as future retirees are already preoccupied about this issue) and to encourage them to save without being discouraging (sums that are more affordable and better suited to your situation than you might think).

The difficulty lies in linking equity savings to the worrying issue of retirement. In a context of mistrust and suspicion of equity investments, it is necessary to present practical evidence, provide tangible proof, real-life cases and feedback to build trust so investors may see equity investments as a genuine possibility.

It is therefore essential not to arouse a sense of guilt and to be moralistic so on the contrary they feel encouraged and assisted. The tone must be informative. The financial and/or technical selling points should not be over-explained for fear of sounding like a sales pitch, which could fall on deaf ears.

To be even more reassuring it will be crucial to show that this type of savings is flexible: it can be set up painlessly ("based on what you want to spend"), and as a complement with other on-going investments without putting strain on the saver's budget. The savers surveyed appreciated the idea of having their savings increase when their incomes rise. Flexibility, the adaptability of savings and progressively building up savings (a painless saving effort) make retirement saving less burdensome and more easily achievable.

Precautionary and long-term savings

In the minds of savers, it is not obvious that different objectives should be assigned to each investment. Saving requires foresight and taking precautions. A real difficulty is to assign to long-term savings a single objective, e.g. retirement, while the needs of savers can be vague and diverse (education for children, retirement, to avoid being dependent on loved ones, among others). To overcome this hurdle, it would be counter-productive to refer to retirement savings as an end unto itself, with no turning back. Retirement savings are not always locked-in, and for using the capital amassed, all options are on the table because priorities can change over time. Long-term savings should be promoted as a flexible solution for the future.

Targeting different profiles

The message must be differentiated based on the situations of the people in question:

- those less well-off need to be reassured about how to set up a retirement savings plan that is consistent with their financial resources; however, these categories cannot constitute a target for equity savings;
- the "carpe diem" category must be convinced that it is in their interest to start preparing for their retirement early;
- the "managers" (and to a lesser extent the "players") need tools and instruction to implement this savings over a long horizon.

Taking into account saver inertia

Faced with too many choices, individuals become lazy, because they have a structural preference for the status quo and an aversion to choice.

There is some evidence³² that the rate of participation in a retirement savings plan increases significantly when the decision to set up a plan is the default option.

An experiment conducted in Sweden in 2000 has also shown that with regard to the compulsory choice of the management method for retirement savings, offering a default option helps guide the selection of a passive consumer.

³² Studies cited in the report of the Economic Analysis Board "Saving long-term and controlling financial risks", Garnier and Thesmar, May 2009.

3.3.2. Better to show the benefits of diversifying equities

Emphasise the saver's potential profitability

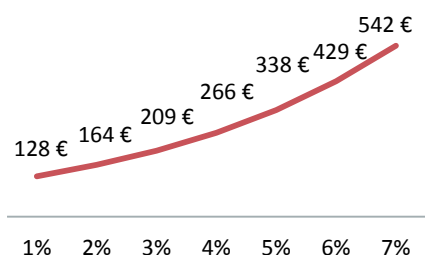
When asked what they would do with €1,000 when they were shown returns on equities and liquid assets between 2005 and 2015, only 23% of respondents said they would invest entirely or almost entirely in equities or units of capital. Nearly 50% said they would invest partially or entirely in liquid assets³³.

Behavioural economics explains that individuals only make bets if the potential gains are quite significantly higher than the amount of the initial bet. The possibility of loss, even minimal, is overestimated.

The promise of return on equity savings is insufficient. The combination of a long horizon and a higher yield is not grasped by savers, who are for the most part uncomfortable with the figures. The benefit of diversification into equities, though not guaranteed, is, however, visible when the investment horizon is very long (the active life).

The graph below shows that over a 25-year period a payment of €100 per month paid at 1% per annum (a risk-free investment) makes it possible to obtain an additional income of €128 per month for 25 years. With a return of 4% per annum (a diversified investment in equities), the additional income will be €266 (more than twice as high).

AMOUNTS IN EUROS OF THE SUPPLEMENTARY INCOME OVER 25 YEARS, FOR AN INVESTMENT OF €100 PER MONTH OVER 25 YEARS, BASED ON THE RETURN ON SAVINGS³⁴



SOURCE : CALCULS AMF

The careful saver's shortfall

A saver investing their retirement savings without taking risks could benefit from an actual return of 1% per year in accordance with current payment conditions, an assumption that might be considered optimistic, since maintaining purchasing power cannot be guaranteed. After 25 years, the saver's capital would be increased by 28%.

A diversified equity investor could benefit, though without any certainty, from a 4% return and a pay-out capital increase of 167%.

Stressing the price paid for not diversifying in equities

The loss of wealth of retirees and future French retirees, due to reluctance to invest in equities, is underestimated. Is the observation made in a report of the Economic Analysis Council in 2009³⁵ still relevant? "French households have not grown wealthier than US households during the period 1995-2008, despite much greater financial savings." The reason is that the smallest portion of their investment holdings is in equities. If by not diversifying causes a "shortfall", on an individual level, it is also synonymous with an additional risk.

³³ Global Investor Pulse, BlackRock, 1,000 French people aged 25 to 74 interviewed in 2016.

³⁴ The assumption made in this case is that capital amassed for retirement will be completely exhausted in 25 years.

³⁵ Conseil d'Analyse Économique, Epargner à long terme et maîtriser les risques financiers. Réflexions sur l'épargne financière des ménages français, Olivier Garnier et David Thesmar, mai 2009

The real estate market risk

Housing and land investments represent two thirds of French assets. Prices are considered high, thus exposing the French to a risk should there be a downturn in the real estate market. Some collective investments in rental real estate (SCPI, OPCI), which attract an ever-greater number of savers, could decline in value if the rental market drops. Investors with the most real estate holdings could reduce this risk by not concentrating all their retirement savings in real estate, but by diversifying their investments in the equity markets.

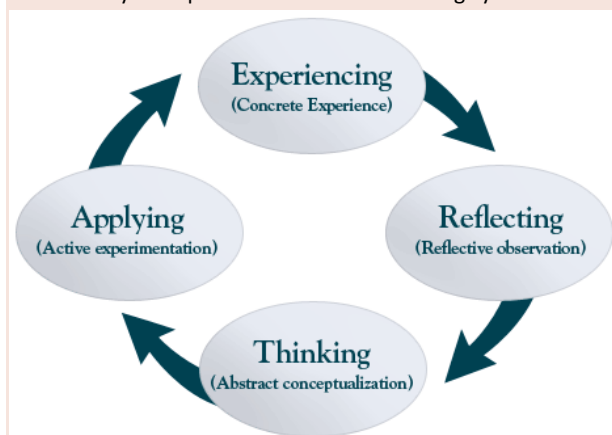
The risk of losing retirement savings purchasing power

Liquid and guaranteed savings are not risk-free because they cannot guarantee that the purchasing power of savings will be maintained for inflation is hard to forecast over the long-term. Observations over the past 150 years show that equity investments have been the best suited financial asset to maintain the purchasing power for long-term invested savings³⁶. They show that in France the frequency of negative actual returns was 10% lower over a 25-year investment period (almost 50% for bond investments). In the United States, which has not experienced any high inflation periods, the negative actual return frequency is zero for equities over periods of 20 years and longer.

Changing behaviours by experimenting with investing

Information and instruction are far enough to change attitudes and strongly held opinions. Instruction on equity investment remains theoretical and abstract. Experimenting in real-life situations sometimes leads to failure, but is essential for achieving genuine mastery.

Kolb and Fry³⁷ represented the adult learning cycle in the following diagram :



This is an experiential learning cycle. The learner must go through four stages for the learning to become effective.

What new areas of experimentation or experience should be offered to the French investor? Savers have expressed a need for guidance. Should we create "retirement savings clubs", like investment clubs for individual shareholders, i.e. centres where information and experience can be shared? What new catch phrases should be created? Which partners should get involved?

If informing them is insufficient to change behaviour, the use of a retirement savings simulator can help them understand more concretely the positive effect of equity diversification on returns and risk.

³⁶ Equities on average maintained a positive actual return over investment periods of 20 years and more, contrary to money market and bond investments. Les placements de l'épargne de long terme, J.-F. de Laulanié, Economica, 2016

³⁷ Kolb & Fry 1975 "Toward an applied of experiential learning"

3.3.3. Improving retirement savings simulation tools

Many French people are worried about the income they will have during their retirement. But only a quarter of them say they know how much to save to earn the desired amount of income during their retirement²⁶.

When asked about this, they anticipate a lack of financial resources in retirement, about 20% of their most recent income³⁸.

More than half do not feel sufficiently informed and do not have a clear vision of the market and retirement savings products³⁹.

The proportion of people who have run a retirement simulation is low: 82% of those with an employee savings plan say they have never run a simulation²⁶.

The stakes are high because running a simulation seems instrumental in starting to raise awareness.

The online simulators provided by financial institutions promoting retirement savings solutions also seek to raise awareness by giving a realistic idea of the decline in income at retirement (a replacement rate that can fall for high-earning executives at 50% of their most recent pay). They propose running a quick simulation of a saving plan to reduce this discrepancy.

Retirement savings simulators: between raising awareness and discouraging savers

In interviews with savers a simulator was tested, which helped better understand the difficulties encountered by those using retirement savings simulators.

Savers are initially surprised at a calculated pension amount that appears higher than first projected. But once the replacement rate is revealed, reactions become tempered and individuals begin to understand that losing income is foreseeable.

The announcement of the amount of monthly savings required to reduce the drop in income most often causes some panic, particularly with the vulnerable categories and the "carpe diem" profiles: the awareness of having to save money seems to them to be a sacrifice incompatible with the current circumstances of their lives.

With "managers" or "players", the amount to be saved appears to be too high because it does not take into account all savings and/or real estate investment already made.

Therefore, the use of retirement simulators does seem to raise awareness in savers, but also seems to cause them significant discouragement. It can even alarm some people who are already concerned about this issue.

Enhancing the impact of retirement simulators

In terms of an educational approach, the final presentation of the replacement rate and loss of income (in euros) at retirement seems harsh, even discouraging. To improve the incentive for saving, it is advisable to change the presentation method.

In particular, it might be possible to make the amounts involved more accessible (less discouraging) and better suited to the situation and the capacity of savers.

Mitigating the required saving effort

The requisite savings needed to maintain income at retirement is based on a target of 100% replacement of the saver's last income prior to retirement.

To calculate the replacement rate, it is advisable to take into account the real income of the saver by deducting this savings from their most recent salary. Regular savings would be considered to be unavailable forced savings, the replacement rate being calculated based on the net income of that effort.

At the end of the savings phase, purchasing power is lower and the replacement rate is higher.

³⁸ Harris Interactive on behalf of Deloitte, Les Français et la préparation de la retraite, 2016. The French estimate that they need 76% of their most recent income for retirement income while the estimated replacement rate is around 55%.

³⁹ Les Français et la préparation de la retraite, Deloitte, 2016

In addition, the goal to be achieved by default should not be to maintain a 100% replacement rate of the saver's last income. Various surveys suggest ⁴⁰ that a majority of the French do not aim to maintain their purchasing power and that 75% of it may suffice for a majority of them, especially those who own their homes.

For example, assuming a 45 year-old with an income of €2,500 per month (3,200 estimated at the end of his career) ends up with a €2,200 pension (replacement rate before 68% savings), if the goal of maintaining 100% income is entered in a simulator, it will show that a saver must bank more than €1,000 per month. If a replacement rate target of 75% is entered, the saving effort required would be less than €300 per month.

Stating the saving effort as a percentage of income

So that the simulator is more consistent with reality, it would be useful to state the savings effort as a proportion of income (5% for example), not in euros. The amount invested would gradually increase with the salary, also implicitly limiting the effect of inflation on purchasing power at retirement.

Encouraging diversification in equities through simulations

Retirement savings simulators, which are easy to use, provide little information about returns, risk or available products.

It might be possible to create a simulator for exclusively educational purposes.

Making a simulator more educational, in particular by providing educational information on the potential return of equity investments would inform the user of the relevance of their simulations.

It could therefore be used to select from several portfolios that are more or less invested in equities. This part of the simulator could be based on presenting the returns of simulated portfolios more or less diversified have procured historically (e.g. over 20 years), based on a very long observation period, for instance since 1950. The possibility of selecting from several investment guidelines would make it possible to show more concretely the benefit of an additional return on the savings effort required.

This instruction should be accompanied by indicators on the possible risk level of investments and explanations about the risks incurred depending on the investment horizon, notably by estimating the probability of "high" losses. Such a simulator could also take inflation into account on the purchasing power of accumulated savings, so as to protect savers from the effects of inflation over the long-term.

With the use of figures, the goal is to restore investor confidence in long-term global stock market growth, which translates into higher average long-term equity investment returns.

⁴⁰ This is notably the case in the Amundi study entitled, "Retirement, Are You Ready?" for individuals with a retirement savings product, September 2016.

CONCLUSION

French savers continue to shun equity investments. The many reasons for this are: a structurally low risk tolerance, the low level of saver financial literacy, general inability to get the information they need, pessimism, among others.

Psychological barriers are high: too many misconceptions about long-term equity investments are deeply ingrained and difficult to change.

The issue is crucial because it concerns the financing of companies and above all it concerns the ability of the French to cope with the decline in their incomes at retirement, whether in the form of supplemental income or capital that can be used in the event of unexpected events.

The AMF wishes to help investors gain confidence and become more independent when making investment decisions. It is concerned about the **relevance of allocating the savings of French savers'** in view of the challenges they will have to face, particularly at retirement. For this long-term investment, consistency between the investment horizon and the appropriate markets is paramount and equity investments are the right diversification solution for very long-term horizons.

Education on risk is crucial: an investor will be more inclined to diversify their retirement savings in equities if convinced of the potential return and if they have a better understanding of the nature of the risk they are assuming. But this financial education alone about risk is far from adequate.

This is why offering practical solutions is equally important, be they from the different players in the financial market or from the public authorities.

With regard to solutions, financial theory and probability calculations are useful guides for defining offers that reconcile long-term security and potential returns. It is possible to design products that offer a certain probability of achieving a stated result in the form of income or capital.

The vast majority of savers with neither the time nor the skills to manage their own investments will rely on collective management professionals to do so. In practice, this is a solution that provides good diversification for their savings. After years of distrust for finance, savers need to meet people and know the names of professionals who will help restore their confidence. The saver also needs to understand their level of skill and why it makes sense to entrust their financial future to a financial professional rather than manage it themselves. Professional associations certainly have a role to play in facilitating this 2.0 version of equity savings.

As far as marketing is concerned, both the mindsets of financial advisers and clients must be changed, with the shift from a product-based to a more service-oriented approach.

A virtuous circle must be created: advisers must not refrain from selling equity investments, for fear of the regulator, and clients must understand that the questions asked by their advisers are intended to take the client's interests into consideration. This is the logic underpinning the reforms of European directives.

In addition, the European Commission started discussions about a pan-European pension product for which it is expected to make a proposal in the near future, as a means of positioning itself positively for the betterment of the lives of our fellow European citizens, and the AMF is following this work closely.

As we have noted, a thorough learning approach is needed to develop long-term investor reflexes, to lead them to diversify their investments, as well as adjust their asset allocation to long investment horizons without having knee-jerk reactions to pull out their long-term equity investments too quickly. Careful preparation for their financial future is what is at stake.

The AMF will contribute to this effort as part of its national financial education strategy, which is consistent with its overall mission to protect savings.

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