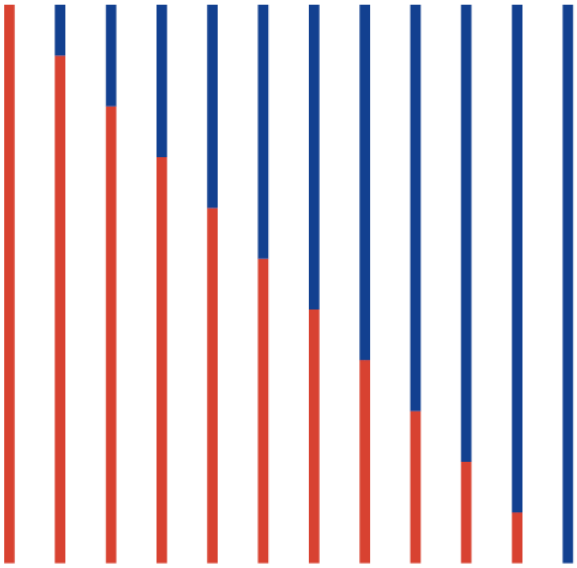

DECEMBER 2021

STIMULATING THE DIVERSIFICATION OF LONG-TERM SAVINGS IN EQUITIES

amf-france.org

AUTORITÉ
DES MARCHÉS FINANCIERS

End of writing on November 30, 2021

Written by Olivier EON (AMF Household Savings Observatory)

AUTORITÉ DES MARCHÉS FINANCIERS
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SUMMARY

Savings in France are at a turning point. To prepare their financial future, the French should develop their long-term and very-long-term savings and diversify it in financial markets.
But their perceptions and attitudes, which are increasingly well explained by behavioural finance, show that this stimulation of long-term savings, both quantitative and qualitative, requires an improvement in their financial skills and an exposure which requires appropriate advice.
Advisers have an essential role to play in the development of long-term savings.

This report notes the under-diversification of French savings. Based on the findings of the AMF Savings and Investment Barometer and the findings of behavioural finance, it reaffirms the importance not only of financial education, but also of the supporting role of professionals.

The appearance of new stock market investment offers (the "neo-brokers") and new investors at the same time as the health crisis, and of promotion techniques based on social media, heighten the need to raise the level of financial literacy and enhance the role of the professionals.

The pedagogy presented in this document is timeless. Financial markets have experienced and will continue to experience strong fluctuations, but the message is constant: there is no right or wrong time to diversify your savings in the financial markets when you have a long horizon and make a regular investment with patience and perseverance. This diversification increases its chances of achieving its financial goals.

INTRODUCTION

2020 and 2021 will have been two very atypical years. The health crisis impacted the economy and financial markets, first with a dramatic fall in stock market indices, followed by a rebound, strong growth in household savings, held mostly in the form of cash,[1] and stock market indices at new highs.

Despite great uncertainty concerning the economy, these two years were marked by a certain revival of interest in equity investment, in particular with numerous young people entering the stock market. These young people are more active and therefore have new types of behaviour, going hand-in-hand with the advent of new market intermediaries proposing smoother, more pleasant interfaces than those of the traditional intermediaries.

These new developments should not make us forget that household savings, massively invested in risk-free, liquid form, is at a turning point: the generous returns on guaranteed savings, to which the French had been accustomed for the past 30 years, have vanished permanently and their returns can no longer even protect the purchasing power of their savings.

Faced with this new factor, savers have to choose between objectives that have become incompatible: liquidity, security and returns. To achieve their long-term savings objectives, they must consider diversifying their savings with non-guaranteed assets, invested in financial markets.

There are many risks for savers: for many of them, given their situation and their needs, there is the risk of making inappropriate investments with serious consequences for their financial future. There is also the over-confidence that can be observed in new investors not guided by a long-term investment approach. Finally, there is the risk of the status quo for the savers most hesitant concerning any diversification, and who thereby do not do what is needed to achieve their long-term objectives.

In these exceptional circumstances, and at a time when the European Commission is launching an overhaul of its strategy for retail investors, with the objective, in particular, of increasing their participation in capital markets, we considered it useful to publish a new version of our 2017 publication intended for professional investors ("stimulating long-term equity savings").[2]

Since then the AMF has enriched its Household Savings Observatory and now has enhanced tools for monitoring savers' behaviour, attitudes and motives: studies by the AMF Household Savings Observatory, Savings and Investment Barometer, charts of investors active in the stock market, mystery visits and consumer tests.

Based on this thorough knowledge of savers, the AMF reviews their current behaviour, and proposes education regarding the diversification of long-term savings in equities while respecting the regulations and savers' interests.

[1] According to the latest estimates by Banque de France, the surplus savings amounted to €157 billion at the end of the first half of 2021. Most of this surplus was placed in demand deposits and regulated bank savings accounts. "The impact of the Covid-19 crisis on the financial situation of businesses and households in July 2021", Banque de France, September 2021

[2] "Stimulating long-term equity investment", July 2017

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1. THE SAVINGS BEHAVIOUR OF THE FRENCH

On average, each year the French invest 5% of their income in the main investments available (exceptionally, this financial savings rate was more than 12% in 2020).[3]
Around 85% of them save each year,[4] 49% of them occasionally and 35% regularly.

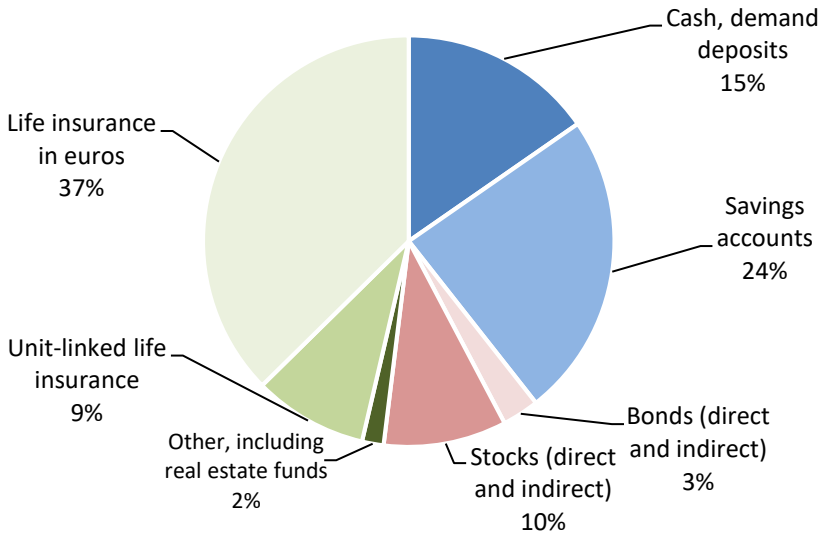
1.1. BREAKDOWN OF INVESTMENTS BY THE FRENCH

The main wealth of the French consists of real estate (61%). Financial assets (20%) break down between bank savings, life insurance and transferable securities.[5]

Household investments are mostly risk-free

At the end of 2020, life insurance (in euros and in fund units) accounted for about 46% of the amount of households' main financial investments[6], excluding unlisted equities and other equity stakes.[7] Cash and bank savings[8] accounted for a total 39%. In all, guaranteed savings (bank savings and life insurance policies in euros) accounted for about 77% of the amount of French households' financial investments, excluding unlisted equities and other equity stakes.
Transferable securities (shares, collective investments) accounted for 15% (excluding unlisted equities), of which 10% for listed equities held directly. This proportion was 24% taking into account life insurance fund units. In life insurance, the fund-unit proportion represented about 20% of the assets.

OUTSTANDING FINANCIAL INVESTMENTS OF THE FRENCH AT END-2020



SOURCE: BANQUE DE FRANCE, THE MAIN FINANCIAL INVESTMENTS OF HOUSEHOLDS, MAY 2021, AMF CALCULATIONS.

In life insurance, fund-unit holdings are increasing

Life insurance invested in fund units is expanding constantly. The current value of fund units increased from €211 billion to €413 billion from 2010 to 2020 (source: Banque de France). In 2020, fund-unit inflows accounted for 34% of the total inflows to life insurance contracts, and the net inflow to fund units (€18 billion) was larger than the net inflow to euro funds (-€6 billion). In the last two years, fund units increased from 22% to 27% as a proportion of total assets under management.[9]

[3] Source: INSEE, national accounts - base 2014
[4] AMF Savings and Investment Barometer, November 2021
[5] The remainder consists of business assets and objects.
[6] Including individual entrepreneurs.
[7] Unlisted equities are largely held for business purposes by individual entrepreneurs and company managers.
[8] Passbook savings accounts, home-buyers' savings plans, time deposit accounts, etc.
[9] French Insurance Federation (FFA), October 2021

Financial assets held by older persons and the most financially affluent

At the start of 2018, the 10% of households with the largest financial assets held 68% of the total mass of households' financial assets.[10] Share ownership is even more concentrated, since 93% of the assets held in the form of shares in France were held by 10% of the population.

The amounts held also increase constantly with age. Those aged over 60 have an average financial wealth five times greater than those aged under 30.

Retirement savings are increasing but are not yet very substantial

According to INSEE, in 2018 13.5% of French households had a specific retirement investment (collective company contracts, PERP savings schemes,[11] etc.). In all, these schemes accounted for €240 billion in assets in 2019 (about 5.5% of the current value of French households' principal investments). In 2020, inflows into retirement savings plans (PER and PERP) and PERCO plans as part of employee savings schemes represented about €7 billion, out of a total household investment inflow of about €200 billion.

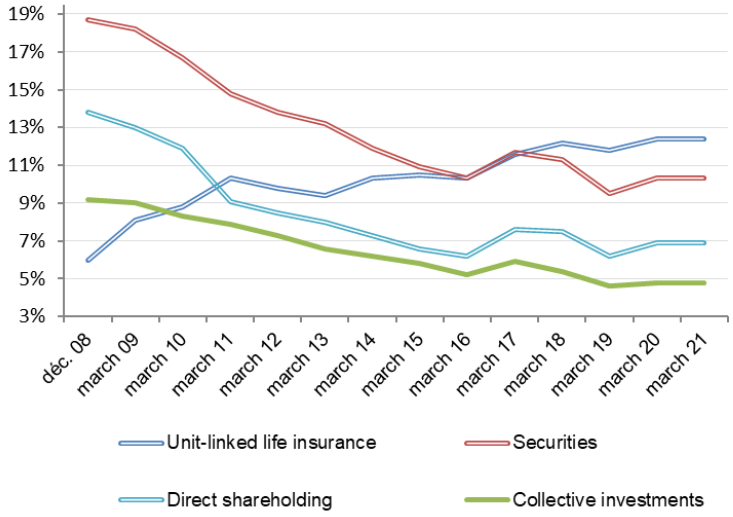
Ownership of transferable securities is still not very widespread.

The annual Kantar survey[12] gives in detail the changes in share ownership since 2008.

The rate of direct share ownership, which represented 13.8% in 2008, was estimated at 6.7% in March 2021. This rate reached its lowest level in 2016. Since then it has varied between 6.2% and 7.5%.

More generally, the ownership of transferable securities (shares, bonds, collective investments) fell from 18.7% of the French population aged over 15 in 2008 to 10% in March 2021.[13]

CHANGES IN RATES OF OWNERSHIP OF FINANCIAL INVESTMENTS FROM 2009 TO 2021



SOURCE: KANTAR, SOFIA 2021

[10] INSEE, Household Wealth Survey 2017-2018

[11] Plan d'Épargne Retraite Populaire (personal retirement savings scheme)

[12] Since 2008, this annual survey (SoFia) has polled a sample panel of more than 12,000 French people aged 15 and over regarding their ownership of financial products.

[13] The INSEE Wealth Survey also shows that the rate of French households' ownership of transferable securities (shares, bonds, collective investments) has declined by 8.6 percentage points since 2004.

Younger equity investors since 2020

Since 2020, a larger number of investors have been buying equities, and they are relatively young.[14] The median age of investors who carried out at least one buy transaction for equities, which was 58 years in 2018 and in 2019, was only 46 years in 2020.

And in 2020, 28% of new investors in equities were less than 35 years old, versus 12% the previous two years.[15] [16]

In all, in 2020 nearly 1.4 million retail investors placed at least one buy or sell order for equities. From the beginning of 2018 to the end of 2020, a total of 2.4 million retail investors placed at least one order for equities.[17]

THE SAVINGS BEHAVIOUR OF THE FRENCH, IN SHORT:

- SAVINGS IN FRANCE HAVE CHANGED LITTLE: THEY ARE MOSTLY INVESTED RISK-FREE AND RETIREMENT SAVINGS ARE NOT VERY SUBSTANTIAL.
- OWNERSHIP OF TRANSFERABLE SECURITIES IS STILL NOT VERY WIDESPREAD; HOWEVER,
- IN UNIT-LINKED LIFE INSURANCE POLICIES, THE PROPORTION OF INVESTMENTS IN FUND UNITS HAS INCREASED IN RECENT YEARS.
- IN THE PAST TWO YEARS, DIRECT SHARE OWNERSHIP HAS BEEN INCREASING AMONG YOUNGER PEOPLE.

[14] Under the European regulations on markets in financial instruments (MiFID II), since 1 January 2018 investment service providers (ISPs) must report all transactions carried out on financial instruments (equities, bonds, ETFs, certificates, warrants, options, stock market products, etc.) to the AMF, with the exception of transactions involving units in collective investment schemes ((FCPs, SICAVs, SCPIs, etc.).

[15] AMF Household Savings Observatory Newsletter No. 42, March 2021

[16] Moreover, the annual SoFia survey of the Kantar Institute, based on the statements of a sample of 12,000 French people aged 15 years and over, shows that among the holders of shares directly, the proportion of people aged less than 35 increased from 11% to 18% between 2019 and 2021; in parallel, the rate of direct share ownership in the under-35 age group increased from 2.3% to 4.4% over the same period. AMF Household Savings Observatory Newsletter No. 43, July 2021

[17] The Active Retail Investor Dashboard – No. 2, AMF, 2021

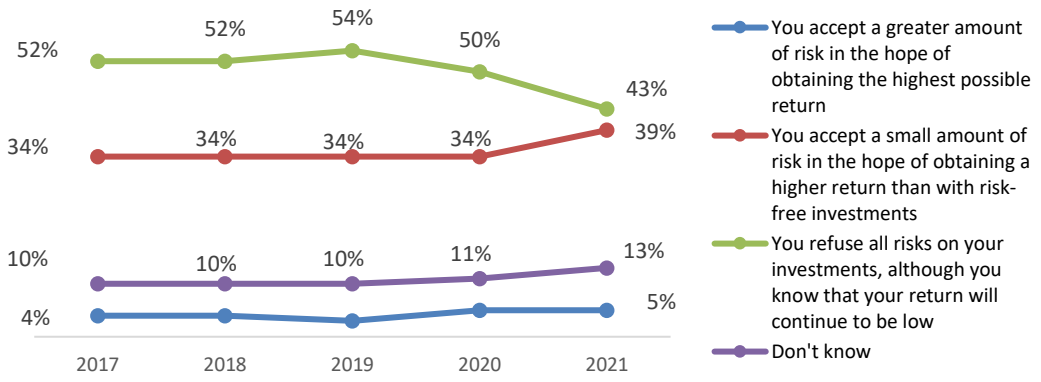
1.2. SAVERS' PREFERENCES AND PERCEPTIONS

As shown by the AMF Savings and Investment Barometer since its creation in 2017, the preferences of French savers, their choices and perceptions are stable.

Majority preference for low-risk investments

The low return on risk-free savings, for many years now, did not seem likely to change French people's preferences regarding their risk acceptance: half of them, a relatively stable proportion, refused any risk. In 2021, however, there was a shift to slightly more acceptance of risk.
Four out of 10 French people would accept a little risk. Only 5% of the people surveyed would be prepared to invest a relatively larger part of their savings in risky investments.

WITH RESPECT TO THE MANAGEMENT OF YOUR SAVINGS AND INVESTMENTS, WHICH OF THE PROFILES BELOW BEST DESCRIBES YOU?



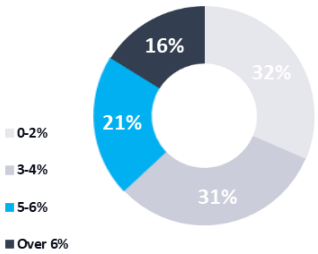
SOURCE: AMF SAVINGS AND INVESTMENT BAROMETER, NOVEMBER 2021

Older people in particular avoid taking risks: 51% of those over 55, versus 36% of those under 35. Around half of the latter are prepared to take a little risk with their investments.

A distorted perception of the return on risk-free savings

In many cases, there is a mismatch between the expected returns from guaranteed savings, no doubt explained by a long period of high returns, and what is realistic today in a low-interest-rate universe.

TODAY, AS FROM WHAT RATE OF RETURN WOULD YOU CONSIDER THE RETURN OF A RISK-FREE INVESTMENT SATISFACTORY?

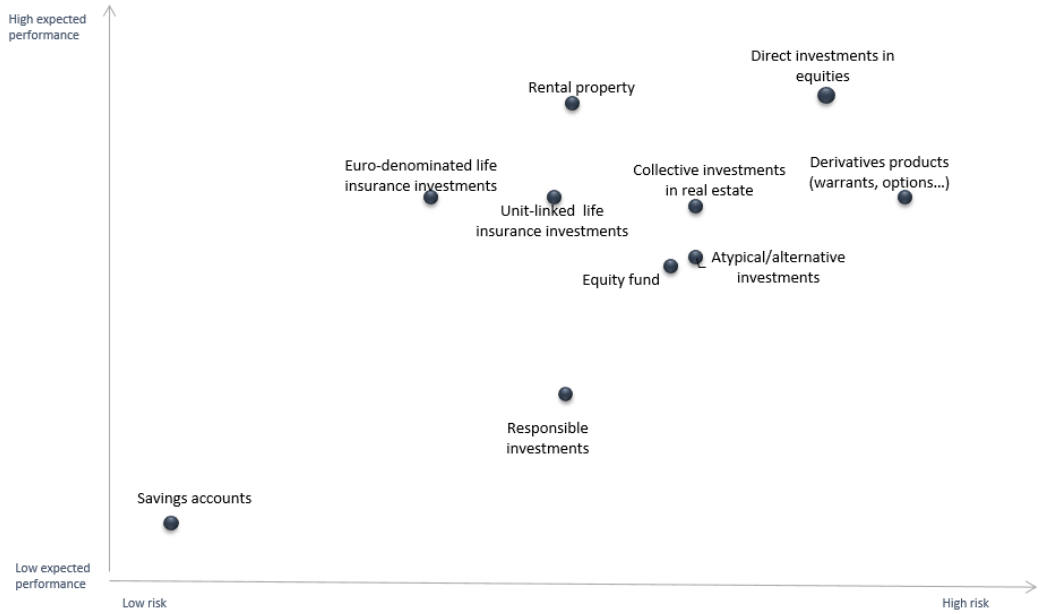


SOURCE: AMF SAVINGS AND INVESTMENT BAROMETER, NOVEMBER 2021

Moreover, 46% of those surveyed do not answer this question, which is a sign of some lack of certainty regarding risk-free savings.
One-third of the respondents are not satisfied by returns of less than 5% per year, and 6 out of 10 by returns of less than 3%.

To the French mind, the products for which the risk/expected performance ratio is best are life insurance policies in euros and rental property. These perceptions have been stable since 2017.

RATE THE VARIOUS PRODUCTS AND INVESTMENTS BELOW BASED ON YOUR ASSESSMENT OF THEIR PERFORMANCE AND RISK



SOURCE: AMF SAVINGS AND INVESTMENT BAROMETER, 2020

Despite the constant decline in returns for more than 10 years now, the respondents continue to attribute to life insurance in euros a relatively high expected return, equivalent to that of unit-linked life insurance and investment funds in general.

The expected returns on direct investments in individual shares are slightly higher for a far higher level of risk. Their level of risk is also considered scarcely lower than that of speculative stock market investments.[18]

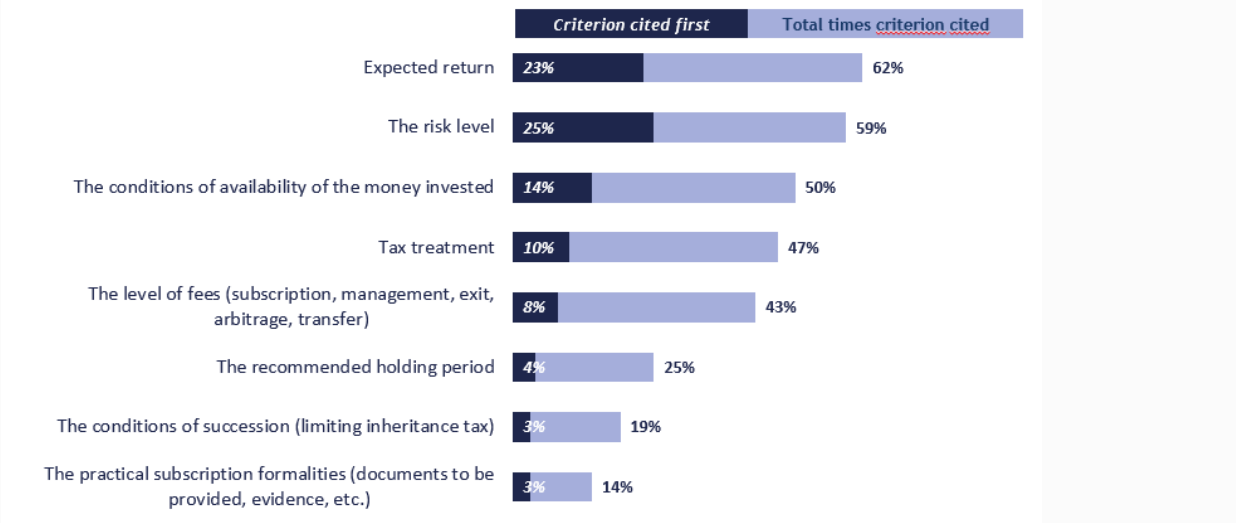
Note, too, a certain underestimation of the potential return on responsible investments, mostly invested in equities, which is no doubt a sign of ignorance of these products, or also the fact that many French people associate their responsible nature with a lower return.

[18] And yet, these short-term speculative investments are often loss-making: for contracts for difference (CFDs), for example, 70% to 80% of clients suffer financial losses.

Investment selection criteria: risk and return

The return and risk are the two most often cited criteria for selection of an investment (60% of those surveyed mention them as important). The availability of funds (50%), the tax treatment (47%) and fees (43%) are also considered important. The criterion of the recommended investment horizon is important for only one-quarter of savers.

WHAT ARE THE MAIN SELECTION CRITERIA FOR YOU WHEN SUBSCRIBING TO A SAVINGS PRODUCT OR AN INVESTMENT? ASSISTED – SELECTION OF AT LEAST 1 CRITERION



SOURCE: AMF SAVINGS AND INVESTMENT BAROMETER, NOVEMBER 2021

The accepted lock-up period for risky investments is short

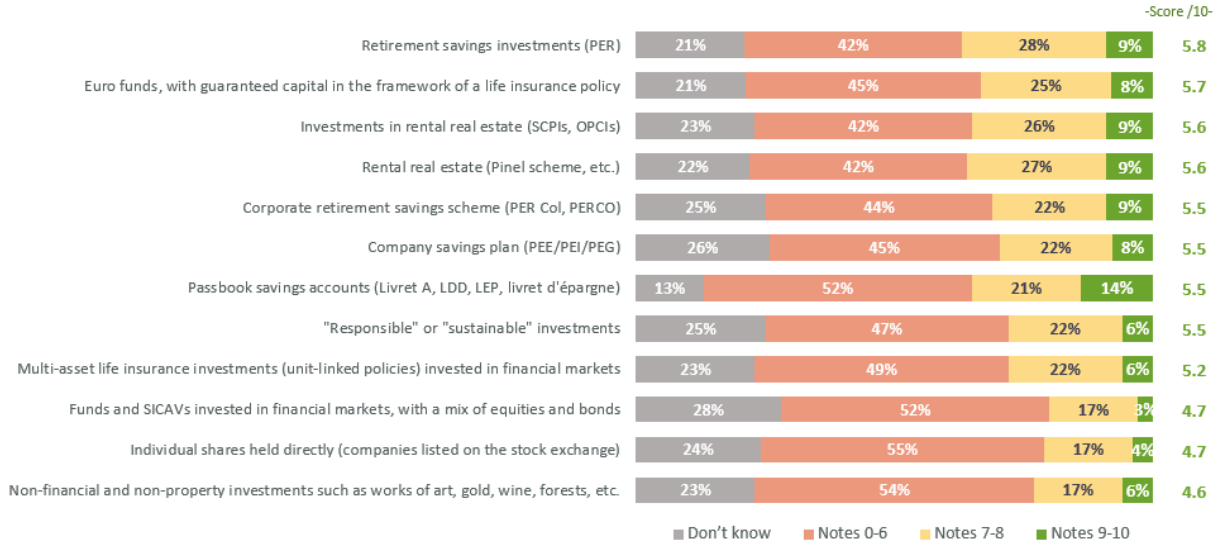
The savings lock-up period acceptable in return for risk taking is relatively limited (4.7 years on average): only 8% of those surveyed could consider a period longer than 10 years. However, this period considered acceptable is slightly longer for the under-35 age group (5.6 years) and for those whose financial assets exceed €30,000 (6.1 years). Among the holders of investments in individual shares, although the accepted period is even longer, at 6.6 years, only 14% of them would accept a period of 10 years or more.

Note that the proportion of those "averse" to locking in their investment (and to risk) is tending to decline: 23% versus 31% in 2018, which has increased the number of those who can accept less than three years of lock-up.

To prepare for retirement, real estate and life insurance are preferred to equity investments

When they are invited to give their opinion on the most appropriate investments for retirement savings, the French mention real estate and life insurance more often than stock market investments. However, the Plan d'Epargne Retraite (retirement savings plan: PER), created in 2019, now ranks first among the investments perceived as appropriate. Equity investments appear the least appropriate, not far from cash left on a current account.

DEPENDING ON YOUR OPINION OF THEM, INDICATE BY A SCORE FROM 0 TO 10 THE EXTENT TO WHICH YOU CONSIDER THAT EACH OF THE FOLLOWING INVESTMENTS IS CURRENTLY APPROPRIATE FOR LONG-TERM INVESTMENTS (15-20 YEARS, FOR RETIREMENT FOR EXAMPLE)



SOURCE: AMF SAVINGS AND INVESTMENT BAROMETER, NOVEMBER 2021

Trust and interest in equity investments are limited

Only one-quarter of French people say they trust "equity investments" in general. And hardly any more say they are interested in them (3 out of 10).
For half of those who do not trust equity investments, the main reason mentioned is the speculative aspect of the stock market.

Confidence in one's own financial situation is a factor determining trust in equities

People considering themselves confident in the outlook for their personal economic and financial situation represent between one-quarter and one-third of the French population.
These people stay more informed, feel more at ease with regard to investments, more often have a positive view of equity investments and more often accept risk taking: 55% are prepared to take risks, at least a little risk, versus 37% of the "worried". 40% of them reply that they are interested in equity investments (versus 21% of the "worried") and 36% say that they trust such investments (15%).

Opinions regarding the image of equity investments have changed little

For a majority of French people, equity investments are reserved for people who know enough about them (7 out of 10 respondents agree with this assertion), they are too risky (6 out of 10), you have to devote a lot of time to them (6 out of 10), and in the stock market, "small investors are often conned" (6 out of 10).

A certain ignorance of the return on equities

Only one out of two French people consider that equity investments have been profitable, if only slightly, in the last five years. Only 7% consider that they were "very profitable". Many of the French (3 out of 10), feeling remote from this subject, do not answer such a question. For those people who think that equity investments were profitable, the rate of return was around 4.6% per year on average.
However, half of the French consider that equities could represent an investment making it possible to diversify and develop their long-term savings. These are most frequently people aged under 35 (two-thirds of them).

Young people are more interested
In October 2021, 29% of the respondents said they were interested in equity investments (30% in October 2020). The figure was 36% for the 18-24 age group and also 46% for those who have at least €50,000 in financial assets. And 35% of the respondents said they could consider investing in equities sooner or later. This was the case for 49% of the under-35 age group.

FRENCH SAVINGS AND INVESTMENT PREFERENCES, IN SHORT:

- MOST OF THE FRENCH REFUSE TO TAKE A RISK WITH THEIR SAVINGS.
- TRUST IN EQUITY INVESTMENTS IS LIMITED AMONG THE GENERAL PUBLIC; THE RISK IS PERCEIVED AS HIGH.
- THE RETURNS ON EQUITY INVESTMENTS ARE NOT WELL KNOWN.
- HOWEVER, ONE-THIRD OF THE FRENCH COULD CONSIDER DIVERSIFYING THEIR SAVINGS IN EQUITIES, ESPECIALLY YOUNG PEOPLE.

The findings of 2017[19] remain valid in 2021. By mostly choosing, even for the long term, guaranteed investments that are constantly available, most savers do not give themselves the best chance of achieving their long-term objectives, especially the objective of financial preparation of their retirement.

The reluctance to diversify by means of non-guaranteed investments could be explained by a lack of awareness of the potential of the various investments proposed.

The expected returns from a risk-free investment remain high, which could explain why some savers do not see the benefit of looking for investments with potentially better returns.

At the same time, the level of risk of equity investments is considered scarcely lower than that of the most speculative stock market investments. When they hear of "equity investments", people think of an individual share, which is volatile, rather than a diversified long-term investment. It is the image of speculative investments that generally prevails, and among the general public which is not very knowledgeable, this rules out equities from the solutions that could be considered for the long term.[20]

The level of profitability that they have in mind for recent years (4%) does not reach the level considered satisfactory by many in light of the perceived risk. By underestimating the actual return on equity investments, many of them undoubtedly consider that they are not worth the trouble.

Moreover, among savers' priority selection criteria, after the return and risk, it is the criterion of availability of funds that is most frequently mentioned. The recommended investment horizon, although it is a major criterion, is mentioned much less. And when they are questioned about the acceptable lock-up period for a non-guaranteed investment, it is understandably far shorter.

The recommendation of a long investment horizon for equity investments, and hence the recommendation of locking in the sums invested, comes up against strong reservations. The sacrifice of liquidity is added to uncertainty regarding the end return. This cost/benefit ratio appears far too unfavourable to a majority of savers.

In the past 20 years, behavioural finance has shed increasing light on savings and investment choices. The saver is naturally affected by certain biases when he takes decisions regarding savings. Aversion to loss and ambiguity, a preference for the present, myopia, everything combines to dissuade them from investing.

[19] "Stimulating long-term equity investments", AMF, July 2017
[20] A qualitative study conducted by Kantar for the AMF in 2016 found that equity investments are often spontaneously considered unpredictable, risky, and even unprofitable.

The light shed by behavioural finance on saving behaviour

In theory, according to financial theory, if they were rational, savers ought to own more risky assets: they ought to diversify their savings more, investing on a long-term basis, for their retirement for example.

Behavioural finance has shown that savers' choices could be explained by their emotions, their intuitions or their behavioural biases. Some of these biases explain why, for example, the level of ownership of risky assets is relatively low compared with the rationality expected by "conventional" economics.

Behavioural finance describes savers' behaviour well: the fear of loss outweighs the potential for a better return; savers mostly choose certainty (a capital guarantee) at the expense of uncertainty (a return).

Loss and ambiguity aversion

Savers overweight the risk of loss relative to the risk of gain: losses have psychologically more impact than gains.[21] For most people, a risky investment is chosen only if the potential gain is considerably greater than the potential loss. This automatically leads to behaviour of under-diversification in risky assets, unexplained by their risk aversion alone.

And ambiguity, i.e. uncertainty regarding the end result of an investment, is rejected by a large number of people, who prefer certain prospects, even without a gain, to a potential gain of an uncertain amount.[22]

This "ambiguity aversion", which coincides with a lack of knowledge and experience, contributes to households' "non-participation" in financial markets for which they do not know the potential growth or loss probabilities. It also explains the absence of portfolio diversification: an investor prefers to go to the assets that he knows best, such as equities of his country or of his employer (home bias).

Preference for the present and inaction

Preference for the present (present bias) is the main enemy of long-term savings. It means that people are unwilling to sacrifice a little immediate well-being in return for a reward that is too remote and is perceived as insufficient. It is a tendency to put off until tomorrow what is regarded as a sacrifice at the expense of one's own future well-being.[23]

This behaviour is strongly present with regard to retirement savings. Many savers are concerned about their financial situation at retirement. But they tend to be over-optimistic, imagining that time will arrange matters, or minimising the problem.

The high cost of acquisition of information and the substantial effort and time needed to obtain information nurtures this attitude. For researchers, these biases translate into insufficient long-term savings.

Mental accounting

Savers tend to separate their money into compartments or "mental" accounts, treating the values and risk tolerances of these accounts differently.[24] They are irrational, making the mistake of not considering their liquid assets as fungible. They therefore have no overall view of all their assets and the results aimed at, and do not take into consideration both the risk and the return on all their investments. This leads to under-diversification behaviour.

[21] Following on from the work of Kahneman and Tversky, Thaler (1999) estimates that losses have psychologically twice as much impact as identical gains. For most people, a risky investment is chosen only if the potential gain is considerably greater than the potential loss.

[22] The Ellsberg Paradox (1961) shows that most people are averse to uncertainty regarding probabilities. They are therefore averse to uncertainty (Klibanoff, Marinacci and Mukerji, 2005). In other words, they prefer certain prospects, even without a gain, to a potential gain of an uncertain amount.

[23] Behavioural finance explains an insufficiency of savings by "time inconsistency". Saving implies postponing present consumption and requires discipline and self-control. "Time-inconsistent" agents save less and consume more than the appropriate quantity (O'Donoghue and Rabin, 1999).

[24] "From Psychology", 2004, cited by Thaler (2015). Shefrin and Statman (1994) showed that US investors often divide their portfolio into two parts: a safe part with a limited downside risk and a risky part capable of generating substantial gains.

Other determinants of the under-diversification of long-term savings

- "Naive diversification": in seeking risk diversification, savers tend to allocate their assets equally.[25] When they are asked to make several choices at once, they tend to diversify more than when they make the same type of decision sequentially.[26] Thus, under-diversification could be explained partly by the fact that savers do not perform reallocation of their financial assets simultaneously: since they take decisions staggered over time, their portfolio is under-diversified.
- Frame dependence:[27] the way in which a problem is described or conceptualised affects the decision maker's choice. Under-diversification behaviour may result, in particular, from narrow framing: the saver, due to his insufficient information or the framing performed (consciously or not) by his adviser, does not realise the extent of the investment opportunities available to him.
- Overestimation of the probabilities of rare events: People have an intuitive representation of risk which makes them fear the occurrence of extreme events excessively. From a savings standpoint, one consequence of this is that, despite the objective risks (that they are not aware of), savers prefer familiar investments to others that are regarded as more uncertain. The rare risks relating to non-guaranteed products (failure of the issuer company, financial crises, etc.) are often overestimated, which explains the under-diversification in risky assets.
- Herd behaviour: savers imitate the investment decisions of the majority and of those around them. This "social influence" could exacerbate the under-diversification in risky assets among French savers.
- Narrow framing: savers focus on the short-term risk of non-guaranteed assets instead of looking overall at the long-term risk of their savings. This bias consists in projecting the short-term risk over the long term, and hence greatly overestimating it.
- Myopic loss aversion: resulting from loss aversion and mental accounting, the consequence of myopic loss aversion is that an investor who often watches fluctuations in the stock market or in his portfolio overestimates the risk of equities.[28] Broader time framing reduces the perceived level of risk, because short-term movements are smoothed out. The investor estimates the long-term return on his investment based on short-term results, which are far more volatile, rather than from an overall perspective. This bias implies a lack of interest in assets which fluctuate. A study on two groups of US investors showed that those who only obtained knowledge of the returns over one year allocated only 41% to equities, whereas those who obtained knowledge of the longer-term returns allocated 82% to equities (Benartzi and Thaler, 1999).

Emotional biases and poor information processing

Behavioural finance has shown that emotions and feelings (anxiety, fear, fear of missing out, etc.) affect investors' choices. Each emotion has a corresponding instinctive response which enables an investor to respond to a situation rapidly. In investment, emotions prevail over dispassionate analysis and all new information conveys strong images, given potential gains or losses which are perceived as extreme, and which call for immediate automatic responses, very remote from the consideration of long-term prospects. Thus, fear when faced with a risky situation is more the consequence of considering the possibility than the probability of a negative outcome.[29]

[25] Benartzi and Thaler (1998) also called this bias the "1/n heuristic". People tend to distribute their money between funds equally when n of them are presented to them. The investment choice is guided by an asset allocation in fractions equal to 1/n.
[26] Thaler (1999), Simonson (1990)
[27] People make decisions by isolating some of the factors that are subjectively important to them (Hirshleifer, 2015): an investor buys a stock based on its performance relative to its purchase price, but disregarding the diversification that it brings to his portfolio.
[28] Bernartzi and Thaler (1995) defined myopic loss aversion. This cognitive bias explains why, when an investor holds a risky asset, his frequency of evaluation will determine his assessment of the risk.
[29] "Psychologie de l'investisseur et des marchés financiers", Éditions Dunod, Mickaël Mangot, 2008

1.3. FRENCH INVESTMENT LITERACY

There are two possible approaches for assessing people's level of knowledge and expertise regarding investments: the self-assessment approach and the evaluation of knowledge.
For the AMF Savings and Investment Barometer, we ask the people surveyed to assess themselves.

Self-assessment: One out of two French people say they are fairly "knowledgeable"

More than one out of three French people (38%) say they have a fairly good knowledge (34%) or a very good knowledge (4%) of savings and investment products.
The "knowledgeable investors" are usually male (46% say they are knowledgeable), those with financial assets exceeding €50,000 (54%), those who are confident in their own financial situation (51%), and those who plan to invest in equities (60%).
The people surveyed say they are often at ease to choose an investment corresponding to their situation and their objectives (70%), or to read an information document on a financial investment (48%). Fewer of them, for example, use information and advice on investments that is available online (37%).

People's statements regarding their investment knowledge should be considered very cautiously. Many probably overestimate their knowledge, precisely due to lack of knowledge.

That is why surveys to test levels of knowledge and understanding are more precise.

Evaluation of the level of financial education

International studies carried out in recent years to evaluate populations' level of financial education show that the French are positioned mid-way in the international rankings regarding financial education.
For these surveys, the researchers defined a few questions on diversification, the benefits of an investment, the impact of inflation, the cost of a loan or else the calculation of a percentage.
In a recent study,[30] less than one-third of French people correctly answered the three questions normally asked in international comparisons (the "big three").[31] For example, to the question as to whether an investment in an individual stock is a less risky investment than an investment in an investment fund, 4 out of 10 French people answered correctly.

PROPORTIONS OF CORRECT ANSWERS TO THE THREE QUESTIONS FOR EVALUATION OF THE LEVEL OF FINANCIAL LITERACY

Suppose that you have €100 in savings and that the interest rate is 2% per annum. After five years, how much do you think you would have by allowing the money to grow?	84%
Imagine that the interest rate for your savings account is 1% per annum and that inflation is 2% per annum. After one year, do you think you will be able to buy more, as much as or less than at present?	64%
Buying a share in a company provides a safer return than an investment in an equity fund, true or false?	41%

SOURCE: LUC ARRONDEL « FINANCIAL LITERACY AND FRENCH BEHAVIOUR ON THE STOCK-MARKET », SCHOLAR COMMONS, 2021

The OECD defines financial literacy as the sum of knowledge and correct attitudes.
From the viewpoint of knowledge, in 2020 France was once again ranked mid-way, behind Germany and ahead of Italy.[32]

[30] FLIP study (Financial Literacy and Assets): 50 questions on knowledge and understanding of financial matters were asked in France to more than 2,700 people representative of the French population. The results were studied by the researcher Luc Arrondel (2021), who shows in particular that the "big three" questions constitute a good approximation of the level of people's financial literacy. "Financial Literacy and French Behaviour on the Stock Market", Numeracy 14, Iss. 1 (2021)
[31] These three questions making it possible to compare people's level of financial literacy were created by Annamaria Lusardi and Olivia S. Mitchell. "Financial Literacy Around the World: An Overview", Journal of Pension Economics and Finance (2011)
[32] OECD/INFE 2020 International Survey of Adult Financial Literacy, OECD (2020)

France was not ranked in 2020 regarding questions of attitude, but it had been ranked in 2016[33] and had obtained a better score than the other countries. These questions concerned, for example, the organisation of regular savings or not, the pursuit of long-term savings objectives, or again the propensity to compare products before investing in them.

An annual survey by Banque de France

Banque de France[34] conducts an annual survey to evaluate, in particular, the level of French financial literacy. In this survey[35], only one out of five French people consider they have a knowledge of financial matters (5% very good). The questions on understanding and knowledge of financial matters (impact of interest, inflation, etc.) are similar to those of the international surveys. For example, 55% of the respondents correctly answered a question on compound interest.

Other questions evaluate French people's attitudes and behaviour. The survey shows that the French are positioned mid-way in the international ranking. For example, the score for the attitude to planning of long-term savings is estimated at 3.1 out of 5 in France in 2021, versus an average of 3.0 for OECD countries. The three questions asked concern the preference for the present.

FRENCH FINANCIAL LITERACY, IN SHORT:

- THE FRENCH HAVE RESULTS RANKED MID-WAY IN INTERNATIONAL COMPARISONS.
- ALTHOUGH, IN GENERAL, HALF OF THEM BELIEVE THEY HAVE KNOWLEDGE REGARDING SAVINGS AND INVESTMENTS, A MASTERY OF BASIC INVESTMENT CONCEPTS IS LESS COMMON.
- THE MOST "CAPABLE" INDIVIDUALS HAVE BOTH KNOWLEDGE, AN ABILITY TO ACCESS GOOD INFORMATION, AND GOOD ATTITUDES.

[33] G20/OECD INFE report on adult financial literacy in G20 countries, OECD (2017)

[34] In December 2016, France, in accordance with the OECD's recommendations, adopted a national financial education strategy, for which the Banque de France is the national operator. The AMF is a partner and contributes with regard to aspects of financial savings.

[35] "Survey of the French public's financial literacy", more than 2,000 people surveyed, Banque de France, 2021

Overall summary of the factors determining share ownership

According to economists, share ownership can be explained by various factors, starting with the level of risk aversion.[36] The level of resources (financial resources and level of education and employment) is also very important, as is the level of financial literacy, which is itself well explained by age, gender and the level of education. Financial literacy has a positive impact on their "participation" in financial markets, i.e. their ownership of investments in equities.[37]

Of the other explanatory factors, ambiguity aversion, in an uncertain environment, is very significant among those whose level of education is low. The lack of information also generates irrational expectations. The fact of having positive expectations of returns leads to a higher proportion of ownership of risky assets.

Generally speaking, the cost of access to information is an obstacle to any investment (accessibility, clarity, etc.).

Another bias should be mentioned: instead of having an overall long-term view of the risks they are taking, savers tend to focus solely on the risk of the non-guaranteed part of their savings.

The combination of this focus on the possible short-term loss and risk aversion leads to a rejection of risky assets.[38]

Lastly, the degree of preference for the present is also an important factor to consider. It is the ability to make projections for one's future, together with a higher-than-average risk tolerance, that leads to a higher level of investment in financial markets.

In this first part, we have described French savings behaviour and emphasised the influence of their preferences, their perceptions and their knowledge on their savings and investment decisions.

Although they often believe they are fairly knowledgeable regarding investments, few French people answer that they are "very knowledgeable" or are "completely" at ease to choose their investments.

And the international tests on understanding of basic savings and investment concepts show most of the French lack the expertise allowing real independence.

It is increasingly obvious that many of the savers in a position to diversify their savings in financial markets do not do so because they do not have appropriate information or the necessary expertise.

Regarding the demand for long-term savings, therefore, the main lever for controlled long-term diversification is financial education.

[36] Luc Arrondel, Jérôme Coffinet, "Household preferences and demand for stocks in the Crisis: France 2004-2014", Revue d'économie politique 2019/3

[37] Luc Arrondel, "Financial Literacy and French Behaviour on the Stock-market", Scholar Commons, 2021. We may also mention a recent study in the United States showing that, of the American investors using the 401(k) retirement savings system, the most financially "literate" hold more equities in their portfolios and obtain superior returns: "Financial knowledge and 401(k) investment performance: a case study", Clark, Lusardi and Mitchell (2015)

[38] "Preparing for the tax reform: the risky French households' portfolio in 2017", Luc Arrondel and Jérôme Coffinet (2020)

2. STIMULATING LONG-TERM SAVINGS THROUGH FINANCIAL EDUCATION

Financial education is generally defined as the knowledge and abilities allowing people to make good decisions for their personal finances and their investments.

The purpose of financial education
The OECD defines financial education as the "process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being".[39]
This means in particular enhancing savers' knowledge and understanding of investment risks and concepts, "positively changing" their behaviour with regard to investment risks and providing them with the necessary skills to manage investment risks satisfactorily.

Savers should therefore be capable of suitably managing their budget, establishing precautionary savings and defining their financial objectives, e.g. for retirement. A good level of financial education provides them with financial security and freedom of choice in the present and future.

Here we present a minimum base of skills and knowledge based on the architecture defined by the OECD and IOSCO. We then recap the "arguments" for the diversification of long-term savings, before defining more concretely the main features of this education regarding diversified long-term savings.

2.1. A FRAMEWORK FOR EDUCATION REGARDING LONG-TERM SAVINGS

In 2016, the OECD presented a framework of the competencies necessary to achieve a good level of financial literacy.[40] The organisation defines three dimensions of this expertise:

- Knowledge and understanding: what you should know.
- The necessary skills and behaviour to achieve financial "well-being".
- Attitudes, confidence and motivation: the frame of mind making it possible to obtain positive results.

More recently, the OECD and IOSCO detailed this framework by listing the key areas of investor literacy,[41] notably:

- Basic investing principles and concepts.
- Investment product attributes.
- The investment buying/selling process, selecting investment products and financial service providers.
- Managing investments.
- Behavioural biases related to investing: controlling one's emotions.

Based on this architecture, we propose in this study a framework of competencies (knowledge and attitudes) necessary for the establishment, development and diversification of long-term savings.

[39] "Recommendation on Principles and Good Practices for Financial Education and Awareness", OECD, July 2005
[40] G20/OECD INFE "Core competencies framework on financial literacy for adults", OECD (2016)
[41] "Core Competencies Framework on Financial Literacy for Investors", IOSCO and OECD (2019)

FRAMEWORK OF FINANCIAL EDUCATION REGARDING DIVERSIFIED LONG-TERM SAVINGS

	Understanding	Acting
Organisation of savings	↗ The various types of saving objectives ↗ The need for and characteristics of precautionary saving ↗ The characteristics of saving for a project and long-term savings ↗ The essential match between one's financial situation, one's objectives, one's profile and the investments held ↗ The risks of making inappropriate decisions ↗ The key characteristics of an investment (return, risk, availability of funds, recommended investment horizon)	↗ Assess the financial risks related to personal decisions and lifestyle choices ↗ Make an appropriate decision for one's personal risk tolerance profile, investment objective and investment horizon
Long-term savings planning	↗ The benefits of establishing long-term savings as early as possible (retirement, health, dependence, etc.) ↗ The impact of inflation and interest rates on long-term savings	↗ Take into consideration the possibility of a loss of income ↗ Identify the savings objective and define the approach to achieve it ↗ Give priority to this savings over other spending ↗ Define the stages in implementation and commitment to overcome the tendency to put off implementation
Basic investing and diversification concepts	↗ Investing means betting on growth in the value of the assets owned ↗ How the political, economic or environmental context can affect an investment ↗ The concept of potential return ↗ The relationship between potential return and risk ↗ The price of an individual stock may be influenced by the performance of the market as a whole ↗ The relationship between the value of bonds and changes in interest rates ↗ Past performance is not necessarily a guide to future performance ↗ Benefits of diversification and regular investment	↗ Identify the potential return and risk level relating to an investment decision ↗ Invest regularly in a disciplined manner ↗ Invest in a diversified manner
Investment products (shares, bonds, collective investments, etc.)	↗ Various types of products, and their variants ↗ Various sources of information on products ↗ Factors that can explain fluctuations in the value of an investment product in particular ↗ The different risk levels associated with each asset class	↗ Look for the investment possibilities available in the various available investment wrappers (PEA, PER, life insurance, etc.) and their specific features ↗ Search actively for information on the main characteristics of financial products (return, risk, availability of funds, fees) ↗ Apply your knowledge and the available information to assess investment risks

Select a product, a service provider and a supplier	↗ The importance of considering your assets as a whole before investing ↗ The possibility of obtaining access to advice or acting independently ↗ Various investment services and levels of advice or protection ↗ The role and responsibilities of intermediaries and distributors of investment products and services ↗ The importance of giving correct information to the service provider ↗ The benefit of speaking about financial matters with trusted persons ↗ The potential impact of an early exit ↗ The impact of charges on financial performance	↗ Take all your savings into consideration before each decision ↗ Make decisions only after being informed ↗ Compare the return and risk levels of various investments in the same asset class ↗ Choose the most appropriate products from all the types of products available ↗ Seek advice if necessary ↗ Ask the distributor to confirm or clarify your understanding of an investment recommendation (suitability report) ↗ Take into consideration the potential cost of early exit from a product ↗ Take the fees into consideration before choosing
Manage your investments	↗ The importance of keeping an eye on the long term even when your short-term needs are pressing ↗ Key information provided by your service provider concerning the investments made (performances achieved, fees, etc.) ↗ Calculation of the positive or negative performances of an investment ↗ Calculation of the real return on an investment ↗ The difference between a potential gain and an actual gain ↗ The behavioural biases to which investors are subject (herd behaviour, anchoring, loss aversion, etc.), the impact of emotions, etc.	↗ Continue to save even if the returns are low ↗ Monitor your investments regularly and make the necessary arbitrages ↗ Reassess your level of risk tolerance when a change justifies it ↗ Regularly reassess the suitability of the investments made ↗ Estimate the real rate of return on your investments taking into account inflation, fees and taxation ↗ Control your emotions, avoid making decisions on an impulse ↗ Read the information provided by your service provider and take measures where necessary

Source: OECD/IOSCO CORE COMPETENCIES FRAMEWORK, ADAPTED BY THE AMF FOR LONG-TERM SAVINGS

2.2. "RATIONAL" ARGUMENTS FOR THE DIVERSIFICATION OF LONG-TERM SAVINGS

Many savers could be prepared to invest but refrain from it when they do not have a clear idea of the potential of non-guaranteed investments.
Any financial education in long-term savings should therefore try to provide a good perception of the potential return and the risk of investments in financial markets.

Since these are investments for which the future performances cannot be predicted with any certainty, it is observation of their past behaviour that provides us with information on their possible future behaviour.

The returns on non-guaranteed investments are historically higher than those on guaranteed investments

Studies of past returns on the various financial assets regularly show the superiority of the returns on equities over those on bonds or monetary assets (representing liquid, guaranteed investments).
The annual study by Crédit Suisse[42] states, for example, that "equities are the best long-term financial investments in the world, ahead of long-term government bonds and Treasury bills (money-market securities): over the last 121 years, global equities have generated an annualised real return of 5.3% (in US dollars),versus 2.1% for bonds and 0.8% for Treasury bills. Since 1900, equities have outperformed bonds and Treasury bills in every market."
Another study of the returns on various assets, including real estate, in the 16 largest countries, shows that the real performances of equities and real estate (reinvesting rents) have been positive in all countries and higher than those on fixed-income investments (money market and bonds).[43]
The average real return on global equities (the 16 countries equally weighted) was 8.3% from 1950 to 2015, versus 7.4% for real estate, 2.8% for bonds and 0.9% for money market funds.
Since 1980, the return on global equities has increased (10.7%), whereas that on real estate has been relatively lower (6.4%).

But the issue is also one of risk, because although the available research shows the long-term superiority of the return on equities, which profit from economic growth, it also shows major fluctuations related to periods of crisis, war or high inflation. Since these fluctuations offset one another from year to year, the level of risk of equity investments should be considered according to the length of time for which they are held.

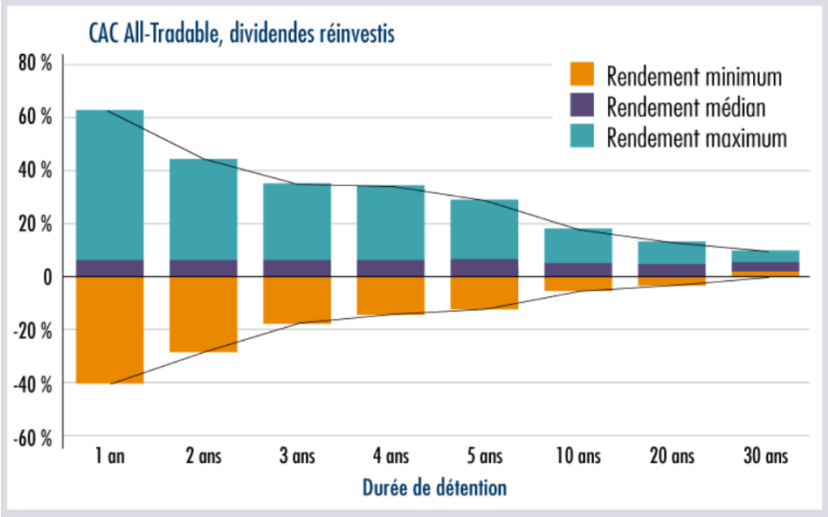
Over time, the risk of equity investments decreases sharply

A statistical study[44] on the performance of financial investments using French and US data (based on observations dating back 150 years) shows that the risk of loss of equity investments decreases rapidly with the time of holding. It observes, for example, that for a holding period of 15 years or more, no loss has been observed for more than 150 years on French equities (represented by their main stock market index) and, allowing for inflation, the risk of a loss of purchasing power becomes "insignificant" over investment horizons of 20 years or more.

The following graph, based on the real (inflation-adjusted) performance observed for French equities since 1950, illustrates the benefit of time for an investment in equities.[45]

[42] "Credit Suisse Global Investment Returns Yearbook, 121 years of statistical observations concerning the returns on financial assets", Elroy Dimson, Paul Marsh, Mike Staunton, 2021
[43] "The rate of return on everything, 1870–2015, National Bureau of Economic Research", Jordà, Knoll, Kuvshinov, Schularick, Taylor, December 2017
[44] "Les placements de l'épargne à long terme", 3rd edition, J.F. de Laulanié, Economica, 2016
[45] Rendement er risque des placements en Bourse, La finance pour tous, IEFP (2021)

DISPERSION OF THE REAL PERFORMANCE OF FRENCH EQUITIES SINCE 1950 ACCORDING TO THE LENGTH OF TIME HELD (CAC ALL-TRADABLE 01/1950 -12/2020, REINVESTED DIVIDENDS)



SOURCE: HARVEST, 2021

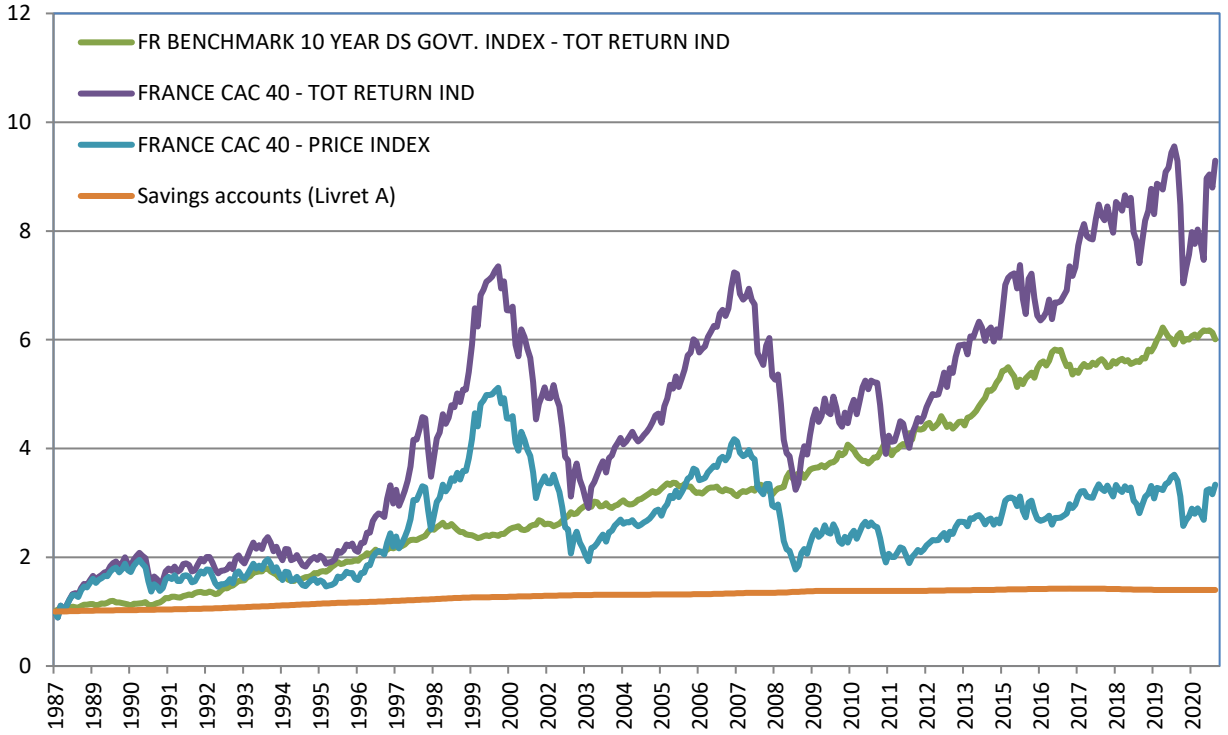
The risk of loss decreases with time, because the magnitude of the observed annualised performances is smaller for long-term investments.
It is still relatively large for an investment over five years: between 1950 and 2020, it is possible to find negative performances of at least 13% (1% of the performances were less than -13%), even though over this same period half of the observed returns were greater than 6%.
Over ten years, 1% of performances were less than -4.8% and, over twenty years, 1% of performances were less than -3%.
Hence, in a relatively concentrated market (French equities), a period of 20 years is not sufficient to completely eliminate the risk of an investment in equities.
However, for investments over a period of 30 years, 99% of the observed performances were greater than 2.4% per annum.

These observations are not easy to use in education. The very concept of an average real return is complex. And the observed amplitude of the returns, their statistical "dispersion", even represented by a graph, is not meaningful to the average saver.

The most easily understandable graphs are probably those that show without adjustments how various investments fluctuate.

The following graph makes it possible to compare the real (inflation-adjusted) performance, between 1988 and 2021, of various investments available to savers.

COMPARATIVE REAL PERFORMANCES OF VARIOUS INVESTMENTS SINCE 1988, AS AT 10 MARCH 2021 (01/01/1987 = 1)



SOURCE: THOMSON REUTERS DATA, KNOWN INFORMATION IN MARCH 2021, AMF, 2021

Many observations can be made:

- The value of equity investments has seen major fluctuations, but the return on equities has been higher than that on other investments.
- For equity investments, a large part of the performance is due to the dividends distributed by the listed companies.
- The value of investments in government bonds has risen significantly in the past 30 years.
- The Livret A passbook savings account has just been able to maintain the purchasing power of invested savings.

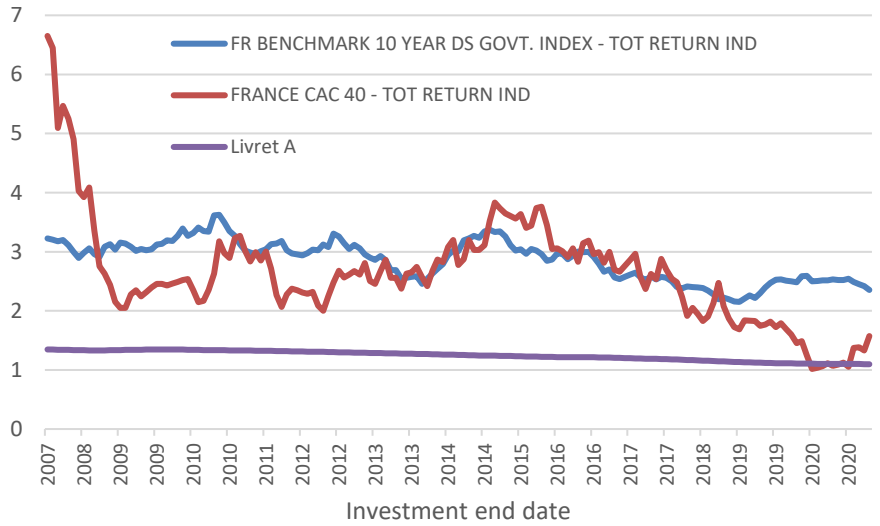
Since 1988, investments in equities (reinvested dividends) have generated an annualised real performance of 6.8%, compared with 5.7% for investments in government bonds and 1% for the Livret A.

Savers may not be convinced by the good performances presented to them for equity investments. All they need to know is that there can be investment periods that are loss-making for them to stay away, because they are afraid of investing at the wrong time, i.e. just before a major downturn. In this respect, it is interesting to examine the results of numerous investments made at different times.

Longer holding and diversification attenuate risk

The longer the holding period, the fewer loss-making equity investments can be observed.
Over a period of 20 years, investments in French government bonds or French equities (CAC 40) have seldom produced returns less than that of the Livret A (6 times out of 159). Over this period, no investment in French equities was loss-making.

REAL PERFORMANCES OF 159 INVESTMENTS OVER A 20-YEAR PERIOD, STARTING FROM JANUARY 1988



SOURCE: THOMSON REUTERS DATA, KNOWN INFORMATION IN MARCH 2021, AMF, 2021

When diversification is performed in several markets, historical observations show that there are very few periods of at least 10 years during which the performances were negative.[46]
Over the past century, no 10-year investment in equities diversified across the principal Western countries (weighted by the weight of the various economies) has posted a negative real performance.

THE BENEFITS OF DIVERSIFICATION OF LONG-TERM SAVINGS IN EQUITIES, IN SHORT:

- IN THE LONG TERM, EQUITIES GENERALLY PRODUCE A POSITIVE REAL RETURN.
- THE LONGER THE INVESTMENT HORIZON AND THE MORE THE INVESTMENT IS DIVERSIFIED, THE LOWER THE RISK OF AN INVESTMENT IN EQUITIES.

Geographical diversification reduces the fluctuations of an investment. The risk may be further reduced by constant, regular investments. Thus, diversified investments built up gradually over a period of 20 years, simulated over the last 33 years, all post positive real returns, confirming the advisability of diversification in the case of an investment in equities.

[46] "The rate of return on everything, 1870–2015", National Bureau of Economic Research, December 2017

4.6%, the annualised real return over the past 34 years for equity investments over a 20-year period diversified across several markets and built up gradually

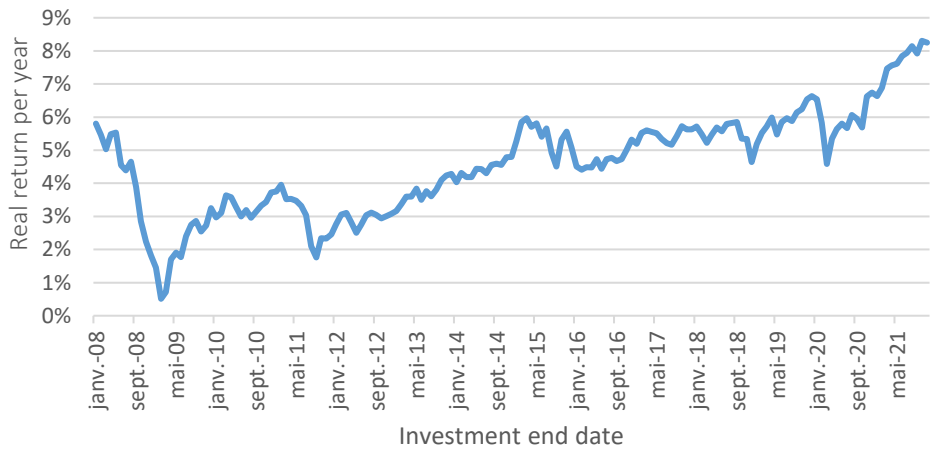
The risk of investing in equities can be reduced by geographical diversification in different markets that do not always move in the same direction and at the same pace.

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 period from 1988 to 2021.[47]

These simulations show that, at end-November 2021, the annualised real return of such a regular diversified investment was, on average, 4.6% (6% without adjusting for inflation).

Over this recent 33-year period, the minimum annualised real return was 0.5% and the maximum annualised real return was 8.3%. All investments initiated after 1994 generated annualised real returns exceeding 4% (before charges and taxes).

ANNUALISED REAL RETURNS OF 167 REGULAR DIVERSIFIED INVESTMENTS, OVER A 20-YEAR PERIOD, INITIATED FROM 1988 TO 2001 AND TERMINATED FROM 2008 TO 2021



Source: AMF

NB: 167 regular 20-year investments are considered, the first of which was initiated in January 1988 and the last in February 2001. In these conditions, an investment initiated in February 1997 gave an annualised real return of 5.2% (excluding charges and taxes) over 20 years.

Note: these results cover a relatively short observation period (1988 to end 2021) in light of the duration of the simulated investments (20 years). The simulated investments are passive: investments are allocated to the various indices in constant proportions and no rebalancing is done. Exchange rate fluctuations are not offset.

The numerous observations of the superior performances of equity investments, and the observation that there is practically no risk when they are diversified and held over a long period (at least 15 years), should form part of investors' basic financial education. The real returns that can be obtained, 3% to 5% per annum, can create a "snowball" effect in the long term.

The arguments for the diversification of long-term savings are as follows:

- Equity investments should rightfully be included in long-term savings. Far from making it more risky, they reduce the risk of seeing its real value fall and increase the saver's chances of obtaining a positive overall return.
- For want of diversification, long-term savings do not benefit from the higher returns that can be achieved in the long run and are vulnerable to a chronic resurgence of inflation.

[47] 167 investments over twenty years were simulated between 1988 and 2001. The monthly payments are constant, as is the allocation of the investments among different markets represented by their principal stock index, with reinvested dividends: CAC 40 (24%), FTSE 100 (14%), Dax 30 (14%), S&P 500 (34%), Topix (14%).

2.3. GUIDELINES FOR EDUCATION REGARDING LONG-TERM SAVINGS

The establishment of long-term savings is not obvious. Many savers are "indifferent" to investment matters, or reluctant to envisage their own future.
Education can obviously do a lot. First, it can illustrate the need for long-term savings.

Promote increased awareness, motivation and decision making

With regard to long-term savings, the question of raising awareness is of crucial importance. What is missing is a sufficiently strong motivation to take the plunge and organise a savings plan.
The first objective of education could be to describe concretely the consequences of the absence of a long-term savings effort.
The highly likely deterioration of the purchasing power of future pensioners and the growing needs related to the risk of loss of personal autonomy are the two main concerns, and hence the two most powerful levers.
The recipient of the awareness raising content will seldom make the effort by himself to find the necessary information and learn about the solutions. The teaching method should target the recipient in such a way that they receive the information at the right time, and recognise their situation and hence their need.
The use of visual tools makes it possible to engage the recipient "emotionally". The use of videos has shown its superiority over other formats for the dissemination of information.

Show the path to long-term savings

Long-term savings form a universe which might seem opaque, technical and not easily accessible. The aim is therefore to show that long-term savings are simple and accessible.
The teaching method should enable the saver to view the various stages between them and subscription to a plan.
The solutions available should be well known and their access and their implementation described concretely.
For a greater impact, the teaching method could present the concrete experience of savers who have achieved their long-term objectives.

Promote investment advisory services

The teaching method should show the importance for a saver of receiving a diagnostic of the match between their financial situation, their investor profile, their needs and their long-term savings objective.
This diagnostic of the appropriateness of the investments held compared with a situation and objectives is a service whose value is underestimated by most investors. The role of the adviser and the benefits of professional advice should be promoted.

Provide a response to the lack of knowledge regarding financial investments

In a context of a significant lack of knowledge, it is important to focus the teaching on the saver's personal interest. It should present the correct reasons why equity investment can be considered as long-term savings. It should provide information on the importance of the investment horizon of this savings. Risk should be presented above all as uncertainty regarding the future. To better control risk, equities are a useful form of diversification, which helps limit this risk.

Help savers get a proper idea of the potential return and risk

Observations of the performance of equity investments represent crucial information of which savers should be informed in an understandable and non-misleading manner.
The aim is to give reassurance based on quantified observations and enable those who stayed away due to a lack of knowledge to make a decision. Even if this information shows that there is still a risk, many savers could go in for diversification, even moderately, simply because they will have objective information on the level of risk.

Education could stress two aspects:

- the benefits of time and diversification with regard to the level of risk, and the relatively high level of past returns on equity investments;
- the cost of liquidity and the guarantee; the possibility of a loss of purchasing power of guaranteed liquid savings.

To be credible and useful, the educational approach to diversification must be neutral and circumspect. The figures must show that even over time, the risk of loss is not zero. In this respect, it is important to reiterate that the requirement for higher returns than those on other investments is an economic environment on a long-term growth trend.

Explain more clearly the risks of not diversifying

While the main argument in favour of diversification is the return and the reduction of risk over time, other arguments, likewise related to the expected returns and risk, and possibly more meaningful for investors, can also be listed.

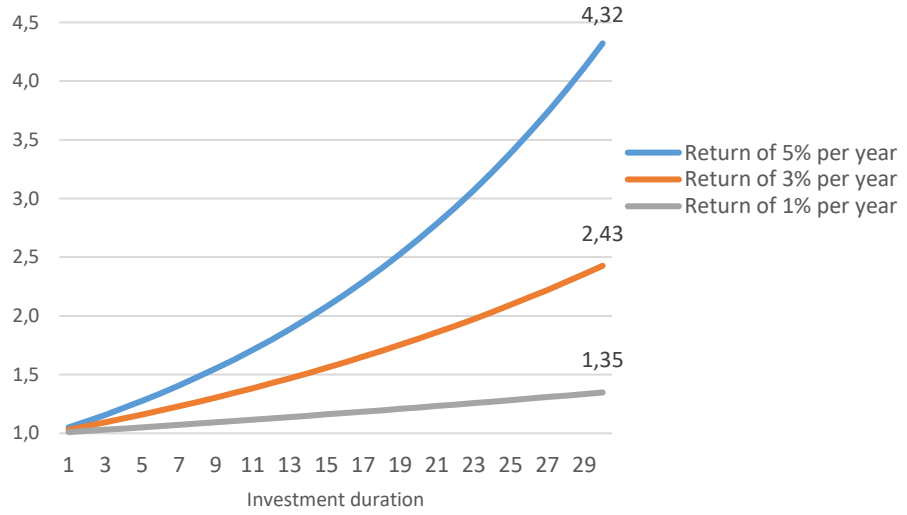
Explain why the purchasing power of guaranteed savings cannot be guaranteed over the long term

Guaranteed liquid savings are not without risk, because there is no guarantee that it will maintain the purchasing power of the savings. Observations over the past 150 years show that, together with real estate, equity investments have been the most suitable asset for maintaining the purchasing power of savings invested on a long-term basis[48].

Highlight the "snowball" effect of returns

The "power" of compound interest is not very well known by investors, who reason year by year, without realising the effect of accumulation. The benefits of the combination of a long time horizon and a higher return should be explained.

GROWTH IN CAPITAL REMUNERATED AT A CONSTANT RATE OF 1%, 3% OR 5% PER ANNUM OVER 30 YEARS



SOURCE: AMF

Over time, a higher return amplifies the growth of an invested amount. Accordingly, after 20 years the gain for a capital remunerated at 5% will be 165% versus 22% for a capital remunerated at 1%. After 30 years, the invested capital will have been multiplied by 4.3 whereas the capital remunerated at 1% will have grown by only 35%.

[48] Read "Les placements de l'épargne à long terme", J.F. de Laulanié, Economica, 2016. Studying the performance of various investments from 1857 to 2015, the author notes that for French equities the risk of loss of purchasing power is lower than that for bonds and money market investments after holding for five years, and becomes statistically "marginal after holding for 15 years".

Stress the benefits of regular investment

Regular investment offers numerous benefits which should be highlighted in any investment teaching. This implies explaining to savers beforehand what are their customary faults when they invest.

The virtues of regular investment

Regular investment has the advantage of being automatic. Being included in the budget painlessly, it can be "forgotten" by the saver who is no longer placed in a position to call into question this investment.
From a psychological viewpoint, the fact of investing small amounts is reassuring: over time, an investor invests larger amounts in this way.
Moreover, in a fluctuating market for which the trend is upward, regular investment increases the investment return. The investor buys more when it is less expensive and less when it is more expensive.
Lastly, the main benefit of regular investment is to neutralise the emotions and fears of investors in a position to invest.
The investor does not have to think about the right time to invest. This pursuit of the right time dissuades many investors from taking the plunge.

Helping the investor stay on course

This is an important aspect of education regarding savings invested on a long-term basis: investors must be aware that they are subject to numerous emotions which act against their interests. By outlining the faults to which they are inevitably subjected, education can help investors “stay on course”.

Explain the benefits of remaining constantly invested

Education can also explain how the best way to profit from diversification is not to try to anticipate market developments, by explaining that, in the long term, this attitude, guided by fear and emotion, results in a reduction in the return on an investment, the most negative effect being that the investor is not present during short bull periods, which are largely unforeseeable in the short term.
A few missed positive trading sessions result in a prolonged substantial underperformance due to the compound interest effect. Since no one can know when the good sessions will occur, the only way not to miss them is to stay invested.

Explain the advisability of regular, automatic rebalancing of diversified savings

The diversification of long-term savings takes into account the investor's preferences, their objectives, their investment horizon and their investor profile.
Over time, this breakdown between guaranteed investments and non-guaranteed investments becomes distorted. In most cases, and this is what is expected, the non-guaranteed part increases faster than the guaranteed part.
The teaching should encourage keeping the breakdown decided initially and not allowing it to diverge excessively.
Automatic rebalancing ensures that the invested part remains close to the level initially recommended to the investor.[49]
Automatic rebalancing also has the advantage of not leaving the investor alone faced with their doubts and fears about what to do.

The lessons of behavioural finance for financial education

Financial education can also aim to temper investors' behavioural biases. The ability to deal with numbers (numeracy), as a skill making it possible to search for statistics and use tools, appears in particular to be a fundamental competency for avoiding decisions based on rapid (heuristic) intuitions.
More generally, the accumulation of theoretical knowledge, like in many other fields, is not sufficient to change behaviours. It is by putting the knowledge into practice, based on exercises and practical examples, or through games, that observable results can be obtained.

[49] In practice, rebalancing once a year seems sufficient according to various simulations performed: " The Comparative Performance of Different Savings Strategies that Use French Instruments", AMF (2018)

IN SHORT, THE MESSAGES TO WHICH EDUCATION REGARDING LONG-TERM SAVINGS SHOULD GIVE PRIORITY:

- DEFINE YOUR SAVINGS OBJECTIVES, AND PLAN.
- ESTABLISH REGULAR SAVINGS FOR THE LONG TERM.
- DIVERSIFY.
- STAY INVESTED PERMANENTLY.
- REBALANCE YOUR ASSETS REGULARLY.

Improving the level of savers' financial education is a requirement for their increased participation in financial markets and ultimately for their financial well-being.

The priority assigned to financial education in the action plan of the European Commission's Capital Markets Union and its joint initiative with the OECD regarding financial education are therefore a big step forward.[50] It backs up the initiatives taken within the framework of the national financial education strategy for which the Banque de France is the operator and the AMF a committed contributor.

Financial education remedies savers' lack of knowledge and increases their level of trust in investment products. But its aim cannot be complete personal autonomy, whereby savers could not only define their needs and determine appropriate solutions, but also implement them without any assistance. It transmits sound habits, including that of knowing how to make good use of the services of investment service providers and financial investment advisers.

Every job is particular and the investors' profiles are diverse. Education finds its limits here, because it cannot contain personalised recommendations. With regard to long-term savings, personalised professional support for savers is irreplaceable.

The professional offering takes over from financial education by providing long-term savings solutions appropriate for savers' needs. The diversification of long-term savings requires a suitable approach and an enhanced offering of simple products giving access to diversified asset classes.

[50] In April 2021 the European Commission and the OECD's International Network on Financial Education (INFE) announced the joint development of a financial competence framework for the European Union, as part of the action plan for the EU's Capital Markets Union.

3. THE ROLE OF PROFESSIONALS AND THE APPROPRIATE VEHICLES FOR THE DIVERSIFICATION OF LONG-TERM SAVINGS

Savers need to define all their objectives, plan their achievement, make long-term projections, and appropriately and consistently establish long-term savings. These are all important steps which cannot be carried out correctly, in most cases, except by contacting a financial adviser.
Various studies suggest that those people who are least qualified in a field tend to overestimate their capabilities through an over-confidence bias,[51] and that those who are most qualified would tend to underestimate their level of competence. The consequence of this would be to influence their "demand for advice". Thus, those people having a higher-than-average level of knowledge are also those who most often call on financial advisers.[52]
Financial education and advice are therefore apparently complementary. The most "educated" people apparently are more appreciative of the usefulness and value of an adviser.
But, while financial education does not make it possible to do without an adviser, the adviser is nevertheless no substitute for a lack of financial education. Not only does this education give the ability to recognise the value of an adviser, but it enables an investor to converse with their contact person on an equal footing, to answer his (her) questions correctly, to ask their own questions and to understand the recommendation which may be made by the professional.

The role of financial institutions
According to the OECD, financial institutions play a role in the financial education of their clients,[53] "in providing information and advice on financial issues, but also in promoting clients' financial awareness, especially for long-term commitments and commitments which represent a substantial proportion of those clients' current and future income."

3.1. THE KEY ROLE OF THE ADVISER

The financial adviser is still the key "resource" to which most savers turn to obtain information or to make an investment.
Their ability to discuss long-term savings with their client is part of their job as adviser.
The adviser, key to the diversification of long-term savings
The MiFID II European directive requires that the adviser,[54] before giving advice or an investment recommendation, obtain information concerning their client's investment knowledge and experience, their investment objectives (including their risk tolerance) and their financial situation (including their ability to bear losses).
Thus, the adviser is in a position to help his client prioritise their objectives, and if the need for long-term savings appears, to propose to them the establishment of such savings in an appropriate manner, in the best of their interests.
His analysis of the client's financial wealth and profile may lead him to find that an asset allocation is not sufficiently diversified or, on the contrary, excessively concentrated. He may accordingly propose a new allocation of the various investments held and/or, if there is a new sum of money to be invested, a new investment making it possible to rebalance this allocation.
His role is to explain to his client in what way the recommendation given corresponds to their interests. He must enter into dialogue with them, provide explanations and always make sure to obtain their informed consent.

[51] "Dunning-Kruger" effect
[52] "Financial Literacy and the Demand for Financial Advice", Calcagno and Monticone (2015), or "Financial advisors: A case of babysitters?", Hackethal, A., M. Haliassos and T. Jappelli (2012)
[53] "Principles and Good Practices for Financial Education and Awareness", OECD (2005)
[54] By "adviser", here we mean any authorised professional in contact with a client, but also more generally any remote service made available by an investment service provider to obtain information on the client with a view to a recommendation.

The importance of training the "salespersons"

It appears important, in light of the major obstacles to the diversification of long-term savings, that the adviser should be aware of the main problems of his clients, their tendency to inaction, their ambiguity aversion, and their lack of knowledge, especially regarding the benefits of diversification. His approach must take this into consideration. He may even discuss these biases with his client, which will sometimes make it possible to allow for them.

Behavioural finance has explained that advisers, being human, are subject to the same biases as their clients (loss aversion, overestimation of extreme risks, naive diversification, etc.) and that they tend to obey their own preferences when giving advice.[55]

To transmit neutral, accurate and useful information, they should themselves know the "probabilities" regarding equity risk in the long term and the benefits of diversification.

A good level of training is one of the requirements for stimulating long-term savings.

The advisers, who are often general practitioners of financial services, should themselves know the potential of the various available solutions, and the virtues of diversification and time with regard to the risk level of an investment. They should also be aware of their clients' likely "biases".

The "AMF" certification[56] contributes to this, as do the obligations of maintaining the advisers' knowledge and competency.

The availability of advisers specialised in financial savings, provided for in certain financial institutions, appears to also be an appropriate answer to the need of support for the diversification of long-term savings.

Key points of the professional's approach

The adviser plays a crucial role. He can show his client the concrete path of diversified long-term savings.

His approach should be balanced, not hesitating if necessary to enhance the image of equity investments and show their utility as part of an overall portfolio. He should always act in the best interest of his client, including his long-term and very long-term interests.

Develop awareness of the need and show that the solution is easily attainable

Marketing can project savers into their own future. The aim is to allow the client to view what he will or will not be able to do at a time when he will be less at ease financially. Experiments have shown that the view of a modified image of oneself at age 65 or 75 years facilitates this projection.

Long-term savings may be considered unattainable. The professional should therefore stress its attainability.

Highlight the contribution of investment advice

Investment advice, which involves analysing the client's financial wealth as a whole, in light of their situation, their preferences and their objectives, should be proposed systematically with a view to establishing long-term savings. Investment advice should make it possible, through dialogue with the client, to avoid stacking up products, without hindsight and at different times. A client who is proposed, as part of a single recommendation, a diversity of complementary investments, will be spontaneously more inclined to understand and accept a more extensive diversification.[57]

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[55] A study carried out on investors in Canada showed, for example, that advisers tend to project their own preferences and attitudes when recommending an investment without taking into account the client's level of risk tolerance and at what stage they are in their life. S. Foerster, J.T. Linnainmaa, B.T. Melzer and A. Previtero, "Retail Financial Advice: Does One Size Fit All?", National Bureau of Economic Research Working Paper N° 20712 (2014)

[56] Investment service providers, including asset management companies and financial investment advisers, must check that the persons performing certain functions have a minimum level of knowledge in areas relating to the regulatory and ethical environment and financial techniques.

[57] Through naive diversification, savers tend, when looking for risk diversification, to allocate their assets equally (read page 15).

New investment advice facilities

The study carried out by the AMF in 2020, based on simulations of investment recommendations to moderately risk-seeking clients, regarding profiling of the banks' clients and their match with the products, notes that the implementation of the MiFID regulations (client profile and product governance), managed by appropriate information systems, makes a positive contribution to the diversification of clients' portfolios.

Automatic facilities made available to advisers, and used well, are an advantage to help achieve better diversification of clients' savings to match their profile. They identify any mismatch between the average risk of the client's financial wealth, which is used in the dialogue underway.

However, it remains essential to take into consideration precisely, as stipulated by the regulations, clients' objectives, their different investment horizons, their risk tolerance and their ability to bear losses.

Establish equities as an essential ingredient of long-term savings

As suggested by the qualitative study carried out by Kantar for the AMF in 2016,[58] the link between long-term savings and equity investments is not obvious for many savers.

The adviser's approach, and all instructive communications, should therefore establish this link. He must focus on the need for the diversification of long-term savings by means of equity investments, which together with the other components of financial wealth will improve the chances of achieving the fixed objective.

The adviser's aim is also to help his clients have a good perception of the risk of these investments according to the length of time for which they are held.

Figures should be communicated. A distinction should be made between the tendency of a product to fluctuate (measured over one year) and the probabilities of losses according to the time for which it is held. To do this, he may show the historical performances of equity investments in the form of graphs[59] while taking care to give a reminder that past performance is not necessarily a guide to future performance.

The importance of words

Words convey images and beliefs. "Play the stock market", "speculate", these words and expressions convey the image of a "casino" stock market, behaving randomly, which cannot serve long-term savings.

To stimulate the diversification of long-term savings, by obtaining a decision from those who, although interested, hesitate, it is necessary to change the terminology. The key words are Growth, Regularity, Patience and Preservation.

The arguments are the preservation of the future and growth of savings, thanks to time. The method, the only way of achieving one's objectives, is an overall view, diversification and regular investment.

Encourage the regularity of investments

To counter savers' preference for the present and take into account their tendency to inertia and inaction, the establishment of automatic savings systems is highly recommended. The monthly savings effort, in the budget balance, seems less, becomes "painless" and is not called into question. The savings rate is thereby increased.

The long-term savings objectives cannot depend on free and irregular investments: they can only be achieved if the savings effort is regular and uninterrupted. The adviser's arguments must strongly promote this practice.

Change their view of savings and promote patience

The professional's communication absolutely must lead savers to adopt a more detached view in considering their long-term savings. They should not watch the daily or even weekly stock market news. Clients should pay attention to their entire savings and the information provided should reiterate the long-term objective assigned to the portfolio.

The overall view of one's savings is virtuous. It avoids focusing on the fluctuating part. It is concerned with the portfolio rather than with the invested products taken separately.

In parallel to the financial education efforts, the role of the adviser is essential in implementing diversified long-term savings. He must discuss, explain, reassure and implement the defined solution. The path to be taken, explained

[58] The main findings of which were published in the first report on "Stimulating long-term equity investments", AMF, July 2017

[59] The "Rendement et risques des placements en actions" graphic (returns and risks of equity investments) produced by La Finance pour Tous is one example.

pragmatically, must be perceived by the client as credible and accessible. Investment advice is the appropriate framework. The information on investments should be supplemented by instructive dialogue and constant support. The client's long-term "commitment" is necessary. Good initial awareness of the client's situation and profile and neutral communication on "probabilities" is crucial from this viewpoint.
To encourage this commitment, the client should ideally have a comprehensive view of the savings path proposed to him (its duration, composition and functioning). This type of information should increase the probability that they will maintain their effort over time. The comments should remain instructive and reiterate the long-term objectives of this savings effort.

The contribution of digital tools
Digitalisation plays a role in the diversification of long-term savings. Digital tools are especially appropriate for the most independent savers. They also usefully supplement, in multichannel form, the services provided by financial institutions.

Tools for monitoring financial assets
Having an overall view of one's financial assets and overall risk level is virtuous within the framework of diversified long-term savings. This information reassures the saver, facilitates the analysis of their financial assets and prepares them for action. This overall view, which is often reserved for high-net-worth clients, would gain from being proposed more generally to all savers.

Robo-advisors
By providing an asset allocation recommendation and portfolio reorganisation advice online, *robo-advisors*, or automated financial advisory tools, are able to promote the diversification of long-term savings. They can facilitate access to a larger number of products and also meet the needs of the most independent or the most sophisticated savers who want to invest in a product proactively without being solicited by a financial market participant. They can also meet the needs of investors having smaller portfolios, who are less likely to have access to conventional investment advice.[60]

Savings simulators
Simulators are interesting learning tools to help savers correctly assess the probabilities surrounding non-guaranteed investments and make decisions regarding long-term savings. These tools make it possible, with use, to assimilate concepts of uncertainty and volatility, the mastery of which tends to improve users' propensity to invest.
Simulators allow savers to make long-term projections, with smoothed growth simulations, and not focus on the short-term risk.

Simulation tools, especially those which make it possible, for educational purposes, to reconstitute the past performance of the major asset classes, improve understanding of the potential performance and risk of the various available investments. They improve the knowledge of "probabilities" and thereby reduce savers' ambiguity aversion. Moreover, automated online advice can expand the number of savers benefiting from investment advice, particularly among the younger generation, more inclined to use online services than to go and contact a conventional adviser. The level of saver protection is maintained provided that the appropriateness of the advice, notably on the level of definition of the client profile and the choice of financial instruments consistent with that profile, is equivalent to that with a conventional adviser. However, the lack of contact with a conventional adviser implies some specific risks, notably the risk of overestimating one's knowledge and experience, and more generally the risk of inappropriate advice due to an insufficiently detailed knowledge of the client. Digital systems can meet the needs of some investors, but most savers still count on direct interaction with an adviser.

[60] The European Supervisory Authorities, including the European Securities and Markets Authority (ESMA), have analysed the risks and opportunities provided by automated investment advice. They mention, in particular, the improvement in the quality of service provided (the standardised client experience and the capacity for rapidly processing large quantities of data continuously in real time). They identified certain risks for investors such as investors' limited access to information and/or their limited capacity for processing such information (due to their limited capacity for human interaction). As a consequence, they issued guidelines intended for the suppliers of these robo-advisors in addition to all the obligations concerning the provision of investment advice. In particular, they noted the need to provide context-related information (e.g. in the form of pop-ups) or to provide additional details to clients who are looking for fuller information (e.g. via the FAQ section). "Guidelines on certain aspects of the MiFID II suitability requirement", ESMA35-43-869, May 2018

3.2. APPROPRIATE VEHICLES FOR THE DIVERSIFICATION OF LONG-TERM SAVINGS

The establishment of diversified long-term savings requires support for savers, but also an offer of diversification vehicles appropriate for the various identified investment horizons.
The solutions known to savers are life insurance, but also employee savings schemes, PEAs (personal equity savings plans: plans d'épargne en actions) and now also the PER retirement savings plan (plan d'épargne retraite), which is already very well known for the objective of preparing for retirement.[61]
It is from these legal and fiscal wrappers that investments must be chosen and formed.

Responsible investments

The "responsible" or "sustainable" investment offer, consisting mostly of funds invested in equities and bonds, is a major lever for the diversification of long-term savings.
In a recent study by the AMF Household Savings Observatory,[62] half of the French say they take sustainable development issues into consideration, at least occasionally, in their investment decisions. This is the case for more than one out of three people in the under-35 age group.
In the under-35 age group, the responsibility criterion of investments is far more important than for their elders, for whom return and risk remain the most important criteria of choice. For four out of 10 people in the under-35 age group, the responsibility criterion is important.

A retail-investor expectation of financial institutions with regard to sustainable finance
Nearly two out of three French people consider that it is important that financial institutions take responsible and sustainable investment criteria into account in designing the investments proposed to their clients. Two out of 10 French people find that it is "very important". The adviser remains an important interlocutor for savers: Two out of three French people find that it is important that their bank adviser or financial adviser ask them if they wish to make "responsible or sustainable" investments.

Some savers, especially the younger ones, could diversify their long-term savings via responsible investments, particularly in the context of their retirement savings.

Financial institutions have a great responsibility: that of designing credible products when many investors still doubt the real nature of these products, especially concerning their impact. This impact demand is a major trend: many investors expect their investment to contribute to creating a perceptible social or environmental benefit.

Moreover, as of August 2022, within the investment advisory framework, financial institutions will have to gather their clients' preferences in this respect ("ESG" preferences), which could accelerate the inclusion of sustainable investments in long-term savings.

Life-cycle funds

Automated solutions or those which delegate portfolio management may be suitable for relatively inexperienced investors, who do not have the necessary time to manage their investments themselves.
Life-cycle funds (or target-date funds) are an appropriate savings solution for long-term savings.
The savings built up are managed in a very diversified manner according to the saver's investment horizon and risk tolerance profile. The long horizon and locked-in funds allow diversification in non-guaranteed assets.[63]

One of the factors of the success of life-cycle funds is the understanding of the offer.
In 2012, a study by the U.S. Securities and Exchange Commission (SEC) assessed investors' ability to understand the concept of target-date funds.[64] The study showed that some respondents did not understand the risks involved

[61] The French people surveyed for the AMF Savings and Investment Barometer consider that the PER is already the most suitable investment for long-term savings such as retirement savings.
[62] "The French and socially responsible investments", OpinionWay for the AMF, July 2021
[63] Simulations performed under risk constraint have estimated that a "risk-seeking" saver, accepting a probability of loss of 10% of his retirement savings, could invest 100% of his portfolio in risky assets until the age of 45, to capture equity market growth, and could then reduce this exposure sharply from age 45 to 65 to hold onto those gains. "Épargne retraite : stratégies d'allocation et dynamique des marchés financiers" (Retirement savings: allocation strategies and financial market dynamics) S. Hamayon, F. Legros and Y. Pradat, Revue de l'OFCE, n° 170, December 2020
[64] "Investor Testing of Target Date Retirement Fund (TDF) Comprehension and Communications", SEC (2012)

in these products. In particular, only 36% of the respondents were aware of the fact that a target-date fund provides no guarantee at maturity.

The expansion of life-cycle funds is a factor in the diversification of the long-term savings of the French. It is based on the assumption of a general upward trend of equity markets which, even for the most cautious profiles, justifies a relatively large initial exposure to equity markets.

However, its functioning is not easy to understand. The gradual reduction in the exposure to non-guaranteed assets, possible changes in the proposed investment and the lack of a capital guarantee must be clearly understood by the subscribers.

The search for a match between the proposed investment and the client's profile therefore requires sound information on the risk and potential return of the proposed investment and on the level and nature of the fees. Its suitability for the client's profile, for his capacity for risk taking, should be assessed carefully.

The PER plan, the cornerstone of long-term savings

Retirement savings, the main motive for households' long-term savings, now has its universal investment product. The retirement savings plan (PER, or "plan d'épargne retraite"), clearly identified by savers, is an investment wrapper which provides access to investments in financial markets, and in particular to life-cycle funds, proposed by default, and which could therefore collect a large proportion of the savings housed in PER plans.
In its collective version, accessible within the framework of employee savings schemes (PER Col, ex-PERCO), it enables numerous employees to build up within their company savings diversified through investment funds for which part of the fees are covered by the employer.

Given the very long investment horizons offered by the objective of preparation for retirement, the dissemination of the PER plan, clearly identified by savers, promotes the long-term investment in equities. Its marketing requires instructive support regarding the potential return and risk of the proposed investment vehicles, particularly for the proposed life-cycle funds, and regarding the associated tax rules.

The PER Col has a very high potential. Employee savings schemes, isolated from other investments, are not conventional savings.[65] The voluntary contributions are not very large (about one-quarter of employees make voluntary additional contributions to the plan[66]).

To enable the employees who benefit from this to profit better from the system and increase its use, the solution, here again, could be to systematically propose a system of monthly savings taken from income (and reversible at any time). Such an automated system could help to sharply increase the retirement savings rate of French workers.

Shares in listed and unlisted companies for greater diversification

Equity investment should rightfully be included in long-term savings in order to have a chance of receiving higher returns, but also to make more "selected" investments. It addresses a public having knowledge or experience, accepting the risk involved in equity investment. Its access requires the establishment of a more widespread stock market culture in the population.

Individual shares

The first possibility, therefore, is to establish and manage a portfolio of individual shares from a simple securities account or a PEA plan. The management of a portfolio of individual shares supplements retirement savings consisting of collective investment products.
Some savers will be specially interested in selecting companies in which to invest, based on specific criteria, and particularly for younger savers, based on sustainable development criteria.

Funds investing in unlisted equities

[65] It is significant to note that household surveys are more difficult on the subject of employee savings schemes, since the investors seem to have very little knowledge of what they own and of the funds in which they have invested in the context of this investment wrapper.
[66] "Les salariés et les dispositifs d'épargne salariale (employees and employee savings schemes): OpinionWay study for Employee Savings Week", June 2020

Investment in small unlisted companies previously attracted risk-seeking investors, often interested by tax incentives. In a context of economic recovery, some investors are now keen to give a more patriotic, or more local positioning to their investments. Long-term savings can accordingly be built up by collective investments in small, unlisted growth companies, national or regional. These are companies on which a bet is placed by the fund manager who follows the company and discloses the reasons for his investment.
The investor is thus closer to the companies in which he holds shares and monitors their growth, their successes and their failures. This approach is more risky than that of a fund invested in equities listed on the major international stock exchanges, which will also be generally more diversified.

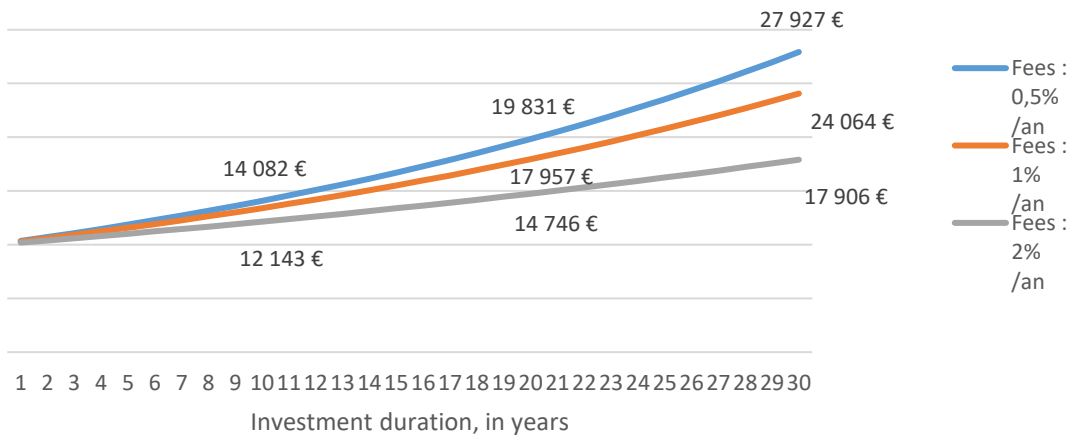
Funds investing in unlisted equities, which are illiquid, are very suitable for the long term. For retirement savings, they are an additional source of diversification for investors with a greater appetite for risk taking and not constrained by a precise maturity date.

However, in the event of mixing and cumulation of investments in various funds investing in unlisted equities, it is essential to watch whether the concentration in risky assets is not greater than the investor's wishes and his risk profile.

Long-term savings fees

Although they are not one of savers' main criteria of choice regarding investments,[67] investment fees, as remuneration of the service rendered, at their current levels nevertheless have an impact on the real return on investment. This impact is especially significant for longer investment horizons.
With regard to long-term savings, time is on the saver's side and diversification in equities protects his purchasing power as a future pensioner. For the invested part, based on observations of the past it seems reasonable to expect performances of around 3% to 5% per annum adjusted for inflation.
The annual fees charged on funds invested in equities and managed actively usually range between 1.5% and 2.5% per annum[68], a level of fees which lowers the net real return by between 0.5% and 3.5%.
This impact of fees is significant in the long term, as shown by the graph below.
After 20 years, for example, the value of the investment remunerated at 4% has increased by 98% with fees of 0.5% per annum and 47% with fees of 2% per annum. After 30 years, the difference in fees results in a 56% difference in the end capital.

GROWTH OF AN INVESTMENT OF 10,000 EUROS WITH A CONSTANT ANNUAL RETURN OF 4%, ACCORDING TO THE LEVEL OF FEES



SOURCE: AMF

[67] The main criteria of choice are the return, risk, availability of the funds invested and tax treatment. AMF Savings and Investment Barometer, October 2021
[68] ESMA has estimated at 1.73% the average total fees over ten years for French equity UCITS ("Performance and Costs of EU Retail Investment Products", ESMA Annual Statistical Report, 2021).

At the present average levels, the fees charged on long-term savings penalise the attainment of investors' long-term savings objectives. In some cases, the fees for the legal and tax wrapper (that of the PER, for example),[69] added to those of the investment vehicles (the funds), may be as much as 3% per annum and halve the average performance expected of an investment.

Apparently investors underestimate this major impact over the long term. European regulations are regularly improving transparency regarding the total and detailed amount of fees applied to savings invested in financial markets,[70] but progress still has to be made in order to harmonise the information provided in all situations and for all investment solutions.

A study of the clarity of the information on investment fees[71] showed that the issue at stake is also an understanding of the information provided before and after subscribing to investment products.

3.3. EDUCATION REGARDING LONG-TERM SAVINGS IN LIGHT OF THE NEW INVESTMENT OFFERS AND PRACTICES

The health crisis accelerated the digitalisation of the economy and shook up investment in the stock market. Since 2020, the number of investors who have performed transactions on equities is significantly higher than it was in 2018 and 2019.[72] New, younger investors invested for the first time in 2020 during the first lockdown, just after the exceptional equity market decline from February to March 2020.

The "neo-brokers" and new investors

This renewed interest in the stock market coincided with the advent of new market intermediaries, called "neo-brokers", proposing smoother, more pleasant digital interfaces and posting very low levels of fees. These offers, fully digitalised and often more user-friendly, because they are adapted to mobility, seem likely to encourage a younger client base to take an interest in investing in equities.

The arrival of a new generation of investors in equity markets is good news. The new interfaces, which simplify investment in the stock market, correspond to the expectations of clients accustomed to the user-friendliness of the digital tools they use every day. Ease of access to these platforms could therefore encourage retail investors, especially the younger ones, to participate in financial markets and forge a stock market culture for themselves.

The efforts of some of these platforms to provide information using language that is suited to their new clients could have financial education benefits in the long term. However, information that is excessively simplified or too partial entails substantial risks from an investment standpoint.
These platforms take the form of mobile applications accessible at all times. To varying degrees, they endeavour to make investment pleasant, with functionalities in some cases even similar to what gamers find on their online gaming applications. They may develop celebration animations which could create positive comments from other traders presented as a model. This "gamification" raises questions in the case of the provision of an investment service which might acquire the attributes of a game or a bet which would encourage impulsive responses, underestimate or conceal the risk involved and banalise investment.
Building up savings is a serious matter, because it has an impact on one's financial future. You must acquire financial knowledge, understand clearly the product in which you are investing, its characteristics and its risks, clearly determine your personal objectives and investment horizons, and above all never invest money that you need in the near term.

[69] "Rapport sur les nouveaux plans d'épargne retraite : frais et informations tarifaires" (Report on the new retirement savings plans: fees and price information), CCSF, July 2020
[70] The MiFID II European directive stipulates in particular that in the case of investment advice, an estimate of the total fees should be submitted to the client before making any investment.
[71] "Clarity of the information on fees related to financial investments". CSA qualitative study for the AMF, May 2020.
[72] The AMF counted 410,000 new investors having performed at least one equity transaction in 2020, for the first time since 1 January 2018. These are therefore partly investors who had been inactive since that time, and partly new, younger investors: in 2020, 28% of the new investors were aged under 35, compared with 12% for other investors. Active retail investor trend chart, January 2021

The latest digital mystery visits

Through tests on the online opening of securities accounts and investing in equities and funds, the AMF observed the disparity of the online practices of investment service providers, financial investment advisers and asset management companies.[73]

In this study, the AMF noted good practices. For example, while the speed of access to information is clearly one of the benefits provided by digital services, the client should always be allowed a reasonable time for thinking so as to invest after becoming well acquainted with the precontractual documentation. Other recommendations: provide more explicit information on the level of support provided (advice or not) and its consequences, and guide the client by proposing to them at each stage instructive explanations, which may take the form of neutral content, but also of more interactive support throughout the "client" path.

The digitised client path is an opportunity to provide neutral and objective educational information throughout the path. If it well construed, it can ensure the client's informed consent.

A service without advice for independent investors

The neo-brokers' offer usually consists of simplified access to a large number of stock exchanges, and directly held shares and ETFs. It does not provide investment advice within the meaning of the regulations and is therefore appropriate for the most independent investors, most able to decide on their investments without receiving professional investment recommendations.[74]

At this stage, none of them proposes the legal and tax wrappers (PEA, PER, etc.) customarily proposed for long-term investment solutions.

The neo-brokers meet the requirements of the new investors who are not looking for conventional advice or the services of an adviser, but choose the lowest cost, simplicity and use without any constraint of place or time.

Extensive, simplified access to financial markets, without advice, and very often without explanations, undeniably meets the needs of independent or highly experienced investors. But it also attracts more novice investors.

The question is whether and how these investment offers could help these novices gradually acquire a sound personal stock market culture, establish their long- or very long-term savings to match their situation, their profile and their needs. Certain platforms propose gradual investment planned over time and therefore seem to provide a path marked out for long-term savings.

However, the lack of investment advice could be disadvantageous notably with respect to awareness of diversification and risk spreading in one's portfolio. It should be considered how the use of very-short-term investment incentives fits in with the long-term investment proposition, and whether all this is in the best interests of the investor.

The choice of an intermediary

Investors must be very careful in choosing their intermediary. They should, in particular, make sure to use an authorised broker and avoid market participants based outside the European Economic Area (who are not authorised to propose their services in the European Union). Savers must be able to select their intermediary with a good understanding of the proposed service, the relevant regulator, the nature of the services provided for them for what direct or indirect cost, the product in which they are actually investing (equity or derivative) and the claim, mediation and legal processes applicable in case of dispute.

These new platforms operate through the European passport. In case of dispute, a client should have access to an effective claims service and a mediation process in his own language and in his original culture.

[73] "Review of "Digital path" consumer tests conducted under MiFID II", AMF, July 2021

[74] As stipulated by the regulations, these online intermediaries must nevertheless assess the level of knowledge and experience of each of their clients, in order to warn them when, based on the result of this assessment, they want to invest inappropriately in financial instruments that are too risky or too complex.

Faced with very recent offers, there is at present little hindsight regarding the effectiveness of the systems established. Since these platforms are not covered by AMF supervision, their clients cannot have access to the AMF Ombudsman, who is an independent public mediator free of charge, but will depend on mediation systems specific to each country, which may be very heterogeneous and very different from the French system relating to financial instruments.

The neo-brokers, diverse offers and different levels of risk

The offers of the "neo-brokers" are of various kinds. Some propose conventional investment in listed equities. Other offers direct their clients to investments that are far more risky than equities, through leveraged derivative products, or to crypto-assets (directly or via derivatives).[75] Faced with simplified presentations of the offers ("enter the equity universe" or "the stock market universe"), is the client always well aware of the risks taken?

Certain new offers highlight investments in fractional shares, maintaining the shareholders' rights once the share fractions have been aggregated (dividends and voting rights at the General Meeting). In others, what are called "fractional shares" or "tokenised shares" are derivative products replicating the performance of those shares.[76] In this case, the client owns no security and does not benefit from the rights attached to the status of shareholder.

Some intermediaries may also encourage their clients to place stock market orders automatically. Copy trading consists in automatically copying the activity of one or more investors proposed as a model. This method, which makes it possible to duplicate investment choices on a trading account, is presented as simple and lucrative.[77]

Another service that is growing rapidly is social trading, which consists in sharing informal investment recommendations and which corresponds to a certain "Uberisation" of the investment recommendation.[78]

These various services could drive investors away from the practice of controlled long-term investment. They apparently do not promote education in long-term investment, because they minimise the efforts needed to learn the fundamentals of investment in the stock market and understand the risks entailed by the investments made.

The development of social trading is a subject of major concern for regulators. The practice of social trading, which is based on exchanges of viewpoints, informal recommendations and sharing of trading intentions, exposes the investor to suggestions for which sound financial literacy is very helpful. By blindly following recommendations or signals or uncertain reliability, the retail investor does not necessarily grasp clearly what he is buying (equities, leveraged derivatives, forex) and is likely to be exposed to products that are more risky than they wanted.

In case of a lack of experience or of limited personal knowledge, which is suggested by the fact of calling on a "trader" who claims to be an expert, it is necessary to choose the appropriate investment service, and in this case, investment advice or portfolio management service. Before following the "recommendations of an expert", it is essential to investigate the expertise and the credibility of that "expert". Apart from his personal competence, conflict of interests is a major issue: is the expert in question objective, is he remunerated, does he receive benefits from having people invest in such or such a way? Do his recommendations, disclosed to a whole community, have the effect of influencing the price of certain stocks, e.g. relatively illiquid small caps? Who would profit from this?

The illusion of equity investment free of charge

Most neo-brokers propose investing without brokerage fees or with very attractive rates. However, an expense-free model cannot function economically. Market participants which highlight stock market investing without fees may be remunerated more indirectly. The fact of intervening as a counterparty generates a possible compensation on the spread between the buying price of a share and its selling price. The regulations stipulate that the remuneration of an investment service provider must be transparent for the client and protect their interest in all circumstances. The "best execution" obligation in particular requires that the service provider ensure protection of the client's interests when placing an order (best price, best execution time, etc.).

[75] For example, with brokers proposing to invest by means of CFDs (contracts for difference) associated with leverage effects, the percentage of clients who have recorded losses ranges between 70% and 80%.

[76] Despite their name, these "tokens" may not be digital assets but financial instruments such as derivatives.

[77] It requires that the professional be accredited for the service of portfolio management for third parties and comply with the entrusted mandate and in particular the investor's risk profile, knowledge and experience.

[78] The originator of these recommendations is required to obey precise rules concerning the disclosure of their identity, their sources, and any conflicts of interest (are they remunerated directly or indirectly?).

A key issue is transparency regarding the intermediary's sources of remuneration. The latter must not infringe the broker's various professional obligations and good conduct duties, in particular the obligation of acting in the best interests of the client. What guarantees are provided for loyal behaviour towards the client?

A number of market participants highlighting stock market investing without fees receive payment for order flow (PFOF). This indirect remuneration is very likely a source of conflicts of interest. This practice challenges compliance with the rules for best execution of orders. Execution may take place at a less favourable price, and correspond to a cost for the retail investor higher than the cost of a fee announced clearly by a rival intermediary. It could result in leading the investor to place an increasing number of buy or sell orders unnecessarily, and direct them to products that are more risky.[79] ESMA has announced publicly that it is examining this matter.

Here again, financial education will help investors not to choose their broker solely on the basis of attractive fee offers. An understanding of the business model could help them keep a healthy distance from investment inducements and in the end select only what corresponds to their personal long-term investment strategy.

Financial education and social media

The ever-increasing use of digital systems, social media, specialist forums to stay informed, but also to find advice, is affecting all sectors of activity, including investment in the stock market, including in France.

The social media are therefore becoming for some investors a major source of investment ideas, or even investment recommendations, a regulated activity which implies in particular that investors be capable of easily identifying any conflict of interest of the persons expressing those recommendations. These requirements also apply to influencers claiming to have financial expertise, who frequently make recommendations to a broad public.[80]

These new communication channels can be environments conducive to risky and dangerous guidance of savings or, worse, investment scams.

What role should financial education play in the era of social media?

The aim is, first, in order to combat the numerous attempted scams, to give younger people especially the means to take an objective view of information gathered on the internet, commercial proposals that are often enticing but of doubtful reliability.

With regard to novice investors, the aim is to provide them with the basic principles of investment in the stock market. Financial education should make it possible to understand an investment offer, to distinguish between short-term speculation (trading) and long-term investment, with its prerequisites and its demands. It aims to enable them to assess the risks taken through their investments and also provide them with the arms to avoid panicking when the value of their investment declines.

Traditional financial education, even in its most attractive formats (e.g. videos), seems less and less capable of reaching the general public when the message comes from an institution.

It should also obtain support from these social media to develop everyone's ability to distinguish between reliable information and falsification.

In addition to the principles of long-term investment, the aim is now also to encourage the proper use of the digital tools available to savers and the acquisition of good habits. Financial education should therefore be combined with education in the use of digital technology, and in the dangers and benefits of social media. Public institutions have invested heavily to make instructive, neutral and reliable contents available to all.[81]

[79] In order to resolve the issue of conflicts of interest, the AMF has asked for a ban on investment firms' receiving payment for order flow, i.e. any remuneration or any inducement for routing clients' orders to a particular trading or execution system. "AMF Position Paper to encourage savers' participation in EU capital markets", 5 October 2021

[80] The European Securities and Markets Authority (ESMA) has reaffirmed that information or an opinion in the form of recommendation information must be produced objectively and transparently so that investors may distinguish facts from opinions and be able to easily identify any conflict of interest. "ESMA's Statement on Investment Recommendations on Social Media", 26 October 2021

[81] The instructive contents made available by the authorities are those of the Banque de France (MesQuestionsd'Argent), the ACPR (Assurance Banque Epargne Info service) and the AMF (espace Epargnants).

CONCLUSION

Much still remains to be done to stimulate the long-term savings of the French and its diversification, which are factors of financial well-being.
This means taking into consideration their preferences, their needs and their interests, but also their problems.
Since the French will have an increasing need of long-term financial preparation, savers who are keen to prepare their financial future should be able to start an automatic savings plan at a relatively young age.

Guaranteed returns are a thing of the past. Only diversification of their savings will enable savers to achieve their long-term objectives.
The findings of behavioural finance are precious: investment is an unnatural activity which requires both learning, discipline and support.

Investor education is a key factor. It makes it possible, in particular, to acquire the necessary knowledge to converse with one's financial adviser.

Financial institutions have a role to play. The establishment of long-term savings is a key moment in people's "financial life", which fully justifies close support. The aim is no longer merely to propose an investment wrapper but to reflect with the client on their needs according to their profile and their investment horizon. The resulting investment recommendation should be appropriate, clear, expressed formally and shared with the client.

Financial advice is changing. The digitalisation of investment paths is having a significant impact on financial investments. The purely digital offer is acquiring an increasing position in distribution channels and can meet the needs of the most independent investors.
But savers' and investors' profiles are diverse. Savers must have a choice between services with or without advice, according to their profile and their needs. They must therefore receive clear information on these services and their characteristics, in order to properly grasp their differences.
In a context of an insufficient diversified long-term investment culture, most savers still count on direct interaction with an adviser to diversify their savings by choosing the products most appropriate for their needs.
For a controlled diversification of their long-term investments, it is therefore essential to maintain access to reliable, high-quality advice.