AUTORITÉ DES MARCHÉS FINANCIERS

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AMF HOUSEHOLD SAVINGS OBSERVATORY NEWSLETTER

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EDITORIAL

Stimulating long-term equity investment

Risk aversion, problems making long-term projections, consecutive stock market crises… The list of reasons why the French make so little use of equities to fund their long-term welfare needs (retirement, care etc.) is a long one.

To get a better understanding of the psychological hurdles at work here, the AMF organised a series of interviews with 18 investors aged between 30 and 45, with extremely interesting results.

Investors have a deep-rooted reluctance to put their money into equities: firstly because they believe that investing in equities locks up your capital and is therefore only for the wealthier who have large sums available to invest, and for specialists. Secondly, the view is that equities produce profits that are most random and distant in time terms and require significant sacrifices (in terms of both purchasing power and time).

These hurdles can all be turned into levers for action. The challenge is to increase confidence in investment and to make people more independent in the investment process itself. It is important to teach about risk. People are more likely to include equities in their savings for retirement if they have been properly informed about yields and risks involved.

But rational arguments like this cannot change behaviour patterns unless accompanied by reassurance about access to and the flexibility of long-term equity investment, and above all unless the argument itself is tailored to fit the profiles of those involved and their very different approaches to investment.

In line with its overall duty to protect investment and with our national financial education strategy, the AMF will be contributing to educate the public on long-term investment via information campaigns. ■

FOCUS

Rise in shareholding over the last year

The Kantar TNS[1] survey has shown that shareholding - both direct and through collective vehicles - has risen over the last year.

After years of falling shareholding rates (from 13.8% at end 2008), direct shareholding rose to 7.6% by March 2017 from its 2016 low point of 6.2%.

5.9% of French interviewees said they had investments in collective vehicles in March 2017 (5.2% in 2016).

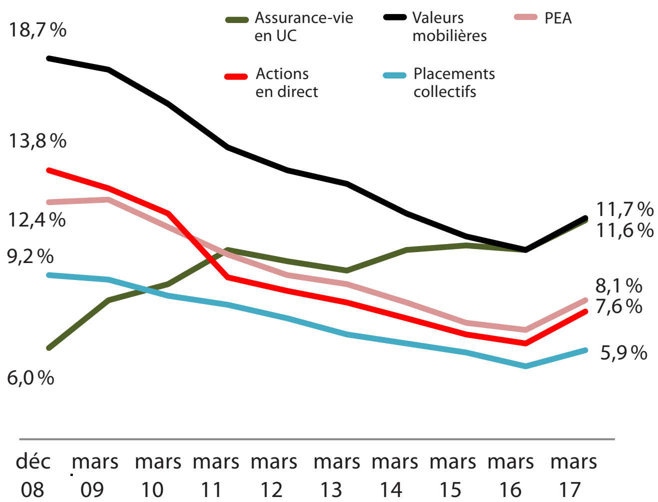
General shareholding levels (direct and through collective vehicles), which had been sliding without a break since 2008 and bottomed out at 7.6% of the population in 2016, were back up to 8.7% in 2017.

The proportion of French respondents who said they held funds (UC) via a life insurance contract rose to 11.6% in 2017 (10.3% in 2016).

A significant rise

The size of the sample used in the survey gives a margin for error of around 0.5%. It is very probable, for example, that direct shareholding was between 7.1% and 8.1% in 2017. ■

COMPARISON OF SECURITIES HOLDINGS, 2008-2017



Source : Kantar TNS, March 2017

1. AMF is also publishing a study on the hurdles and levers of long-term equity investment, .
2. This is an annual postal survey that since 2008 has been asking a selected sample of over 12 000 French respondents aged over 15 about the financial products they hold.

Long-term equity investment - obstacles and levers

The AMF's qualitative survey looks into the psychological block many investors have when it comes to equities.

French investment tends not to be sufficently long-term and involves little diversification into equities. Opinion polls regularly confirm savers' reluctance to put their money into what they see as risky investments.

Our qualitative survey provides a better grasp of the obstacles and levers associated with long-term investment in equities.

A varied approach to investment

The interviews identified different types of investor, based on how personally involved they were in managing their investments and their (relaxed or fearful/worried) feelings about them:

- the most frail feel powerless and tend to avoid talking about money ;
- 'managers' tend to operate to want to protect themselves and their families and are forward-looking;
- people taking a 'seize the present' approach appear carefree and passive, focusing on the short-term;
- speculators are usually relaxed and take an improvement and yield approach.

Investment is made for a variety of reasons: short-term pleasures; protection against life's unforeseen hurdles, which may mean short-term but not fixed-term investment; and asset-building investment, which is medium to long-term investment for e.g. children's education, house purchase, change of career etc. Saving for retirement falls into the categories of both investment to protect against life's hurdles and asset-building.

Some products were clearly identified: savings accounts for current needs, life insurance and homebuyer savings accounts for specific projects. Property is often perceived as protection against life's unforeseen hurdles and asset-building (asset-based approach). Equity products were not mentioned.

Numerous prejudices against equities

Equities are seen as unreliable, risky, even unprofitable and a risk that does not diminish over the long-term.

Equities are considered remote and difficult to understand, presenting complicated requirements and requiring large amounts of capital. They are believed to be for specialists only, those who have the knowledge and time to monitor their investments and have the financial means required for the investment itself. Equities are seen as investments that tie up capital, which ceases to be liquid.

ZOOM

Interviews with investors

The purpose of the study by Kantar TNS was to gain a better understanding of the obstacles to long-term investment in equities by interviewing active 30-45 year-olds.

The basis is a series of 18 2-hour interviews with people (who all live in Ile-de-France, the greater Paris region) and who were divided into 3 groups:

- short-term investors: who are little concerned about retirement and invest in guaranteed and liquid investment products;
- security investors: who are concerned about their retirement and have an appetite for long-term guaranteed products;
- speculative investors: who are concerned about their retirement and have an appetite for long-term investments that carry risk.

The perception is that the cost - whether financial (where the investment is considered a sacrifice) or in terms of time (regular monitoring, searching for information etc.) - is disproportionate to the (very volatile, conditional and distant in time terms) gains.

The cost-benefit ratio is not obvious. The sacrifices required in terms of daily effort are considered unacceptable and the random and risky nature of the equities themselves does not justify the additional work involved.

Our qualitative survey has shown that equities are not automatically viewed as good long-term investments, particularly when saving for retirement. Investing in equities is considered rather inappropriate given current financial constraints and the protection and security aimed for by many investors.

These deeply rooted convictions are obstacles to long-term investment in equities.

Long-term equity investment levers

One of the first obstacles to long-term investment is investors' lack of knowledge.

Investment education should start with the ability to make long-term projections. Equity investment education could then follow (term, aims and relevant products, including retirement solutions).

It is important to explain why equities can represent a long-term investment and to provide information on investment terms: the earlier you start, the bigger the gains.

The investors made it quite clear that they place little faith in equity yields, and recent stock market and financial crises have made them even more wary. Not only are they risk-averse and over-estimate the risk of total loss, but they do not believe in the superiority of equities as a long-term investment.

↗ Correcting misconceptions about equities

The main psychological barrier is that equities are random. The other barriers, for investors who might nevertheless 'take a punt', are their prejudices about the flexibility and accessibility of equities.

Argument 1 : equities yields and risks

Investing in equities via the leading marketplaces usually produces genuine and positive yields. Over the long term, and as long as the investment is properly diversified, the risk of loss is low.

Argument 2 : equities make flexible, accessible investments

You can regularly invest very small amounts in diversified equity funds. The amounts invested can still be accessed if required and professionally managed, diversified collective investments (funds and sicavs) offer turnkey solutions to savers who have neither the time nor the knowledge to invest in the financial markets themselves.

No association between equities and the long term

Respondents did not mention long-term investment. They tend to think in terms of product and object but not term, even when this is associated with their object. Long-term investment is primarily associated with life insurance, never with equities - except in a few rare cases. Equities are associated with the short-term, good deals, gain, risk, random, abstraction and opacity.

+5,3 %, the average annualised performance of diversified equity investments over 20 years

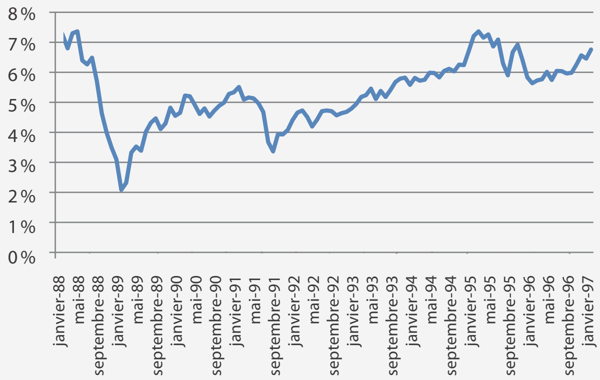
The AMF calculated the average yield of monthly incremental investment in diversified international equities2.

Investment over a period of 20 years was simulated for January 1988 to February 2017.

This produced an average annualised performance of 5.3% on these diversified incremental investments, before costs and tax, over the period.

The annualised performance of each of the 110 investments was generally between 3% (investments beginning in 1989) and 7% a year (investments beginning at the start of 1988 and in 1995).

Annualised average nominal performance of the 110 incremental investments in diversified equities over 20 years



Source : Datastream, AMF calculations.

Interpretation: the first incremental investment started in January 1988 and the last in February 1997. After 20 years, an investment begun in February 1997 will have produced an annualised performance of 6.8%.

Warning: given the term of the simulated investments (20 years), the observation period is relatively short. This means that 1997-2008 is slightly over-represented. The investments simulated are all managed and have been allocated to different indexes in constant proportions without adjustment. Exchange variations have not been neutralised.

↗ Equity investment education

Simply saying that equities offer good long-term guarantees, even if the risks are not hidden, is a dangerous business. Education will not be credible unless it is practical and prudent.

When the economy is expanding and the financial environment is relatively stable, equity may fluctuate but will generally and over the long term (at least 20 years) outperform other forms of investment. But even time does not totally eradicate the risk of loss. For this reason and in order to reduce this risk as much as possible, it makes sense not to put all your long-term investment in equities, to diversify your equity investments internationally and to make regular investments reduce the risk of doing so just before a major drop in the market. ■

3. *Fixed monthly payments (e.g. 100 euro a month for 20 years) and division of each payment across a range of markets represented by the main market index with reinvested dividends (CAC 40, FTSE 100, Dax 30, S&P 500, Topix).*

The main French financial investments of 2016

At the end of 2016, euro-denominated life insurance and bank savings accounted for three-quarters of family investment.

In 2016, as in 2015, families' main financial investments were in bank deposits (cash, savings accounts, homebuyer savings) and life insurance. Bank deposits (59% of investment flows) outweighed life insurance (44%).

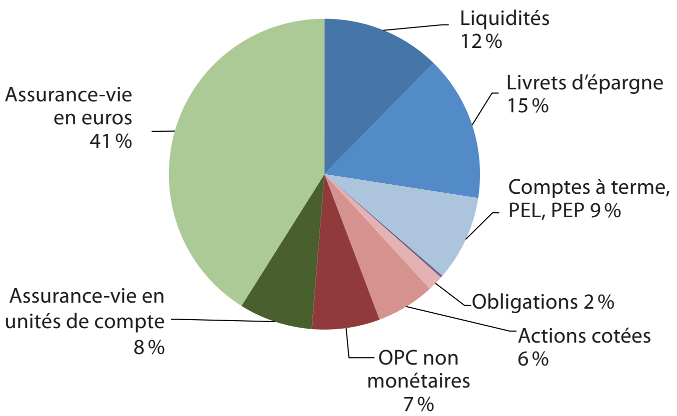
Excluding unlisted equities3, investment in securities (shares, bonds, funds) was overall negative. Funds alone showed positive inflows.

At end 2016, life insurance (euro/UC) represented almost half of families' main financial investment, excluding unlisted equities. Cash and bank savings (savings and homebuyer savings accounts) accounted for around one-third.

Securities (excluding unlisted equities) were 15% of the total (23% if you add collective investments in the form of life insurance UCs).

Guaranteed investments represented in total around 77% of all family financial investment. ■

Main family financial investments end 2016



Source : Bank of France, Main family financial investments, May 2017, AMF calculations.

Security and access - the Key words for French investors

Security and access more important than performance.

56% of the French say they saved in the last 6 months (but only 46% of these have incomes under 2,000 euro a month).

40% of them believe the most important thing when investing is security, 34% believe it is access and just 16% think it is performance.

The priority is zero risk with a moderate return (72%) rather than acceptance of slight risk (26%) or significant risk taking (2%). ■

Source : Ipsos for Fédération française de l'assurance, 1009 French investors over 18 ans, Les Français, l'épargne et l'assurance vie, *February 2017.*

Are French risk-intolerant?

The French are among the most timid investors in Europe.

A recent survey revealed that the risk tolerance of 84% of the French is low or very low, compared with 80% for Italians, 78% for Germans and Spaniards and 75% for the British. The French are the least likely to make risky investment (1 in 4), compared to over 1 European in 3 (45% being the world average).

However 29% of the French in general can see themselves taking greater risks in 2017, or 48% in the case of the 18-35 age group. ■

Source : Legg Mason, 15,300 interviewees aged 18-74 worldwide, of whoom 900 in France, February 2017.

6% of the French have a PERP

In March 2017 6% of the French had a retirement savings plan (PERP).

Personal and optional retirement savings plans (excluding collective company schemes) are essentially PERPs and specialist products for certain professions (Préfon, Corem, etc.). In March 2017, 6% of the French said they had a PERP and 3% a specialist retirement plan. ■

Source : Kantar TNS, SoFia survey of over 12,000 French citizens over 15, March 2017.

Investment: French mistrust of robots

Half the French do not want robots to make financial transactions for them.

51% of the French do not want to use automated robotic services (programs that learn the client's preferences and make investments using that information) - a similar proportion to that found in Belgium and Germany but higher than that in the US (34%). 40% of the French do however want to receive automated advice but want to make the decisions themselves ■

Source : ING Mobile Banking, 15,000 interviewees in 15 countries in February 2017, May 2017.

4 Unlisted equities and other holdings are generally business shareholding of capital by individual entrepreneurs.

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