

THE AMF HOUSEHOLD SAVINGS OBSERVATORY NEWSLETTER



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ÉDITO

Mystery visits: progress made, but more needed

The MiFID 2 European rules came into force in January 2018 and were designed to strengthen the protection afforded to investors, in particular by reinforcing the obligation to ensure that investments are compatible with a client's profile, situation and objectives, and to provide more comprehensive information on fees.

The mystery visits conducted by the AMF in recent months, the principal findings of which are published in this newsletter, provide insights into how the rules are being implemented by customer advisers in French banks.

Most institutions have reviewed their practices to adapt to the new requirements of MiFiD 2, and the efforts made to get to know customers and their requirements have improved since previous campaigns.

There is still progress to be made, however, particularly when it comes to assessing investors' level of financial knowledge and providing information on recommended

products and the level of fees.

Advisers also displayed a greater propensity to propose equity savings plans (PEAs) than in previous campaigns, although they also overwhelmingly continued to promote diversified life insurance contracts. They also often recommended real estate investments (SCPI/OPCI) and discretionary mandate services.

Our mystery visitors were provided with relatively little regulatory documentation. At the end of the interviews, these prospective clients were not often informed of their investor profile, and despite being in a position to receive personalised investment advice, in most cases they were not presented with suitability reports.

These results will be presented to the relevant banking institutions in a spirit of dialogue and support, helping them to implement enhanced protective measures for savings investments from MiFID 2, and the quality of information on fees. ■

FOCUS

Personal pensions savings: only half of the active workforce

People are preoccupied, but their savings are not sufficient

According to the figures in the AMF's savings barometer, financial planning for retirement is a major preoccupation for 80% of French people between the ages of 35 and 64.

What effort is being made to save for retirement?

Although 52% of those in work (not retired) add to their pension savings at least on an occasional basis, only 19% of them do so regularly. People in work who do save regularly put away an average of €2,200 per year (with 41% saving less than €1,000 per year).

The biggest savers are the higher social categories (€2,800 p.a.) and those with substantial financial assets (€3,600 p.a. for those with assets of over €50,000).

Who is saving regularly for their retirement?

People in work who regularly add to their pension savings are relatively old: 33% of those over the age of 55 do so. The proportion of respondents who regularly contribute to their personal pension savings was also 33% among holders of financial investments.

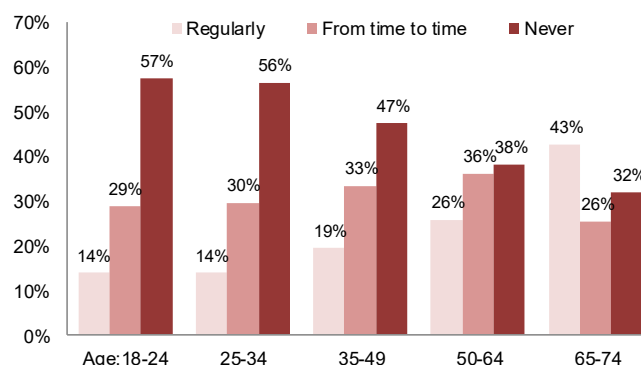
Savings considered insufficient by those in work...

Only one in five respondents currently in work feel that they are saving enough for their retirement. 17% believe that they know the amount they need to save, while 38% say they have a fairly accurate idea. 45% have no idea at all.

... and those who have already retired

Only 50% of retirees feel that their personal pension savings are adequate. 68% of retired people aged 65-74 are still saving for the future. ■

Figure 1: Do you put money away for your retirement?



Source: AMF savings barometer, survey of 1,244 respondents aged 18 or over, October 2018

The AMF's mystery visits: some progress made, more needed



The purpose of these visits is to assess the quality of the interviews between bank advisers and prospective clients.

Mystery visits have been conducted by the AMF since 2011. A new campaign of mystery visits was conducted between December 2018 and February 2019 to assess implementation of MiFiD 2, which came into force in January 2018.¹

We sent two types of savers to visit banks: savers with "risk-loving" profiles, with relatively high incomes and a corresponding capacity to sustain losses, and "risk-averse" savers with less ready cash and a lower tolerance for risk.²

When making their appointments, all our mystery visitors declared that they were looking for advice on the best way to invest a sum of €70,000 which they were shortly to receive, and that they were keen to meet with an adviser.

Some of these prospective clients went as far as to sign up for financial products. In virtually all of these situations a second appointment was organised.

Satisfactory efforts to understand customers' circumstances and objectives

Since our last mystery visit operation in 2015, the questions asked about prospective customers' financial circumstances have clearly improved. Nonetheless, more still needs to be done to assess their level of financial understanding and experience. The scenario we used, with advisers informed in advance of a sum in the pipeline, undoubtedly allowed for more effective preliminary qualification of the customers.

Depending on the profile of the mystery visitor, the efforts made to ascertain their expenses and capacity to handle losses (new to MiFiD 2) varied. Less effort was made to obtain this information from the risk-loving profile.

Table 1: The adviser asked the client about...

	Risk-averse		Risk-taker	
	2015	2018	2015	2018
their income	59%	80%	58%	71%
their outgoings	45%	74%	35%	50%
the total value of their savings	91%	82%	91%	81%
their tax situation	47%	65%	45%	58%
their capacity to handle losses	-	64%	-	32%

Source: AMF

¹ AMF mystery visits are not official inspections; their primary purpose is to enable the regulator to observe commercial practices and the application of regulations on the ground.

² For each profile, we conducted 110 visits to 11 banks: Banque Populaire, La Banque Postale, BNP Paribas, HSBC, Société générale, Crédit du Nord, Crédit Mutuel, LCL, Caisse d'épargne, Crédit Agricole, CIC.

The "risk-averse" profile

Age 40-50, married with 2 children aged 13 and 15, monthly income of €3,000 (after tax) with a partner earning €1,800/month (+20% for Paris).

Financial assets of €50,000 already in savings accounts and a life insurance policy. Home owner with 5 years left on their mortgage.

Interested in obtaining a better rate of return, willing to invest some capital on the financial markets but has little experience in this domain, and previously sustained a loss on investments in equities a few years ago. ■

Objectives well defined

The questions asked to define the customer's objectives were relatively comprehensive. However, fewer questions were asked regarding tolerance for risk (a new requirement of MiFiD 2), and they were more likely to be asked of the risk-averse profile than the risk-loving profile.

Table 2: The adviser asked the client about...

	Risk-averse		Risk-taker	
	2015	2018	2015	2018
their financial plans and objectives	68%	86%	65%	90%
their investment time scale	62%	88%	58%	83%
their appetite for taking risks	59%	78%	59%	66%
their risk tolerance	-	51%	-	28%

Source: AMF

The "risk-taker" profile

Age 40-50, married with 3 children between the ages of 9 and 14, monthly income of €3,100 (after tax) with a partner earning €3,600/month (+20% for Paris). Home owner.

Existing capital of €70,000 placed in a diversified life insurance contract (€30,000 of which is invested in funds exposed to risk). Also has a securities account (€10,000 invested in equity funds) and standard savings accounts (€30,000).

Looking for a better return than that offered by savings accounts and prepared to take risks to get it. Has a reasonable understanding of the financial markets and a certain experience of investments in equities. ■

Relatively few questions about financial understanding and experience

The financial experience and knowledge of our mystery visitors received relatively little scrutiny from the bank advisers they met.

One in five advisers asked our risk-averse visitors to assess their own knowledge of financial affairs, which is not the recommended practice.

Generally speaking, assessment of financial knowledge and experience was more robust with new clients than prospective clients.

Table 3: The adviser asked the client about...

	Risk-averse		Risk-taker	
	2015	2018	2015	2018
their level of financial knowledge	42%	42%	37%	28%
their own opinion of their level of financial knowledge	-	21%	-	16%
their financial experience	-	42%	-	30%

Source : AMF

The majority of advisers went through all the questions before beginning to discuss investment options.

An increase in the number of investment options offered

After questioning the mystery visitors, the bank advisers went on to present them with various investment options. They proposed an average of 4.1 products to our risk-loving visitors, and 3.2 to our risk-averse visitors.

As noted in previous campaigns, the products proposed to risk-loving and risk-averse visitors did not differ substantially. In the most recent campaign, this may be partly explained by the fact that the risk-averse visitors were nonetheless capable of handling a certain amount of risk as part of a modest diversification of their savings portfolio.

The number of financial savings vehicles proposed was much greater in 2018 than in 2015.

The PEA was the most frequently-proposed product

Life insurance contracts in units of account have been the most frequently-recommended legal and fiscal investment format for several years now. Such contracts were proposed without prompting by 90% of advisers.

Meanwhile, recommendations to open PEAs (equity savings plans) or securities accounts were more numerous than in 2015. More than half of the advisers proposed PEAs or securities accounts to our risk-loving mystery visitor, while one third proposed them to our risk-averse visitor.

In 2015, PEAs or securities accounts were recommended to our risk-loving mystery visitor by 35% of advisers, and to our risk-averse visitor by 23%.

Real estate investment schemes frequently recommended...

In terms of the financial instruments most frequently recommended in 2018, real estate investments came out on top. SCPI and OPCVI schemes were prioritised for our risk-loving profile.

Diversified funds and equity funds were also recommended to both our risk-loving and risk-averse visitors.

... as were discretionary mandate services

Across all of the banks we visited, prospective clients were often offered the option of delegating the management of their savings. Six out of 10 advisers proposed such schemes to both visitor profiles, in the form of life insurance contracts as well as securities accounts and PEAs.

Little information provided at the end of the interviews

The information provided to clients at the end of their interviews was often inadequate.

Investor profiles not often shared with prospective clients

Only half of the advisers we met provided a summary of the mystery visitors' situation at the end of their interview, and only a quarter informed them of their investor profile. Of those who did, this information was given orally in 4 cases out of 10.

However, once an account had been opened, the advisers did inform customers of their investor profile in almost 3/4 of cases.

Little sharing of key information and personalised reports

The majority of the documents presented to our mystery visitors were commercial in nature.

Key information documents were only handed over to new clients in around 1 in 5 cases, usually when opening an account.

Finally, when they were in a position to provide prospective clients - at least orally - with personalised investment advice, the advisers did not issue them with suitability reports summarising the information they had gathered regarding their circumstances, profiles and objectives.

Nevertheless, such reports were generally issued to new clients when they opened accounts.

Insufficient information on fees

Generally speaking, the subject of fees did not receive much attention: fewer than half of the advisers we met mentioned the fees associated with financial instruments and formats (life insurance, PEA).

Nevertheless, fees were explained more often to the risk-averse profile than to the risk-loving investor. ■



Preparing for retirement the key concern

Pension saving is the biggest preoccupation for 46% of retail investors.

Asked about their main financial objectives, French retail investors most frequently cited a desire to save for retirement (46%), ahead of precautionary savings (36%) and saving to cover age-related healthcare expenses (33%).

Source: AXA IM, questionnaire sent to a sample of 1,000 respondents representative of French adults (excluding the 20% with the lowest incomes), June 2018

Not interested in returns at any cost...

Two in three savers want to take sustainable development into account in their investment criteria.

Savers' opinions of their investments in companies are also evolving: 67% of those surveyed felt that it was important to weigh up the social and environmental impact of a business before investing, instead of focusing solely on the potential financial gain.

Half of French savers want financial enterprises to provide "evidence of their societal impact," such as reductions in CO2 emissions, better management of water resources or greater diversity within companies.

Source: Axa IM, June 2018

Employee savings scheme: positive results in 2018

In 2018, €15 billion were invested in PEE and Perco employee savings schemes.

The flow of investment into PEE and Perco programmes grew by over 5% to €15.2 billion. This total can be broken down as follows:

- €3.9 billion via profit-sharing schemes (+2%);
- €5.2 billion via incentive schemes (+6%);
- €2.9 billion of voluntary investments by employees (+9%);
- €3.2 billion of top-up payments by employers (+6%). With the total value of redemptions down by 12%, the net sum paid into such schemes (investments minus redemptions) was positive at €1.5 billion in 2018.

Overall, by the end of 2018, the total value of assets in employee savings schemes was €125.5 billion.

Source: Association française de gestion financière (AFG), annual survey of employee savings schemes, March 2019

Perco schemes grew substantially

In 2018, net investment in Perco schemes hit almost €1.7 billion.

By the end of 2018 there were 2.6 million active Perco accounts, an increase of 9% for the year. Despite the downturn in the stock markets toward the end of 2018, the total value of these schemes grew by 4.3% last year.

Source: AFG, March 2019

Life insurance: a substantial flow of money into risk-exposed vehicles

In 2018, payments into units of account represented a substantial proportion of total investments.

The net sum invested in life insurance contracts (investments minus withdrawals) increased in 2018 to reach €22 billion, up from €7 billion in 2017.

Net investments in units of account represented €21 billion. Over the same period, funds in Euros saw a net outflow.

The total value of assets in life insurance contracts was estimated at €1,700 billion at the end of 2018.

Source: Fédération française de l'assurance, February 2019

A sharp downturn in investments in FCPI and FIP schemes

Investments in FIP and FCPI programmes fell by 67% in 2018.

In 2018, €147 million were invested in FIP schemes and €209 million in FCPI schemes, a total of €355 million, which marks a sharp decrease from the €1.1 billion invested in 2017.

According to the AFG, this sharp drop in investment can be explained in large part by the abolition of the wealth tax credit for investment in SMEs, uncertainty regarding the extent of the reduction in the income tax credit for investment in SMEs in 2018, and the end of the transitional arrangements introduced in 2017 during the transition to the property wealth tax.

Source: AFG, March 2019