



FINANCIAL EDUCATION

Well-informed investors – key players
in tomorrow's economy

The financial education of investors, whether they are private individuals or institutions, as well as that of intermediaries, is a major issue for the development of meaningful savings that promote effective funding of our economy. The key objective is to enable investors to be both key players in and beneficiaries of a better financed economy.

The white paper recommends 14 measures broken down into three main areas:

Financial education

- Summarise the 10 principles of sound investment in an educational booklet
- Communicate with the general public
- Promote high-quality digital educational tools
- Reinforce financial education during school education
- Support future pensioners
- Promote financial education in Europe

Training

- Provide for advisers to give educational support to retail investors
- Create a digital file on the investor
- Adapt AMF certification to the job specifications of financial advisers / sales representatives
- Foster the continued professional development of advisers
- Create a digital file on the adviser

Regulation

- Simplify client questionnaires (MiFID II and IDD) and make them easier to understand
- Make information documents easier to read
- Spread good savings practices using behavioural incentives

Continuing his commitment to the education of investors, Eric Pinon, Chairman of the French Asset Management Association, AFG (Association française de la gestion financière), invited Inès de Dinechin, Head of the AFG mission on financial education and a member of the AFG's Strategic Committee, to draft a white paper. This educational document aims to provide tools to enhance investors' understanding in order to help them play a more active role in their savings and build their wealth over time. It sets out a series of recommendations intended for investors, financial advisers and public authorities.

Keys to enhance investors' understanding

The financial education of investors and third-party intermediaries is a major issue for the development of meaningful savings that meet the needs of French citizens and promote effective funding of our economy.

The growing complexity of markets and financial products and the new information requirements imposed on the financial sector by MiFID II are underlining the need to provide the keys to investors to enhance their understanding, in order to help them play a more active role in their savings.

Through the recommendations presented in this white paper, the objective of the financial education mission established by the French Asset Management Association (AFG – *Association Française de la Gestion financière*) is to launch a collective initiative with key players in the Paris financial centre for the benefit of all.

This educational work is fundamental. The current period of low interest rates is encouraging greater diversification in financial investments in order to compensate for the gradual decline in returns, while the political will to grow retirement savings – at both French and European level – requires the dissemination of long-term savings solutions that ensure protection and effective allocation of savings capital.

A number of surveys conducted on individuals have found a lack of knowledge of financial products and serious difficulties in carrying out simple financial calculations. However, these surveys have also indicated that individuals have an interest in financial matters and wish to be better informed. Long accustomed to being guided almost exclusively towards guaranteed, liquid products that benefit from tax incentives, today most retail investors do not possess the basic skills needed to think in terms of savings objectives (retirement, tuition fees, etc.) or to understand what a given investment might yield at maturity.

The increasing proportion of digital technologies involved in the interface between retail investors and financial players accentuate still further the need to simplify the dialogue. As such, the role of providers and distributors of savings and investment solutions should be not only to present their product offerings in language that is clear and comprehensible but also to provide this necessary financial education to the investor while disregarding all commercial considerations.

The implementation of the financial education mission reflects the desire of the AFG, as a representative of all players in the asset management industry, to contribute to initiatives on this topic, most notably the 'National strategy of financial education' being led by the Banque de France. Asset management professionals intend to participate fully in this collective undertaking, as it is a key factor enabling high-quality dialogue with their clients and ensuring that savings solutions are constantly adequate for retail investors' needs at all stages of their lives.

Eric Pinon, Chairman of the AFG

**Inès de Dinechin, Head of the AFG mission on financial education
and member of the AFG's Strategic Committee**

The current environment

By improving understanding of the economic and financial world, financial education builds confidence and leads to sound investment decisions. This combined approach of teaching skills, implementing new tools and training financial advisers should make it possible to change retail investors' behaviours and to harness their knowledge for the purpose of growing their wealth over time. Our reflections and proposals reflect current contextual factors:

- **Economic:** the period of low interest rates should encourage greater diversification of savings in order to compensate for weak returns. Long accustomed to being guided almost exclusively towards guaranteed and liquid products, today most French retail investors do not possess the basic skills to think in terms of savings objectives or to understand what a given investment might yield at maturity. For investors to understand that the way to optimise performance is through risk-taking and greater diversification of investments requires improved financial education;
- **Political and social:** the wider use of retirement savings and the impossibility of governments maintaining their support for unfunded pension schemes also mean that investors require support in determining their long-term commitments. Understanding, among other things, the impact of the investment holding period on the capitalisation of income and the sensitivity of asset classes, and the importance of regular deposits to smooth market fluctuations, will have a positive impact over time on the capacity of investors to plan their savings efforts over the long term;
- **Regulatory:** the application of MiFID II compels market participants to have more sophisticated knowledge of investors and greater transparency regarding information. An educational effort, in a clear and comprehensible language, is necessary to help retail investors gain a better appreciation of the risk appropriate to their needs and objectives. Enhancing this advisory relationship should also allow investors to understand and correct some of their behavioural bias;
- **Technological:** the fun, interactive formats offered by digital and by artificial intelligence enable retail investors to broaden their investment experience. They are an essential component of increasing investors' awareness of the issues associated with their investments in relation to their personal situations and objectives. Conversational tools create direct and personalised interaction and enable advice to be provided throughout the whole period of investment as well as an understanding of the behaviour of investors;
- **Societal:** investment is not always limited to financial performance. Realising that it is possible to reconcile investments with civic concerns or commitments can give meaning to savings. The desire to save can also be boosted by the belief that one's investments contribute, for example, to employment, innovation and ecological transition.

Recommendations of the white paper

These have been broken down into three main areas: financial education, training and regulation.

Recommendations on financial education

“Summarise the 10 principles of sound investment in an educational booklet”

(Recommendation 4, page 18)

The AFG recommends creating an educational booklet (4 pages) covering the 10 basic principles of investment (diversify investments, make regular deposits, define an objective/horizon, risk depends on the horizon, start investing early to benefit from the time factor, there is no performance without risk, etc.). It would also contain a list of unbiased financial education websites (e.g. www.mesquestionsdargent.fr). This booklet could be provided to the retail investor by the professional at the beginning of the relationship, thus integrating financial education into the customer experience.

“Communicate with the general public” (Recommendation 5, page 23)

In order to communicate to the general public the importance of financial education and the resources being employed to enhance it, the AFG recommends:

- Increasing broadcasts of information ads by public authorities (on radio, TV, etc.);
- Increasing the dissemination of educational programmes at teaching establishments (see *Recommendation 6*);
- That institutions from the Paris financial centre provide their support to the national strategy of financial education by reporting on the progress made, thereby encouraging investors and advisers to have an interest in financial education.

“Promote high-quality digital educational tools” (Recommendation 7, page 28)

With regard to disseminating existing public and private digital tools to retail investors (performance simulators, tests on financial knowledge, questionnaires for defining investment objectives, conversational tools, etc.), the AFG recommends:

- Creating a monitoring body to inspect, certify and evaluate digital tools to facilitate their dissemination. In particular, the latter could test the available tools and list the best tools;
- Creating – with other associations – a fun, digital tool for the Paris financial centre that will enable access to basic financial knowledge and simulations for all retail investors;
- Creating a prize for financial education tools to increase awareness and further the development of financial education tools;
- Developing a financial education portal on the AFG website.

“Reinforce financial education during school education” (Recommendation 6, page 25)

To develop the financial skills of retail investors as early as possible, the AFG recommends:

- Disseminating pedagogical resources (videos, games, etc.) that can be integrated into training modules delivered to secondary school students on an annual basis by including these in the national strategy of financial education;
- Creating financial modules on asset management, and in particular on collective management (UCIs), in asset management masters.

“Support future pensioners” (Recommendation 1, page 11)

The AFG once again recommends¹ :

- Improving public information material tailored to individuals (info-retraite.fr) by adding in

⁽¹⁾ AFG white paper “Retirement savings”, December 2016.

future retirement's projections revenues, the individual or collective retirement saving assets products such as the French PERP, PERCO or new PER product. Simulators should allow individuals to calculate additional future income;

- In order to ensure that employees and investors are aware of this information material (info-retraite.fr), a link to the site should be provided by employers (for example on payslips), holders of retirement savings accounts (for example on account statements) and public authorities (for example on tax returns). The aim is to enable citizens to plan their additional income requirements as well and as early as possible.

“Promote financial education in Europe” (Recommendation 14, page 38)

For example, the AFG is participating in an initiative led by the EFAMA to sponsor a committee on ‘financial education and long-term saving’ during the international session of the European Youth Parliament (<https://eyp.org/>). Discussions by this committee should lead to the adoption of a set of recommendations, which will be presented to European institutions and national policy-makers.

Recommendations on training

Aimed at individuals / retail investors

“Provide for advisers to give educational support to retail investors”

(Recommendation 11, page 33)

In order for retail investors to grasp all the concepts related to investment, the AFG recommends that financial advisers/sales representatives inform investors of the existence of educational modules in digital format that could lead on to evaluation tests. The content of these digital modules/tools could draw on programmes published on the AMF website.

“Create a digital file on the investor” (Recommendation 13, page 34)

In order to allow the portability of the retail investor's financial information, the AFG recommends creating a digital ‘personal savings file’ controlled by the investor and protected by the French Commission for Data Protection (CNIL – *Commission nationale de l'informatique et des libertés*). The following would be recorded in this digital personal savings file:

- All of the investor's financial information;
- The basic profiling questions under MiFID II/IDD² answered by the investor;
- Any educational courses taken by the investor, and their evaluation of the quality of these.

Aimed at intermediaries

“Adapt AMF certification to the job specifications of financial advisers/sales representatives” (Recommendation 9, page 33)

The AFG recommends modifying AMF certification (instruction 2010-09) to include, in addition to a narrower core of knowledge, supplementary modules (on classes of asset, client classification, behavioural finance, etc.) geared towards savings solutions and the services proposed by financial advisers/sales representatives.

“Foster the continued professional training of advisers”

(Recommendation 10, page 33)

In terms of compliance with guidelines under MiFID II/ESMA (N° 2015-1886) on the required annual update of professional knowledge and skills for financial advisers/sales

⁽²⁾ MiFID: Markets in Financial Instruments Directive / IDD: Insurance Distribution Directive.

representatives, the AFG recommends that a minimum number of hours of training per year be defined for financial advisers/sales representatives (based on strategies and types of clients covered). This training would cover new regulatory changes and financial techniques (classes of assets, SRI, etc.), with associated modules on behavioural finance (to better appreciate the cognitive bias of investors), and would be conducted by means of:

- Training modules and digital educational tools (MOOCs, e-training, telephone pods, etc.) to supplement those of the AMF;
- Attendance by financial advisers / sales representatives of conferences (for example, the AFG's "*Point sur*" and/or other conferences in coordination with associations of the French National Chamber of Financial Advisors (CNCGP – *Chambre Nationale des Conseils en Gestion de Patrimoine*).

“Create a digital file on the adviser” (Recommendation 12, page 33)

The AFG recommends the creation of a digital file on the adviser, which will catalogue AMF certification as well as all annual training, resulting in the issuance of a certificate of attendance and/or of achievement (evaluation questionnaire). This digital file will be available to clients.

Recommendations on regulation

“Simplify client questionnaires (MiFID II and IDD) and make them easier to understand” (Recommendation 2, page 17)

In order to improve education and develop the autonomy of retail investors, it is essential to adapt existing regulation to simplify and clarify access to financial investments. The aim is not to discourage risk-taking but rather to enable the intermediary and the investor to properly measure the risks:

- To open a discussion on the possibility of the Paris financial centre establishing a standardised MiFID II/IDD ‘profiling’ questionnaire for retail clients, which will be validated by the AMF. Such a questionnaire could also serve as an educational tool and the responses to it could be included in the ‘personal savings file’ of each investor (*see Recommendation 12*). In order to measure the evolution of financial education in France, the anonymised responses would serve as the basis for developing national studies;
- To create a Paris financial centre lexicon of terms to be used by advisers to avoid jargon when drafting regulatory and sales documentation and thus to make these documents easier to understand.

“Make information documents easier to read” (Recommendation 3, page 17)

The AFG recommends:

- At European level, improving the presentation of information contained in mandatory legal documentation aimed at retail investors (in particular the future PRIIP KIDs applicable to UCIs);
- Greater readability, which would allow these materials to be used as educational documents.

“Spread good savings practices using behavioural incentives” (Recommendation 8, page 29)

The AFG recommends encouraging good savings practices, such as making regular deposits. For example, part of an individual’s salary (and/or bonus) could be automatically transferred each month to an employee savings plan and/or company pension, from the first day of employment and unless otherwise specified.

Investors to become key players in tomorrow's economy

Our work has shown a real need to enhance financial education for savers/retail investors and financial players. The environment is currently favourable towards initiatives for a number of reasons: a strong political commitment to redirecting savings in accordance with the French 'Pacte' law (*loi relative à la croissance et la transformation des entreprises* – law related to the growth and transformation of companies); tax and pension reforms; new regulations in relation to rules on investment advice and distributing financial products (MiFID II, etc.) that place the client at the core of these activities; extremely low interest rates weakening the real remuneration of savings that are too geared towards short-term and guaranteed products; the expansion of digitalisation, enabling personalisation of the investor's experience by offering them more tailored information; and finally the emergence of a new generation of investors who want to give meaning to their savings and understand the impact of their financial investments on the economy.

This convergence of phenomena should be perceived as an opportunity to provide keys to retail investors in order to enhance their understanding, to help them play a more active role in their savings and be better supported in their long-term commitments. Our messages and recommendations are aimed at savers and retail investors and at public institutions as well as at third-party intermediaries in direct contact with clients. In effect, the lack of financial culture introduces a bias in savings allocations; it generates an aversion to excessive risk that penalises the remuneration of wealth. An educational effort, in a clear and comprehensible language, should help investors to have a better understanding of risk concepts and to better define their requirements and objectives, and thus to improve the return on their investments.

It is our belief that enhancing financial education will have a positive impact on portfolio diversification, on extending the investment horizon, and on the capacity of investors to think in terms of savings objectives (retirement, tuition fees, etc.) and to understand what an investment might yield at maturity. Our objective is to help retail investors to plan their savings efforts for the long term, by improving the quality of dialogue with advisers and distributors to enable savings solutions that are better suited to their needs at different stages of their lives.

To facilitate the dissemination of financial education among investors, financial players must also adapt their speech to their targeted audiences and their respective savings capacity. In this regard, they may benefit from technological tools at their disposal or currently under development in order to personalise their services and use these as a means of providing education. Consumption habits and client expectations are currently undergoing great transformation. A growing proportion of investors currently express the need to understand the impact of their investments on the economy and to reconcile the financial performance of savings solutions with general interest matters.

Working alongside public authorities, the AFG and asset management professionals intend to participate fully in this joint initiative on financial education for investors, who will thus become key players in tomorrow's economy.

WHITE PAPER

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The Association Française de la Gestion financière (French Asset Management Association – AFG) represents and promotes the interests of third-party portfolio management professionals. It brings together all asset management players from the discretionary and collective portfolio management segments. The latter manage more than €4,000 billion worth of assets, i.e. a quarter of continental Europe's asset under management.

