Finance, business and the long term

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Abstract :
It is often remarked that capital markets force companies into short-term strategies. Yet finance is not entirely synonymous with the short term, since there are long-term investors who want to provide long-term support for companies.
A company that is committed to the long term, however, must also be run by women and men whose concerns must not be reduced to the value of the share price. In addition to shareholder enrichment, is it indeed possible for companies to seek to have an impact on society?
In any case, there is a growing demand from society and forces at work in society that companies should play a part in financing long-term environmental and social transitions.

French savers are now regularly called on to invest their savings so as to ensure long-term financing for companies, technological innovations and the energy transition. This in turn will supposedly guarantee stronger economic growth and provide a better response to the sense of urgency caused by climate change.

Despite the legitimate – albeit sometimes formulaic – rhetoric surrounding these profound changes, we should point out that the vast majority of savings are currently invested in guaranteed or highly liquid vehicles, and that they are little oriented towards medium and long-term financing. From this point of view, French savers may appear passive, indifferent or even circumspect about these matters. To gain a more objective understanding of savers' attitudes, perceptions and behaviour, the AMF set up an annual Savings and Investment Barometer under the aegis of its Household Savings Observatory. The Barometer is supplemented by quantitative and qualitative studies of financial customers' behaviour and professionals' commercial practices. Because of this, regulators now have tools that enable them to better identify typical profiles of savers and their needs, and understand how to reconcile long-term savings, the desire for financial performance and the search for greater meaning.

French savers: fluctuating between timidity and rationality?

Although the French are notorious "squirrels" (their gross savings rate is high compared to other European countries: 14.4% in 2018), their financial savings rate has, for the fourth straight year, continued to fall, from 5.1% in 2014 to 4.2% in 2018. [1] French savers patiently accumulate their savings in layers: first, precautionary savings invested in regulated products; second, a hoarding phase that will likely focus on euro-denominated life insurance and savings plans that are frozen for "acceptable" periods (e.g. the *Plan Epargne Logement*, or Home-Ownership Savings Plan); and, finally – amongst the most affluent savers – long-term savings.

Leaving aside the most vulnerable groups, those whose income barely allows them to cope with daily contingencies, we can discern three profiles of French savers.

First are the "*carpe diem*" types, who are not interested in saving. Their philosophy focuses on the present and its opportunities: their earnings allow them to finance occasions such as leisure activities and holidays. The second group could be described as "rational"; they are organised, and prioritise protecting their family's future, and thus lean towards guaranteed, risk-free savings. They are cautious, even very cautious, and heavily paid their precautionary savings. The final group has a more "playful" temperament; they are convinced that achieving a certain performance level means a little (or a lot) more risk.

Generally speaking, savers have difficulty projecting themselves into the future because they feel they lack the financial knowledge or even the legitimacy to diversify their savings into long-term equity markets. This requires too much effort for a return that is unpredictable and ultimately perceived as low. Savers' vision remains very much in the moment, and does not factor in the "snowball" effects of yearly returns. The most committed ones are those who have some experience with stock markets, either during their studies or by family tradition. They are comfortable with short-term economic uncertainty because they grasp the rule of decreasing the volatility of diversified equity investments over the long term. They are confident in the long-term profitability of their investments.

Securities holdings statistics bear out this cautious attitude: holdings have been on the decline since 2008. Neither growth in inflows via unit-linked life insurance policies (18% of assets under management), nor growth in employee savings (€125.5 billion under management as at 31 December 2018, and €1.5 billion in 2018[2]), nor new investment methods via marketplace lending (€200 million) nor financial savings offers intermediated by the FinTechs seem sufficient to offset the trend in savings, which, admittedly, peaked after four waves of privatisations between 1986 and 2005.[3]

A lack of financial education and culture is often cited as a factor to explain this lacklustre propensity for long-term investment. Actions must be taken to correct this, and this is the goal of the Banque de France's National Financial Education Strategy. Other leverage points also need to be considered. We need to explore how to put savers and their behaviour at

[1] AMF's 2019 Markets and Risk Outlook
https://www.amf-france.org/technique/multimedia?docId=workspace://SpacesStore/cf78ce8a-05bd-4e02-b185-146c7c71ea1b_en_1.0_rendition
[2] https://www.afg.asso.fr/solutions-depargne/lepargne-salariale/chiffres-cles-3/
[3] Under the Chirac, Balladur, Juppé, Jospin and Raffarin governments.

the centre of the issue. What are their medium- and long-term financial needs? What are their beliefs concerning financial matters? What are their hopes with regard to the issues facing our society?

Savings needs

French savers' primary concern is being able to cope with life's vicissitudes, whether short-term (loss of income or a change in one's personal situation) or in the very long run (preparing for retirement or coping financially with a possible situation of dependency). However, guaranteed and liquid precautionary savings are often unnecessarily large, corresponding to mismatched savings and needs. When they fixate on guaranteeing their capital and ensuring that savings are readily available, savers fail to factor in the notion of time – they don't sufficiently differentiate their needs in terms of investment horizons. In a climate of perpetually low interest rates, reintroducing the notion of time and diversified investment horizons, including for precautionary savings, is the only way to maintain minimum financial performance and neutralise (or at least curtail) erosion of savings. It is also a way to make the reintroduction of risk palatable for savers, albeit well-calibrated risks that respect their taste and tolerance for risk. The cornerstone of this approach is a detailed assessment of the customer's profile by an advisor, as provided for in the MiFID 2 European Directive, and its suitability requirements – i.e. whether the customer's profile matches the advice provided. Through long-term monitoring, the idea is also to accompany the customer to prevent behavioural biases that could lead her/him to overreact in the face of occasional fluctuations in the financial markets or to act out of sync with the market (e.g. selling at the low end or buying at the high end). This enhances the value of the advisory profession and forms part of a long-term relationship of trust. Finally, only the clarity of the products offered to the general public, the comprehensibility of the information provided and a neutral and balanced presentation of the various options can convince savers to diversify their savings.

Seventy-six percent of French citizens see preparing for retirement as a priority. In spite of this widely-shared concern, taking action seems difficult. Retirement savings are underdeveloped. How can we provide impetus? Among a range of possibilities – recently expanded by the Business Growth and Transformation Action Plan (PACTE) Act – an employee savings plan is a simple and relatively painless way for savers to build up savings with the help of their employer. It is meaningful and helps employees finance their life projects: buying a home, financing their children's education and, of course, preparing for retirement. A plan is based on sharing value created within the company, and helps finance the economy and disseminate economic and financial culture. Through the sense of belonging and the social dialogue it fosters, an employee savings plan promotes an alignment between the interests of employees, the company and the shareholders. When it takes the form of employee shareholding, investment is concrete. It responds to an issue of national sovereignty, insofar as part of the capital constituted belongs to the employees. It is a stabilising element in the medium and long term and promotes transparency. Recent measures that eliminate the reduced social security contribution (*forfait social*) on profit-sharing and employee incentive scheme payments for companies with fewer than 250 employees should make it easier to offer employee savings plans to a larger number of employees, particularly those in smaller companies. This is an issue of equity between employees of small companies and those of large companies, of putting them on an equal footing when it comes to preparing their financial future. It is also a very good argument for companies to attract top talents.

Taking the plunge and daring to invest for the long term reflects a general attitude of confidence in one's personal situation and in economic growth, but it also requires a minimum level of economic culture. A basic understanding of the link between risk and return, but also of concepts such as liquidity and diversification (across a variety of asset types, business sectors, geographical areas, etc.) is the key to making risk manageable and acceptable, and therefore to investing over the long term.

Lending meaning to savings

To convince savers to develop medium- and long-term savings, which are a source of performance for them and a useful source of financing for the economy, we now have a number of means at our disposal. These include pinpointing the true nature of their personal long-term financial needs, possible support from a professional advisor tasked with assessing the customer's needs and ensuring that the advice given matches her/his profile, regulators and their partners providing a number of educational tools to help savers develop the right investment reflexes, etc.[4] These are rational elements that, at this stage, fail to factor in society's current desire to give greater meaning to its actions. Is it relevant to include this desire into our thinking at a time when the world is facing very real challenges based on the need for energy transformation and for increased sustainability of economic growth? When it comes to their savings, will citizens, who appear to be increasingly aware of these issues, take this sustainable aspect into account? And, if so, under what conditions? This is the subject of the AMF's latest efforts.[5]

Quantitative and qualitative work carried out by the CSA Institute for the AMF[6] seeks to take stock of French people's knowledge and perceptions of sustainable finance and to shed additional light on the subject.

Although more than two-thirds of French savers take sustainable development issues into account in their daily lives, particularly when travelling and choosing modes of transport, very few apply this to financial decisions. Barely one saver in five says they do so in their savings and investment choices.

Although "responsible" financial products (solidarity products, green investments, SRIs, ESG criteria) are still little known, they are nevertheless a source of real curiosity. Half of the respondents want to know more about how they work, and what the advantages and disadvantages are when compared to traditional investments.
Those expressing interest in these issues do so out of a desire to benefit the environment and the planet, with those under thirty-five appearing to be the most aware. However,

[4] The AMF website: https://www.amf-france.org/ and its Espace Épargnants; mobile apps, including Finquiz, that offer a playful introduction to finance; the ABEIS website: https://www.abe-infoservice.fr/; the National Financial Education Strategy website MQDA: https://www.mesquestionsdargent.fr/; the Finance pour tous website: https://www.lafinancepourtous.com/; the employee savings plan website: https://www.epargnesalariale-france.fr/
[5] *Autorité des Marchés financiers* – Financial Market Authority.
[6] The AMF Household Savings Observatory Newsletter (LOE) no. 35, September 2019.

questions remain about the return on such savings. Transparency of information is seen as essential: an understanding of what is being financed, its impact on the greening of the economy, and whether the responsible nature of the investment can truly be validated.

Faced with these new concepts and the need to be reassured about their choices and the credibility of products, savers want to benefit from simple benchmarks, such as the Ecolabel used for consumer goods.

Above all, they view these "green" products as financial investments which, by factoring in environmental and social criteria, also respond to a quest for meaning by promoting a more responsible economy.

This interest in no way detracts from their expectations in terms of profitability. They apply the same control criteria as for a traditional investment: return, risk and investment horizon. For many, at least for younger generations, this new way of saving fulfils an aspiration. It does not, however, diminish the level of requirements in terms of investment quality. It is difficult to say whether it could be a means to better serve the economy's need for financing. However, it could become widespread and eventually inescapable. It carries in itself a notion of sustainability that is synonymous with a longer investment horizon. Sustainable finance could thus become a vector to reconcile savers and the financing of the economy.

To satisfy expectations for useful and meaningful finance, the responsibility of all stakeholders is key. The information provided must be simple, intelligible and credible, and everyone must ensure, without complacency, that marketing promises are kept. The development of a common language and shared benchmarks is essential. This is an opportunity to establish a new investment culture that would, in a coherent manner, reconcile basic economic knowledge, behaviour and meaning. We are faced with an enormous issue of trust between savers and the financial world.