OBSERVATOIRE DE L'EPARGNE EUROPÉENNE

Subject: Request for proposals

Contracts for conducting research in the field of savings in Europe

Dear Sir or Madam,

The European Savings Institute (Observatoire de l'Epargne Européenne) wishes to conclude contracts for the realisation of European research projects on the following themes, selected by its Advisory Committee:

Theme 1: Impacts of Tax Reforms on Households' Saving Behaviour in Europe

Theme 2: Typology of Institutional Investors in Europe and their Assets Allocation Strategy

Theme 3: Beliefs, Knowledge, Information and Financial Education

Theme 4: Real Estate Markets

Theme 5: Estimation of Assets Returns Predictability in Europe and its Implications on Individual Assets Management

Please find enclosed the tendering specifications.

Submissions of proposals by a team combining academic researchers and professional specialists are particularly welcomed.

Tenders and requests for additional information may be submitted by e-mail, postal mail or fax:

- **E-mail to**:

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President of the Advisory Committee		***Director***
gollier@cict.fr		**d.davydoff@oee.fr**

- **Fax to: +33 1 43 12 58 01**

- **Mail to the attention of Christian Gollier or Didier Davydoff**:
Observatoire de l'Epargne Européenne
48 rue de Provence
75009 Paris
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Submission deadline for this request for proposals is Wednesday, 30 April 2008.

Project 1: Impacts of Tax Reforms on Households' Saving Behaviour in Europe

Fiscal rules affecting specific saving instruments are very heterogeneous in European countries and have been subject to several reforms over the last few years. The aim of this project would be to evaluate the sensitiveness of the saving rate and of assets allocation to these tax reforms on the basis of a case study, using the heterogeneity across countries or across time. What can we learn from these episodes about the individual saving motives for different profiles of households? Are fiscal incentives/disincentives strong/weak enough to induce / discourage the different profiles of households to have a lifecycle approach to their saving strategy?

Project 2: Typology of Institutional Investors in Europe and their Assets Allocation Strategy

The increasing role of institutional investors is the result of households' assets allocation. Indeed, a constantly growing share of their wealth has been investing in the financial products offered by institutional investors (see Table below).

Share of Institutional Investors in Households' financial wealth (in %)				
	1985	1990	1995	2001
Germany	n.d.	30,8*	34,8	43,3
Spain	2,7	10,4	23,8	32,8
France	20,9	34,6	39,8	48,8
Italy	n.d.	13,4	15,9	35,6
United States	41,7	44,1	48	53,1
United Kingdom	n.d.	49,9	59,4	60,9

Source: F. Pansard and A. Boubel, (2003), « Les investisseurs institutionnels et l'épargne retraite », *Economie internationale*, n°96, pp. 43-62
*1991

Yet, different financial intermediation systems have led to great differences across European countries. For instance, the institutional process of savings is much more developed in the United Kingdom, due to the retirement system of capitalisation.

This research should have two main objectives. A first part could describe the composition of institutional intermediation in Europe and the structure and size of the European institutional investors markets. A detailed focus on the various structures of institutional investors will be appreciated:

- Ownership,
- Governance,
- Size,
- Regulatory constraints,
- Products and services supplied…

- In the case of pension funds, distinction between define benefit and define contribution schemes. As far as possible, this research should also distinguish insurance companies and Define Benefit Pension Funds.

A specific focus could also mention the growing role of « instividuals », half way between classical institutional investors (such as Define Benefit Plans) and individuals, in order to better understand the structural evolution of households' wealth and households' preference toward savings vehicles (direct or intermediate).

Secondly, a typology of the strategies of these institutions should be offered and linked to their characteristics described in the first part.

Further developments could concern the use of complex products and their share in total assets, the impact of IFRS on Institutional Investors' investments and the relation between institutional investors such as shares of UCITS held by Life Insurance companies.

Project 3: Beliefs, Knowledge, Information and Financial Education

Financial education recently became an important topic of public policy. The literature on behavioural finance has documented a large number of puzzles on actual financial decisions by individual investors: framing effects, systematic biases in beliefs on assets returns, misunderstanding of important basic concepts (probabilities, diversification…), overconfidence, resistance to update beliefs, time inconsistencies. These new findings at the frontiers between economics, finance and psychology have important implications in the way financial intermediaries must provide advices to their customers.

OEE would be interested to finance projects aimed at:

- Offering an up-to-date survey and critical analysis of this emerging scientific literature and its implications for the shaping of good communication and responsible financial recommendation to final investors;
- A better understanding (experimental economics, econometrics using data on actual behaviours…) of the psychological characteristics that influence systematic biases in beliefs and choices (ambiguity aversion, hyperbolic discounting, overconfidence, conformism…);
- Analyzing the impact of specific strategies of financial intermediaries to improve the quality of information available to their customers, and their financial competence.

Project 4: Real Estate Markets

Investment in the housing market remains poorly documented both by the finance industry and by the academic community, in spite of the share of households' wealth invested in this market. The consequence is that we have only very fragmented information about the performance and risk associated to real estate investments compared to other assets, such as stocks, bonds and bills. Common wisdom is that investments in the housing market is relatively safe, protecting against inflation, and with a high mean return.

OEE would be interested to finance projects aimed at:

- Comparing home ownership rate across European Countries and the share of housing investments in households' portfolios according to their age, income, financial wealth…; Link these observations to the evolution of prices and returns on real estate markets.

- Providing better data on real estate returns in various European countries and for various types of investors (households purchasing their home, institutional investors…);

- Comparing risk and returns of real estate investments to other assets, and determining the optimal portfolio allocation in real estate, stocks and bonds for various investors' profiles. One could also examine the effect of an increase in house prices on the optimal rebalancing of households' portfolios and on the spill-over of real estate bubbles on other assets markets.

Project 5: Estimation of Assets Returns Predictability in Europe and its Implications on Individual Assets Management

Campbell and Viceira (2002) have shown that stocks, bonds and bills returns are partially predictable on U.S. markets. In particular, real stocks returns are mean-reverting and real bonds returns are mean-averting. Gollier and Bec (2007) have recently shown that a similar pattern exists on the French financial markets. This pattern has important practical consequences. In particular, it implies that estimating the risk on a yearly basis (as recommended by solvency regulations, Solvency II for instance) tends to overestimate the stocks risk and to underestimate the bond risk for long-term investors. It also implies that investors should react to changes in the variables that have a predictory power (short-long interest rate spread, price-earning ratio…) by rebalancing their portfolio accordingly (market timing).

The aim of this project would be to extend Campbell/Viceira and Bec/Gollier econometric analysis of the predictability of assets returns to other European countries.

References:

Bec, F., and C. Gollier, (2007), Assets returns volatility and investment horizon: The French case, mimeo, University of Toulouse 1.

Campbell, J.Y., and L.M. Viceira, (2002), Strategic asset allocation, Oxford University Press, Oxford.