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: Impact of the financial crisis on risk attitude and beliefs

Theme 2: The role of real and nominal interest rates as driving forces of the savings motive

Theme 3: Intergenerational aspects of portfolio risk 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**:

Christian Gollier and **Didier Davydoff**

President of the Advisory Committee — gollier@cict.fr

Director — 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
France

Submission deadline for this request for proposals is Monday, 30 March 2009.

Project 1: Impact of the financial crisis on risk attitude and beliefs

The extreme financial turmoil that financial markets around the world have been experiencing is likely to have long-lasting effects on risk attitude, beliefs and on the actual assets allocation of most economic agents (consumers, financial intermediaries, institutional investors). This can be a rational Bayesian updating of the returns distribution of the different asset classes generated by including these extreme events into the historical data set. From that perspective, an interesting question is to determine whether these events modify the perception and interpretation of the "equity premium puzzle".

However, it may also be possible that some economic agents over- or under-react to these news, following various theories in behavioural finance. From that alternative perspective, the problem would be to evaluate the intensity of changes in the portfolio risk aversion and perception and in the actual assets allocation, by comparing the outcomes of studies performed before the crisis with a new study in 2009, preferably using the same panel of investors.

Project 2: The role of real and nominal interest rates as driving forces of the savings motive

Inflation and real interest rates in Europe have recently experienced dramatic shifts. Meanwhile, forecasts about future economic growth have been cut. These different ingredients have diverging effects on the savings rate, which will play a crucial role on the speed at which our economies will recover from the current recession. Moreover, the reduction of the nominal interest rate also seems to play a role, through the well-known "money illusion". This illusion could affect not only the size of the savings effort, but also the assets structure of the portfolio in which the savings effort is invested.

This study would examine the role of the level of inflation and of the inflation expectations on the savings rate, on the optimal assets allocation and on the actual behaviour of individual savers.

Project 3: Intergenerational aspects of portfolio risk management

It is a common knowledge that the inability of the current generations to share their risks with those who are not born yet makes competitive financial markets incomplete, thus inefficient. In a funded pension system with individual pension accounts, the absence of any intergenerational sharing of individual portfolio risk implies that workers face high uncertainty on their future pension wealth. In the recent past, many workers had to reduce drastically their standard of living and to work longer after sizeable downturns of the financial markets. This inability of markets to allocate risk efficiently across generations has been used to argue in favor of more public intervention, in particular in the form of stronger pay-as-you-go (PAYG) systems.

The emergence of collective funded systems, such as in the Netherlands or in the United Kingdom and the creation of various long-term savings mechanisms – i.e. the life insurance system in France – modify this analysis. The OEE would finance a study that documents the intensity of the solidarity that such mechanisms establish across different cohorts of contributors. How much smoothing of the strong financial shocks that have incurred over the last three decades has been made possible through these mechanisms, i.e. reserves building in booms, and reserves divesting in crashes? How did this (in)ability to reallocate risk over time affect the portfolio strategy of the financial intermediary? How did the legal environment (prudential regulation, fiscal bonus, option for early liquidation…) affect the intergenerational risk-sharing equilibrium? Can we draw policy recommendations from the international comparison of the different systems?