



OBSERVATOIRE DE L'ÉPARGNE 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'Épargne Européenne) wishes to conclude contracts for the realisation of European research projects on the following themes, selected by its Advisory Committee:

Theme 1: Financial illiteracy

Theme 2: Portfolio insurance

Theme 3: Taxonomy of European investors and their behaviours

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
President of the Advisory Committee
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and

Didier Davydoff
Director
d.davydoff@oeefr

- Fax to: +33 1 43 12 58 01

- Mail to the attention of Christian Gollier or Didier Davydoff:

Observatoire de l'Épargne Européenne
48 rue de Provence
75009 Paris
France

Submission deadline for this request for proposals is Monday, 3 May 2010.

Observatoire de l'Épargne Européenne

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Project 1: Financial illiteracy

Several recent researches on financial literacy, mostly in the United States, have revealed the low level of understanding of the most basic concepts of personal finance by a large fraction of the population. For example, an estimated 2/3 of the population doesn't know that it is possible to lose money on U.S. government bonds, and 40 % don't have any idea of what a money market fund could contain. The crucial concepts of diversification, liquidity, or annuitization for example are often misunderstood. The recent financial crisis has proved the importance of putting in place a transparent regulatory framework to protect final investors. At the same time, these final investors have access to a larger set of financial products, with structured products entailing different risk, maturity and flexibility profiles.

In order to determine the efficient level of information to be made available to final investors, both in terms of intensity and of complexity, one needs to have a better knowledge of their ability to understand the basic concepts of personal finance and the relevant characteristics of the financial products available on the market.

The study would try to measure the heterogeneity of the degree of financial illiteracy, and the relationship between this and the observable investors' characteristics.

Project 2: Portfolio Insurance

Portfolio insurance exists in various forms in many products purchased by final investors, as for example through a guaranteed minimum rate of return in most life insurance products. This is of course useful for the most risk-averse and fragile investors in our economy, but one must be aware of the large cost of this insurance. In particular, if a large fraction of the population is covered by it, the limited size of the pool of counterparties to the deal implies a large risk premium, since they are required to pay a large “indemnity” precisely in the worse states of nature. This risk premium associated to portfolio insurance is likely to increase due to the new solvency regulatory rules that will be put in place in a near future for life insurers. This raises various important theoretical questions.

The OEE would finance a study that documents solutions to optimise the cost of this insurance. What is the social value of portfolio insurance in our economies? Who should provide portfolio insurance, and who should purchase it? What should be the level of the competitive price of portfolio insurance? Should it take the form of a guaranteed minimum return on savings, or should it take a more structured form entailing the insured party to share some of the downside risk under certain circumstances? How should we organize and regulate the markets that supply portfolio insurance?

Project 3: Taxonomy of European investors and their behaviours

The aim of the study will be to classify economic agents, who are active on European financial markets, by various types of savings behaviours or preferences.

Institutional investors could be classified into:

1. Banks
2. Insurance Companies
3. Mutual Funds
4. Asset Management Companies
5. Hedge funds
6. Pension funds
7. Foundations
8. Private Equity Companies

Individual investors could be classified into:

1. Active households versus retired
2. Unemployed individuals or in long term sick leave
3. Property owners
4. Individuals classified into their education level, occupation and age
5. Urban versus rural person based
6. etc.

The aim is to classify investors according to their objectives and investment needs, which depend of risk aversion, duration, savings levels, taxation, access to the financial markets, access to on-line brokers, etc. These differences result in various portfolio turnover ratio and speculative behaviours.

When selecting the projects, the OEE will attach particular importance to financial data collected from public bodies or regulators, but also from banks which undertake periodic market surveys of their clients.