In France, UCITS are primarily distributed through traditional distribution channels (63%): banking networks, insurance companies and private banks, and mainly under special tax schemes (unit-linked life insurance contracts, etc.).
Nonetheless, current studies show:

- Private individuals do not fully trust their banks to provide advice on savings products (source: ‘Bank-customer relations’, Deloitte 2013 Barometer)

- An unsatisfied need in terms of pension products (nearly half the active population places pensions issues in the top three savings priorities, and more than half the active population says they require help when making pension choices (source: ‘The French prepare their retirement’, Deloitte 2012 Barometer)

Figure 1: Structure of French households’ financial assets in 2013

Figure 2: Life insurance policy - respective amounts of euro denominated life insurance and unit-linked life insurance in 2013
A profound change in consumer behaviour related to the customer experience of the X, Y and Z generations, characterised by a preference for online information and the need to compare and choose for oneself.

The entry into effect of MiFID 2 (2017), and more particularly, IMD (2018) could accelerate these underlying trends and trigger structural change in the asset management business model in continental Europe. Accordingly, an analysis of U.S. and UK precursors in terms of regulation and savings behaviour could provide insight into future developments in the organisation of savings distribution. In the United Kingdom, where advisory services became directly payable (banning retrocessions for all advisors) in 2012 (application of the Retail Distribution Review, the text that inspired MiF2), consumers have become particularly attentive to the cost of asset advisors and the value of advice provided. As a result, 32% of investors now prefer to do their own financial research and planning, according to a Deloitte UK study covering a sample of 2,140 British adults in June 2012. In the same study, 27% of individuals questioned favoured direct investment with financial product providers. Such platforms naturally have a disruptive influence on traditional distribution channels, and now account for close to 50% of sales to private individuals (compared with 37% in 2010, according to IMA statistics). This digitalisation of the distribution of financial products to private individuals can, of course, also be observed on the other side of the Atlantic.

According to a Deloitte Consulting survey, Digital Disruption in Wealth Management, over 50 Wealth Management start-ups developing a B2C model (for private investors) have emerged over the last ten years. This is a universal phenomenon, with the increasing importance of online stemming from mistrust of traditional intermediaries and investors’ appetite to manage their investments themselves. Another important factor is the fintech sector, which, after seeking to shake up the payment industry, is enjoying uninterrupted growth in the asset management sector. Inflows are unaffected by the economic crisis (Wealthfront: US$35 million in April 2014, Betterment: US$32 million, Learnvest: US$28 million, Futureadvisor: US$15.5 million, Motif Investing: US$35 million, etc.).

In the United States, the potential market for digital savings management is estimated at US$1 trillion. At the same time, we are beginning to see the first tangible results (Wealthfront announced US$1 billion under management at the beginning of June, and in April, Betterment CEO Jon Stein referred to an objective of US$100 billion of assets managed on the platform by 2020).

---

2, 3 Source: Communauté AGEFI, Juillet 2014 “Ces start-ups qui secouent le monde de la Finance”, Jonathan Herscovici
In Europe, while certain traditional platforms have adapted their model, innovation can be found among new entrants such as Nutmeg or MoneyFarm, operating in the UK and Italian markets respectively. French players are also seeking to make things happen, with their first successful steps in digital savings, notably BforBank, which offers a range of savings products, and Générali Epargne (management mandate or free investment in life insurance contracts), demonstrating the existence of a market. BankCare, launched by the start-up Anatec, is clearly positioned in the CSP+ personalised asset management sector and won the Concours Mondial de l’Innovation 2030.

How do these ‘Robo-Advisors’ differ from the offering already available on the market? Obviously, they target private individual customers directly (recommended minimum investment of €5,000 or €10,000). They share a user-friendly interface (easy access, dynamic investment monitoring, simulations, mobile solutions, etc.), while financial education aspects are well developed, accounts can be credited in a variety of ways (including by bank card), the remuneration model consists of fees based on the amount invested (explicit absence of retrocessions) and, in certain cases, they allow past allocations to be corrected (scraping technique).

MiFID 2 – IMD2
Ban on intermediaries presenting themselves as independent and mandate managers receiving trail fees. A potentially very strict framework for other ISP (dependent advisors, RTO, etc.) governing the right to receive trail fees. Member states may go beyond the texts. In France, it will depend on IMD2 and the extension of the life insurance regime.

Nonetheless, we can fear:

- An impact primarily penalising asset management products
- The end of open architecture
- A preponderance of life insurance contracts as a fund distribution channel
- The need to reinvent the relationship with the IFA
The services proposed focus on personal budget management and investment, whether directly or with support:

- Personal budget management
- Fund supermarket (execution only): funds of variable size offered (fund presentation, comparison, reception/transmission of orders)
- Buy list (targeted fund selection, low cost, non-complex, etc.): selection of the best funds based on objective criteria (passive management is often preferred)
- Allocation planner (standardised portfolios based on investment objectives, investment period, risk aversion, etc.): proposed standard allocation models based on objectives/investment period/scaled risk aversion, arbitration advice
- Allocation advice (wide offering potentially extending from standard + to personalised): determination of an investor profile based on a questionnaire/meeting, tailoring of the personalised savings solution with a consultant (call centre or direct contact), arbitration advice

As the banking networks have been required to move away from promoting long-term savings products and positioning themselves globally in the execution market, they have left the door open to new players, and particularly:

- Independent structures, investment companies adopting the MoneyFarm or Nutmeg model
- Management companies, subsidiaries of banking institutions or insurance firms, complementing the intermediated savings system of the networks and proposing a selection of asset and liability products taken from their multi-store model, as part of proven allocation models under tax schemes and based on the customer’s objectives

Figure 4: Why the mass affluent left their advisors

- Didn’t trust my advisor any more, felt they were putting their own interests ahead of mine
- Felt doing it on my own would yield better outcomes
- Realised I enjoy managing investments on my own
- The quality of advice received was poor/below my expectations
- My financial advisor did not offer me the right investment options
- I thought my financial advisor was not as competent

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Didn’t trust my advisor any more</td>
<td>27%</td>
</tr>
<tr>
<td>Felt doing it on my own would yield better</td>
<td>23%</td>
</tr>
<tr>
<td>Realised I enjoy managing investments on my</td>
<td>20%</td>
</tr>
<tr>
<td>The quality of advice received was poor/b</td>
<td>15%</td>
</tr>
<tr>
<td>My financial advisor did not offer me the</td>
<td>10%</td>
</tr>
<tr>
<td>I thought my financial advisor was not as</td>
<td>6%</td>
</tr>
</tbody>
</table>

Figure 5: Attractive market: needs of ‘Internet-friendly’ savers are not satisfied today

- 45 million savers in France
- 19 million savers aged 30-60 with average wealth of €41,000
- 15 million savers aged 30-60 are internet friendly
- 1 million users of budget management applications

Source: Report Berger-Lefebvre, April 2013, INSEE, TNS Sofres
In the latter case, questions arise regarding the positioning with respect to intermediated distribution, the use of a more or less open architecture, partnerships, technology and, of course, momentum. Nonetheless, the challenge is such that they cannot avoid considering changes in the business model. While fully justifiable from an economic point of view, trail fees are probably now a thing of the past, and banning them entirely would appear to be an inevitable part of the regulatory process. An analysis of these developments is more than necessary, particularly with respect to the customer experience of the new generations (digital native and digital dependent). If these platforms are not launched locally by the industry, there is a clear risk in the medium term of the emergence of global online or telecom players.

**Figure 6: What will be the distribution system of the future**
<table>
<thead>
<tr>
<th>Platform</th>
<th>Services</th>
<th>Revenue source</th>
</tr>
</thead>
</table>
| Hargreaves Lansdown | • One-off financial advice  
• Discretionary management  
• Wealth engineering  
• Ad hoc investment review  
• Type of wrapper offered: ISA (savings account) & SIPP (retirement savings)  
• Open architecture -> use of traditional funds and ETFs | Fixed (% of AUA)  
• Financial advice: 1% initial  
• Portfolio management: 1% initial + 0.365% p.a.  
• Wealth engineering: 2% initial maximum  
• Ad hoc investment review: 0.5% |
| Nutmeg       | • Portfolio management: creation of model portfolios corresponding to investment objectives  
• Open architecture -> virtually exclusive use of ETFs Blackrock iShares, HSBC and ETF Securities  
• Type of wrapper offered: ISA (savings account) | Fixed (% of AUA)  
• No entry fee  
• Between 0.3% and 1% p.a. depending on the amount invested, the number of funds in the portfolio, loyalty scheme points, etc. |
| Moneyfarm    | • Ongoing financial management  
• Portfolio management: creation of model portfolios corresponding to investment objectives  
• Open architecture -> exclusive use of ETF | Fixed (% of AUA)  
• No entry fee  
• Financial advice: 0.9% p.a.  
• Portfolio management: 1.1% p.a. |
To the point:

- The unsatisfied need for retirement savings products associated with private individual distrust of banks regarding savings solutions and the new generational customer experience are all catalysts of change in the savings product distribution model.
- MIFID2 and IMD2 will only accelerate this process.
- The emergence of digital platforms positioned in asset allocation and financial advice based on the investment objectives of private individuals should not be ignored.
- The model tailored to the constraints and aversions of continental Europe still has to be defined, however, the arrival of new entrants in this market necessitates the mobilisation of traditional industry players.

While fully justifiable from an economic point of view, trail fees are probably now a thing of the past, and banning them entirely would appear to be an inevitable part of the regulatory process.