

FUTURE OF FINANCE INTRODUCTION

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CFA Institute

GLOBAL RETIREMENT SAVINGS

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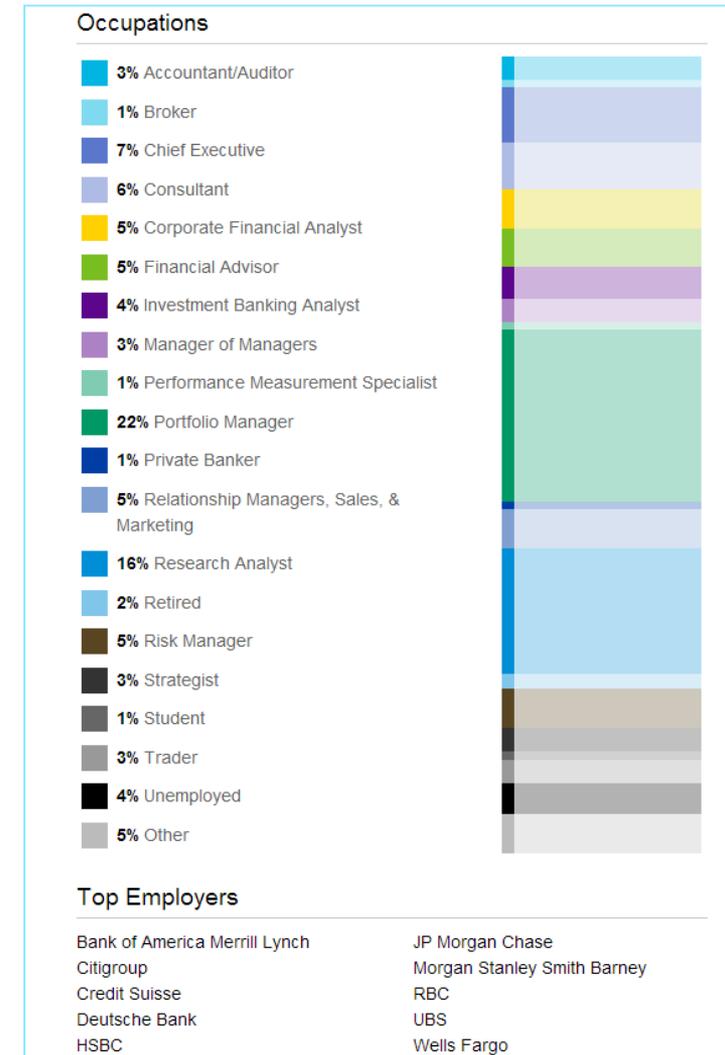


GLOBAL ISSUE

Many people around the world are not financially prepared for retirement

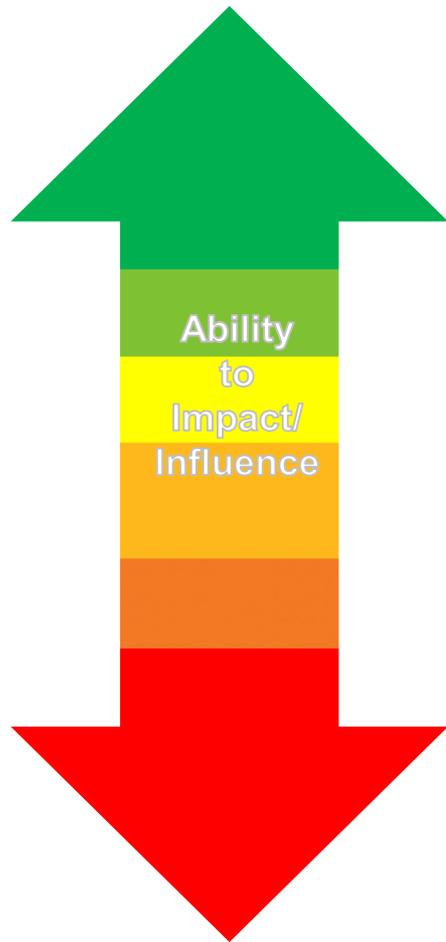
CFA INSTITUTE

- Best known for CFA exam and CFA charter
- Global association of Investment Professionals
 - 124,000+ Members in 144 Countries
 - 139 Analysts societies – National and Local
- Members are leaders in Investment Management in various roles
- Mission:
 - *To lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.*
- *Future of Finance:*
 - Shape a trustworthy, forward-thinking financial industry that better serves society.



RETIREMENT SECURITY CHALLENGES

CATEGORIES OF CHALLENGES



- Behavioral Issues
- Knowledge/Financial Literacy
- Sufficiency of Retirement Savings (The Liability Side)
- Investing Retirement Savings (The Asset Side)

- Defined Contribution Plans

- Corporate Defined Benefit Plans

- State & Local Government Defined Benefit Plans

- Political/Socioeconomic (Entitlements)

- Demographics
- Macroeconomic Factors

- Health Care
- Corporate/Employer Responsibility
- Pension/Retirement Regulation

RETIREMENT SECURITY CHALLENGES

Behavioral Issues

- **Financial Knowledge ≠ Action**
(Financial knowledge does not translate to action towards addressing retirement security.)
- **Behavior Biases Preclude Effective Decision-making**
 - Traditional Behavioral Finance Biases
 - Retirement Specific Biases
(i.e. belief you will die young, too many choices or decisions to make, size of task)
- **Lack of Conscientiousness**
(The essential personality trait for accumulating retirement savings)
- **Nudging People to Saving = Limited Effectiveness**
- **Need to Set or Change Norms**

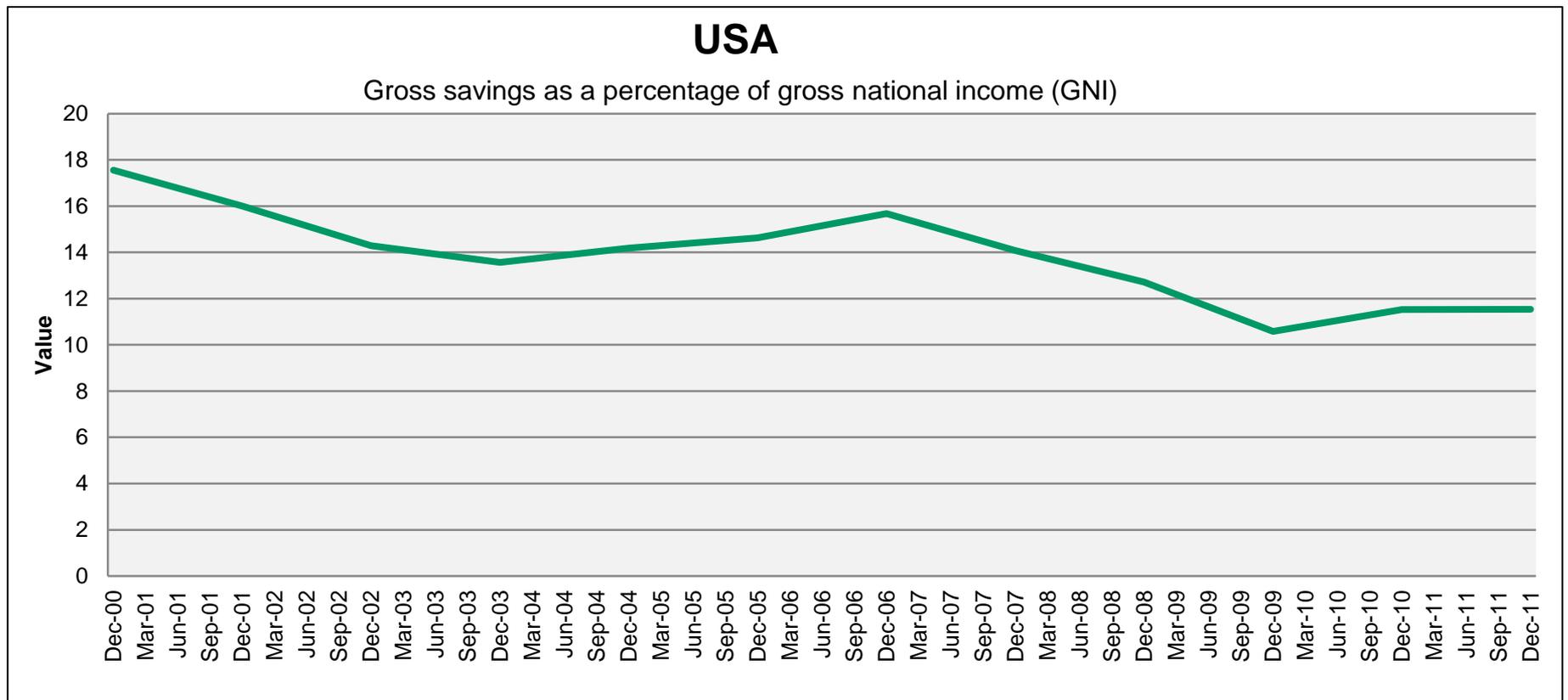
Knowledge/Financial Literacy

- Lack of Knowledge or Understanding of:**
- Retirement Income Needs
 - Government Benefits
 - Pillars of Retirement Savings
 - How to Save
 - Investing & Investments
 - Accumulating & Decumulating Assets
 - Decisions Necessary to Make an Effective Retirement Plan
 - Lifetime or Life Cycle Financial Planning

GLOBAL RETIREMENT SECURITY ISSUE

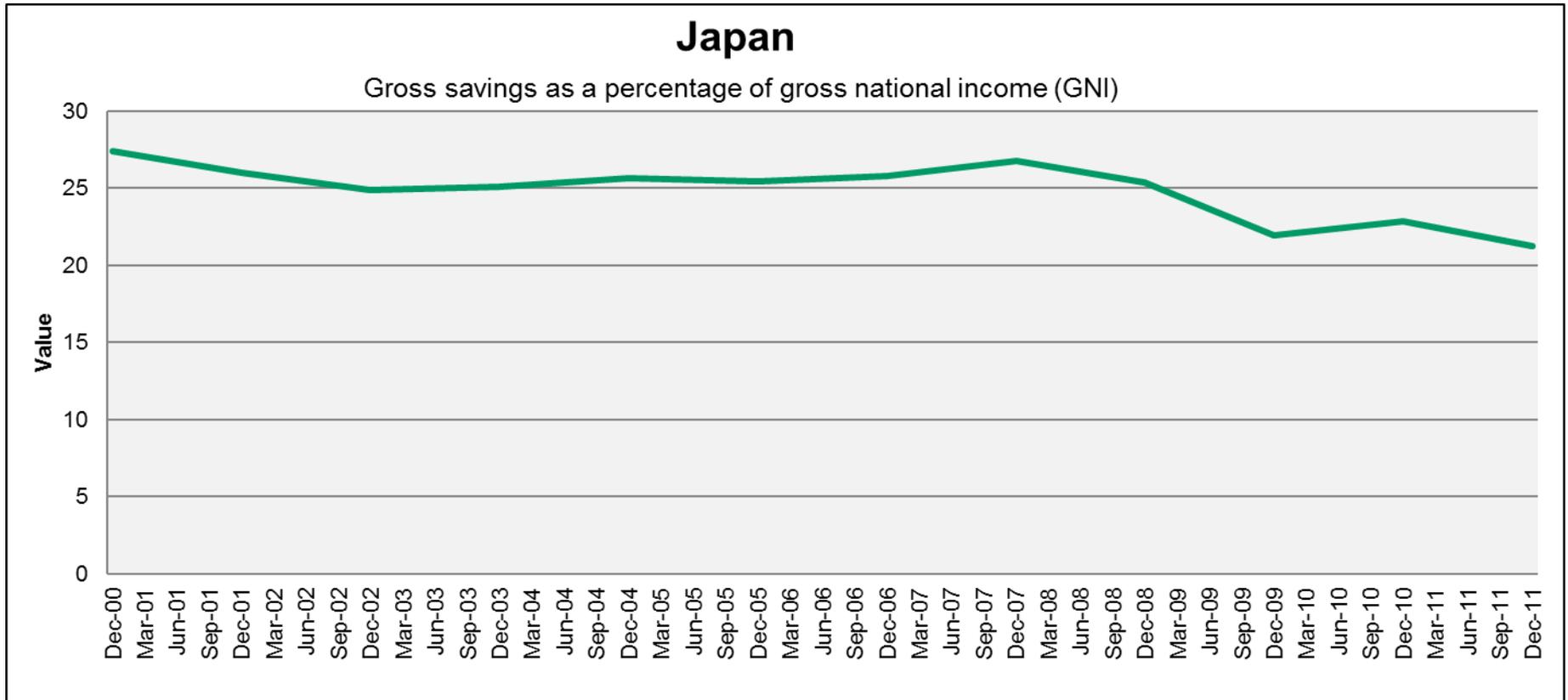
- Lack of adequate retirement savings
- A need for increased financial literacy and investor education
- Insufficient pension or investment opportunities
- Lack of participation in investment programs or pension schemes
- A need to change and norm behaviors

GROSS SAVINGS RATE -- USA



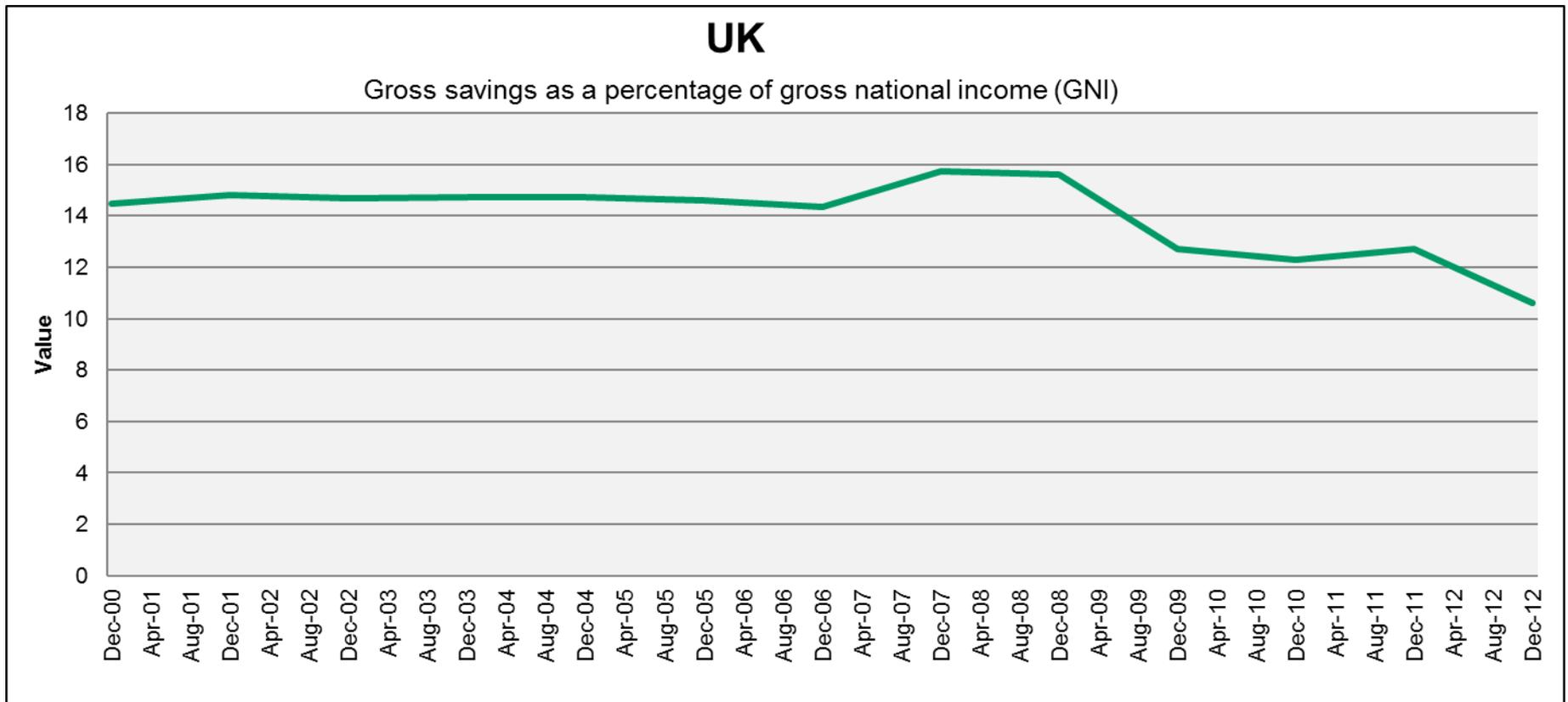
Source: World Bank

GROSS SAVINGS RATE -- JAPAN



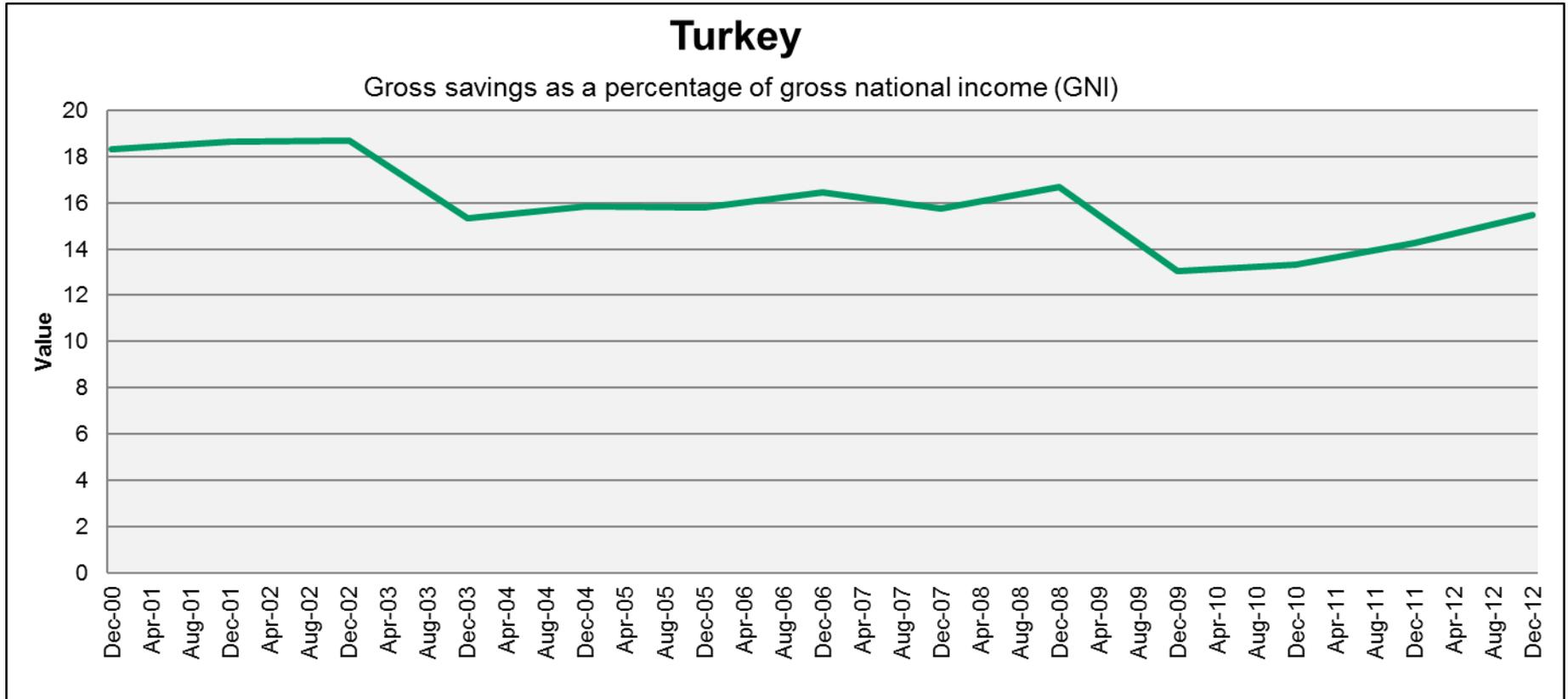
Source: World Bank

GROSS SAVINGS RATE -- UK



Source: World Bank

GROSS SAVINGS RATE -- TURKEY



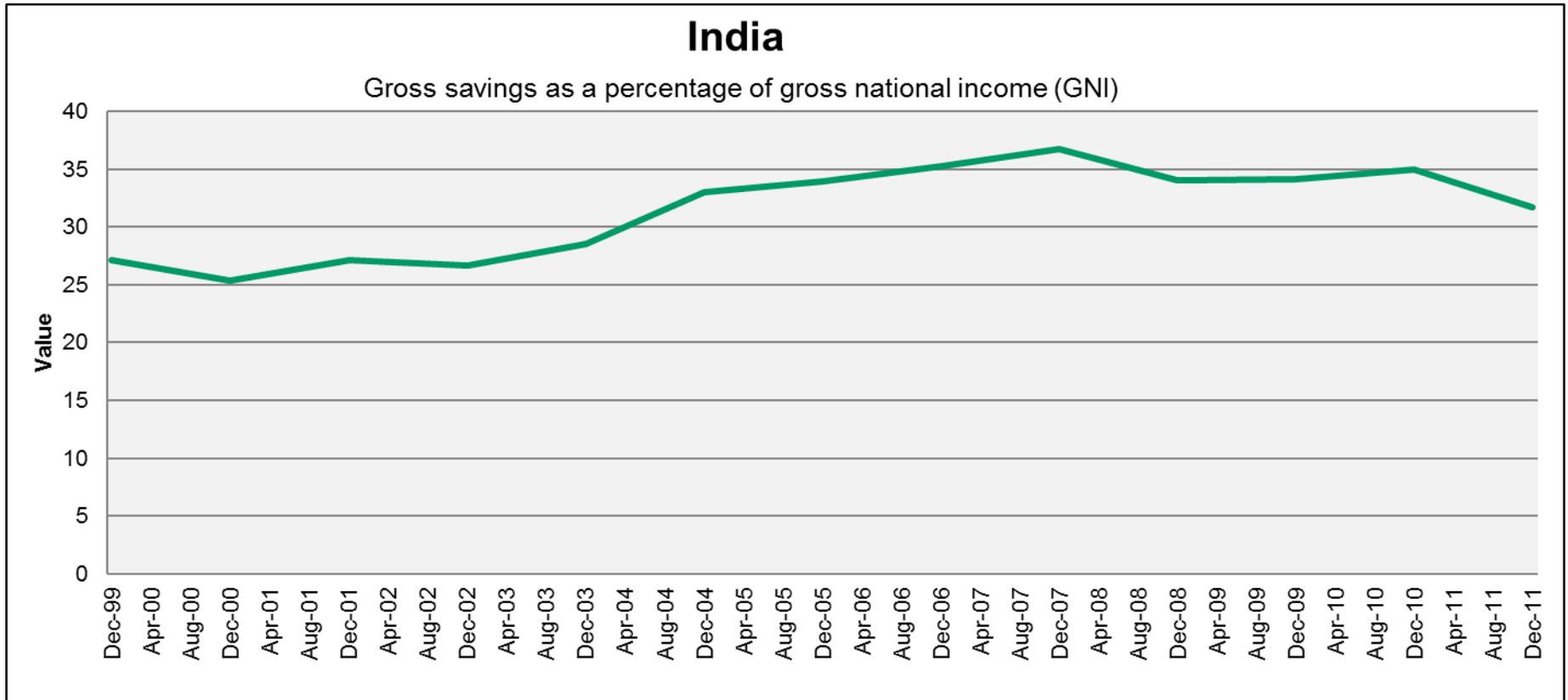
Source: World Bank

GROSS SAVINGS RATE -- CHINA



Source: World Bank

GROSS SAVINGS RATE -- INDIA



Source: World Bank

SAVINGS RATES (G-20 COUNTRIES)

Gross Savings (% of GNI)

Country	Value
China	52.75
Saudi Arabia	45.97
Russia	42
Indonesia	35.7
India	31.7
South Korea	31.47
Australia	25.51
Mexico	24.31
Germany	23.34
Japan	21.27
Canada	20.88
Spain	19.4
Brazil	19.36
Argentina	18.59
Italy	17.25
France	17.17
South Africa	16.48
Turkey	15.48
USA	11.54
UK	10.59

Capital market development does not impact savings rates

Source: World Bank

RETIREMENT SECURITY GLOBALLY

2013 MELBOURNE MERCER GLOBAL PENSION INDEX					
Country	Rank	Overall Index Value	Adequacy 40%	Sustainability 35%	Integrity 25%
Denmark	1	80.2	75.2	86.1	80.0
Netherlands	2	78.3	76.6	74.1	87.0
Australia	3	77.8	75.6	73.0	88.1
Switzerland	4	73.9	72.6	69.0	82.9
Sweden	5	72.6	65.2	74.5	81.5
Canada	6	67.9	72.4	57.9	74.5
Singapore	7	66.5	59.0	67.5	77.2
Chile	8	66.4	58.6	65.6	79.9
UK	9	65.4	68.2	48.0	85.4
Germany	10	58.5	69.7	36.8	71.1
USA	11	58.2	56.6	57.8	61.2
Poland	12	57.9	64.4	42.6	68.9
France	13	53.5	71.7	31.7	55.1
Brazil	14	52.8	63.3	26.0	73.6
Mexico	15	50.1	51.9	50.8	46.0
China	16	47.1	61.1	28.9	50.0
Japan	17	44.4	47.9	28.9	60.5
Korea (South)	18	43.8	43.7	41.0	47.9
India	19	43.3	41.2	40.8	50.3
Indonesia	20	42.0	29.8	37.7	67.3
Average		60.0	61.2	51.9	69.4

Adequacy = Income, Replacement Rate, Benefits

Sustainability = Demographics, Coverage, Gov. Debt

Integrity = Regulation, Protection, Risk to Individual

Δ 2012 Average=
 Overall -1.00
 Adequacy -1.00
 Sustainability -0.02
 Integrity +2.10

Only 5 > Grade of C

MANY ORGANIZATIONS ARE DEALING WITH THE ISSUE

Global Organizations



Think Tanks



Retirement Research



Academic Institutions



Commercial Enterprises



Country & Regional



MOTIVATING CHANGE

<ul style="list-style-type: none"> • Creative 	<ul style="list-style-type: none"> • Innovative 	<ul style="list-style-type: none"> • Creative
<ul style="list-style-type: none"> • Memorable 	<ul style="list-style-type: none"> • Emotional 	<ul style="list-style-type: none"> • Motivating

- Behavioral Economics still theoretical
- Consortium of organizations should develop ideas at global or across jurisdictions – then adjust for local needs
- Still need to put ideas into practice and test effectiveness

EMOTIONAL MOTIVATION



The image shows a Facebook advertisement for the brand "Param Ve Ben". The ad features a woman with her arms crossed, a white graduation cap, and a white shirt. The text in the ad asks, "Çocuğunuzu pahalı kıyafetler içinde görmek mi, Mezuniyet kıyafeti içinde görmek mi?" (Do you want to see your child in expensive clothes, or do you want to see them in graduation robes?). The brand name "PARAM VE BEN" is prominently displayed. Below the ad, the Facebook interface shows the brand name "Param Ve Ben" and the text "28.499 kişi beğendi • 2.480 kişi hakkında konuşuyor" (28,499 people liked it • 2,480 people are talking about it). There are also buttons for "Beğen" (Like) and a settings icon.

- ❖ **Do you want to see your children in fancy clothes, or do you want to see them in graduation robes?**

WHAT MAJORITY OF ORGANIZATIONS ARE SAYING

- Save more, spend less – forge a fiscal discipline
- Acquire basic financial knowledge
- Determine retirement needs – liability side
- Engage with available savings and retirement opportunities
- Keep investment costs low – focus on Fees

EDUCATION ≠ BEHAVIOR CHANGE

- The challenge is similar to getting people to stop smoking.
- Here's how you do that:
 - Set a quit date
 - Tell family, friends, and co-workers that you plan to quit
 - Anticipate and plan for the challenges you'll face while quitting
 - Remove cigarettes and other tobacco products from your home, car, and work
 - Talk to your doctor about getting help to quit

**WOULD THAT CONVINCING YOU TO STOP
SMOKING?**

WHAT HAS HAD IMPACT



- Recent studies suggest televised messages that use graphic images to depict the negative health consequences of smoking and messages that use **emotive testimonials depicting loss of family and other smoking-related hardship may be among the most effective in promoting cessation and reinforcing smokers' intentions to quit.**
- Studies indicate that **sad or frightening ads that are highly emotional and feature the serious health consequences of tobacco use score significantly higher** among adults on perceived effectiveness compared to ads that are funny or neutral.
- Meta-analyses on the use of fear appeals in health campaigns conclude that **fear appeals are most effective when accompanied by equally strong (calls to action)**, such as information to call a quitline for help and support to quit

Source: Tobacco Free Florida

RETIREMENT RISK



Source: [UK Progressive](#)

FIRST STEPS

Realize there are no silver bullets. Still testing ideas and potential solutions:

- Globally minded solutions locally tailored action (i.e. IFIE/ CFA Institute)
 - Share ideas, resources and materials
- Motivate change through messaging that underscores risk of current behavior
- Start testing ideas even before theory on behavioral change catches up to practical solutions.
 - Be results driven
 - Track behavior change
 - Provide calls to action and support
 - Accept that this is a hard problem and it won't change overnight
- Create engaging content that meets people where they are:
 - Demographics
 - Socio – Economic
 - Education Levels
 - Culture (at local level)
- Motivate Savings AND Investment discipline

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CFA INSTITUTE

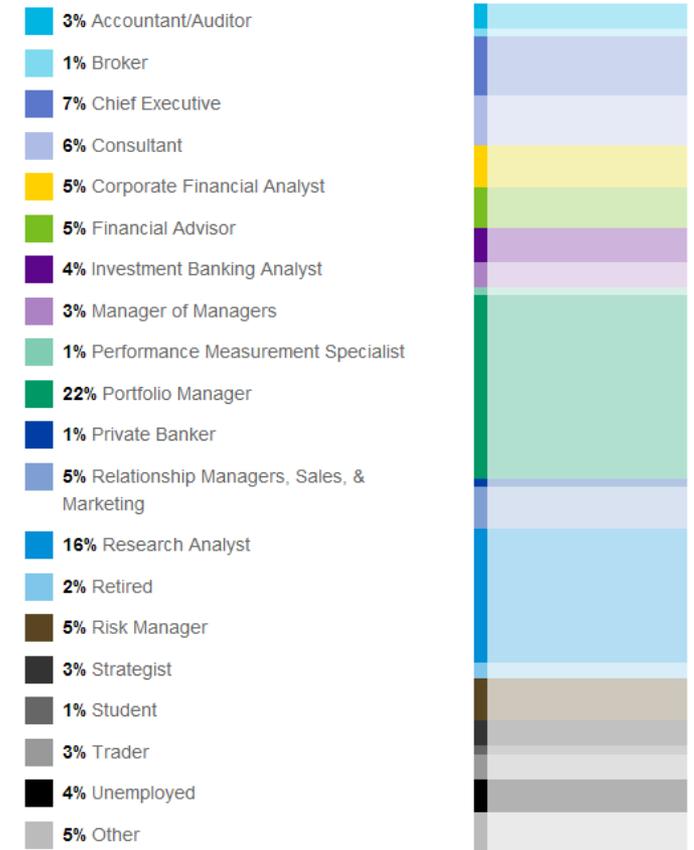
A global federation of investment analysts

Our mission:

“To lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.”

- Brainchild of Ben Graham, godfather of Security Analysis
- 124,649 members in 144 countries
- Very senior—7% are CEOs
- Atilla Koksal, Chairman TSPAKB, & Member CFA Institute Board of Governors

Occupations



Top Employers

Bank of America Merrill Lynch	JP Morgan Chase
Citigroup	Morgan Stanley Smith Barney
Credit Suisse	RBC
Deutsche Bank	UBS
HSBC	Wells Fargo

WHAT WE ARE NOW

“Walter Lippmann spoke of men who plant trees that other men will sit under. Ben Graham was such a man” – Warren Buffett, Financial Analyst’s Journal

We now serve a global audience and group of members, and work for free, fair, and transparent markets around the world through:



Advocacy

INSIDE INVESTING

Investor Education



University Partnerships



Industry Partnerships



Educational Products



Thought leadership

THE FUTURE OF FINANCE

From project to pillar of the organization

CFA Institute's renewed focus on motivating the financial industry to create a more transparent and equitable capital markets for the end investor

Shape a trustworthy, forward-thinking financial industry that better serves society.

**THE FUTURE OF
FINANCE STARTS
WITH YOU**

The Future of Finance

Retirement security

Sensible solutions for sound pension systems worldwide

Regulation & Enforcement

Protecting investors and preserving capital market integrity

Transparency & Fairness

Standards to promote an open and honest financial system

Financial Knowledge

Empowering investors to make better decisions

Putting Investors First

The fiduciary duty to protect investor interests

Safeguarding the system

Promoting stability and minimizing systemic risk



CFA Institute

WHAT WE'VE DONE SO FAR

Publications to help build a profession



STATEMENT OF INVESTOR RIGHTS

The "Statement of Investor Rights" was developed by CFA Institute to advise buyers of financial service products of the conduct they are entitled to expect from financial service providers. These rights reflect the fundamental ethical principles that are critical to achieving confidence and trust in any professional relationship. This list applies to financial products and services such as investment management, research and advice, personal banking, insurance and real estate. Whether you are establishing an investment plan, working with a broker, opening a bank account or buying a home, the Statement of Investor Rights is a tool to help you get the information you need and the service you expect and deserve. Demanding that financial professionals abide by these rights helps you build trust in the person and/or firm you engage with, and thereby collectively restore trust, respect, and integrity in finance.

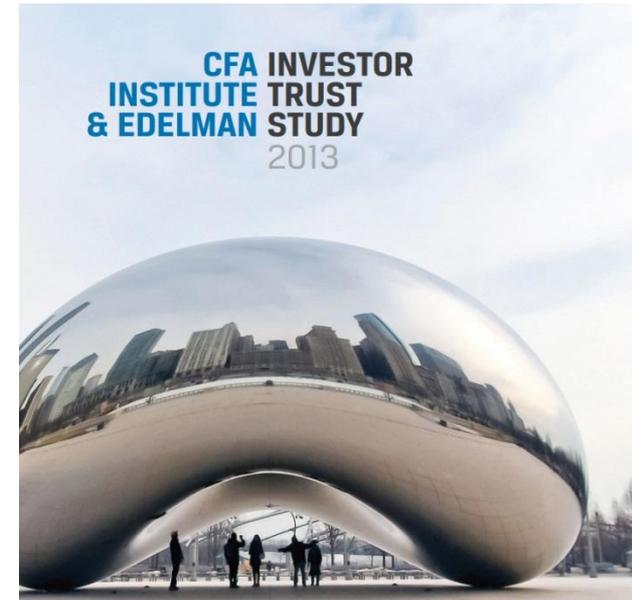
WHEN ENGAGING THE SERVICES OF FINANCIAL PROFESSIONALS AND ORGANIZATIONS, I HAVE THE RIGHT TO...

1. **Honest, competent, and ethical conduct** that complies with applicable law;
2. Independent and **objective** advice and assistance based on informed analysis, prudent judgment, and diligent effort;
3. My **financial interests** taking precedence over those of the professional and the organization;
4. **Fair treatment** with respect to other clients;
5. Disclosure of any existing or potential **conflicts of interest** in providing products or services to me;
6. **Understanding** of my circumstances, so that any advice provided is suitable and based on my financial objectives and constraints;
7. Clear, accurate, complete and timely **communications** that use plain language and are presented in a format that conveys the information effectively;
8. An explanation of all **fees** and costs charged to me, and information showing these expenses to be fair and reasonable;
9. **Confidentiality** of my information;
10. Appropriate and complete **records** to support the work done on my behalf.

Visit cfainstitute.org/futurefinance

PRINCIPLES FOR INVESTMENT REPORTING

FIRST EDITION



OUR FIRST OUTPUT

- Distributed in thirteen languages
- Individuals can know their rights
- Professionals can build trust with clients



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10. Appropriate and complete **records** to support the work done on my behalf.

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NEXT UP

Global industry guidance to address the lack of transparency in investment reporting

- To help report recipients understand the content of the report and the reasons behind the selection presented
- To facilitate a dialogue between report preparers and users
- Encourage investors to refocus on securing their financial future in partnership with investment professionals.
- Professionals can use to let clients know they can trust them

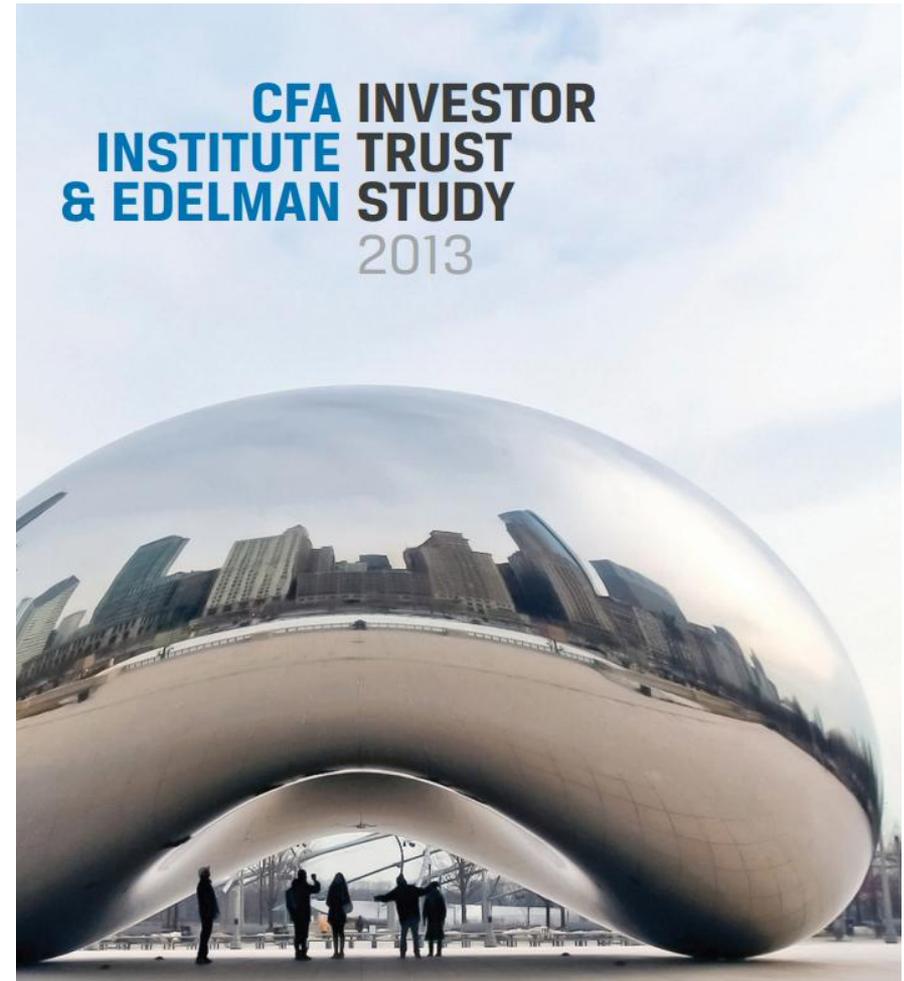
PRINCIPLES FOR INVESTMENT REPORTING

FIRST EDITION



INVESTOR TRUST SURVEY

- Investor trust fragile
 - Aligned interests valued highly
- 52% of investors trust the financial services industry
- 73% agree they have fair opportunity to profit by investing in capital markets
- 35% cite "trusted to act in my best interest" as most important attribute in hiring an investment manager

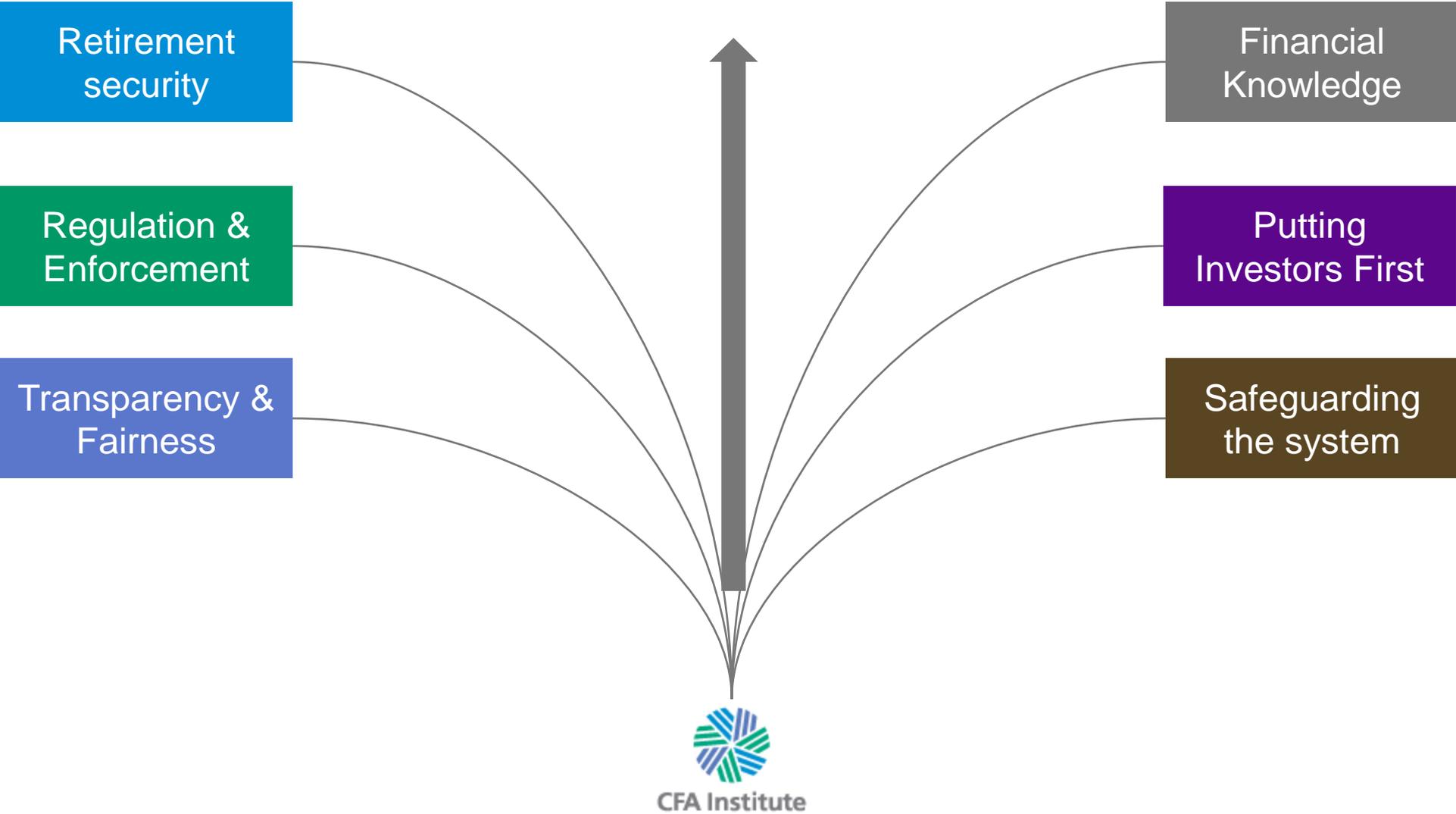


COMING SOON

Essentials of a More Secure Retirement

WHAT WE'RE GOING TO DO

The Future of Finance



RETIREMENT RISK



Source: [UK Progressive](#)

WHAT WE CAN WORK ON

(Easier)



(Too hard)

- Behavioral Issues
- Sufficiency of Retirement Savings (The Liability Side)
- Knowledge/Financial Literacy
- Investing Retirement Savings (The Asset Side)

- Defined Contribution Plans
- State & Local Governments
- Defined Benefit Plans

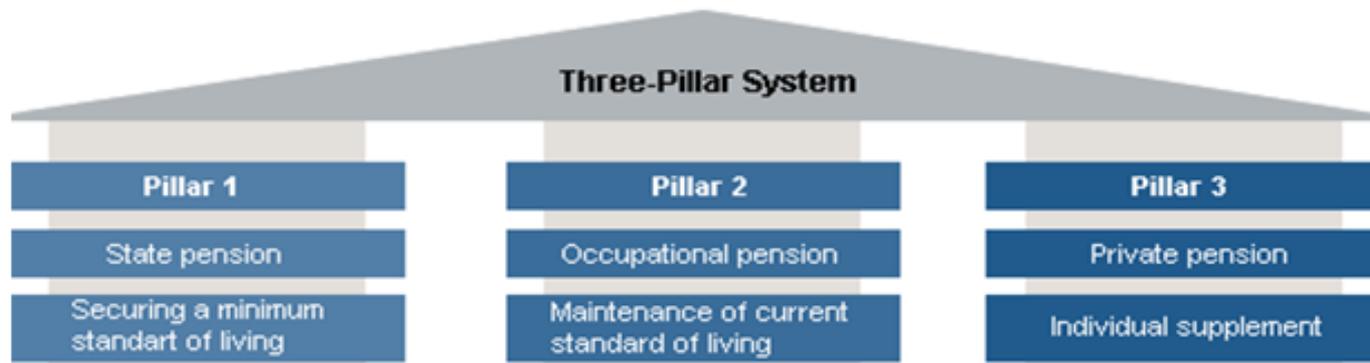
- Political/Socioeconomic (Entitlements)

- Demographics
- Macroeconomic Factors

WHAT INDIVIDUALS NEED TO DO

- Save more, spend less – forge a fiscal discipline
- Acquire basic financial knowledge
- Determine retirement needs – liability side
- Engage with available savings and retirement opportunities
- Keep investment costs low – focus on Fees

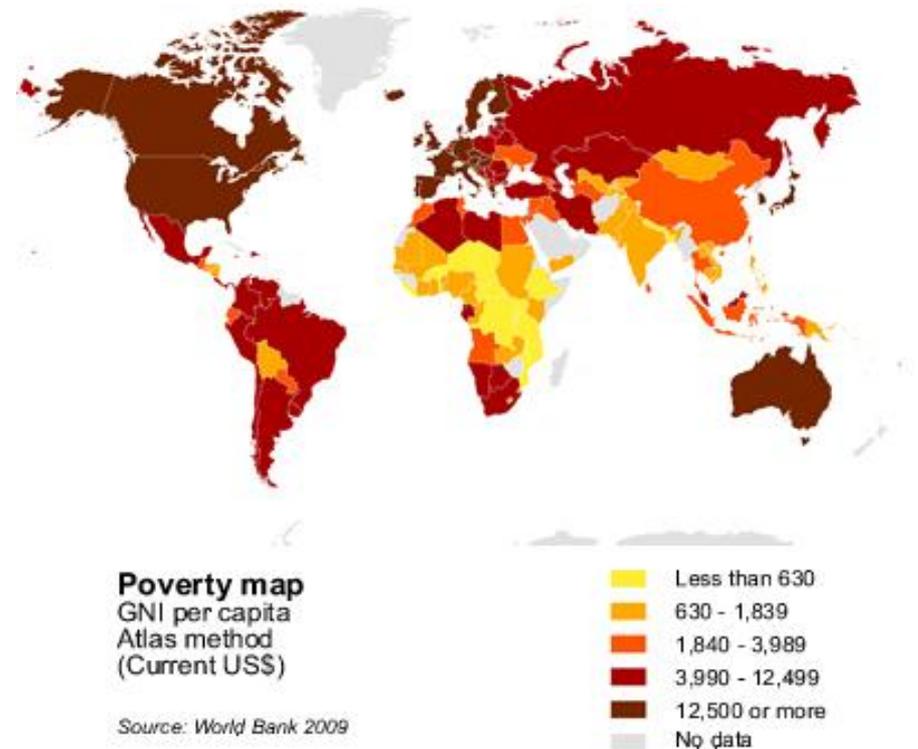
THREE PILLARS OF RETIREMENT SYSTEM



- **Developed Countries** – Most developed countries the following three pillars or some likeness to them:
 - **Pillar 1** – Mandatory pay-as-you go government/state scheme
 - **Pillar 2** – Occupational scheme which may be mandatory or voluntary
 - **Pillar 3** – Private savings component
- **Developing Countries** – In developing countries families provide support of aging population.

WITH UNDERSTANDING OF LOCAL DIFFERENCES

- Focus of global collaboration is not “one size fits all”
- Focus is “work together, share knowledge, don’t reinvent the wheel”
- Different methods of outreach will be needed for each of the three pillars



CFA INSTITUTE'S ROLE

- Lever our strengths:

- Brand
- Impartiality
- Ethical reputation
- Large network
- Reputation as convener



- To move these items along:

- Advocate globally
- Assemble recognized experts, globally
 - foster discussion
 - raise awareness
- Create and co-brand content for professional and investor audiences
- Facilitate a widespread discussion about retirement security within the investment community.

HOW TO WORK WITH US

(Easier)



- Use our content in your efforts
- Create and co-brand content
- Work together in advocacy
- Attend or host conferences/seminars and help shape opinion
- Lend your expertise to shaping our curriculum
- Adopt CFA educational products as standards
- Partnership Opportunities (TBD)

(Harder)

THE FUTURE OF FINANCE STARTS WITH YOU

<http://www.cfainstitute.org/futurefinance>