House of Finance
SAFE
Sustainable Architecture for Finance in Europe

Newsletter

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How to Incentivize Older People to Delay Social Security Claiming_4
Raimond Maurer • Olivia S. Mitchell

The Impact of Biases in Survival Beliefs on Savings Behavior_6
Max Groneck • Alexander Ludwig • Alexander Zimper

Sanctions for Misconduct in the Banking Sector: Workable and Effective?_10
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About SAFE

The Research Center SAFE – "Sustainable Architecture for Finance in Europe" – is a cooperation of the Center for Financial Studies and Goethe University Frankfurt. It is funded by the LOEWE initiative of the State of Hessen (Landes-Offensive zur Entwicklung wissenschaftlich-ökonomischer Exzellenz). SAFE brings together more than 40 professors and just as many junior researchers who are all dedicated to conducting research in support of a sustainable financial architecture. The Center has two main pillars: excellent research on all important topics related to finance; and policy advice, including the dissemination of relevant research findings to European decision makers from the realms of politics, regulation and administration.

In order to promote a fruitful exchange with interested parties from politics, academia, business and the media, SAFE issues a newsletter on a quarterly basis. This aims to provide an overview of the Center's ongoing research and policy activities. The SAFE Newsletter succeeds the House of Finance Newsletter, which was published between 2009 and 2012.

SAFE is based at Goethe University's House of Finance, however extends beyond by drawing on scholars from other parts of Goethe University as well as from fellow research institutions. The Center builds on the reputation of the House of Finance institutions, serving as an interdisciplinary think tank on the issue of finance.

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Editorial

Jan Pieter Krahnen

Director, Research Center SAFE

When talking about developments on financial markets, people tend to use abstract terms, such as "markets", "investors" or "capital". This custom makes it easy – in particular for critics – to think of the financial system as something remote and far away from the lives of ordinary people. Quite the opposite is true however. It is our savings and our saving behavior that is one of the main drivers of "the markets".

Of course, the impact of private savings on an economy and its financial system may differ considerably between countries. Interestingly, the specific design of national pension systems plays a key role here, which is often underrated by policy makers. While in Germany, with its pay-as-you-go system, private pension investment only accounts for 6.6% of GDP, this figure is much higher in countries with mainly funded pension systems, such as, for instance, Switzerland (123%), the U.S. (132.9%) or Denmark (205.9%), according to a recent OECD report. Given the foreseeable demographic development, there is no doubt however that, all over the world, private savings for retirement – and with it the impact of household decisions on financial markets – will become more important in the future.

These considerations lead to the conclusion that research on the financial decisions of private investors – commonly referred to as Household Finance, Personal Finance or Consumer Finance – has to be an essential part of any institution that aims to investigate new developments on financial markets, such as SAFE. In this issue of the SAFE Newsletter, we present two current SAFE working papers that focus on these decisions or, more specifically, on the riddles that they sometimes pose for researchers.

Raimond Maurer and Olivia Mitchell deal with the observation that most Americans claim their social security benefits as early as 62, even though their lifetime annuity stream would be 75% higher if they waited until the age of 70. By including questions in the 2014 U.S. Health and Retirement Study, the authors show that this behavior can be explained mainly by the fact that people seem to undervalue lifetime benefit streams (p. 4).

Max Groneck, Alexander Ludwig and Alexander Zimper address the riddle that, on average, young people save less whereas old people save more than a rational expectations model would suggest. Based on an innovative analytical approach, the authors show that this behavior can be sufficiently explained by the evidence that, on average, young people tend to "underestimate" whereas old people tend to "overestimate" their objective survival chances (p. 6).

Obviously, both papers provide important implications for policy makers. In order to design pension systems more efficiently – for the individual and society – a thorough understanding of the decision making behavior of private households is key. Moreover, it helps to better analyze our personal impact on the financial system.

Yours sincerely,
Jan Pieter Krahnen

How to Incentivize Older People to Delay Social Security Claiming

Raimond Maurer
Goethe University & SAFE

Olivia S. Mitchell
University of Pennsylvania
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There are good economic reasons to incentivize older people to work longer and delay retirement. These include population aging, the shrinking workforce as well as growing evidence indicating that working longer can be associated with better mental and physical health. Many social security systems reward later claiming of social security benefits by increasing the benefit payment per year of delay, while claiming earlier usually leads to reduced benefits. Nevertheless, a majority of Americans claim their Social Security benefits at as early as 62, even though their income stream would be 75% higher if they waited until age 70. To test whether this is the result of people underweighting the economic value of higher lifetime benefit streams, we have examined whether people would claim later and work longer if offered a lump sum instead of a higher benefit stream.

In the literature, two arguments can be found to explain early claiming. One is that workers claim early to avoid potentially "forfeiting" their deferred benefits should they die too soon (Brown et al., 2016); a second explanation is that many people underweight the economic value of lifetime benefit streams (Brown et al., 2017). This latter rationale motivates our study.

Experimental module in the Health and Retirement Study

We developed and fielded an experimental module in the 2014 U.S. Health and Retirement Study (HRS) to measure older persons' willingness to voluntarily defer claiming of Social Security benefits, and potentially to work longer, as a function of incentives to delay claiming their benefits. We focus on a nationally representative sample of people age 50 to 70 for whom claiming decisions are of the utmost financial importance, and we investigate whether and which individuals might be willing to delay claiming benefits in exchange for different compensation options.

The module included two sets of questions. In both settings, HRS respondents were asked whether they would be willing to delay claiming their Social Security retirement benefits beyond the age of 62 to age 66, in exchange for either a higher annuity benefit stream (status quo scenario), or for a not-increased monthly payment plus a lump sum equivalent to the benefit increment due to delayed claiming.

In the first setting, respondents could choose between these two options without having to work longer. They could assume that they had enough private savings to live on without working from age 62 to 66. In the second setting, we explored leisure preferences by asking whether respondents would still delay claiming if they had to work at least half time in each of the years. Accordingly, the goals of the experiment were to measure respondent willingness to trade a decrease in his or her annuity benefit stream for a delayed lump sum (i) if no extra work were required in the interim, or (ii) if at least half-time work were required.

Many respondents prefer a lump sum to the status quo

Our study showed that about half of the respondents plan to delay claiming under the

	No work				With work			
	Status quo	Lump sum	LS-SQ difference	% change	Status quo	Lump sum	LS-SQ difference	% change
Total	49.9	70.3	20.4	40.9	45.6	55.5	9.9	21.7
Men	46.3	69.0	22.7	49.0	46.0	55.9	9.9	21.5
Women	52.5	71.3	18.8	35.8	45.3	55.2	9.9	21.9
Age 50 – 59	51.5	73.0	21.5	41.7	46.2	59.1	12.9	27.9
Age 60 – 70	48.6	67.6	19.0	39.1	44.5	51.9	7.4	16.6
High school or less	44.5	66.9	22.4	50.3	45.0	44.1	-0.9	-2.0
Some college education or more	54.6	73.3	18.7	34.2	46.0	56.0	10.0	21.7
In excellent, very good or good health	51.6	72.8	21.2	41.1	47.1	56.5	9.4	20.0
In fair or poor health	45.5	63.9	18.4	40.4	41.8	32.6	-9.2	-22.0

The incentive effect of offering a lump sum: The table reports relative frequencies of respondents (in percent of the overall sample) who indicated that they would delay claiming of benefits in the status quo and when offered a lump sum, with no work required (left) and half-time work required (right).

status quo scenario rules, and only slightly fewer, 46%, with a work requirement. But if they could access a lump sum worth USD 60,000 at the delayed claiming date, 20 percentage points more respondents indicated they would delay claiming in the no-work condition, and 10 percentage points more in the case where delayed claiming also implied more work. We also asked respondents to tell us how large a lump sum they would need to receive to delay claiming, with and without the work requirement. When no work was required, the average amount needed to induce delayed claiming was about USD 60,400 while, when part-time work was required, the average was USD 66,700.

Under the status quo, slightly fewer men indicated that they planned to delay claiming compared to women, and better educated are more willing to delay than lesser educated. If the lump sum is available in the no-work condition, 50% more of the less-educated people said they would delay claiming versus one third of the better educated. When additional work was required, the less-educated group did not find the lump sum attractive, while 22% more of the better-educated group would delay claiming.

Perhaps unsurprisingly, those self-reporting themselves to be in “excellent,” “very good,” or “good” health were far more likely (by 41%) to delay claiming when the lump sum was available in the no-work condition, and by 20% more when work was required. The additional work requirement was particularly disliked by those in poor health.

Policy significance

Our research shows that many people would delay claiming their Social Security benefits if, on eventually retiring, they could access a (reduced) lifelong benefit plus an actuarially fair lump sum payment. In other words, people favor lump sums and would claim later – and some would work more – as compared to the current system. This would have a positive effect on their wellbeing, as they prefer the lower income stream and higher lump sum to the status quo. And from a macroeconomic perspective, longer work lives also offer additional economic resources to help cover the costs of population aging. Accordingly, giving people incentives to voluntarily delay claiming Social Security benefits in exchange for lump sums – and possibly work longer – could benefit both society and the older individuals as well.

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The full paper is available as SAFE Working Paper No. 170 at:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2945967

The Impact of Biases in Survival Beliefs on Savings Behavior

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Empirical evidence shows that, on average, young people save less whereas old people save more than a rational expectations model of life-cycle consumption and savings would suggest. According to numerous studies on subjective survival beliefs, young people also underestimate whereas old people overestimate their objective survival chances on average. In this paper we take a structural behavioral economics approach to jointly addressing both empirical phenomena by embedding subjective survival beliefs that are consistent with these biases into a rank-dependent utility model over life-cycle consumption. Our results have a strong impact on the question of how to design policy measures in order to encourage people to save more efficiently.

Until the age of about 65 people tend to underestimate their survival chances whereas people older than about 70 tend to overestimate these (see figure). Intuitively, one would conjecture that such age-dependent biases between perceived and objective survival chances are an important driver of empirically observed savings puzzles, namely that young people do not save enough while old people save more and hold more assets than necessary given average life expectancy. After all, individuals who do not expect to live for long will consume in the present rather than save for the future. Conversely, overestimation of survival chances at an old age should lead to oversaving later in life.

Transforming objective survival information

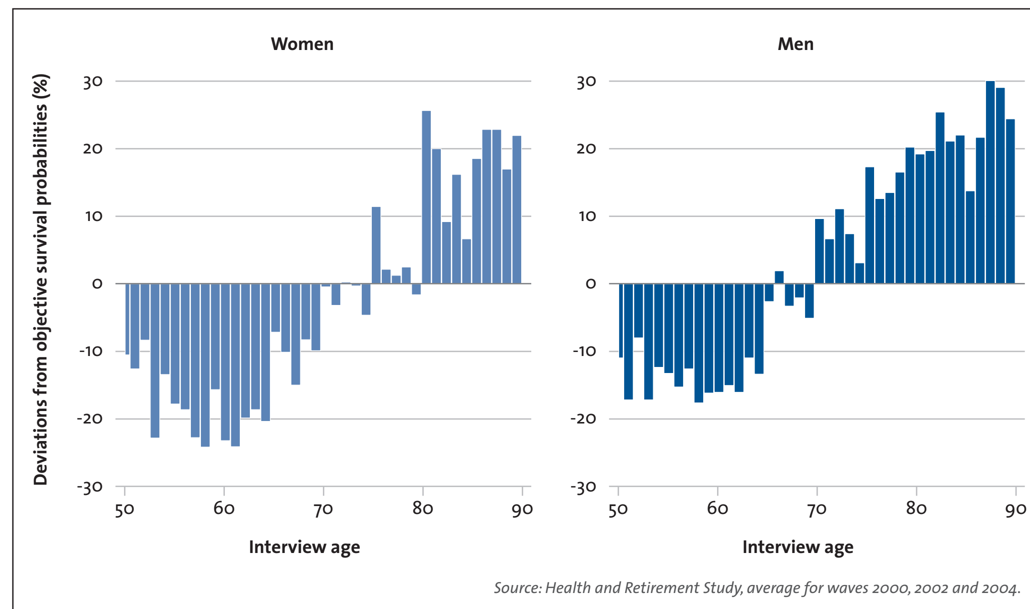
In standard rational expectations life-cycle models survival beliefs are expressed as objective survival probabilities. The model gives rise to the aforementioned saving "puzzles". We deviate from the standard approach by incorporating subjective survival beliefs into a variant of a life-cycle model of consumption and savings. Specifically, we consider a simple transformation of objective survival beliefs, whereby a likelihood-insensitivity parameter controls the decision weight on objective survival information. The higher the likelihood insensitivity is, the less relevant objective survival rates for economic decisions are. In presence of such a likelihood insensitivity a second optimism parameter governs the strength of underestimation versus overestimation of survival chances. We show that this two-parameter transformation of objective survival beliefs, a so-called "neo-additive" transformation, can easily replicate the age-dependent survival belief biases reported in survey data.

Next, we assume that in presence of uncertain survival chances individuals prefer longer consumption streams (longer horizons) to shorter ones. This natural notion gives rise to a rank dependent utility (RDU) life-cycle model defined over gains that arise from consumption streams. We show that using neo-additive survival beliefs in this RDU model results in dynamically inconsistent consumption behavior. That is, future consumption plans generally deviate from present plans for these future periods.

Main results

With respect to the implications of biased survival beliefs for savings behavior in our general RDU model, we establish two main results: First, overestimation of old age survival chances is

sufficient and necessary for oversaving at an old age. Second, sufficiently strong underestimation of survival chances at young age results in undersaving at young age. The details of this latter result crucially depend on whether a person is aware of her dynamically inconsistent RDU preferences (i.e., sophisticated) or not (i.e., naive). A combination of both results pins down parameter conditions for which underestimation at young combined with overestimation at old age generates undersaving at young combined with oversaving at old age.



Biases in survival beliefs over age: Relative difference of subjective probabilities and cohort data (percentage point deviations from objective probabilities).

Our approach also helps to understand high old age asset holdings which result from persistent oversaving relative to the rational expectations benchmark model. Such high old-age asset holdings arise simultaneously with undersaving at young age if overestimation of survival beliefs is sufficiently strong so that oversaving in old age eventually dominates undersaving at young age.

Our theoretical characterization of optimal behavior thereby shows that it is not a necessary consequence that underestimation and overestimation of survival beliefs lead to undersaving and oversaving. Therefore, a quantitative analysis is need. This is done in Groneck, Ludwig and Zimper (2016) where we employ an estimated life-cycle model of consumption and savings to show that biased survival beliefs can indeed explain life-cycle asset holdings until about age 85.

Policy implications

Building on such quantitative and theoretical insights, Heiler (2014) analyzes appropriate policy implications. One may conjecture that undersaving at a young age might be a reason for implementing a tax-financed social security system because this forces households to implicitly save for retirement. However, Heiler shows that the normative arguments for social security are still rather weak despite the observed biases in survival beliefs. The intuition is as follows: Under conventional findings, asset returns on capital markets over long horizons exceed the implicit returns of social security. Therefore, forcing households to build up implicit savings through a tax-financed social security system, i.e., to save at a lower return than the long-run returns earned on capital markets, is welfare-deteriorating. This effect turns out to dominate despite the fact that the intertemporal allocation of consumption might be improved.

Heiler further shows that a better policy intervention is the combination of savings subsidies at a young age (during working life) with capital income taxes during the decumulation phase (in retirement). This tax revenue can be used to finance the subsidies. The savings subsidy incentivizes households to build up retirement assets; the capital income tax encourages households to decumulate assets sufficiently strongly in old-age. Hence, biased survival beliefs can provide a normative justification for subsidies on savings accumulated for retirement.

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The full paper is available as SAFE Working Paper No. 169 at:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2943885

Interview:
"It is the Right Time to Introduce the LEI System"

Wolfgang König
Goethe University & SAFE

In this interview, Wolfgang König reflects on the current status, challenges and next steps with respect to the introduction of Legal Entity Identifiers (LEIs) for every single institution active on the global financial markets. Wolfgang König is Professor of Information Systems at Goethe University Frankfurt, Managing Director of the House of Finance and Member of the Board of Directors of the Global Legal Entity Identifier Foundation (GLEIF).

As a result of the recent financial crisis, the Financial Stability Board suggested introducing an information system that allows for the unique identification of every legal entity participating in financial markets. The objective of this system of "Legal Entity Identifiers" (LEIs) is to enhance transparency in the global marketplace. Has this goal already been achieved?

After substantial preparations, the Global Legal Entity Identifier Foundation (GLEIF) was founded in June 2014. It acts under the supervision of 70 global regulatory bodies – in Germany, for instance, it is supervised by the Deutsche Bundesbank and the Federal Financial Supervisory Authority (BaFin). GLEIF manages a network of LEI issuing organizations to provide trusted services and open, reliable data for unique legal entity identification worldwide. LEI issuers supply registration, renewal and other services. As the primary interface for legal entities, they issue a world-wide unique identifier, the LEI, in the form of a 20-digit alphanumeric code, upon request. So the system is organized in a federative architecture: GLEIF provides world-wide standards, for instance on data exchange and quality checks, which are then executed by the LEI issuers. GLEIF also oversees the work of the issuing bodies which involves not just the technical issuance of an LEI but also – based on the specific local knowledge – the evaluation of the information that comes associated with the LEI, such as the official name of the entity, the official address and so on.

Right now we have around 500,000 LEIs in operation. This ensures that the source and destination of a financial transaction are uniquely identified – which provides a tremendous increase in transparency in the global market place. So, in a nutshell: We have already achieved a great deal. However, of course, there still remains a lot to be done.

How do you assure data quality?

The LEI connects to key reference information that allows for clear and unique identification of legal entities participating in financial transactions. The LEI issuing organization verifies the reference data supplied by the registering legal entity by consulting local authoritative sources, such as a national Business Register. Data quality is also ensured via the annual LEI renewal process.

In order to monitor and ensure high LEI data quality, GLEIF has defined a set of measurable quality criteria using standards developed by the International Organization for Standardization (ISO). These include criteria such as the completeness, comprehensiveness and integrity of the LEI data records. GLEIF publishes monthly reports which demonstrate, respectively, the level of data quality achieved in the Global LEI System as well as by the individual LEI issuers. Moreover, we employ complex algorithms to ensure that each legal entity obtains only one LEI.

With respect to the current challenges facing financial institutions with regard to improving their digital infrastructure: Is the LEI

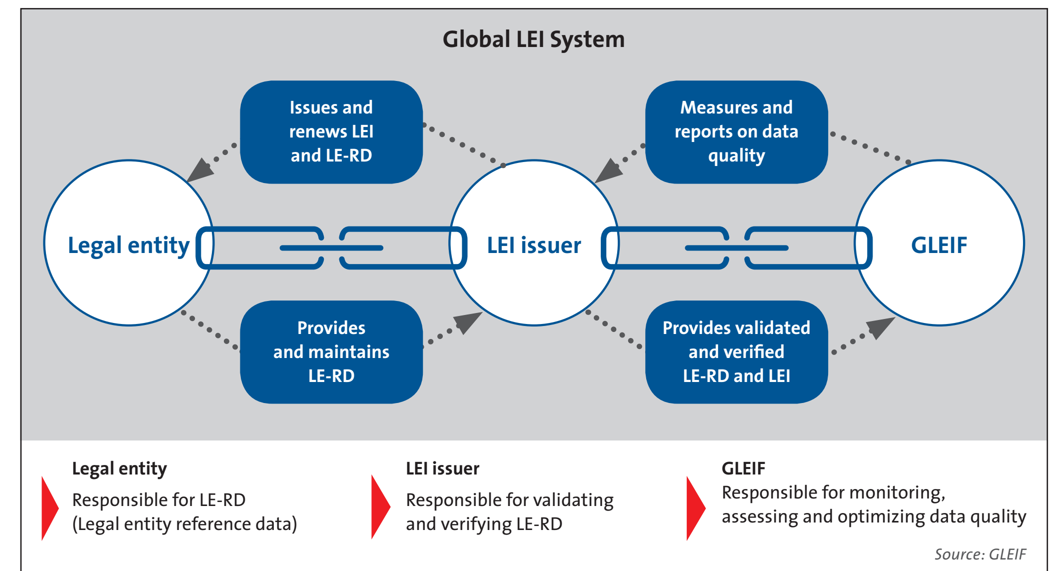
introduction and expansion regarded as a further complexity for these digitalization projects?

Regulatory bodies – in particular in Europe – request this transparency. The industry, however, sends mixed signals. Of course, it is well known that financial institutions, and European banks in particular, are currently facing substantial challenges, such as increased regulatory demands and close-to-zero interest rates. So a lot of banks sigh in the face of the request to introduce the LEI right now which, for example, means changing fundamental software infrastructures in their institutions. However, there is also no doubt that a lot of banks need to update and modernize their systems. There are strong indications that quite a number of larger banks run a multitude of identification systems for each domain – e.g. institutional customers – in parallel, interconnecting these by individual software bridges that have to be maintained in a rather resource intensive manner. Given that these processes have to be done x-fold in parallel in each bank, there are substantial efficiency gains to be unearthed. Therefore, the LEI introduction should not only be seen as a further obstacle or complexity in this sense. Quite the contrary: A lot of banks realize increasingly that employing the LEI really helps them to efficiently fulfill important regulatory requests – for instance with respect to anti-money laundering or anti-terrorist financing – and, in parallel, also to streamline their IT systems. So one can rather argue that it is exactly the right time to introduce the LEI system as most of the institutions are overhauling their digital infrastructure anyway.

What are the next steps?

We have to fine-tune the system – for example to deal with the unsatisfactory renewal rate of LEIs in selected LEI issuing organizations. Looking onwards, on 1 May, we began raising level 2 data, hierarchical data in the sense of “who owns whom”: We collect the immediate and – looking upwards the institutional hierarchy – the ultimate parent of each registered legal entity. The implementation of level 2 data will add substantial challenges but also beneficial potential to the system. As we expect our LEI “owners” to renew their data yearly, we foresee that the level 2 data will be populated in May 2018. But given that, for example, not all parents have an LEI yet, it will take longer to reach a sufficient coverage.

Beyond that, we are currently deliberating on how different use cases can further increase the benefits of the LEI system. One strategic option is to appropriately combine the LEI with digital signatures (for example of institutions).



Structure of the global LEI system.

Sanctions for Misconduct in the Banking Sector: Workable and Effective?

Martin R. Götz
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Goethe University & SAFE

The execution of enforcement action to correct deficiencies in banks' management or financial health is an important tool that allows supervisors to sanction banks for violating safe and sound banking practices and/or law. Obviously, the procedure for imposing sanctions has to be practically workable. A separation of competences between multiple agencies may compromise the incentive effects of the regime as a whole. We examine the evolution of enforcement actions in the U.S. and compare the U.S. regulatory regime to the regime in the European Union. We argue that the Single Supervisory Mechanism (SSM) with its division of competences between the European Central Bank (ECB) and national competent authorities (NCA) provides an impediment to the effective sanctioning of banks.

Enforcement actions by supervisory authorities against financial institutions are powerful tools to ensure bank stability. First, they embody a supervisor's legal powers to intervene in a bank's operations to restore and ensure safety and soundness ex post. Second, the ability of supervisors to levy fines in reaction to a bank's misconduct is a deterrent that provides banks with the necessary incentives to implement internal structures and control procedures that guarantee safe and sound banking practices ex ante.

However, enforcement actions may also inflict a cost to financial stability. For example, an ex post enforcement approach to bank misconduct may be suboptimal if this behavior is an industry-wide phenomenon. In this case, the underlying problem is not remedied and enforcement actions may even exacerbate systemic risk. Even if misconduct is not an industry-wide problem, the disclosure of large fines may undermine market confidence in the respective institution or the whole sector. As it highlights shortcomings in bank management, this signal may be followed by a withdrawal of deposits or funds by debt holders. Eventually, this funding shock may lead to a decrease in bank lending with detrimental effects for the real sector.

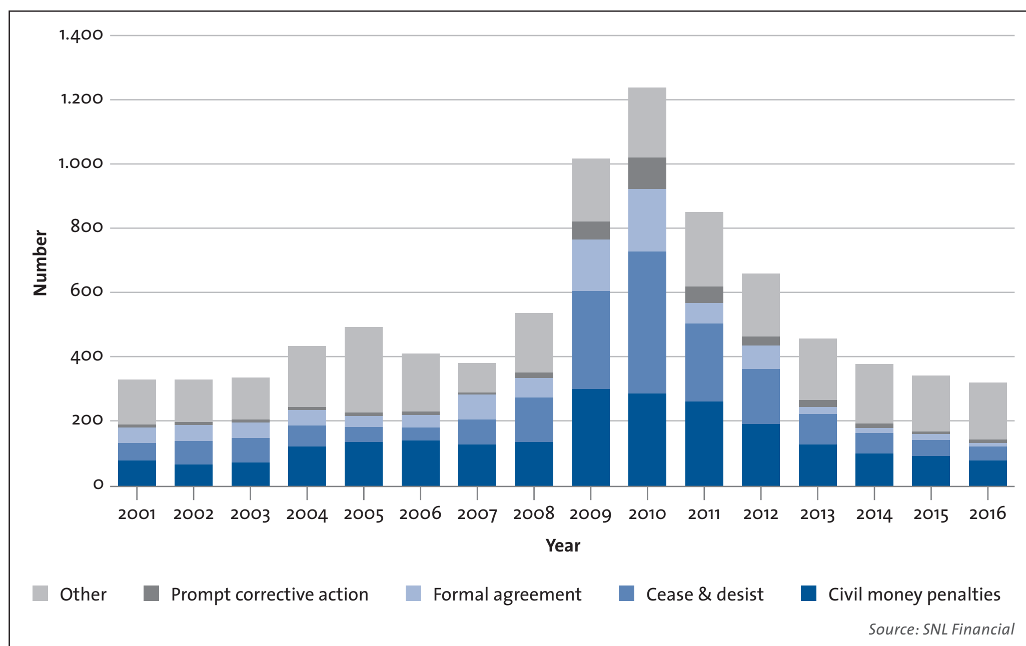
If these effects are anticipated, a threat to impose large fines, in particular on systemically important institutions, may not be credible from the start. Empirical evidence mainly from the U.S. indicates that banks react and change their behavior when they are subject to an enforcement action. Existing studies highlight that banks become safer once regulations intervene. Other work found that banks issue more favorable loan terms once they are subject to an enforcement action.

Regulatory intervention in the U.S.

Our analysis suggests that U.S. regulators, other than the Department of Justice that enforces criminal sanctions, are quite active in sanctioning banks; on average, they issue about 500 enforcement actions against banks per year. The data also shows that the activity of U.S. regulators has increased since the financial crisis (see figure). Regarding the issuance of monetary penalties, we find that the aggregate sum of fines was very large in 2014 and 2015 amounting to more than USD 2 billion. This activity was primarily driven by monetary penalties against large banks due to wrongdoings related to

money laundering and their trading behavior in foreign exchange markets.

A comparable analysis of regulatory interventions in Europe is not possible due to a lack of detailed data. While sanctioning criminal offenses has played an important role in the U.S. in recent years, European prudential banking regulation does not provide for any harmonized criminal sanctioning powers. Only the power to impose administrative sanctions has been conferred to the EU level in specific fields by acts of secondary EU law. Typically, enforcement actions in the EU regime emerge out of continuous supervision or bank exams that indicate deficiencies in the management of a bank or reveal financial problems.



Enforcement actions by U.S. regulators (2001-2016).

Differences with regard to the execution of enforcement action

When comparing EU and U.S. legal provisions that allow imposing monetary penalties to sanction violations of prudential banking regulation (preconditions, range of fines), no material variations with regard to typical misconduct can be observed. Differences occur, however, with regard to the execution of enforcement action: While each supervisor in the U.S. has the independent authority to initiate enforcement actions and levy fines against the institutions that fall under its remit, the competence to execute enforcement action within the SSM is split between the ECB and NCAs.

In particular, a difference exists between breaches i) of directly applicable EU law, ii) of all other supranational or national prudential banking regulation that bears on the functioning of the SSM, iii) of ECB regulations and decisions and iv) of all other relevant law. Thus, even though EU regulators have, in principle, the ability to set fines at efficient levels, the hub and spokes-approach of the SSM with its division of competences between the ECB and NCAs creates an impediment to the effective sanctioning of banks.

This shortcoming should not be neglected, because only optimally calibrated sanctions handed out by effective enforcement authorities will induce socially optimal behavior ex ante. A division of competences among different regulators should not lead to a loss of efficiency regarding the execution of enforcement actions.

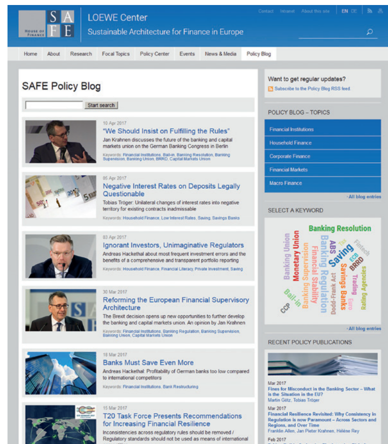
EU regime superior to U.S. counterpart

To ensure that enforcement actions contribute to financial stability, it is of utmost importance that supervisory authorities have adequate sanctioning powers at their disposal that allow them to react swiftly and effectively once relevant infringements of the regulatory framework are detected. Two aspects are critical. First, the regulatory framework has to allow for sanctions to be set within the efficient range (that may exceed social harm) and not be truncated at suboptimal levels. We find that the EU regime, with regard to very harmful short-term or one-time violations, is even superior to its U.S. counterpart as it allows for sanctions to be calibrated in line with the social optimum. Second, the procedure for imposing sanctions has to be practically workable – an inefficient disjunction of competences of multiple agencies will also compromise the incentive effects of the regime as a whole.

The full paper is available as SAFE White Paper No. 47 at:
http://safe-frankfurt.de/misconduct-in-banking

News

SAFE Policy Blog Started



The Research Center SAFE has recently started a Policy Blog on its website (safe-frankfurt.de/policy-blog). The blog features statements and comments of SAFE researchers as well as short interviews with them on current developments in the areas of financial institutions, household finance, corporate finance, financial markets and macro finance. It addresses readers from politics, regulation, academia, media and the general public interested in these areas. Timely notifications about new blog entries can be obtained by subscribing to the blog's RSS feed.

SAFE Wins International Research Competition on "Digging into Data"

Loriana Pelizzon, SAFE Professor for Law and Finance, has succeeded in an international research competition together with an interdisciplinary team of researchers from the UK, France, Germany, Finland and the U.S. The "Digging into High Frequency Data" project will be funded by Deutsche Forschungsgemeinschaft (DFG) and 15 other international research bodies as part of the Trans-Atlantic Platform for the Social Sciences and Humanities. The team plans to build a transatlantic securities markets database. The objective is to improve and homogenize existing datasets and build models to advance our understanding of how electronic markets work. The project will help with interpreting the data, understanding global interconnectedness between securities and financial stakeholders and providing new insights for understanding financial crises and constructing effective financial regulations.

T20 Task Force Presents Recommendations for Increasing Financial Resilience

The T20 Task Force on Financial Resilience, co-headed by SAFE Director Jan Pieter Krahnen, has recently presented its recommendations towards increased financial resilience. The T20 network, comprising research institutes and think tanks from the G20 countries, had identified financial resilience as one of nine key topics for which policy recommendations shall be presented in the run-up to the G20 summit in Germany in July 2017. The Task Force on Financial Resilience has now presented a paper that outlines three main recommendations: Inconsistencies across regulatory rules and territorial regimes shall be removed and their credibility concerning implementation be ensured; the lowering of financial regulatory standards as a means of international competition shall be discouraged; and, in order to strengthen societal backing, more weight shall be given to the pedagogical explanation of the established regulatory standards. Besides Jan Pieter Krahnen, the Task Force consists of Franklin Allen (Imperial College London) and Hélène Rey (London Business School).

Andreas Hackethal Advises European Securities and Markets Authority

Andreas Hackethal, Program Director of the SAFE Research Area "Household Finance", has been appointed a member of the Consultative Working Group (CWG) of the Financial Innovation Standing Committee of the European Securities and Markets Authority (ESMA). The Committee's mandate is to achieve a coordinated approach to the regulatory and supervisory treatment of new or innovative financial activities. Also, it shall identify risks to investor protection – and to financial stability – in the financial innovation area and produce a risk mitigation strategy. Besides Andreas Hackethal, Peter Gomber, Principle Investigator at SAFE, also advises ESMA as a member of the Secondary Markets Standing Committee's CWG.

Sven Giegold a new Member of the SAFE Policy Council

Sven Giegold, member of the European Parliament, recently joined the SAFE Policy Council. The Policy Council advises the SAFE Policy Center in its efforts to build and expand a network of policy makers and political institutions inside and outside of Europe. It contributes to shaping the agenda of the Policy Center by identifying relevant topics and critically appraises the projects of the Policy Center and their implementation. The economist Giegold has been a member of the EU Parliament since 2009. He is the spokesman for fiscal and economic policy of the parliamentary group of the Greens, a member of the Committee on Economic and Monetary Affairs and a substitute in the Committee on Budgets.

Selected Publications

Bayer, E., Tuli, K. and B. Skiera (2017)
"Do Disclosures of Customer Metrics Lower Investors' and Analysts' Uncertainty, But Hurt Firm Performance?",
Journal of Marketing Research, Vol. 54, Issue 2, pp. 239-259.

Camera, G. and A. Gioffré (2017)
"Asymmetric Social Norms",
Economic Letters, Vol. 152, pp. 27-30.

Fecht, F., Hackethal, A. and Y. Karabulut (2017)
"Is Proprietary Trading Detrimental to Retail Investors?",
forthcoming in the Journal of Finance.

Goldmann, M. (2017)
"International Investment Law and Financial Regulation: Towards a Deliberative Approach",
Tams, C., Schill S. and R. Hofmann (eds.), International Investment Law and the Global Financial Architecture, Edward Elgar, Cheltenham, pp. 57-85.

Gomber, P., Koch, J.-A. and M. Siering (2017)
"Digital Finance and FinTech: Current Research and Future Research Directions",
forthcoming in the Journal of Business Economics.

Grüning, P. (2017)
"International Endogenous Growth, Macro Anomalies, and Asset Prices",
forthcoming in the Journal of Economic Dynamics and Control.

Haselmann, R., Schoenherr, D. and V. Vig (2017)
"Rent-Seeking in Elite Networks",
forthcoming in the Journal of Political Economy.

Hebous, S. and M. Ruf (2017)
"Evaluating the Effects of ACE Systems on Multinational Debt Financing and Investment",
forthcoming in the Journal of Public Economics.

Langenbucher, K. (2017)
"Kündigungsrecht der Bausparkassen zehn Jahre nach Zuteilungsreife",
forthcoming in Neue Juristische Wochenschrift.

Recent SAFE Working Papers

Donadelli, M. and P. Grüning (2017)
"Innovation Dynamics and Fiscal Policy: Implications for Growth, Asset Prices, and Welfare",
SAFE Working Paper No. 171.

Raimond, M. and O. Mitchell (2017)
"Older People's Willingness to Delay Social Security Claiming",
SAFE Working Paper No. 170.

Groneck, M., Ludwig, A. and A. Zimper (2017)
"The Impact of Biases in Survival Beliefs on Savings Behavior",
SAFE Working Paper No. 169.

Friebel, G., Lalanne, M., Richter, B., Schwardmann, P. and P. Seabright (2017)
"Women form Social Networks more Selectively and Less Opportunistically than Men",
SAFE Working Paper No. 168.

Noth, F. and U. Schüwer (2017)
"Natural Disaster and Bank Stability: Evidence from the U.S. Financial System",
SAFE Working Paper No. 167.

Billio, M., Caporin, M., Panzica, R. and L. Pelizzon (2017)
"The Impact of Network Connectivity on Factor Exposures, Asset Pricing and Portfolio Diversification",
SAFE Working Paper No. 166.

Bonaccolto, G., Caporin, M, and R. Panzica (2017)
"Estimation and Model-Based Combination of Causality Networks",
SAFE Working Paper No. 165.

More information on the SAFE Working Papers can be found on http://safe-frankfurt.de/working-papers

Market and Economic Developments Increase the Prospects of Policy Normalization in the Euro Area

Joachim Wuermeling
Member of the
Executive Board of
Deutsche Bundesbank

The Eurosystem has resorted to unprecedented standard and non-standard monetary policy measures, partly to insure against a scenario of self-reinforcing deflationary dynamics in the euro area. With real economic activity as well as headline inflation picking up markedly over recent quarters, discussions on a transition from this extremely accommodative stance towards a normalization of monetary policy has broadened recently. In fact, markets have already started to price in a modest policy tightening for the first quarter of 2018.

Among implemented non-standard measures, the extended Asset Purchase Program (APP) in particular has spurred a lot of controversy. While it has supported the recovery in the euro area, for example via contributing to credit growth, it has also raised fundamental concerns with regard to incentives for governments to delay both structural reforms as well as the reduction of elevated debt levels.

While traditional monetary policy and its transmission channels have been extensively discussed in the academic literature, research on the effects of non-standard measures is still in its infancy. One obvious reason is that these monetary policy tools do not have a long history so that data is scarce and often also difficult to access.

In a joint research project between the Bundesbank and the Bank for International Settlement, the impact of purchases on prices and liquidity of Bunds has been examined for the first 18 months of the APP.[1] The authors of the paper conclude that the Public Sector Purchase Program (PSPP), by far the biggest part of the APP, has a significant depressant impact on German Bund yields, both through an announcement effect and via effective purchases. Hence, the original objective of the PSPP of exerting downward pressure on bond yields seemed to materialize during the initial phase of the program. A study by the Banque de France finds similar effects on French government bond yields.[2] At the same time, the Bundesbank paper indicates that additional purchases seem to have a diminishing marginal effect: the lower the yield, the smaller the potential of suppressing yields further is.

The authors of the Bundesbank study also provide evidence for negative side effects of the program, one of which is that Bund market liquidity is likely to be affected the longer the PSPP is in place. Although other factors such as stricter regulatory requirements for financial intermediaries are likely to play a role here, it should not be a surprise that the existence of a large buyer can influence market conditions in a substantial way.[3] Other concerns – also mentioned in the most recent Bundesbank Financial Stability Review – include the impact of a prolonged low interest rate environment on the profitability of banks, insurers and other participants in financial markets.

To sum up: As growth and inflation in the euro area are steadily recovering and side effects of the current monetary policy stance become more pronounced, it is time to think about policy normalisation. We have learned from the U.S. example that such a normalisation exercise comes with a lot of challenges. Therefore, thorough preparations are required. Further academic research can certainly play a role in increasing our understanding of the full “exceptional monetary policy cycle”.

[1] *Schlepper, K., Hofer, H., Riordan, R. and A. Schrimpf (2017), “Scarcity Effects of QE: A Transaction-Level Analysis in the Bund Market”, Deutsche Bundesbank Discussion Paper No. 06/2017.*
[2] *Arrata, W. and B. Nguyen (2017), “Price Impact of Bond Supply Shocks: Evidence from the Eurosystem’s Asset Purchase Program”, Banque de France Working Paper No. 652.*
[3] *The Eurosystem has also recognized this issue and tries to mitigate potential distortions through its securities lending program.*

Events

May

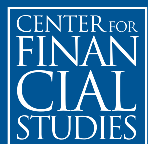
4 May 12.00 – 1.00 pm	**SAFE Visitors Program – Research Seminar** Speaker: Alexander Monge-Naranjo, Federal Reserve Bank St. Louis
8 May 5.30 – 7.00 pm	**CFS Lecture** **Brexit Begins: Economic and Legal Implications** Speaker: Sam Hill, RBC Capital Markets and Jens Rinze, Squire Patton Boggs
8 – 9 May	**SAFE/CEPR/DFG Conference** **Financial Markets and Macroeconomic Performance**
9 May 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Kumar Venkataraman, Southern Methodist University, Texas
9 May 12.15 – 1.45 pm	**SAFE Policy Center Lecture** **Greece – A Never Ending Tragedy?** Speaker: George Papaconstantinou, Former Minister of Finance, Greece
10 May 2.00 – 3.00 pm	**SAFE Visitors Program – Research Seminar** Speaker: Itzhak Ben David, Ohio State University
12 May – 30 June	**GBS Open Program** **Global Asset Allocation** Speaker: Raimond Maurer, Goethe University
15 May 9.30 am – 5.00 pm	**ILF Conference** **4th Conference on Banking Union**
15 May 5.00 pm	**EFL Jour Fixe** **SaaS Cloud Services and their QoS Requirements – An Empirical Study in the Financial Services Industry** Speaker: The An Binh Nguyen, E-Finance Lab
16 May 2.15– 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE** Speaker: Brent Neiman, University of Chicago
16 May 4.15– 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Bruce D. Grundy, University of Melbourne
17 May 2.00 – 3.00 pm	**SAFE Visitors Program – Research Seminar** Speaker: Andrew Simonov, Michigan State University
18 May 7.00 pm	**ILF Conference** **Brexit – Implications for Business in Germany** Speaker: Herman van Rompuy, former President of the European Council
19 May – 24 June	**GBS Open Program** **Applied Credit Risk Management** Speaker: Björn Imbierowicz, Goethe University
19 May – 21 July	**GBS Open Program** **FinTech in Retail Financial Services** Speaker: Andreas Hackethal, Goethe University
20 May – 7 July	**GBS Open Program** **Mergers and Acquisitions** Speaker: Volker Brühl, Center for Financial Studies
22 May 6.00 pm	**ILF Guest Lecture** **Financialization of the Business Corporation and its Distortion of Productive Activity** Speaker: David C. Donald, The Chinese University of Hong Kong
23 May 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE** Speaker: Jonathan Heathcote, Minneapolis Fed
23 May 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Heitor Almeida, University of Illinois
29 May 5.00 pm	**EFL Jour Fixe** **Consumer Protection and the Lack of Regulation of Innovative Enterprises** Speaker: Bernd Skiera, Goethe University
30 May 12.15 – 1.45 pm	**SAFE Policy Lecture** Speaker: Thomas Wieser, Economic and Financial Committee of the EU
30 May 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE** **Depening Contractions and Collateral Constraints** Speaker: Emiliano Santoro, University of Copenhagen
30 May 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Steven Ongena, University of Zurich
31 May 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE and Deutsche Bundesbank** Speaker: Silvana Tenreyro, London School of Economics

June

2 June – 30 June	**GBS Open Program** **Enterprise Risk Management – Governance and Principles** Speaker: Thomas Kaiser, Goethe University
6 June 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE and Deutsche Bundesbank** Speaker: Enrique Mendoza, University of Pennsylvania
7 June 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE and Deutsche Bundesbank** Speaker: Jordi Gali, Universitat Pompeu Fabra
11 – 12 June	**ICIR/Karel's Club** **Emerging Risks and Limits of Insurability** Chair: Karel van Hulle, ICIR
12 June 9.00 am – 7.00 pm	**SAFE Conference** **Regulating Financial Markets** Keynote: Amit Seru, Standford University
13 June 4.15 – 5.30 pm	**SAFE Visitors Program/Finance Seminar** Speaker: Philippe Müller, London School of Economics
14 June 12.00 – 1.30 pm	**SAFE Visitors Program – Research Seminar** Speaker: Vikrant Vig, London School of Economics
20 June 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE** Speaker: Alexandros Vardoulakis, Federal Reserve Board of Governors, Washington
20 June 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Michael Halling, Stockholm School of Economics
23 – 24 June	**SAFE/CFI/NYU/ETH Zurich Conference** **2017 Law & Banking/Finance Conference: State Intervention and Market Reactions**
27 June 2.15 – 3.45 pm	**Frankfurt Macro Seminar – joint with SAFE** Speaker: Luigi Pistaferri, Stanford University
27 June 4.15 – 5.30 pm	**Finance Seminar – joint with SAFE** Speaker: Amir Yaron, The Wharton School, University of Pennsylvania

CFS Center for Financial Studies
EFL E-Finance Lab
ICIR International Center for Insurance Regulation
IMFS Institute for Monetary and Financial Stability
ILF Institute for Law and Finance
GBS Goethe Business School

Please note that for some events registration is compulsory.



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Hessens Zukunft

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