

Newsletter

Our project Nordic Finance and The Good Society, has been gaining significant momentum over the last quarter. In parallel a range of important seminars have been conducted. We have participated in several industry events, board workshops, and made contributions in various Danish newspapers, e.g. Børsen and Weekendavisen. We will also take part in the People's Political Festival on the island of Bornholm on the 18th of June. **Lars Ohnemus**, will participate in a debate with Gert Jonassen, CEO, Arbejdernes Landsbank and Michael Budolfson, deputy chair, Danish Financial Services Union on the topic; "Will everyone have access to financial advice from a bank in the future or will it be a product reserved exclusively for the wealthy?" [Consulting: No admittance for poor buggers?](#)

We will, besides from the already announced research agenda, also during the second half of 2016 have an increasing focusing on what will be the wider implications on banking and financial business models if the negative interest environment will continue.

Furthermore our researchers will soon be publishing a range of important publications; a few of them are described below.



Publications

Financial Sector Structure and Economic Growth: A Look at the Nordic Countries.

Many economists consider a well-functioning financial sector to be a prerequisite for a modern (capitalist) economy. However, in the aftermath of the financial crisis a debate about the future role of the financial sector emerged and many commentators have called into question whether the financial sector actually creates value for the wider society. This research, aims to contribute to this debate by studying the role of the financial sector structure for economic development of an economy.

It proceeds in five steps. First, it provides some reflections on the financial sector and the existing literature studying financial sector structure and its association with economic development. Second, it presents stylized firm-level evidence on capital structure choice and firm behavior and argues that

over time equity financing (bank credit) becomes more (less) important for the corporate sector, at least as far as developed economies are concerned. Third, it reports novel country-level evidence on the link between financial sector structure and economic growth suggesting that in developed economies the capital market – and in particular the stock market – is beneficial for economic growth. Fourth, it provides cross-country comparison of various measures of financial sector structure. Thereby, it pays special attention to the Danish financial sector. Finally, it concludes with a discussion of selected challenges for the future direction of the Danish financial sector.

This project is conducted by Professor Marc Steffen Rapp, and the final report will be ready by June and will be available on the projects webpage.

The real effects of the credit constraints in the economic crisis?

The 2008 financial crisis destroyed jobs and firms at an unprecedented scale in the Western world and in particular in the EU-area. The question for many has been if the economic policy could have been more supportive for a quicker return to normal job creation and destruction.

The monetary policy has in many countries been a major focus point and in some countries there have been a discussion between those who meant that the tightened credit policy is one of the reasons why firms have not grown and that firms have been more focused on increasing savings than on investing. Those who hold that demand for credit has gone down because of lack of demand from good projects have confronted this view. There has been little evidence to support the latter and only scattered newspaper and other types of coincidental evidence for the former. This paper presents evidence from a study of firm behavior that the credit constraint and perceived access to credit has had a significant effect on the real economy by contributing to the destruction of jobs.

This study was conducted by Professor Niels Westergård-Nielsen and Ioana Neamtu. They researched more than 2000 companies in order to establish what is the right credit model and the link to monetary policies. The paper is available on the NFGS projects website https://sf.cbs.dk/nfgs_uk/publications

The relationship between the Danish Financial Inspection (FSA) and the Financial institutions –Is it working?

This report is structured as a survey which was mailed to all Danish financial institutions focusing on the actual working relationship between the board of directors, executive members, and the Danish FCA.

It is particularly focused on such issues as if the board of a financial institute can have an open debate with the regulators about its risk profile, who is controlling the regulators, do we still have a two tiered board structured or are all major decisions de-facto pushed into the board, and does the board have sufficient time to focus on strategic issues?

This report is conducted by Lars Ohnemus. This work will be followed by another publication where Professor Nis Juul Clausen (SDU), Professor Hanne Søndergaard (AU) and Lars Ohnemus among others will be researching what the actual legal and regulatory ramifications of the findings from this survey are.

Appointments

Georg Ringe, Professor of International Business Law at CBS, has been appointed Research Director of the project. Georg was teaching full-time at the University of Oxford between 2007 and 2012 and now continues this role as a regular visiting professor at Oxford.

Georg specializes in European and global issues of corporate and financial law. He is an editor of the new *Journal of Financial Regulation*, which is published by Oxford University Press since 2015. He has been advising both the European Commission and the European Parliament on issues of European Corporate Law.

Georg Ringe will conduct a study on how regulation affects competition, global regulation, and key benefits of the Nordic market. His aim will be to answer questions such as (1) What regulatory steps need to be taken in general to effectively deal with different aspects of potential financial crises in Europe? (2) Is the competitive landscape in the financial industry changing due to the impact of new regulation in Europe? (3) Is there regulatory competition in Europe and how does it impact the financial industry? Georg will do a meta study; make a review of current legislation and benchmarking of different EU countries. His first academic paper for this project is almost completed.

Caren Nielsen is joining us from Lund University in a new post doc position and her focus is on quantitative research in the financial sector. Her dissertation, based on US data, covers the issues related to credit risk that stem from the recent financial crisis and that are concerned by investors, financial intermediaries, and governments. The results of the research have important implications for asset managers, such as using the information from the credit risk market to rebalance stock portfolios, and for policy makers in regulating or bailing out banks.

Caren has already worked on a couple of important papers. Her first paper "Hidden in the factors" is researching the effect of credit risk on the cross-section of equity returns, disentangles the "distress puzzle" or the opposite, i.e. the existence of a positive cross-sectional relationship between credit risk and stock returns, as well as investigates whether market β , size, value, and momentum effects are attributed to a positive credit risk effect. The second paper, is analyzing the banks' credit portfolio choice(s) and the link to risk-based capital regulation.

Björn Preuss will be part of the research team that will look into the asset management sector in the Nordics. He is currently working on a paper with the goal to assess where Nordic financial institutions in the asset management sector have competitive advantages and how this influence society. The research will use a benchmark study between the Nordic countries and the US to analyze the influential factors on this sector.

Björn holds a M.Sc. in Business and Economics and a M.Sc. in Philosophy from Mälardalen University Västerås, Sweden as well as a M.A. in Business Administration from University of Applied Sciences Kiel, Germany. He is currently doing his PhD about the influence of Nordic corporate culture on the M&A process at Radboud University, Netherlands and is an assistant lecturer at the Department of International Economics and Management at Copenhagen Business School. His main research and teaching area lies in the fields of corporate finance, strategic management and data science.

Upcoming Events

In the fall 2016, we will host a number of events and debates. The focus will be on the future of the financial sector, in particular in the light of the activity pursued by the European Central Bank, the Capital Market Union project, and the general framework of funds. As usual, we will combine a number of leading Nordic and international scholars and researchers with the insights from principal players in the market.



At this stage, please note already the following two events:

The Future of the Financial Sector – September 7, 2016 (3 pm – 6 pm)

- What impact does the financial sector have on our economy – is it creating value?
- How do the negative interests affect the banks – might it be undercutting their business model?
- Is stock savings part of the solution in a low inflation environment – and what is the experience of other countries?
- How to ensure a competitive edge in a digital revolution- has the banking sector already lost the game?

Asset Management: A Growth Industry – November 10, 2016 (3 pm – 6 pm)

- The European Capital Markets Union – a historic chance for the Nordic capital managers?
- Does the EU provide equal rights for all players in the market – or is there a kind of regulation that is more equal for some rather than others?
- Is there a special Nordic approach to corporate governance in the asset management sector?
- Negative investment returns – what is the future?

A more detailed program will be distributed when we get closer but please mark your calendars and savethe dates. We promise a lineup of prominent guest speakers and interesting roundtable discussions.