

# Nordic Finance and the Good Society

Newsletter, December 2017

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## A word from the Director

### *Is the value of financial services zero?*

Currently, there is a vivid and occasionally emotional debate - both in the Nordic and international press - about the access rights to client information in the financial sector. Due to the significant regulatory changes (e.g. MIFID II, CMU, PDS, etc.) and newly emerging business opportunities, in this regard 2018 will be even more turbulent.

At present, the fight concerns whether banks and other financial institutions should have the same data rights as many digital giants such as Google, Apple, and Amazon are already enjoying. The short answer to this question is 'yes' - we need equal competition in the marketplace, but also fair consumer protection!

Data certainly has a value in the digital economy, but the real fundamental question is how banks will be pricing their services in the future. Conceptually, in terms of a digital world, pricing tends to move towards zero for many services, as already experienced by many telecom providers (when challenged by Skype), the music industry (Spotify), trading of shares (Nordnet) - to mention just some of the many industries having faced the paradigm shift.

When the shift takes place, it will have wide-ranging consequences, not only for clients but also for investors in the financial sector and for their silent partners - the regulators. In the worst case scenario, it could have a fatal impact on how financial services will be priced in the future and thereby be undercutting one of the essential revenue streams for many banks. Could, or should, individual private financial advisory services be priced on an hourly basis, as seen among lawyers, engineers, and doctors? Could this become the business model saving the sector and thus avoid the value of financial services collapsing towards zero?

Professor [Oscar Stolper](#) who is part of the Nordic Finance and the Good Society project is now researching this field extensively, and his paper "[It takes two to Tango](#)" provides an insight into the question of what is, or could be, the true value of financial advice. I hope you read and enjoy his paper.

There is no doubt that the dramatic changes experienced in the banking sector have only just started!

My best wishes for 2018.

*Lars C. Ohnemus*

## News and updates

### *Nordic Finance and the Good Society, Research Day*

CCG and the Nordic Finance and the Good Society project held a Research Day on August 30<sup>th</sup>, 2017. The aim of the Day was to create a project status report and give feedback to current and upcoming research. First, **a new, upcoming Master's programme in Governance, Risk Management and Compliance was presented by Bersant Hobdari and Thomas Poulsen**. The programme (GRC) will be transformational and addresses the people, processes, and technology enhancements required to achieve risk intelligence. The programme is set to be a part of CBS's portfolio of programmes for individuals with work experience. It targets individuals with solid work and life experience within the 35-50 age group. The programme will offer a minor in Governance, Risk Management, and Compliance under the Masters of Business Development programme in 2018. The fully fledged Master's programme in Governance, Risk and Compliance is planned to be launched in 2019. Next, **Alexandra Horváthová talked about Nordic Implementation of EU Financial Rules** followed by **Marc Steffen Rapp presenting a clinical study with the primary question: Does Financial Advice create any value?** Following this, an introduction and presentation by **Professor Tom Kirchmaier** was given (*read more about this in the appointments section*). This was followed by **Therese Strand** presenting a new project on **Data Collection and Database Management**. The intention is to create a comprehensive Nordic Database in quantitative Corporate Governance and Banking motivated by, among others, the rapidly increasing global competition, to be published in the top journals. The aim is to create the best and most uniform corporate governance database in the Nordics. Last, but not least, **Björn Preuss** presented his study on **Asset Management Industry** with the purpose of giving an indication about communication approaches of asset managers and how they rely on values of the society and trying to ingrain best practice in order to acquire more capital and serve customer needs in a better way.

### *Banking On the Future – Rethinking the Financial Sector*

On October 30<sup>th</sup>, 2017, a milestone event was held in terms of celebrating the Centennial anniversary of Copenhagen Business School. **Banking on the Future – Rethinking the Financial Sector** was hosted by the Centre for Corporate Governance with the influence of the Nordic Finance and the Good Society research project. With a welcome speech by Per Holten-Andersen, President of Copenhagen Business School, and Per Callesen from the Danish Central Bank as keynote speaker, the event was off to a flying start and ready to give its take on three overall subjects: **1) Responsible Banking and Society, 2) Responsible Banking as a Business Model, and 3) Responsible Banking at an Individual Level**. By dividing the event into three tracks, participants were able to attend several

different seminars during the day. Track I started off with **Associate Professor Gylfi Magnusson** from the University of Iceland giving his talk **“Too much of a good thing? The welfare implications of the growth of the financial sector”**. Subsequently, **Michael Busk-Jepsen** from Finance Denmark talked about **“Bankernes rolle i samfundets digitale omstilling”** (e. **“The role of banks in digitalization of societies”**). This talk was followed by **a religious perspective on banking**, where a Jewish, Islamic and a Christian view of banking were presented. Track I was rounded off with the presentation of student award papers created for the purpose of the event.

At the same time, Track II hosted a number of interesting speakers presenting their take on banking within the next 100 years. Track II started off with **“Responsible Finance and the Role of Fintech”** introduced by **Michael Camphausen** (Copenhagen Business School) with speakers from Copenhagen Fintech, Penstable, Ernit, and HiveOnline presenting their businesses. This was followed by **Lars Pehrson** (CEO, Merkur Andelskasse) and **Martin Nørholm Baltser** (CEO, Middelfart Sparekasse) giving their take on **“Alternative bankmodeller med fokus på bæredygtighed”** (e. **Alternative bank models with focus on sustainability**). Thereafter, **Professor Emeritus Sten Jönsson** from Gothenborg University talked about **“Banking and business models”**, followed by **“A futuristic perspective to banking”** by **Nils Elmark**, founder of Inception. Finally, **Nicholas Meilstrup** (Founder, Creditwire) gave a talk on **“Entrepreneurial focus within finance”**.

In parallel with the two tracks, Track III began with a panel debate on **“Disruption, talenter og bæredygtige arbejdspladser – hvad betyder de for de studerende?”** (e. **Disruption, talents and sustainable workplaces – what does it mean for students?**) with speakers from Finansforbundet, Nordea, Finance Denmark, Finanssektorens Uddannelsescenter, Lån & Spar, and Network of Young Academics. Following this, **Lars Moesgaard** (CEO, Handelsbanken) presented his talk **“The Handelsbanken Model – A proven and sustainable model in changing market conditions”**. This was followed by **Professor Oscar Stolper** from Phillips University, Marburg, who discussed **“Does financial advice create any value at all?”** Finally, **“Diversity and Inclusion in the bank sector”** was presented by **Marianne Egelund Siig** (Head of Diversity, Nordea).

After the three tracks were finished, Part II of the conference was held at Copenhagen Business School. This section started off with **Jesper Berg** (CEO, Finanstilsynet) giving his take on **“What is responsible banking seen from the regulators’ perspective?”** This was followed by **Professor Jesper Rangvid** and **Professor Jan Damsgaard** from Copenhagen Business School, talking about **“Responsible Banking – what did we learn from the Financial Crisis?”** and **“Is Fintech really a game changer and can it be linked to responsible banking?”** After this, **Ole Andersen** (Chair, Danske Bank) gave a talk on **“Sustainable Banking seen from a Market-Leader Perspective”**.

Before rounding the event off with a panel discussion and conclusions from the day, the **Minister of Industry, Business and Financial Affairs, Brian Mikkelsen**, presented his view on “**Responsible Banking within the next 100 years**”.

Overall, the event was a massive success, highlighting the idea of sustainable banking, which is a highly relevant topic within the financial and banking sector. Many journalists attended the conference and covered the event in their respective media. Among others, journalists from Børsen, FinansWatch, Bloomberg Denmark, and Reuters News attended the conference.

You will find more information about the event, the presentations and the articles [here](#).

### Advisory Board Meeting

On November 15<sup>th</sup>, 2017, the Nordic Finance and the Good Society Advisory Board Meeting was held. The objective of the meeting was to give general information about the project and provide a research status.

The project status of Nordic Finance and the Good Society can be seen in the table below:

Research area	Researchers	Articles and working papers	Deadlines
<b>1) Macro-economic impact of the financial sector</b>	Marc Steffen Rapp, Arturo Bris, Carina Hallin	<p>Arturo Bris IMD competitiveness study</p> <p>Marc Rapp and Luliia Udoieva: What matters in the finance-growth nexus of developed economies?</p> <p>Marc Rapp: What matters in the finance-growth nexus of developed economies?</p> <p>Marc Rapp: Financial sector structure and economic growth: A fresh look with focus on Denmark. (Part 1)</p> <p>Marc Rapp: Financial sector structure and economic growth: A fresh look with focus on Denmark. (Part 2)</p> <p>Marc Rapp: Financial sector structure and economic</p>	<p>Marc Rapp Quantitative study. Firm-level data for European firms. End of 2017/Early 2018</p>

growth. (Summary)			
<b>2) Monetary policies, growth and job development</b>	Niels Westergård- Nielsen, Thomas Poulsen, Signe Krogstrup	Thomas Poulsen and Niels Westergård-Nielsen: Credit constraints and job destruction.  Niels Westergård: The real effects of the credit constraints in the economic crisis.	Thomas Poulsen Quantitative study. Detailed register data on both individual and firm level for Danish financial firms. End of 2017  Niels Westergård and Thomas Poulsen Quantitative study. Detailed labour market data for employees in Danish financial firms. End of 2018
<b>3) Competitive landscape and impact of new regulations in Europe</b>	Georg Ringe, Caren Nielsen, Michael Camphausen	Georg Ringe: Arbitrage and competition in global financial regulation.  Michael Camphausen: High- level response to the European Commission public consultation on Fintech - regulatory reflections and input.	Georg Ringe and Caren Nielsen Study on regulatory arbitrage at the loan level and the difference of loans through headquarters and branches versus through subsidiaries. In progress  Georg Ringe Legal, political and economic analysis of Brexit and the implications for the EU financial sector, including the Nordics. In progress
<b>4) Nordic financial corporate governance model</b>	Steen Thomsen, Therese Strand, Jesper Lau Hansen, Thomas Poulsen		Steen Thomsen, Therese Strand, Jesper Lau Hansen Benchmarking the Nordic corporate governance model against other alternatives. 2018

<b>5) National compliance and regulation, including impact on employees and board work</b>	Hanne Søndergård Birkemose, Nis Jul Clausen, Lars Ohnemus, Alexandra Horváthová, Peter Loft, Tanja Jørgensen	Hanne Birkemose, Nis j. Clausen and Lars Ohnemus: Bankebestyrelsens byrde.  Lars Ohnemus: Regulering i den danske banksektor.  Peter Loft: Skattemæssige rammevilkår for finansielle institutioner.	Alexandra Horváthová NFU Report. End of 2017
<b>6) Financial benchmarks, risk and reward in the banking sector</b>	Caren Nielsen, Therese Strand, Tom Kirchmaier	Caren Nielsen, Therese Strand and Lars Ohnemus: Return on equity targets in the financial sector.	Therese Strand and Caren Nielsen Quantitative study showing the link between financial benchmarks, return expectations and risk profile for financial institutions. Academic paper in progress
<b>7) Competitiveness, strategy and innovation for banks</b>	Lars Ohnemus, Jan Damsgaard, Lars Norup, Peter Bogetoft, Jonas Hedman, Oscar Stolper	Johannes Sang-Un Chae and Jonas Hedman: Business models for NFC-based mobile payments.  Stefan Henningsson and Jonas Hedman: The new normal: Market cooperation in the mobile payment ecosystem.  Xiao, Jonas Hedman and Emma Runnemark: Do consumers pay more using debit cards than cash?  Jacques Holst, Martin Kjeldsen, Jonas Hedman and Felix B. Tan: Payment instrument characteristics.  Christel Augsburg and Jonas Hedman: Value-added services and adaption of mobile payment.	Regulation, tax aspects and other framework conditions. 2017

<b>8) Assess management sector – strategy and innovation.</b>	Torben Juul Andersen, Björn Preuss, Oscar Stolper	Björn Preuss Paper on asset management.	Oscar Stolper How do client trust and financial literacy add to the value of financial advice?  Torben Juul Andersen Assessing where Nordic financial institutions have competitive disadvantages, policy recommendations. 2018
<b>9) Debt strategies and funding of long-term capital</b>	Bersant Hobdari, Marc Steffen Rapp		Marc Rapp and Bersant Hobdari Policy recommendations, focus on lending strategies and funding of long-term capital for SMEs. 2017/2018
<b>10) Value of financial advice</b>	Bersant Hobdari, Oscar Stolper	Bersant Hobdari Working paper on the meta study of financial value.	Bersant Hobdari Meta study on financial value. End of 2017

After the project status, the latest research was presented by **Carina Antonia Hallin, Assistant Professor at INT**, Copenhagen Business School. Her primary research areas are Behavioural Economics, Cognition, Collective Intelligence, Crowd Predictions, Crowdsourcing, International Management, and Prediction Markets. She is the founder of the Collective Intelligence Unit and the Co-director/Co-founder of Centre for Global Strategic Responsiveness.

Subsequently, the Advisory Board discussed the entire area of Governance, Risk Management and Compliance and the significant changes over the past decade. Accordingly, the new Master's Programme (GRC) was presented as an initiative across different institutions and centres (CCG, DIGI, Law and Finance). Corporate partners so far are: Danske Bank, Plesner, and Nordea.

## *Will the Nordic model survive EU financial legislation?*

On December 11<sup>th</sup>, CBS and the Nordic Financial Unions (NFU) hosted a seminar to discuss the effects that the implementation of the EU financial regulations may have on the Nordic labour model, and the role of the employees in consumer protection. The focus of the seminar was a new and unique report written by [Alexandra Horváthová](#). Other speakers at the seminar were [Niels Westergård-Nielsen](#), who looked at the EU regulation through the lens of economic theories, and **Michael Budolfson**, President, NFU and UNI Europa Finance, who discussed how regulation affects employees.

## **Publications**

The following publications were published by researchers within the Nordic Finance and the Good Society project:

### **“What matters in the finance-growth nexus of advanced economies? Evidence from OECD countries”**

- *by Associate professor Marc Steffen Rapp and research associate Iuliia Udoieva.*

Over the last few decades, a large strand of finance and growth literature has provided ample evidence of the importance of financial deepening for economic development. However, recently, the focus of public debate has shifted towards the role of the financial system structure, an area in which empirical research remains relatively sparse and exploratory in nature. With this article, we aim to contribute to that debate by analysing the role the financial system structure plays in economic growth and risk. Focusing on stock markets and studying OECD economies over the period of 1994–2013, we find that, *ceteris paribus*, financial systems with relatively larger stock markets facilitate economic growth and dampen economic risk. Our findings remain robust under the application of instrumental variable and system generalised method of moments estimators, as well as when we use an alternative definition of stock market development, estimate median regressions, examine relatively high-frequency annual data, control for systemic banking crises, or apply quadratic specifications. We find no such effect for private bond markets or private credit volume. Overall, our results suggest that financial system structure matters for the economic development of advanced economies and highlights the importance of a debate about the optimal structure of an economy’s financial system.



## **“High level response to the European Commission’s public consultation on Fintech”**

- *by Michael Camphausen, senior advisor, LL.M, PhD.*

NFGS took the opportunity to respond to the European Commission consultation document on “Fintech – a more competitive and innovative European financial sector”. The response focuses on the regulatory issues in the consultation and provides our academic reflections and input as to the regulatory approach when developing a common framework for Fintech in the EU.

## **“Cashless Society: When will Merchants Stop Accepting Cash in Sweden – A Research Model,”**

- *by Associate Professor Jonas Hedman, Niklas Arvidsson, and Björn Segendorf.*

Over the past few decades, we have witnessed significant changes in how individuals pay. In particular, there has been a significant drop in the use of cash as a payment instrument, both in terms of value and frequency. Consequently, the amount of outstanding cash is shrinking. For instance, in Sweden, the level of cash is around 1.5% of GDP. This might be a tipping point for when cash is of practical use. In the paper, we present a research model that explores when merchants will stop accepting cash.

## **“Taxonomy of payments: a repertory grid analysis”**

- *by Associate professor Jonas Hedman, Professor Felix B. Tan, Jacques Holst, and Martin Kjeldsen.*

Recent innovations in payment instruments have fundamentally changed the ways in which we pay. These innovations, such as mobile/SMS payments and online banking, contain features that are likely to influence how people choose to pay. The purpose of this paper is to understand the factors that impact payers’ choice of payment instruments.

## **Upcoming events**

### February, 2018

- On February 7<sup>th</sup>, 2018, Professor Georg Ringe will host a seminar on **Brexit, EU Capital Markets, and the Future of the Euro**. More information and registration details will be sent out in early January.

## Appointments

In relation to the new Master's Programme, **Professor in Governance, Regulation, Risk, and Compliance, [Tom Kirchmaier](#)**, has entered the research project from September 1<sup>st</sup>, 2017. Tom Kirchmaier was previously a Research Economist at the Centre for Economic Performance at the London School of Economics (LSE), and also Deputy Director of Corporate Governance at LSE. His research interests lie within empirically answering questions at the intersection of Law and Finance/Economics that can shed light on the function of both firms and capital markets, and with the understanding (and resolving) of inherent inefficiencies.