

## The Intended and Unintended Consequences of Financial Market Regulations \_4

Adrian Buss • Bernard Dumas • Raman Uppal • Grigory Vilkov

## How to Help People to Make Better Investment Decisions? \_8

Andreas Hackethal

## The Implementation of the Bail-In Tool Requires Crucial Amendments \_10

Martin R. Götz • Tobias H. Tröger

## IMPRINT

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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



[Alexander Ludwig](#)

Program Director “Macro Finance”,  
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Inequality has always been an important aspect of economic research. In the last decade, it has gained additional momentum due to the work by Thomas Piketty and his co-authors as well as the relatively low interest rates and the adverse effects they may or may not have on trends in inequality. In the macro finance area of the Research Center SAFE, we plan to analyze this topic more closely, in particular with respect to financial markets.

There are two main lines of research on inequality: i) investigating the sources of it, and, once these are understood, ii) analyzing appropriate policies to mitigate trends in inequality or, in a broader sense, to improve welfare. This should be defined by a criterion which encompasses both inequality and inefficiency, as policy measures that fight inequality usually have negative consequences for the efficiency of the market economy.

There are a number of research projects in SAFE on both aspects that have recently started. With Nicola Fuchs-Schündeln and Zhao Jin, I investigate whether a high educational background of parents, who invest into their children in terms of money and/or time, is adding to trends in inequality. As we observe that highly educated people

increasingly marry alike, this effect might amplify inequality. A second project with Dirk Krueger and Fabian Becker looks at the types of early and late educational policies that are needed in order to create more equal opportunities.

A project with Ctirad Slavik and Alexander Monge-Naranjo analyzes whether financial market liberalization has added to the trends in inequality that we observe in recent decades because liberalization has made it easier for some parts of the population to expand their income by becoming more productive.

Last but not least, a larger team of researchers will look at how retirees are affected in their income positions by low interest rates as well as by the high unemployment periods that we observed in Germany in the 1980s. Depending on the exact precautions that people have taken with regard to their old age provision, these developments might be a big risk to many households that are going to retire within the next decades. The question is whether – and, if so, how – we need to redesign the pension system in order to reduce trends in inequality, in particular old age poverty.

I will report on the findings of these projects in later issues of this newsletter. In this issue, the topic is touched on in an interview with Andreas Hackethal on financial advice (p. 8) as well as in a guest commentary by the Hessian Finance Minister Thomas Schäfer on his proposal of a “Deutschland-Rente” (p. 14).

Yours sincerely,  
Alexander Ludwig

# The Intended and Unintended Consequences of Financial Market Regulations



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Regulation of financial markets is often motivated by the desire to enhance stability, to rule out anti-competitive behavior and to limit negative externalities, such as destabilizing effects on the markets by the behavior of an individual investor or institution. The recent financial crisis, which caused intensive negative feedback from financial markets to the real sector, has raised concerns about the ability of financial market regulation to stabilize financial markets and improve macroeconomic outcomes. In this paper we analyze the intended and unintended consequences of various regulatory measures aimed at reducing fluctuations in financial as well as real markets and improving welfare.

We concentrate on three measures that have been implemented or proposed by regulators in response to the financial crisis: borrowing (leverage) constraints, the Tobin financial transactions tax and portfolio (short-sale) constraints.

## Which measure is the most effective?

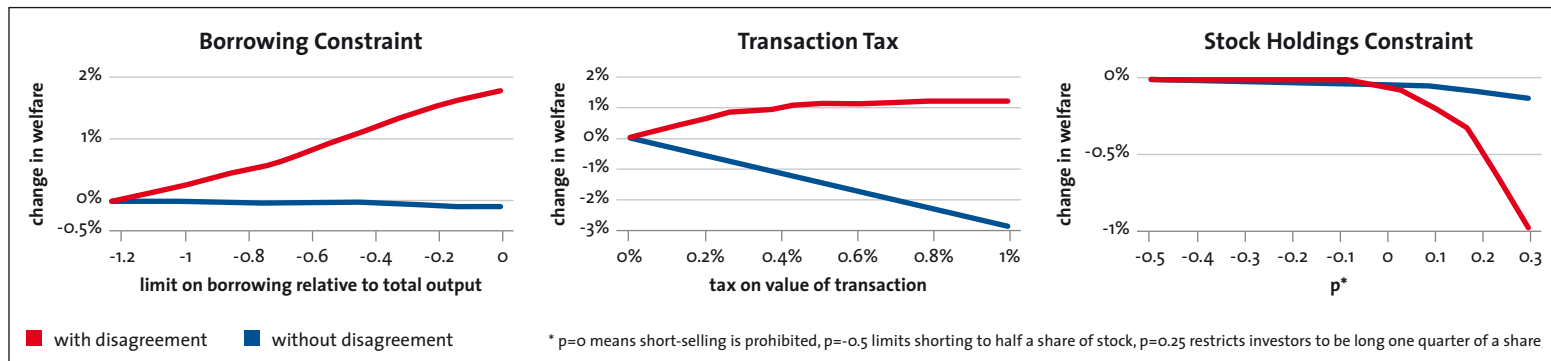
We evaluate these three regulatory measures within the same dynamic, stochastic general equilibrium model of a production economy with endogenous growth to compare within a single economic setting both the intended and unintended effects of the different measures on the financial and the real sectors. We address the following questions: Of the three regulatory measures we consider, which one is the most effective in stabilizing financial markets? What exactly is the channel through which each measure works? What will be the impact – intended or unintended – of this measure on other financial variables and the spillover effects on real variables? Would more tightly regulated markets be more stable and increase productivity and welfare?

The model we develop to address these questions has two central features. The first is the presence of two distinct motives for trading in financial markets: (i) hedging of labor income risk, i.e. investors use financial markets for risk-sharing; in this case, financial markets improve welfare; (ii) speculation because investors are uncertain about the current state of the economy and dis-

agree about its expected growth rate. This speculative trading increases the volatilities of bond and stock returns as well as investment growth, raises the equity risk premium and reduces welfare.

The second central feature is that we model an additional risk that originates in financial markets itself, over and above the risk originating in the production system. This additional risk arises from the disagreement amongst investors: in the eyes of each investor the behavior of the other investors seems fickle so that it is seen as a source of risk. The setting with endogenous production allows us to analyze the feedback from this financial market risk to the real sector and, hence, the impact of financial market regulation on the real sector.

We examine the changes that occur when we introduce a particular regulatory measure to this calibrated economy. Specifically, we study the way the introduction of borrowing (leverage) constraints, a Tobin tax on stock transactions or portfolio (short-sale) constraints influences various financial and macroeconomic quantities, including welfare. To understand and illustrate



**Figure 1:** Changes in welfare in percent due to different levels of regulatory measures, for economies with and without disagreement

the effects of the regulatory measures on optimal risk-sharing we also consider an economy in which agents always agree on expected future growth, so that all trading is motivated by risk-sharing rather than speculation.

### Implications for welfare

The main finding of our paper is that all three regulatory measures we consider have similar effects on financial and macroeconomic variables: they reduce stock and bond turnovers as well as the risk-free rate of return and increase the equity risk premium, stock-return volatility, real investment and output growth. However, the regulatory measures have very different implications for welfare.

We depict the welfare changes for different levels of the three regulatory measures, for economies without disagreement (where agents involve in trade only to share the labor-income risks and dividend shocks) and with disagreement (where agents disagree on the state of the economy and hence also trade for speculative reasons). The main reading from Figure 1 is that only measures that limit speculative activities without impairing risk-sharing substantially improve welfare. For example, a borrowing constraint limits speculation by restricting access to funds needed to implement speculative trading strategies. However, because borrowing is not essential for risk-sharing, the “normal trading” is not impaired too

much, and benefits from reducing the speculative behavior outweigh the reduction of utility due to trading restrictions. As a result, in the economy with disagreement, the welfare increases for all ranges of implemented borrowing constraint.

Similarly, a transaction tax improves welfare in the economy with speculation because, while it allows for small frequent trades to hedge labor-income risk, it makes large and erratic speculative trades less profitable. In contrast, a limit on stock holdings, such as a short-sale ban, can lead to a decrease in welfare as it limits risk-sharing severely, while reducing speculative trading only partially.

Thus, to effectively regulate financial markets it is important to identify the motivation that leads investors when using different markets, such as risk-sharing or speculation. Also, it is important to recognize that, even though financial regulation may have the unintended consequence of increasing volatility in financial and real markets, this increase in volatility could still be associated with an improvement in welfare.

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<http://www.sciencedirect.com/science/article/pii/S0304393216300083>

# Commodities, Financialization and Heterogeneous Agents



Nicole Branger  
University of Muenster

Over the past decade commodity futures markets were the focus of an intense debate in the public and in academia. The reason is that commodity spot and futures prices, especially those for various food commodities, oil and gas, had increased to all-time highs. Equally, long positions in these contracts held by financial speculators who often trade in index products written on a basket of commodities increased sharply. The volume of index-linked commodity investing went up dramatically from the beginning of 2006 until the end of 2007 and the same happened with futures and spot prices. Against this background, the activities by financial speculators on commodity markets were perceived as harmful from a welfare perspective, especially with regard to food commodities. In this paper we look into this issue more closely.

Within this context, the term “financialization” describes the phenomenon that commodity contracts are traded for purely financial reasons

and not for motives rooted in the real economy. Recently, financialization has been made responsible for causing adverse welfare effects especially for the poorer parts of the population, in particular in emerging countries, who have to spend a large share of their income for commodity consumption and cannot participate in financial markets. Consequently, it was suggested that futures markets should be regulated tightly via, for example, position limits (Schumann, 2011).

## Does financialization increase commodity prices?

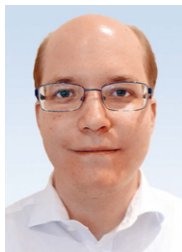
Nevertheless, the debate about a potential causality going from commodity investing to excessive price increases is still ongoing, with evidence both for and against the hypothesis. One reason for this mixed picture is probably that the empirical analyses are still plagued by a number of problems. First, the financialization phenomenon in the sense of strongly increasing position sizes held by financial investors can only be observed from 2004 onwards, i.e. over a relatively short sample. Second, the data do not usually exhibit the quality needed to reliably study potential causal effects. For example, it is often hard to distinguish financial speculators from

other types of investors, such as agricultural producers who trade for hedging reasons, and to obtain their exact trading positions (Sanders, Irwin and Merrin, 2010).

In this paper, we want to answer the question of whether and under what conditions the basic fact that commodity price risk becomes tradable on financial markets leads not only to a price reaction but, more importantly, to a welfare loss for those agents who are prevented from participating in these markets. In contrast to other papers dealing with financialization from a pure financial markets perspective, our model focuses explicitly on the double role of a commodity as a source of consumption utility and as an input into a production process.

## A production economy with heterogeneous agents

We analyze a general equilibrium model with two types of goods and four types of agents. The two goods are the basic commodity, which represents a basket of basic commodities like energy and food, and a “non-commodity” good. Furthermore, there is a production technology



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which can be used to convert the basic commodity good into the non-commodity good. The four agents are an agricultural and an industrial producer, a financial speculator and a commodity consumer. The agricultural producer and the commodity consumer are meant to represent an emerging economy with agriculture as a key sector and some basic commodity as the key element of the consumption bundle. The industrial producer and the agricultural producer derive utility from the commodity good and the non-commodity good. The financial speculator only consumes the non-commodity good, while the commodity consumer derives utility from the

commodity good only. The production technology for producing the non-commodity good is exclusively available to the industrial producer.

To analyze the equilibrium effects of financial markets in this setup we compare different scenarios with respect to the agents' access to them. In all versions of the model we retain the assumption that the commodity consumer cannot trade financial products. The quantities of interest we compare across the different scenarios are the agents' wealth, consumption levels and volatilities, spot and futures prices and their volatilities as well as the reaction of all these

key quantities to shocks in the sources of risk in the system.

### Benefits from financial market access

The main findings of our model with respect to the role of financial markets are as follows: First, access to financial markets is always beneficial for the agents because it reduces their consumption volatility. From a welfare point of view it is important that commodity risk is tradable, i.e. that the agricultural producer has access to financial markets. Once she and the financial speculator can trade on financial markets, not only do their own consumption growth volatilities decrease but also those of the industrial producer and the commodity consumer, so that in this case all agents benefit. Furthermore, compared to a benchmark case without financial markets, spot price volatility is much lower. This is no longer true when the financial speculator only trades with the industrial producer. In this case only the two financial market participants enjoy a reduction in consumption volatility, while we find the opposite for the agricultural producer and the commodity consumer.

To sum up, while access to financial markets is always beneficial for the participating agents, the

effects for those who face severe hurdles in their access to these markets are not uniformly clear. Overall, our analysis provides new insights on the role of financial markets in a setting where agents have different consumption bundles and where one group of agents in particular does not have the chance to smooth consumption over time and states via trading products like commodity derivatives, stocks or bonds.

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*The full text is available as SAFE Working Paper No. 131 here:*

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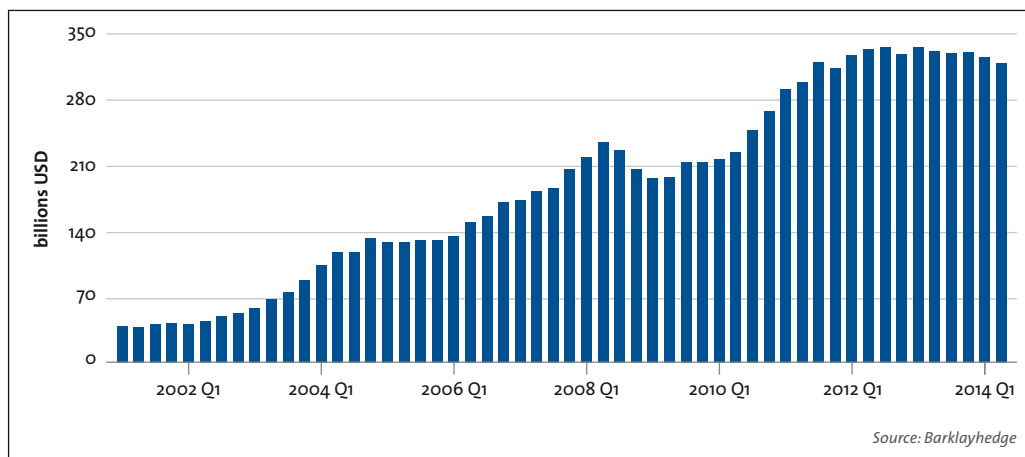


Figure 1: Assets under management in commodities

## Interview: How to Help People to Make Better Investment Decisions?



Andreas Hackethal  
Goethe University & SAFE

### Which are the most common mistakes you find when analyzing private investors' portfolios?

In Weber et al. (2015) we analyze eleven prominent investment mistakes and find that three of them lead to the highest costs for some 5,000 investors in our sample. The first is over-trading: many investors trade too frequently which results in excessive transaction costs. The second mistake is when people invest in small, illiquid stocks – “lottery stocks” – that promise high returns but put most of the investment at stake. The third and most common mistake is poor portfolio diversification, e.g. investors essentially place bets on single companies, industries or countries and bear specific risk that carries no return premia. Overall, we find that private investors on average lose four percent each year in risk adjusted returns due to investment mistakes (see Figure 1). This is a lot.

### How can we help people to make better investment decisions?

There are at least three potential fixes. One is financial education: to teach people the most important investment rules, such as diversification and cost containment. However, most people

are already aware of these basic rules but still feel tempted to chase extra returns by trading on peer recommendations, opinions and technical rules. So, it seems that lack of willingness to follow the prescriptions of text book finance or the lack of self-control are the main culprits. In accordance with this view, many empirical studies found that conventional financial education programs are too weak to change behavior (e.g. Fernandes et al., 2014).

Another possibility is to narrow down the choice set of investors. For example, you could offer investors only certain products such as Exchange Traded Funds (ETFs) which are, in principle, highly diversified at low costs. However, in a recent paper (Bhattacharya et al., 2014) we observe that investors apply the same poor investment patterns when trading ETFs: they trade ETFs on narrow indices instead of buying and holding the “right” ETFs. Other investment default solutions, such as the German “Riester-Rente” come with other, by now well-known caveats.

The third possibility is personal financial advice or automated investment guidance. In Bhatta-

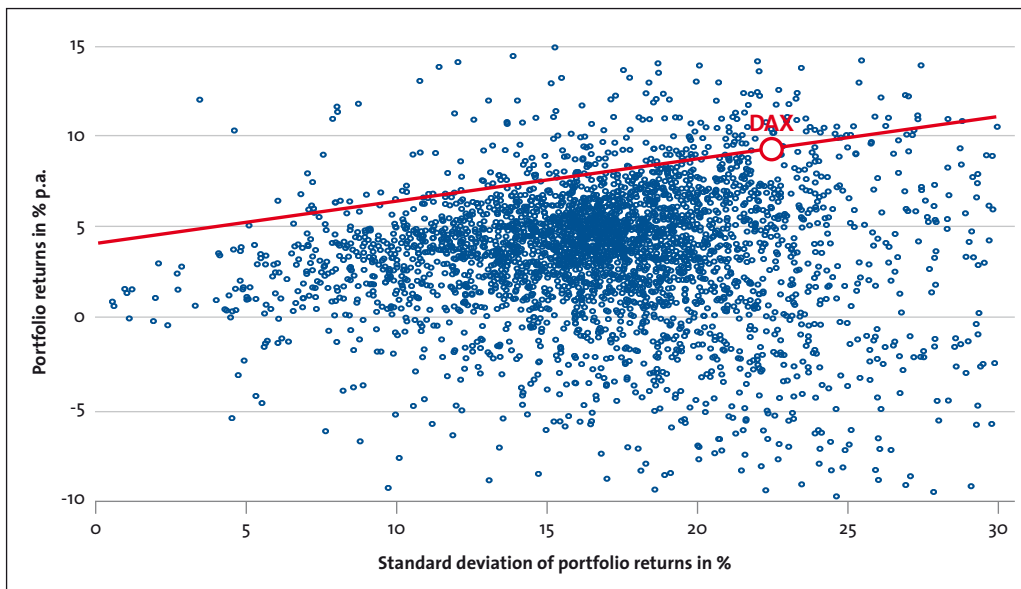
charya et al. (2012) we analyzed different forms of personal financial advice and addressed the questions: Who seeks advice? And: Does good advice help to improve portfolio performance? We find that investors who needed advice the most, did not seek it while those who sought advice adhered to the recommendations only partially and, as a result, did not improve their portfolio performance. This means that good advice is a necessary albeit no sufficient condition for better investment behavior.

### When people do not follow given advice, do they not trust the adviser?

One explanation is indeed that private investors fear that the adviser is biased because of product commissions or specific orders to sell certain products. This fear was fuelled by the revelations in the aftermath of the financial crisis. Therefore, in ongoing work, we analyze what happens when advice is not conflicted. We conducted a field study with a bank that, next to traditional commission-based advice, newly offered to its clients a novel form of advice where advisers are paid a flat fee and where any product commissions are reimbursed to the client.

Andreas Hackethal is Professor of Personal Finance at Goethe University Frankfurt's House of Finance and Program Director of the Research Area “Household Finance” at the Research Center SAFE. His empirical research is on individual investment behavior, financial innovations and the role of financial advice. Hackethal is a member of the advisory council of the German Financial Supervisory Authority BaFin and a member of the Exchange Experts Commission which advises the German Federal Ministry of Finance. He maintains a video-blog on financial literacy and co-founded the FinTech company vaamo.





**Figure 1:** Risk-return profile of 3,400 portfolios of German online brokerage clients (2003–2012). More than 80% of clients experience a risk-adjusted return gap compared to portfolios composed of government bonds and the German DAX (red line).

Everything else remained the same: there were the same advisers who had the same menu of products to offer, who used the same tools and advised the same clients. The adherence rate to the advice increased substantially with the new compensation scheme from below roughly one in two to over two in three. With positive effects: we observe a significant increase in portfolio diversification and performance.

**If fee-based advice is so successful, it should be offered more frequently. Has the market already responded to these insights?**

Many incumbent financial institutions are currently introducing fee-based advisory models. Also, so called FinTechs or Roboadvisers introduce new business models to the market where remuneration is almost exclusively fee-based. These providers of automated investment guidance face the same challenges as banks: how to make people adhere to the guidance provided? In response, they narrow down the investment choice set to preconfigured sound portfolios, so that clients can no longer trade on opinions but, by default, attain broadly diversified portfolios at low cost. These new

models also come with a radically simplified investment process. It is no longer necessary to educate clients on various product types and submarkets but to reduce the level of complexity of the decision process down to a level which can be fully understood and handled also by first time participators in capital markets.

#### **But how can investors tell good financial advice from bad?**

In Hackethal et al. (2011) we advocated that financial institutions should be obliged to report to their clients how their portfolios performed. Specifically, they should disclose past portfolio returns before and after costs and the historical risk profile of the portfolio. Ideally, portfolio risk is compared to the risk level that investors actually planned to bear. However, there is evidence that people might be tempted to misinterpret this information. Telling good or bad investment decisions from plain luck or a bad market situation is extremely difficult and people tend to mistake one for the other. So, too much information might confuse recipients. In my opinion, smart disclosure is very important but, to maximize learning effects, it must be tailored and timed according to investor needs and preferences. What specific kind of smart disclosure helps individual investors adapt their behavior in the right way is still an open question which we address in ongoing research projects.

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# The Implementation of the Bail-In Tool Requires Crucial Amendments



Martin R. Götz  
Goethe University & SAFE



Tobias H. Tröger  
Goethe University & SAFE

One key lesson EU legislators have learned from the financial crisis of 2007/2008 and the ensuing sovereign debt crisis is that prudential regulation has to compel private sector loss-participation when banks fail. Private sector participation would enhance the risk sensitivity of investors as they can no longer rely on government bail-outs if an institution comes under financial stress. Hence, banks would be exposed to market discipline again and have to re-finance themselves on terms that better reflect their specific risk-profiles. This would dampen banks' appetite for risk and enhance the financial system's resilience. Moreover, making bank failures an essentially private event also cuts the link between banks and sovereigns and thus puts a halt to the mutually reinforcing downward spiral that can result from bail-outs in the financial sector. In this expertise we analyze whether the new European regulation on bail-in can live up to these objectives.

## Bail-in instruments: not for everyone

Despite these elaborate regulatory precautions, the ability of the bail-in tool to perform as intended may still be inhibited if the demand-side preconditions for its functioning are neglected in the legal framework. First, investors in bail-in-able instruments need to be able to understand the risk of bail-in, charge adequate risk premiums and thus exert meaningful market discipline on banks. Second, the same investors need to have sufficient loss-bearing capacity to incur

a loss when their debt is bailed-in, i.e. written-down or converted into equity. Third, a bail-in shall not propagate risk from one financial institution to another and a bail-in of debt holders must not endanger the financial health of other financial institutions, triggering a systemic crisis.

Taken together, this implies that investors in bail-in-able debt are ideally (1) sophisticated investors, (2) outside of the banking sector who (3) hold assets and liabilities that are matched with

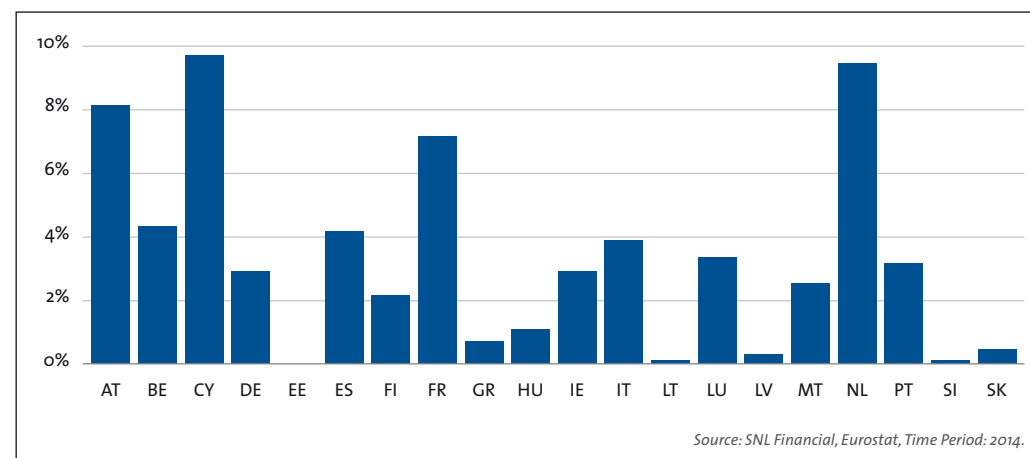


Figure 1: European banks' aggregate subordinated debt in proportion to their home countries GDP

regards to their maturity. In contrast, the sale of bail-in instruments to other banks or to unsophisticated retail investors would call the objective of this regulatory instrument fundamentally into question, and the efficiency of the bail-in tool would be compromised in all dimensions.

### Meaningful restrictions missing

However, meaningful restrictions on the sale of banks' subordinated debt holdings are not established under the current legal framework: neither the BRRD nor any other prudential regulation effectively prevent banks from selling their bail-inable securities to unsophisticated (retail)

investors; similarly, banks' holdings of bail-inable instruments can be limited only if they pose a risk for the holding institution's resolvability (BRRD, arts. 44(2) subpara. 5, 17(5)) or violate the large exposure limits under art. 395 CRR which allows only to remedy the most glaring deviations from the social optimum in this regard.

In order to assess the magnitude and severity of the problem we screened the amount of total outstanding subordinated debt levels of European banks licensed in the countries that participate in the Banking Union. Although the scope of the bail-in tool is much broader, we focus on sub-

ordinated debt because this represents the critical balance-sheet position subject to a bail-in.

### Banks with less equity issue more subordinated debt

We find that European banks rely to a large extent on subordinated debt financing with substantial heterogeneity among banks across Europe (see Figure 1). Furthermore, we observe that banks with less equity tend to finance themselves more with subordinated debt (Figure 2). As less equity may indicate that these banks are more fragile, this suggests that the subordinated debt of these banks is also more likely to be bailed in. Interestingly, banks issue about one third of their subordinated debt via affiliates, which adds a further level of complexity and makes it more difficult for investors to determine the likelihood of a subordinated bond to be bailed in.

Examining reports from systemically important institutions regarding their holdings of other financial institutions' subordinated debt suggests that some banks may be relatively large holders of these bail-inable bonds. Further empirical evidence on the investment behavior of retail investors across European countries suggests that households are also invested in banks' subordinated debt. To ensure the power of the bail-

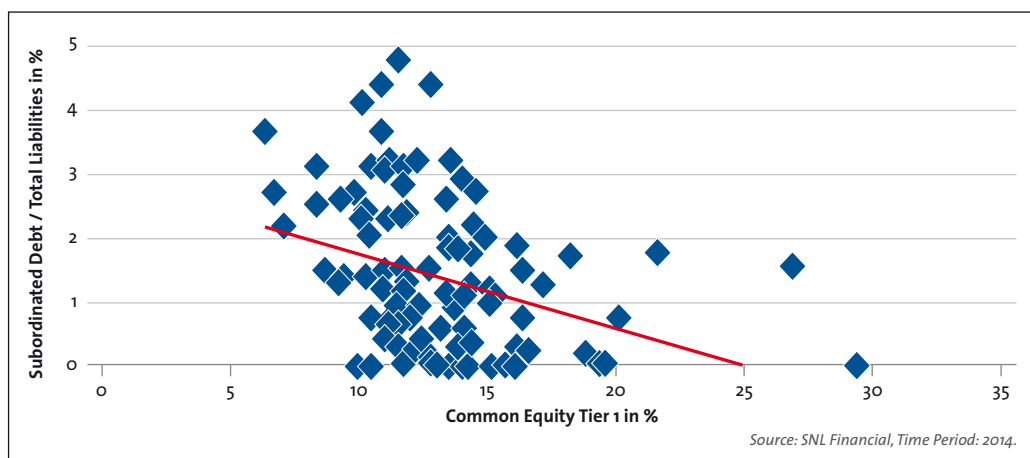
in tool it is important to examine whether the holdings of banks' subordinated debt by households and other banks is thus not too large.

### Resolution authorities should monitor the placement of bail-in debt

We conclude by making the case that existing EU market regulation insufficiently addresses mis-selling of bail-in instruments to retail investors or their equally undesirable subscription by other banks. Private enforcement is generally inapt to effectively prevent mis-selling, which constitutes a major impediment to an effective functioning of the bail-in instrument. Public enforcement thus provides the superior option, also because it can counter detrimental acquisitions of bail-inable instruments by both retail investors and banks regardless of classical mis-selling. As a consequence, the relevant competences should not lie with market supervisors but with those authorities that administer the bail-in tool in all other dimensions and thus dispose of all relevant bank-level information needed to identify undesirable placements of bail-inable debt early, namely resolution authorities.

*The full paper is available as SAFE Policy White Paper No. 35 at:*

<http://safe-frankfurt.de/implementation-of-bail-in>



**Figure 2:** Relationship between subordinated bank debt (the critical balance-sheet position subject to a bail-in) in percent of total liabilities and Common Equity Tier 1

## Christine Lagarde Gave IMF Curtain Raiser Speech at the House of Finance



On 5 April, Christine Lagarde gave a speech on “Decisive Action to Secure Durable Growth” at the House of Finance. The Managing Director of the International Monetary Fund (IMF) outlined the priorities to be discussed by policymakers at the 2016 IMF Spring Meetings in Washington the week after. It was the first “curtain raiser speech” of this kind held in Germany. The lecture was jointly organized by the SAFE Policy Center, the Center for Financial Studies (CFS) and Deutsche Bundesbank.

After introductory statements by Birgitta Wolff, President of Goethe University Frankfurt, and Jens Weidmann, President of the Deutsche Bundesbank, Lagarde stressed that the world still faces global challenges even though much progress has been made since the great financial

crisis. The global economy has weakened further and many downside risks have remained or even increased, she said. Furthermore, economic risks have been exacerbated by social and political risks such as terrorism, epidemics and the refugee crisis. Lagarde pointed out that a three-pronged approach on country level is needed to overcome the current problems: structural reforms, fiscal as well as monetary policy measures have to be implemented jointly, she said. At the same time, international cooperation is needed to deal with global challenges such as climate change and corruption.

Following her lecture the IMF Managing Director was available for questions from the audience, moderated by CFS President Otmar Issing.



## Caroline Fohlin takes over Visiting Professorship of Financial History 2016



Professor Caroline Fohlin, Emory University, USA, takes over the Visiting Professorship of Financial History this year. This professorship was endowed by Metzler Bank and the Edmond de Rothschild Group on the occasion of Goethe University’s centennial in 2014. Caroline Fohlin’s research blends historical analysis with current

methods in financial economics, with an eye towards problems faced by contemporary policy makers. She investigates, for example, how financial markets, institutions and systems have developed around the world over the long run, and how the organization of financial intermediaries influences their performance and potentially impinges on economic growth. During her stay in Frankfurt, Fohlin will give a seminar in the Ph.D. program of the University’s Graduate School GSEFM. Also, as part of the visiting professorship, an international research conference on comparative financial system history will take place on 17 June 2016.

## Consequences of the ECB’s Monetary Policy for Switzerland



In a SAFE Policy Center Lecture on 23 February, Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank (SNB), explained the consequences of euro area monetary policy for neighboring countries, in particular Switzerland. He distinguished several phases of monetary policy in Europe since the onset of the financial crisis, ranging from interest rate cuts and massive provision of liquidity to a further easing of monetary policy and the implementation of quantitative easing. Jordan welcomed that the unconventional monetary policy measures have given central banks more room to maneuver. However, he demanded that these instruments be periodically assessed. If an instrument, after a change in prevailing conditions, no longer achieves the desired effect, monetary policy should be adjusted. In this regard, not only the short-term costs and benefits should be taken into account but also the long-term consequences.

## SAFE Researchers advise EIOPA

Raimond Maurer, Professor of Investment, Portfolio Management and Pension Finance at Goethe University Frankfurt, and Loriana Pelizzon, SAFE Professor of Law and Finance, have been appointed academic members of the stakeholder groups of the European Insurance and Occupational Pensions Authority (EIOPA).

Maurer is a member of the Occupational Pensions Stakeholder Group and Pelizzon of the Insurance & Reinsurance Stakeholder Group. Members of the stakeholder groups submit opinions and advice to EIOPA on any issue related to its task. Additionally, the stakeholder groups are expected to notify EIOPA of inconsistent application of European Union law as well as inconsistent supervisory practices in the different European Member States. Each Stakeholder Group consists of 30 members, appointed for two and a half years.

# Selected Publications

**Blonski, M., Spagnolo, G.** (2015)

“Prisoners’ other Dilemma”,

International Journal of Game Theory, Vol. 44, Issue 1, pp. 61-81.

**Cumming, D., Walz, U., Werth, J.** (2016)

“Entrepreneurial Spawning: Experience, Education, and Exit”,

forthcoming in Financial Review.

**Donadelli, M., Grüning, P.** (2016)

“Labor Market Dynamics, Endogenous Growth, and Asset Prices”,

Economic Letters, Vol. 143, pp. 32-37.

**Gomber, P., Haferkorn, M., Zimmermann, K.** (2016)

“Securities Transaction Tax and Market Quality – The Case of France”,

European Financial Management, Vol. 22, Issue 2, pp. 313-337.

**Groneck, M., Ludwig, A., Zimper, A.** (2016)

“A Life-Cycle Model with Ambiguous Survival Beliefs”,

forthcoming in Journal of Economic Theory.

**Haar, B.** (2016)

“Freedom of Contract and Financial Stability”,

forthcoming in European Business Organization Law Review.

**Haliassos, M., Jansson, T., Karabulut, Y.** (2016)

“Incompatible European Partners? Cultural Pre-dispositions and Household Financial Behavior”,

forthcoming in Management Science.

**Langenbucher, K.** (2016)

“In Brüssel nichts Neues? – Der ‘verständige Anleger’ in der Marktmissbrauchsverordnung”,

forthcoming in Die Aktiengesellschaft.

**Lipatov, V., Weichenrieder, A.** (2016)

“A Decentralization Theorem of Taxation”,

forthcoming in CESifo Economic Studies,

doi: 10.1093/cesifo/ifw003.

**Maćkowiak, B., Wiederholt, M.** (2015)

“Business Cycle Dynamics under Rational Inattention”,

Review of Economic Studies, Vol. 82, Issue 4, pp. 1502-1532.

**Tröger, T.** (2016)

“Strukturreform im Finanzsektor? Das Trennbankengesetz als untauglicher Versuch der Verwirklichung von Nachhaltigkeitszielen im Aufsichtsrecht”,

D. A. Bauer, G. Schuster (eds.), Nachhaltigkeit im Bankensektor, Köln, pp. 139-161.

## Recent SAFE Working Papers

**Kröll, M., Rustagi, D.**

“Got Milk? Motivation for Honesty and Cheating in Informal Markets: Evidence from India”

SAFE Working Paper No. 134.

**Behn, M., Haselmann, R., Kick, T., Vig, V.**

“The Political Economy of Bank Bailouts”

SAFE Working Paper No. 133.

**Haselmann, R., Schoenherr, D., Vig, V.**

“Rent-Seeking in Elite Networks”

SAFE Working Paper No. 132.

**Branger, N., Grüning, P., Schlag, C.**

“Commodities, Financialization, and Heterogeneous Agents”

SAFE Working Paper No. 131.

**Curatola, G.**

“Optimal Consumption and Portfolio Choice with Loss Aversion”

SAFE Working Paper No. 130.

**Curatola, G., Donadelli, M., Grüning, P., Meinerding, C.**

“Investment-Specific Shocks, Business Cycles, and Asset Prices”

SAFE Working Paper No. 129.

**Curatola, G.**

“Preference Evolution and the Dynamics of Capital Markets”

SAFE Working Paper No. 128.

**Elsinger, H., Schmidt-Dengler, P., Zulehner, C.**

“Competition in Treasury Auctions”

SAFE Working Paper No. 127.

**Bienz, C., Thorburn, K., Walz, U.**

“Coinvestment and Risk Taking in Private Equity Funds”

SAFE Working Paper No. 126.

**Tröger, T., Walz, U.**

“Does Say on Pay Matter? Evidence from the German Natural Experiment”

SAFE Working Paper No. 125.

# The “Deutschland-Rente”



Thomas Schäfer  
Minister of Finance,  
State of Hessen

The legislator has already started to decrease the standard pension level by around 20 percent. In order to achieve a pension level in the future which is comparable with today, the gap that results from the lower state pension level has to be closed with an occupational or private pension scheme. However, the distribution rate of the additional old-age provision is completely insufficient. The complexity and high costs of many of the occupational and private pension products discourage particularly small companies and their employees.

It does not make sense to simply expand the existing state subsidies. Today, the state already pays up to 93 percent of the contribution of a family with two children born after 2008 and corresponding income. Similarly, solutions achieved under collective wage agreements are often not applicable for small companies and their employees who are particularly affected but usually not bound to wage agreements.

Finally, we cannot just stop the reduction of the pension level that was agreed on at the beginning of 2000. Those who are against a further reduction of the statutory pension level,

at the same time demand contribution rates higher than 22 percent even before 2030. In the long run, contribution rates would rise to more than 30 percent. This is irresponsible and simply a betrayal of the younger generation which would have to pay with higher contributions for a short postponement of the pension level reduction without benefitting itself.

Therefore, we have to think about new ways:

The state has to alleviate the widespread fear of the complexity and high cost of additional retirement provisions, especially among small companies and employees who are not well versed in this issue. Therefore, for all employers and employees, who do not want to take action themselves, we need a straightforward, cost-effective and transparent standard product organized by the state: the “Deutschland-Rente”. Employers would have to pay the contributions for this standard product to an autonomous and independent fund, similar to the contributions for the statutory pension scheme. This so-called “Deutschlandfonds” operates as a non-profit organization at cost price.

At the same time, the present “opt-in” mechanism should be replaced by an “opt-out” scheme, i.e. employees always get an additional retirement provision as long as they do not actively ask their employer to opt out. This way, also young employees would automatically obtain an early and easy access to an additional retirement provision. Other countries reach distribution rates of around 90 percent with an “opt-out” scheme. In Germany we cannot forgo this “gentle” pressure if we seriously want to fight poverty among the elderly.

The “Deutschlandfonds” could invest in a broadly diversified portfolio, e.g. with a larger proportion of shares than many other pension products. Its long-term investment horizon as well as the possibility to broadly diversify due to its size will reduce the investment risk considerably and, at the same time, provide higher returns.

With this package of measures, we strengthen the confidence in additional retirement provision, create useful competition for straightforward and cost-effective pension provision products and, as a result, make an important contribution to preventing a massive increase in poverty among the elderly in Germany.

In a few years, the generation of the baby-boomers will retire and the massive decrease in birth rates after 1965 in Germany will become perceptible. Meanwhile, life expectancy has been increasing for many years. Inevitably, this will lead to a huge burden for the German pay-as-you-go pension system.

# Events

## May

Monday, 9 <sup>th</sup> – Tuesday, 10 <sup>th</sup>	<b>SAFE Conference – joint with DFG and CEPR Banking, Monetary Policy, and Macroeconomic Performance</b>
Tuesday, 10 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Ran Duchin, University of Washington
Tuesday, 10 <sup>th</sup> 6.30 pm	<b>Frankfurter Vorträge zum Versicherungswesen Die Solvabilitäts-Aufsichtsleiter für Versicherungs- unternehmen in besonderen finanziellen Situationen</b> Speaker: David Sehrbrock, R+V Versicherung
Tuesday, 17 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Josep Pijoan-Mas, CEMFI
Tuesday, 17 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Tarun Chordia, Emory University
Tuesday, 17 <sup>th</sup> 5.30 pm	<b>CFS Lecture Fintech – die digitale (R)evolution im Finanzmarkt: Die traditionelle Bank als digitales Ökosystem</b> Speaker: Thomas F. Dapp, Deutsche Bank
Tuesday, 24 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Miriam Gensowski, University of Copenhagen
Tuesday, 24 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Gustavo Manso, University of California at Berkeley
Monday, 30 <sup>th</sup> – Tuesday, 31 <sup>st</sup>	<b>SAFE Conference – joint with Deutsche Bundesbank, ZEW and CEPR Regulating Financial Markets</b>
Tuesday, 31 <sup>st</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Kathrin Schlafmann, IIES, Stockholm University
Tuesday, 31 <sup>st</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Andrei Simonov, Michigan State University

## June

Wednesday, 1 <sup>st</sup> 5.30 pm	<b>CFS Lecture EK-Finanzierung über Family Offices, bankenunabhängige Auftrags- und Absatzfinanzierungen</b> Speaker: Thomas Retzlaff, Lehel Partners
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Monday, 6 <sup>th</sup> 5.00 pm	<b>EFL Jour Fixe Digital Attention Maps: Unveiling Competition for Digital Attention using Online Search</b> Speaker: Elham Maleki, E-Finance Lab
Tuesday, 7 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Winfried Königer, University St. Gallen
Tuesday, 7 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Christian Heyerdahl-Larsen, London Business School
Saturday, 11 <sup>th</sup>	<b>GBS Part-Time Master in Finance Graduation 2016</b>
Tuesday, 14 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Andrea Ferrero, Oxford University
Tuesday, 14 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Ulrike Malmendier, University of California Berkeley
Thursday, 16 <sup>th</sup>	<b>IMFS Distinguished Lecture</b> Speaker: Peter M. Huber, Federal Constitutional Court
Friday, 17 <sup>th</sup>	<b>Visiting Professorship of Financial History – Conference Comparative Financial System History</b> Speaker: Caroline Fohlin, Emory University
Friday, 17 <sup>th</sup> – July, 15 <sup>th</sup>	<b>GBS Open Program Bank's Risk Governance and Regulation</b> Speaker: Wolfgang Hartmann, Frankfurt Institute for Risk Management and Regulation
Saturday, 18 <sup>th</sup> – July, 16 <sup>th</sup>	<b>GBS Open Program Bank Management</b> Speaker: Axel Wieandt, Valovis Bank
Saturday, 18 <sup>th</sup> – July, 16 <sup>th</sup>	<b>GBS Open Program Household Finance</b> Speaker: Steffen Meyer, Leibniz University Hannover
Tuesday, 21 <sup>st</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Mathias Trabandt, Freie Universität Berlin
Tuesday, 21 <sup>st</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Francisco Gomes, London Business School
Saturday, 25 <sup>th</sup> – July, 29 <sup>th</sup>	<b>GBS Open Program Financial Stability and Regulation</b> Speaker: Norbert Metiu, Deutsche Bundesbank

Tuesday, 28 <sup>th</sup>	<b>SAFE Workshop Market Microstructure</b>
Tuesday, 28 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Eric French, University College London
Tuesday, 28 <sup>th</sup> 4.00 pm	<b>ICIR Talks on Insurance and Regulation</b> Speaker: Dieter Wemmer, Allianz SE
Tuesday, 28 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Theresa Kuchler, NYU Stern
Wednesday, 29 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with Deutsche Bundesbank and SAFE</b> Speaker: Laura Veldkamp, New York University

## July

Friday, 1 <sup>st</sup> – Saturday, 16 <sup>th</sup>	<b>GBS Open Program Mergers &amp; Acquisitions</b> Speaker: Christian Rauch, University of Oxford
Saturday, 2 <sup>nd</sup> – Saturday, 30 <sup>th</sup>	<b>GBS Open Program Enterprise Risk Management</b> Speaker: Thomas Kaiser, Goethe University
Monday, 4 <sup>th</sup> 5.00 pm	<b>EFL Jour Fixe SaaS Cloud Services and their QoS Requirements – An Empirical Study in the Financial Services Industry</b> Speaker: The An Binh Nguyen, E-Finance Lab
Tuesday, 5 <sup>th</sup> 2.15 – 3.45 pm	<b>Frankfurt Macro Seminar – joint with SAFE</b> Speaker: Ilaria Piatti, University of Oxford
Tuesday, 5 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Michael Weber, Chicago Booth School of Business
Wednesday, 6 <sup>th</sup> 5.30 pm	<b>CFS Colloquium Global Transaction Banking in der digitalisierten Welt</b> Speaker: Werner Steinmüller, Deutsche Bank
Tuesday, 12 <sup>th</sup> 4.15 – 5.30 pm	<b>Finance Seminar – joint with SAFE</b> Speaker: Daniela Gabor, University of the West of England
Sunday, 17 <sup>th</sup> 5.30 pm	<b>CFS-Schmalenbach-Lecture Digitale Transformation</b> Speaker: Reinhold Achatz, ThyssenKrupp



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