

Changing the role of the financial system to better serve economic, social and environmental objectives

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Outline

- Introduction: Lessons from the crisis
- Research dimensions
 - Strengthening responsibility and self regulation: Values, ethics and sustainability in financial decisions
 - Efficient regulation and supervision of financial markets
 - Financing growth and welfare: challenges of the real economy for the financial system

Lessons from the crisis

- Near meltdown of the financial system has illustrated
 - Extent of systemic risk in the financial system
 - Vital role of transparency and confidence for market liquidity
 - Vulnerability of real economies for frictions in the financial system
 - Heterogeneous impact of crisis on different countries in Europe as well as globally

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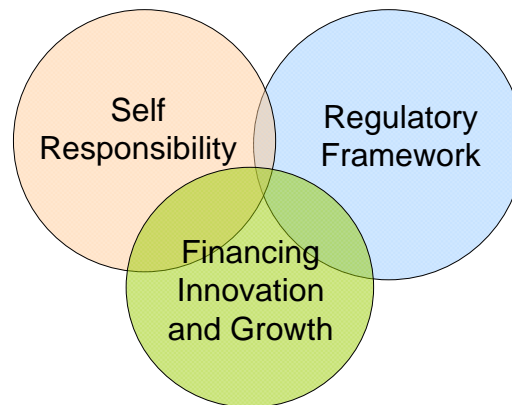
Lessons from the crisis

- Urgent need to reform the financial system in order to
 - control and limit systemic risk
 - enhance transparency
 - avoid adverse incentives for lenders
 - allowing credit markets to work and allocate financial means to their most productive uses

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Lessons from the crisis

Self responsibility and regulatory framework:
two flip sides of the same coin



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Strengthening responsibility: values, ethics and sustainability in finance

- Socially responsible investment (Social investment mark I):
 - Cost and benefits of corporate social responsibility on the company level
 - Impact on portfolio performance of financial investors (asset management)
 - Influence of value-oriented (e.g. "green") investors on the behavior of companies

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Strengthening responsibility: values, ethics and sustainability in finance

- Non profit/value driven social investment (social investment mark II):
 - Accessing financial markets for financing non-profit/charitable use
 - New forms of public private partnership
 - Assessment of social impact (social return on investment)

Strengthening responsibility: Scope and limits of self regulation

- Ex post assessment of different regulatory approaches
- Appropriate design of framework for self regulation
- Insights from Behavioural Finance
 - for design of external regulation and self regulation
 - to improve financial literacy
- Scope and limits of responsible lending

Efficient regulation and supervision of financial markets

- Allocation of responsibilities (different levels: global, EU and Euro area, national, industry)
- Assessing and limiting systemic risk
 - Information requirements
 - Measurement: Methodological issues
 - Consequences for regulation
- Common regulation standards in the EU
- Regulation of high risk products (VC, PE)

Financing growth and welfare: challenges for and from the real economy

- Consequences of financial sector reform for the provision of capital
 - Financing innovation by equity and credit
 - Access of SME to financial markets
 - Availability of housing finance for private households and property companies
- Future role and supply of microfinance

Financing growth and welfare: challenges for and from the real economy

- Bailout of the financial system/fiscal burden from the crisis:
 - Long term impact on growth in different European countries
 - Consequences for distribution of income and wealth within countries
 - Consequences for social cohesion in the EU
 - Consequences for CEE transition

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Financing growth and welfare: challenges for and from the real economy

- Financing human capital for the knowledge economy
 - Public and private partnership in financing basic and higher education
 - Private education finance without social selection
 - Credit market instruments for education finance

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Important disciplines

- Financial Economists
- Institutional Economists + Political Scientists
- Behavioural Economists and Psychologists
- Law Experts (Regulation)
- Practitioners from the Financial Industry

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**Thank you for your
attention!**

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