Report on the Better Finance Conference, Brussels Tuesday 6th May 2015.

by Harry Braund, FCA

The conference was designed to put the spotlight on the proposed Capital Markets Union, the ambitious plan to develop a pan-European financial union & to persuade citizens & households across the EU to put their savings to work to help promote growth at a time when the EU is lagging behind the US & the big asian economies.

The Commission plans to inject some vigour into the sluggish EU economy following the financial crisis of 2008. Seven years on the Northern European countries are in better shape compared to those in the south.

The keynote speaker was Jonathan Hill, the EU commissioner for Financial Stability, Financial Services & Capital Markets Union who was recently appointed as UK commissioner by David Cameron. The Commissioner's message to shareholders, investors & the wider audience of EU 'citizen householders' was to promote greater personal savings & investment in the interests of economic growth. This to be done in harness with the existing institutions - banks & investment funds (intermediaries) - but preferably in a more direct way, i e through new Euro Insurance schemes, as yet defined.

One big issue is how to persuade investors to back SME's (small & medium sized Companies) many of whom are at present starved of capital for the investment they need to grow. This is a more risky sector of the investment market compared with major corporations who can call upon an abundance of finance available through existing channels. It was clear however that SME's are a disproportionately important sector in ensuring growth.

New sources of capital have to be tapped - either directly or via existing channels. The perception is that far too many intermediaries are limiting access to capital. Banks and investment funds are calling the shots, many of which give a poor return on capital as UKSA members are well aware. Opening up the capital markets across Europe is a daunting task requiring new & more easily accessible investment instruments free of administrative 'drag' & excessive costs. NOTE: let us not forget the 'negative return' on Pension funds highlighted in the recent Better Finance research document. The aim is to attract new investors to put their savings to work in the market place without too many 'intermediaries' making the process more difficult, complex & expensive.

The first group discussion entitle 'THE POLITICAL VIEW' brought together five MEP's members of the Parliamentary Economic & Monetary Affairs Committee (ECON) representing views across the political spectrum from left to right. Europe is still seen as a 'fragmented' market with great power in the hands of financial advisors & intermediaries who can & do influence outcomes. Too much so: they have to be reminded that they are dealing with OPM - other peoples money! The need is for 'a level paying field' plus transparency & ease of access to financial products which is important. The question of whether regulation has gone too far or not far enough was also debated.

The second group discussion representing THE MARKET VIEW included Jacques de Larosiere, former MD of the International Monetary Fund who stressed the need for more equity & less debt in Europe. Olivier Guersent representing the EU Directorate-General for Financial Stability, Financial Services & Capital Markets Union pointed out that the biggest problem for the EU was the lack of growth & the 'pile of cash' sitting in the market which was not doing the job for growth. Rainer Riess, DG of the Federation of European Securities Exchanges pointed out that Europe in now behind the USA & China as the 3rd largest market. A need to revive the process of bringing together capital & companies with an emphasis on SME's. Also a pensions regime where individual investors make their own decisions by direct investment (i.e. in the UK where it is possible to have a self-select SIPP which avoids a huge amount of charges). Moderator, Manuela Zweimueller, head of regulation at the European Insurance & Pensions Authority (EIOPA) looked forward to the day when a pan-European pension can be bought on the internet - by 2020! Retirement savings are the largest pot of money for individual investors.

QUOTE FROM BETTER FINANCE STATEMENT:

Over the years the European economy degenerated into a financial type of capitalism where the link between owners and issuers of securities (the real economy) has been severed, and where decision-making power finds itself increasingly in the hands of financial intermediaries as "agency" owners. Better Finance believes that it is time to "return capital markets to their natural participants" if the CMU is to stand any real chance of reinforcing the real economy.

Harry Braund