



**Duisenberg**  
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# From Banking Union to Capital Markets Union: Trends and Emerging Segments

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ELEC, Amsterdam  
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# Agenda

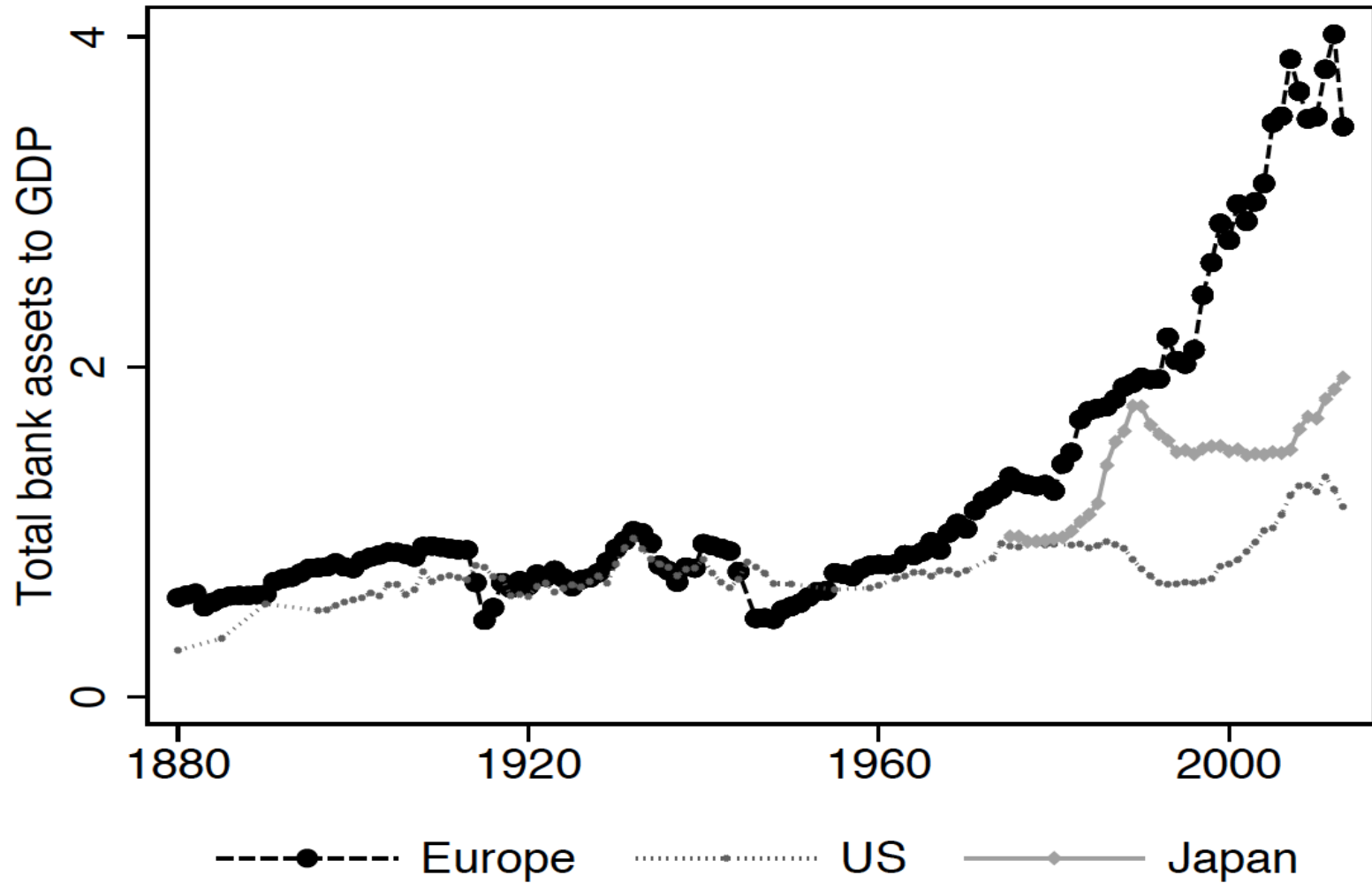
## 1. Structural trends

- Decline of European banking, and
- Rise of institutional investors

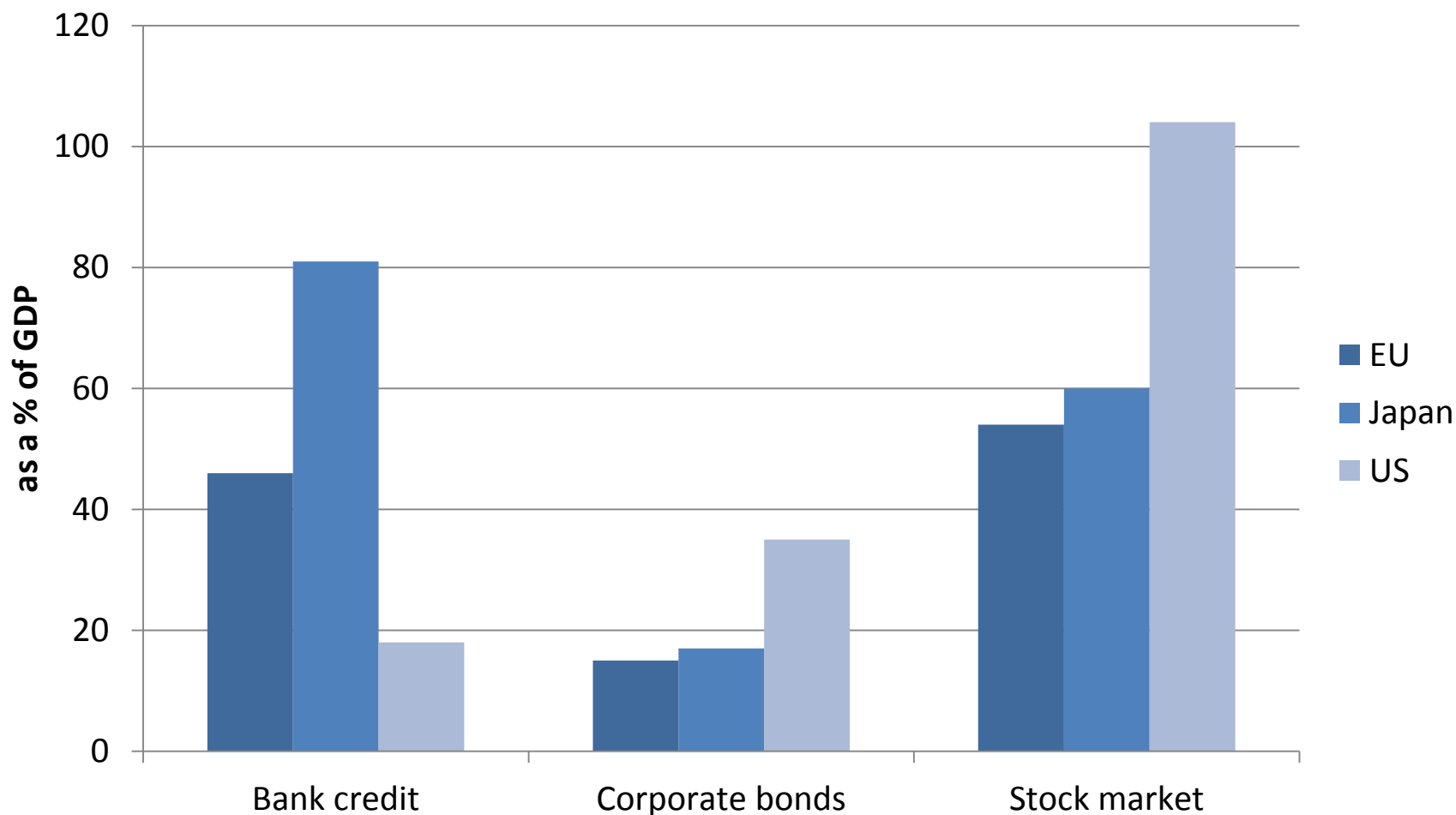
## 2. Capital Markets Union

- Emerging segments: corporate bonds
- Need for infrastructure

# Is Europe overbanked?



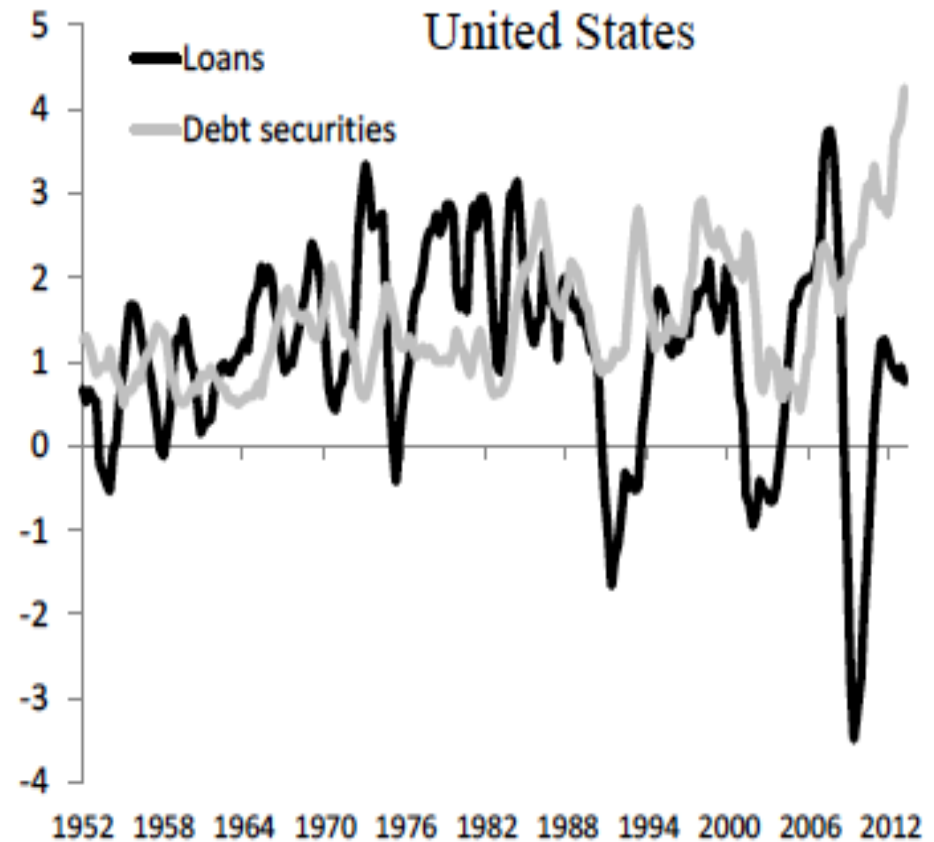
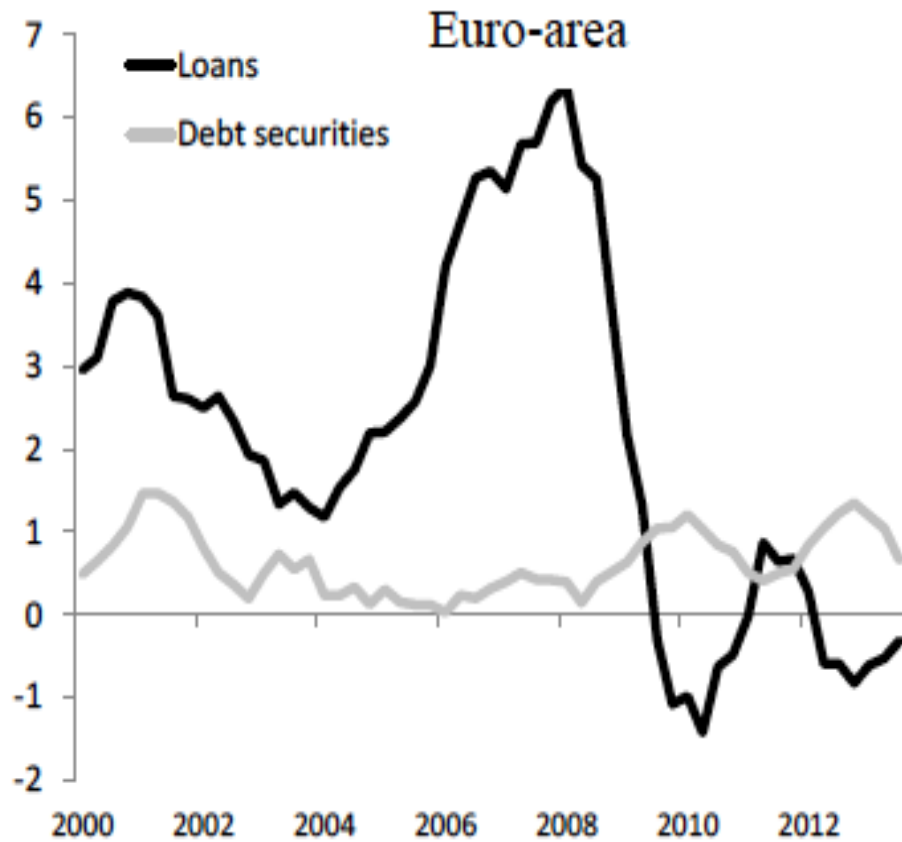
# Has Europe too little capital markets?



## Macro effects

- After banking crisis (ASC Report, No. 4)
  - Drop in bank lending – deleveraging (credit channel)
  - Drop in asset values (collateral channel)
  
- After corporate default crisis (Giesecke *et al*, JFE 2014)
  - Corporate bonds less volatile (credit channel)
  - Increase in bank lending (substitute channel)

# Corporate bonds are more stable than loans

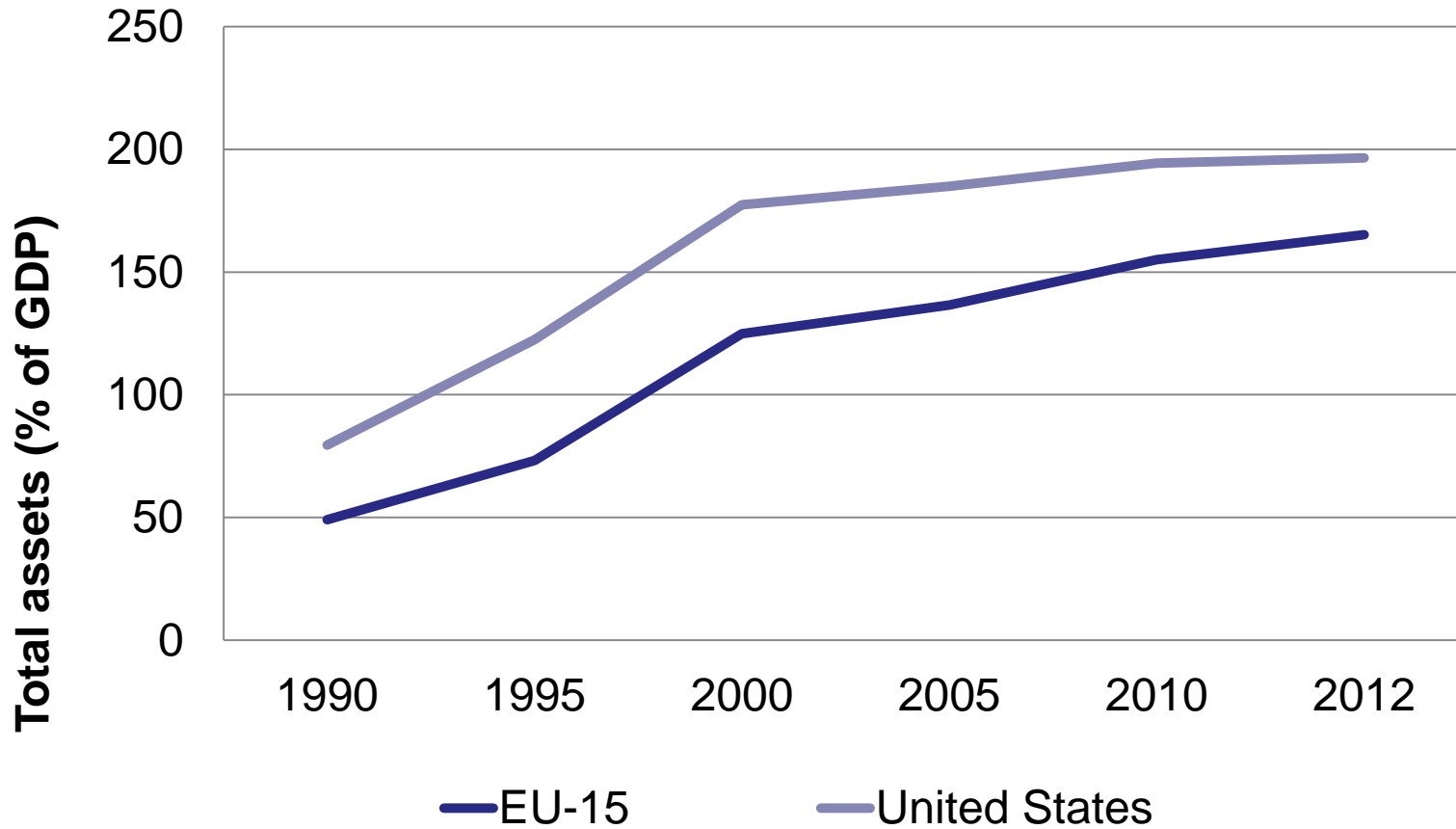


Source: Langfield and Pagano (2015)

# Institutional Investors

- Large players in Europe
  - Insurers €8,300 bn of assets (end-2013)
  - Pension funds €3,600 bn of assets (end-2013)
  - Large bond portfolio to match LT liabilities

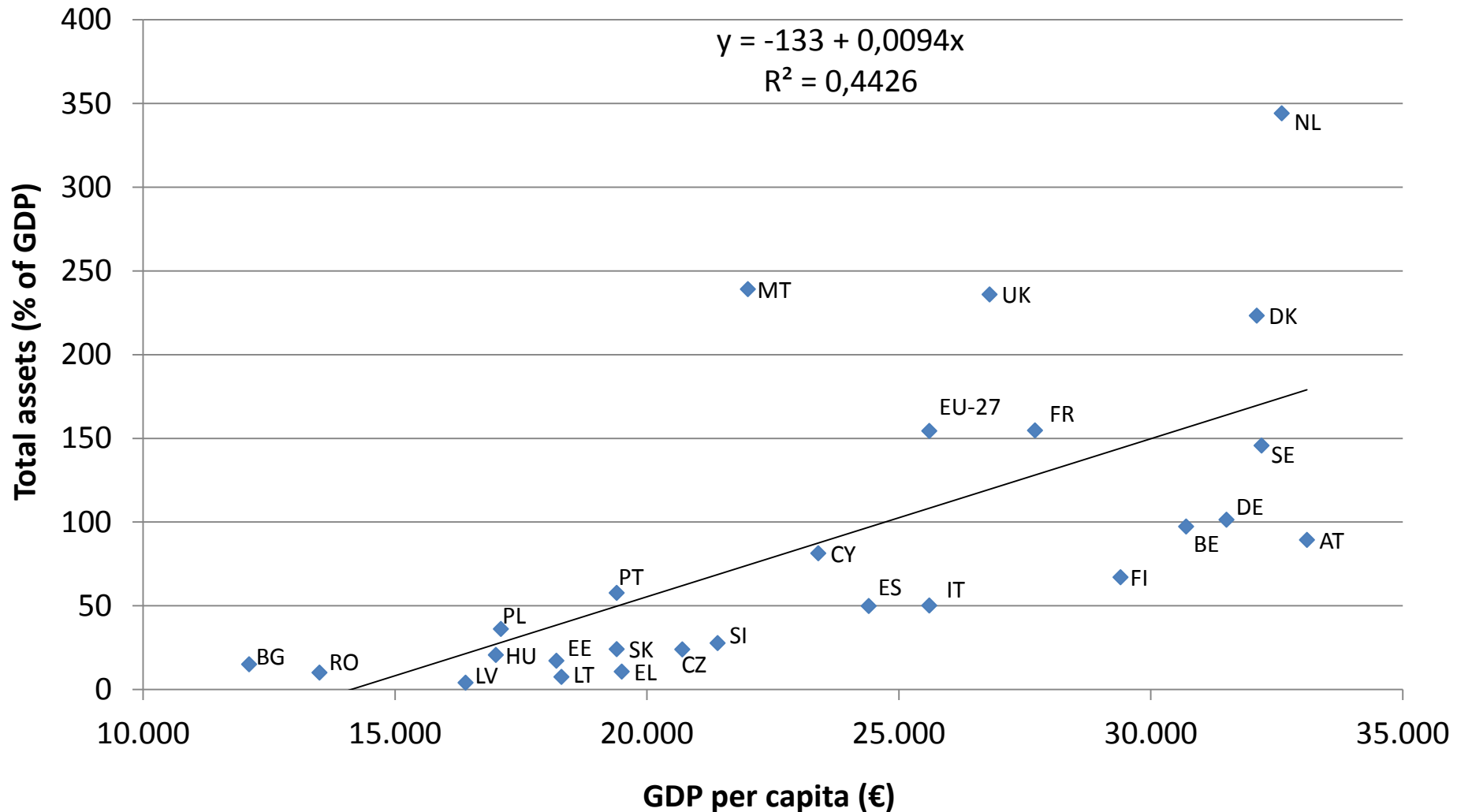
# Rise of institutional investment



Source: De Haan, Oosterloo, Schoenmaker (2015)



# But no institutional investment yet in NMS



Source: De Haan, Oosterloo, Schoenmaker (2015)

# From bank to institutional intermediation

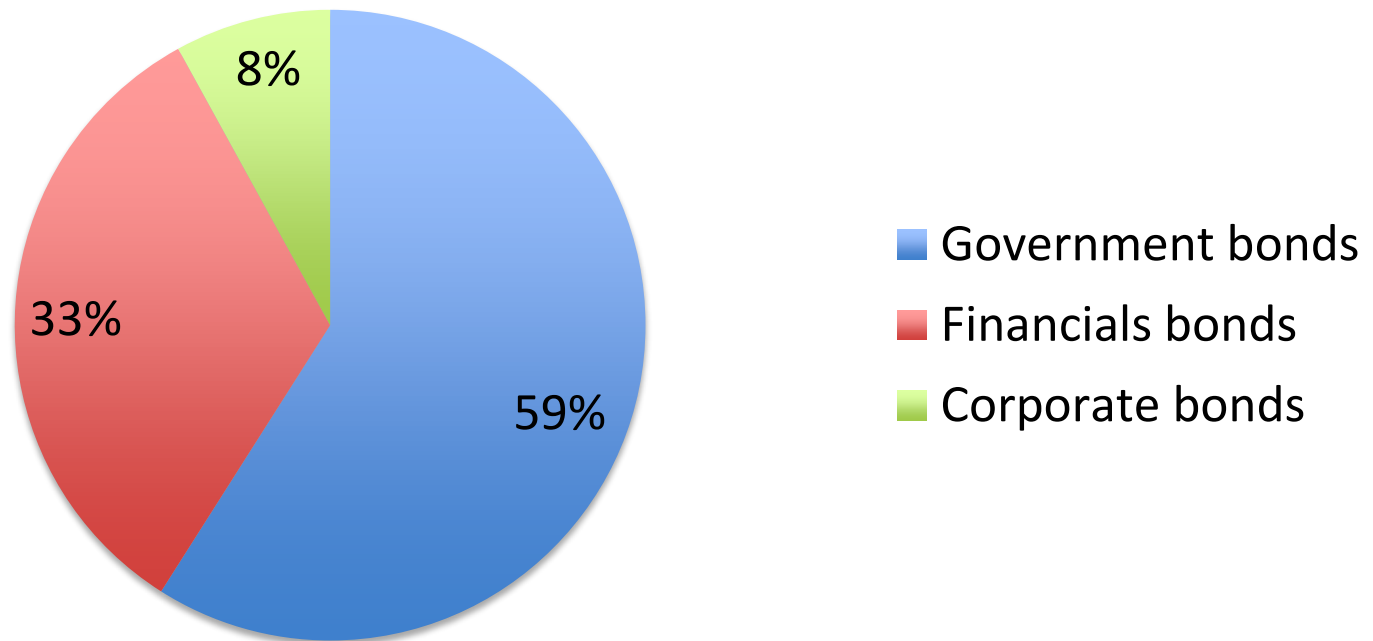
		1970	1980	1990	2000	2010	$\Delta$ 1970–2000
France	<i>Bank</i>	95	94	81	71	71	–24
	<i>Institutional</i>	5	6	19	29	29	24
Germany	<i>Bank</i>	89	88	83	76	72	–17
	<i>Institutional</i>	11	12	17	24	28	17
Italy	<i>Bank</i>	94	95	90	72	81	–13
	<i>Institutional</i>	6	5	10	28	19	13
United Kingdom	<i>Bank</i>	67	71	63	60	73	6
	<i>Institutional</i>	33	29	37	40	27	–6
EU4	<b><i>Bank</i></b>	<b>86</b>	<b>87</b>	<b>79</b>	<b>70</b>	<b>74</b>	–12
	<b><i>Institutional</i></b>	<b>14</b>	<b>13</b>	<b>21</b>	<b>30</b>	<b>26</b>	12
Canada	<i>Bank</i>	66	74	64	55	56	–10
	<i>Institutional</i>	34	26	36	45	44	10
Japan	<i>Bank</i>	82	78	70	60	51	–31
	<i>Institutional</i>	18	22	30	40	49	31
United States	<i>Bank</i>	65	65	51	43	33	–32
	<i>Institutional</i>	35	35	49	57	67	32
G7	<b><i>Bank</i></b>	<b>80</b>	<b>81</b>	<b>72</b>	<b>62</b>	<b>62</b>	–17
	<b><i>Institutional</i></b>	<b>20</b>	<b>19</b>	<b>28</b>	<b>38</b>	<b>38</b>	17

## Pension savings

- Rise of pension savings will lead to broadening and deepening of European capital markets
- Some major trends are supporting this:
  1. Shift from government to corporate bonds
  2. Move to formal pension funds or schemes
  3. From defined benefit to defined contribution

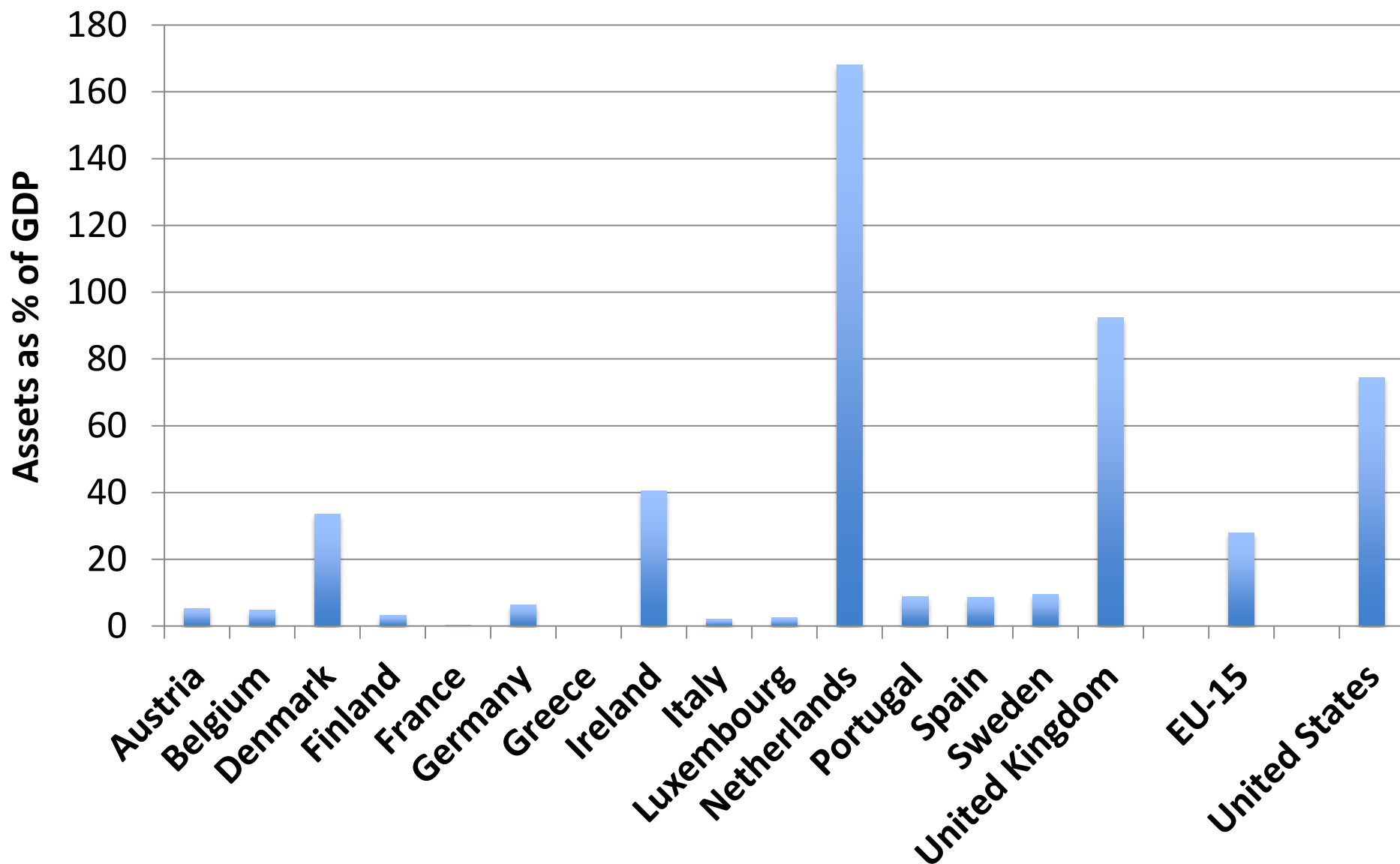
# 1. From government to corporate bonds

## Bond portfolio of euro area insurers and pension funds



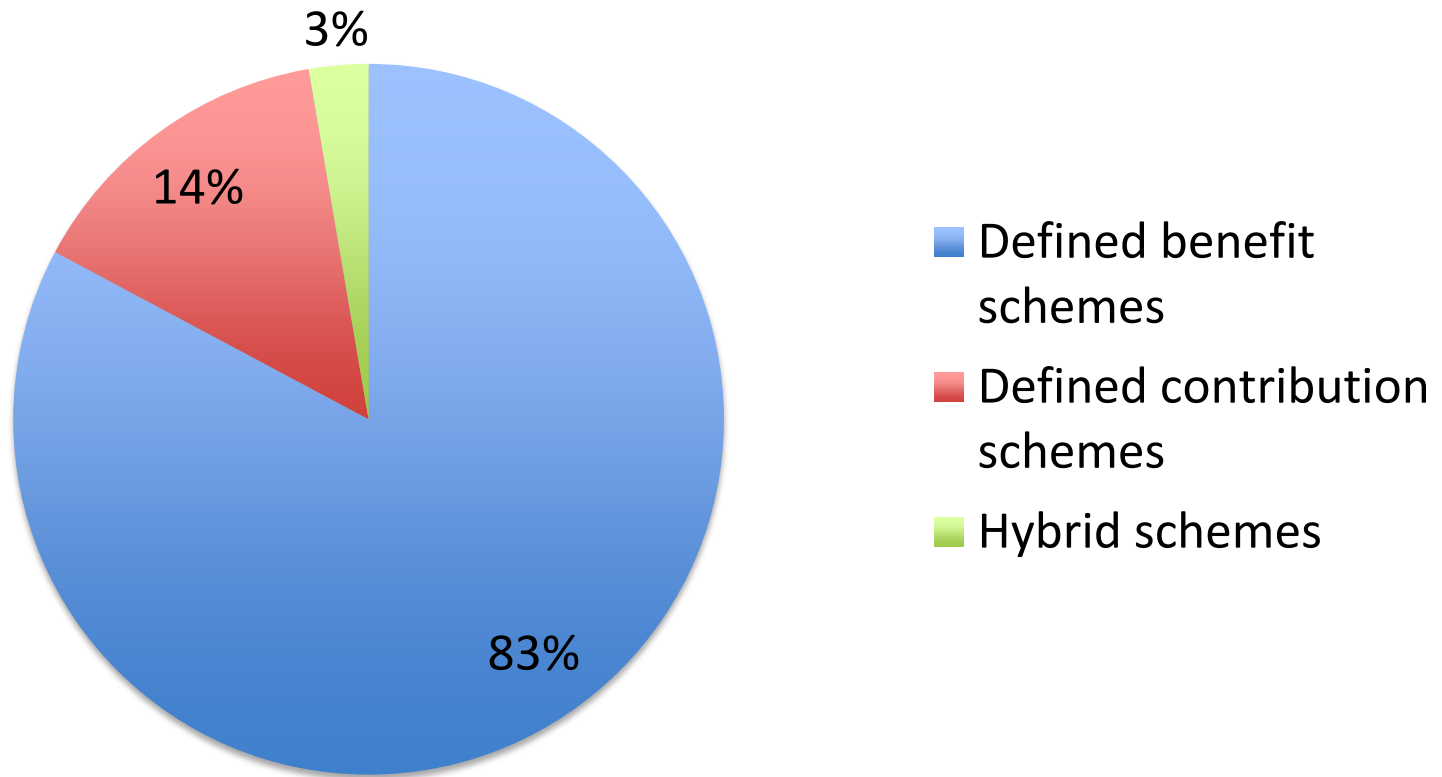
Source: Statistical Data Warehouse, ECB

## 2. Move to formal pension schemes



### 3. From DB to DC schemes

**Euro area pension funds: breakdown by scheme**



Source: Statistical Data Warehouse, ECB

# Capital Markets Union

- Broad policy agenda (e.g. Veron and Wolff, 2015)
  - Simple and effective regulatory framework
  - EU-level implementation and enforcement (role ESMA)
  - Various areas: prospectus, accounting, credit information, insolvency, etc
  - In sum: substantive legislative implementation for the LT
- Emerging market segments
  - Equity
  - Debt: in particular **corporate bonds**

## Deepen capital markets

- Current trading of corporate bonds
  - Bonds have final-life (equity not)
  - Multiple issues
  - Decentralised: dealer network
- Proposals to deepen corporate bond market
  - Centralised platform (exchange + clearing)
  - Standardise corporate bonds (and ABS)
  - Big issues with multiple tranches (like gov bonds)
  - Pooling bonds of small companies



## Conclusions

- Move from banking lending to capital markets
  - Better for macro stability
- Demand: Corporate bonds (and equity)
  - Institutional investors preference for bonds (and equity)
- Supply: Broader trend in retail (precautionary) savings
  - From deposits to insurance and pension claims

# Thank you for your time

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