



Picture: Annika Vallgren

NEWSLETTER SWEDISH HOUSE OF FINANCE, OCTOBER 2015

New beginnings

The fall is the beginning of the academic year. We welcome all new members of the Swedish House of Finance-family. This semester PhD-students from Örebro, Uppsala, Göteborg, Reykavik, Oulu, KTH and Stockholm University are joining us.

We also have a new assistant professor, Dong Yan and 10 new guest researchers from other schools such as Macquarie University in Sydney and Mannheim University, taking courses here. They will benefit from a world-class research environment and we are looking forward to their contributions to the discussion on financial matters that's constantly going on here.

On November 9 we are joining forces with the Mistra Center for Sustainable Markets (MISUM) and

organizing the seminar "Beyond Financial Returns – The new world of sustainable investing". A distinguished panel of experts including Lars Thunell, Senior Advisor, Blackstone Group and Anna Ryott, CEO of Swedfund will join us for a discussion.

For news about upcoming events at the Swedish House of Finance, SIFR and the Department of Finance follow the Swedish House of Finance on Facebook, LinkedIn or SIFR on Twitter (@SIFRinstitute). Podcasts from the "SNS / SIFR Finanspanel-lectures" can now be found on [SIFR website](#).

We are grateful to the generous support we receive from our industry partners and supporters.



Anders Anderson
Picture: Nicklas Gustafsson



Magnus Dahlquist
Picture: Nicklas Gustafsson



Pehr Wissén
Picture: Nicklas Gustafsson



Hal Varian

Big Data and Real-Time Economic Measurement

Governments have always tried to predict where the economy is heading. On September 7 Google Chief Economist Hal Varian visited Stockholm School of Economics to talk about how data from private companies can be used to improve forecasting. Joining him in this discussion was previous Minister for Finance Anders Borg.

Hal Varian is emeritus professor at the University of California, Berkeley specializing in microeconomics and information economics. He spoke about big data and how it can be used to find information on trends in consumption, housing markets and unemployment for example. With search data from Google, trends can be discovered earlier than before which is something that should be of interest for government agencies, argued Hal Varian.

He explained that more people searching for information about unemployment benefits in the US typically indicate an increase in the unemployment rate later on.

The pattern could be the same for Sweden. And this is just one example of predictions that can be made out of search data. They both discussed the transformational power of the digitalization on our economies and predicted a downward pressure on inflation and the disruption of many jobs in the coming years.

– For the financial industry this is particularly true. Basically everything in the financial industry can be done electronically and all of the big companies are throwing resources to keep up with the digital revolution. I think we are going to see a very problematic period for banks ahead. Headcounts in the Nordic banks have been reduced significantly in the past years and it is quite clear that the industry is in the middle of a transformation, said Anders Borg.

[Listen to Hal Varian at the SNS / SIFR Finans-panel podcast.](#)

Lively discussions on active shareholder engagement

"We need to realise the potential we have to influence as owners of companies." Colin Melvin is CEO of Hermes EOS, a company specializing in helping institutional share owners meeting their fiduciary responsibilities and becoming active owners. On 2 September he visited SIFR and the Swedish House of Finance to discuss the issue of active shareholder engagement.

Colin Melvin shared his experiences of working with responsible ownership with a very active audience. He argued that if a company is well managed, it should be worth more than others. In this quest he believes that it makes sense to work together with other institutional owners to push companies in the right direction.



Colin Melvin
Picture: Hermes EOS

A problem with this approach is how to measure the performance. Does it actually bring more value to be an active shareholder? To be able to evaluate, you need proof that the company is actually changing things. Colin Melvin then presented a case a few years ago when Hermes EOS and a coalition of other investors managed to influence Wal-Mart to increase wages for their lowest paid workers.

Joining Colin Melvin was Geir Lode, Head of Global Equities at Hermes Investment Management. For him and his team the focus is on what not to buy. By

avoiding the worst companies they can cut the lower tail of the distribution of future returns.

One question that was discussed was the issue of pragmatism. Active investors focus on issues for which compliance is easily verifiable. Laurent Bach, Assistant Professor at the Department of Finance said that this approach has induced companies to listen more and more to investors and that this is good – as long as the demands from the investors are the right ones.”



Laurent Bach
Picture: Nicklas Gustafsson

Another topic for discussion focused on the sources of abnormal performance of investment strategies that select assets based on environmental, social and governance – ESG - scores. Michael Halling, Associate Professor at the Department of Finance pointed out that the academic evidence on such outperformance is mixed and that risk-based explanations fail to rationalize these positive, expected rates of return.



Peter Englund, Howard Kunreuther, Robert Merton, Staffan Grefbäck, Eva Erlandsson

Picture: Pehr Wissén

Insurance Economics

On August 24 – 25, SIFR gathered academics, practitioners and regulators for a two day conference on Insurance Economics: New Risks, New Regulation, New Approaches.

Key-note speakers at the conference were Nobel laureate Robert Merton, MIT Sloan School of Management, Viral Acharya, Stern School of Business, New York University, Dwight Jaffee, Haas School of Business, University of California at Berkeley, Ralph Koijen, London Business School and Howard Kunreuther, Wharton School of Business, University of Pennsylvania.

Howard Kunreuther started the first day by giving a talk on insurance and behavioral economics. He discussed how the insurance industry should handle the increasing frequency of environmental catastrophes or so called Low Probability – High Cost (LP-HC) events. He stressed that insurance companies can encourage risk mitigation by being allowed by regulators to set premiums that reflect risk and by partnering with financial institutions to provide long-term loans.

The second speaker of the day was Robert Merton. He gave a talk on the topic “Challenges and Solutions in Retirement Funding and Retirement Payout”. He talked about a goal-based investment strategy where a specific income goal is replacing the more general target of “wealth accumulation”. The asset allocation strategy would be dynamic and based on age, income and a success measure of the portfolio.

Ralph Koijen gave an overview of the shadow insurance industry. The shadow insurance market grew from \$11 billion in 2002 to \$364 billion in 2012. Regulators do recognize the risk of shadow insurance but the elimination of it would raise both prices and costs and affect equilibrium in the retail market, according to Ralph Koijen.

Both Dwight Jaffee and Viral Acharya focused on the role of regulation. Dwight Jaffee gave examples of when government regulation works and when it is dysfunctional. Sometimes the government even bears 100 percent of the risk although private insurers still run the market, which is the case for example in the US National Flood Insurance-program. Viral Acharya said that insurance firms could perhaps be categorized as systemically important financial institutions (SIFIs). In fact, the regulatory and risk-taking practices in the insurance sector look as problematic as those at pre-crisis banks.

Peter Englund and Johan Walden from SIFR moderated two panel discussions on “Insurance and Human Behavior” and “Systemic Risk and Regulation” respectively. The second conference day had a standard academic format with presentations of frontier research papers, discussant comments and general discussion.

The conference was funded by the Torsten Söderberg Foundation. [All presentations from the conference can be found here.](#)

UPCOMING EVENTS

Swedish House of Finance to host the Global Corporate Governance Colloquia in 2016

The first Global Corporate Governance Colloquia, GCGC, was held at Stanford in June 2015 and Professor Mike Burkart and Professor Bo Becker were there to represent the Swedish House of Finance.

– Having been invited to join the GCGC initiative as one of four European universities is evidence that we are a leading European environment for corporate governance research. Participation in these Colloquia will help to ensure that the Swedish House of Finance stays at the research forefront and shapes the research agenda and policy in the corporate governance area. Given the intense international policy debates in the corporate governance field, not the least within the European Union, it is also beneficial that Sweden gets an opportunity to influence this policy debate, says Mike Burkart.



Bo Becker

Picture: Nicklas Gustafsson

The GCGC was initiated in Oxford in 2012 by a number of scholars affiliated with the European Corporate Governance Institute (ECGI). A network of 12 major universities in the US, Far East, and Europe formed the GCGC whose purpose is to organize a series of annual world-class conferences on corporate governance research. The participating universities are Columbia, Harvard, Yale, Stanford, Beijing University, Tokyo University, Seoul National University, National University of Singapore, London Business School, Oxford University, Frankfurt House of Finance, and the Swedish House of Finance.

– Fourteen papers were presented during the inaugural conference in Stanford, each followed by an assigned commentator and a lively plenary discussion. The papers covered a wide range of topics, reflecting the diversity of current corporate governance research undertaken not only by financial economists but also by researchers in law, management, and accounting. Some papers addressed highly topical issues, such as, the role of activist hedge funds or the impact of board gender quota in Norway, says Mike Burkart.



Mike Burkart

Picture: Nicklas Gustafsson

The 2016 GCGC will be held at the Stockholm School of Economics on June 10 – 11. Currently, the program committee under the chairmanship of Mike Burkart is working on putting together an equally exciting program. So far, a number of highly prominent scholars have already agreed to come to Stockholm and present their work, including Bernard Black, Northwestern University Law School, Guido Ferrarini, University of Genoa, Oliver Hart, Harvard, Martin Hellwig, Max Planck Institute for Research on Collective Goods, Steven Kaplan, University of Chicago Graduate School of Business, Marco Pagano, Università di Napoli Federico II, and Luigi Zingales, University of Chicago Graduate School of Business.

The expectations are that the 2016 GCGC conference will be a high-profile event.

RESEARCH

We welcome 84 new master students

The two-year Master of Science in Finance program at Stockholm School of Economics is one of the most popular master programs in Europe. This year 84 students were admitted to the program and on August 27 they gathered at the Swedish House of Finance to get to know each other. Professor Bo Becker is responsible for the finance master students.

– Career opportunities for our finance alumnis are fantastic. About half of our students plan to work abroad at some point during their careers with Frankfurt, London and New York being the most popular cities. 80 percent plan to work within the finance industry, says Bo Becker.



Picture: Annika Vallgren

Angus Deaton 2015 Nobel Laureate in Economics

Professor Peter Englund and Professor Per Strömberg are both members of the committee for the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel. We asked Peter Englund three questions about the 2015 Laureate.

Why was Angus Deaton awarded the prize this year?
– Angus Deaton is an unusually complete economist. His research has revolved around consumption, linking individual consumption decisions with outcomes for the economy as a whole. He has been ground breaking in his use of micro data to analyze macro

circumstances and has influenced not only the scientific community but also practical policymaking. Where can I find an overview of Angus Deatons research?

– I recommend watching the lecture **“A Menagerie of Lines: How to Decide Who is Poor?”** or the **Nobel Symposium “Wellbeing”**. How did he react when you told him about the prize?
– He was calm, but happy of course! After he received the news he had about half an hour to prepare before participating by phone during the Nobel press conference.

SWEDISH HOUSE OF FINANCE IN THE MEDIA

Digitaliseringen ger mindre arbete – men fler jobb.

Sökningar i realtid kan förutsäga finansiella upp- och nedgångar.

Anders Borg: **Inom tio år sker hälften av klädhan- deln på nätet.**

Googles chefsekonom ser anomalier i marknadens reaktioner.

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