

News letter

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EDITORIAL

Swiss Finance Institute 2.0

by Jean-Pierre Danthine

Swiss Finance Institute is four years old. While four years is a short time for a university institute with the highest ambitions, it is a significant time span in this digital age: Swiss Finance Institute is ready for a new release! The first four years were for exploring new territories and establishing modes of operation and cooperation: indeed SFI is a unique model of organization based on a close cooperation between several university institutions, on the one hand, between academia and industry, on the other, all under the blessing and with the strong support of the Confederation.

SFI strives for the top rank among the finance research institutes in Europe, it aims to offer one of the best PhD programs in the field of finance worldwide and it wants to make Switzerland the benchmark for high level executive training in banking and wealth management. After four years of activity, we are surprisingly close to goals in some domains (PhD training) and have made strong progress in others (faculty build-up, research productivity and international visibility, executive education). But we are also encountering headwinds due to the competition for talents and the impact of the financial crisis on executive education activities.

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NEWS

Swiss Finance Institute Rejoices Over Endogenous Growth

Swiss Finance Institute is not only about recruiting top researchers from abroad; it is also about nurturing promising talents and placing local researchers in an environment where they can reveal themselves to be equal or better than established foreign competitors. Even more importantly it is about developing in-house ideas that will be recognized by the international research community as essential, part of the “must know”, properties that are necessary ingredients for publication success at the highest level.

Following noteworthy publication successes, the Swiss Finance Institute is promoting three of its researchers as of January 2010. The SFI Scientific Council has recently reviewed the research portfolios of these researchers

and has proposed to promote them to Senior Chairs, a proposal which has been confirmed by the SFI Foundation Board.

These promotions concern François Degeorge, Olivier Scaillet and Norman Schürhoff.

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Prof. François Degeorge



Prof. Olivier Scaillet



Prof. Norman Schürhoff

SFI 2.0 will not be fundamentally different from the initial successful release. But the bugs are behind us and it is a natural time to move to the next level. If the achievements of the first four years have sometimes seemed extraordinary, it is time to make them ordinary occurrences, because they simply correspond to what we set out to do. Our first PhD graduates are making their marks and publishing in top journals. Our researchers are accumulating successes and the first batch of promotions has just been announced (see p. 1). A new intake of top researchers recruited from abroad is being selected. In some cases, the newly affiliated SFI researchers will be replacing members of the first generation who have helped establish the reputation of the institute but have decided, for a variety of reasons, to join another institution. But this is the normal life of an institution such as ours. Also some set backs in executive education are quickly leaving place to exciting new prospects with imminent developments to be announced in the field of Wealth Management.

Finally, I will be leaving SFI at the end of 2009 but a new Managing Director is preparing to take the lead. While the issue of my succession is not fully settled I am happy to report that the perspectives are excellent. It has been a true privilege for me to guide the Swiss Finance Institute in this important initial period. It is not without emotion that I am leaving the helm. I strongly believe in SFI because our Institute has all it takes to achieve its ambitious objectives. I will eagerly follow its progress and am looking forward to being amazed by the contributions it will end up making to the Swiss financial center.

*Jean-Pierre Danthine,
December 2009*

Recognition in Research

A number of prizes and awards were given at the 4th SFI Annual Meeting in November. This year's best doctoral paper award presented at the Annual PhD Workshop organized by FINRISK and SFI has gone to Cornelius Schmidt, University of Lausanne and Swiss Finance Institute, for his paper "How internal capital markets reduce conglomerates' values". Each year at the same occasion the SFI also awards a prize to PhD students holding an outstanding discussion of a paper presented at the Workshop. The awards for this year have been made to Anna Cieslak and Ilaria Piatti of the University of Lugano. And the private banking prize, sponsored by Banque Privée Espirito Santo, has been awarded to Institute faculty member François Degeorge along with his research collaborators François Derrien and Kent Womack. Finally, the 2009 Outstanding Paper Award, selected by a jury of all SFI faculty members for an unpublished research paper making an outstanding contribution to the field of finance, was awarded to Bruce Carlin (UCLA) and Gustavo Manso (MIT) for their paper "Obfuscation, Learning, and the Evolution of Investor Sophistication". Prof. Carlin will present the findings of this paper in a public lecture in spring 2010.

Philip Valta, PhD student of the University of Lausanne and Swiss Finance Institute was awarded in fall the 2009 Best Overall Conference Paper Prize at the European Finance Association (EFA) Annual Meeting in Bergen, Norway, where he presented his paper "Is Shareholders' Strategic Default Behavior Priced? Evidence from the International Cross-Section of Stocks" co-authored with SFI faculty member Prof. Giovanni Favara and Prof. Enrique Schroth, a former SFI faculty member.

SFI Honorary Membership awarded to Pierre Mirabaud

In view of recognizing outstanding contributions and dedication to the SFI project by members of the financial community, the Swiss Finance Institute Foundation Board has created the title of Honorary Member of the Swiss Finance Institute. The first recipient of this title is Pierre Mirabaud, former president of the Swiss Bankers Association. ♦



Jean-Pierre Danthine

Departure of SFI Managing Director, Jean-Pierre Danthine

Jean-Pierre Danthine was Managing Director of the Swiss Finance Institute since its inception in 2006 and its predecessor, the International Center FAME, from 1996 until 2005. As of January 2010, Professor Danthine will leave the Swiss Finance Institute in order to join the Governing Board of the Swiss National Bank. The Swiss Finance Institute, its professors, employees, students and graduates would like to thank Prof. Danthine for his expertise, dynamism, engagement, vision and outstanding contribution to Swiss Finance Institute and wish him all the best in his new role.

: Being There – Fourth Annual Meeting of the Swiss Finance Institute

The Annual Meeting assembled more than 250 distinguished academics and finance practitioners at the Gottlieb Duttweiler Institute, Rueschlikon/Zurich, on November 30, 2009.



Audience at the afternoon research session



Paolo Vanini, Director of SFI Knowledge Transfer



Martin Hellwig, Director at the Max Planck Institute for Research on Collective Goods in Bonn, giving his talk on "Conceptual Deficits of Banking Regulation"



Christian Upper, Head of Financial Markets at the Bank for International Settlements, and Harry Hurzeler, COO Swiss Finance Institute



Stéphane Haefliger, HR Director at Banque Privée Espirito Santo in discussion with attendees



Olivier Steimer, Chairman of the SFI Foundation Board, awarding the SFI PhD Best Paper Award to Cornelius Schmidt, University of Lausanne and SFI

: Meeting highlight



(from left) Christian Casal, Urs Rohner, Martin Spieler, Joachim H. Strähle, Olivier Steimer, Ingo Walter

As the recovery of the financial industry proceeds, the highlight of the 4th Annual Meeting was a panel discussion on the future of banking. Panelists responded to questions from Handelszeitung Editor-in-Chief Martin Spieler and from the audience.

What does banking in the future look like?

According to the panelists, banks cannot simply return to old practices. Instead, they should tighten their balance sheets and straighten liquidity management. “Most banks already did that”, said Urs Rohner, Vice-Chairman of the Board of Directors of Credit Suisse. “In the long run, they should implement confidence building measures, by installing more modest compensation systems, by bringing down counterparty risks in derivatives and by reducing complexity of the internal structures”. He added that this would not need to exclude a universal bank model which could offer all types of services, from asset management to investment banking.

When asked why UBS and Credit Suisse had such a different outcome in the crisis, Rohner suggested that risk management was paramount to the system. Christian Casal, Director of McKinsey and Head of McKinsey’s Banking Practice in Europe, the Middle East and Africa, agreed. He commented that although the fire fighting phase was over and the deleveraging underway, banks still faced a rapidly changing environment that requires quick responses.

So how can banks reduce risks? According to Olivier Steimer, Chairman of the SFI Foundation Board and Chairman of the Board of Directors of the Banque Cantonale Vaudoise, risk taking is inherent to banking. Risk appetite and risk tolerance should, however, be balanced. “Top level management needs to understand how much risk can be taken”, he stressed.

The question then is how banks can modernize their business. “A clear positioning is crucial, and a major focus will be on cost management”, Joachim H. Strähle, CEO of Bank Sarasin & Co. explained. He must be right, newspa-

pers in the days following the event reported: After cleaning out their portfolio and refocusing in 2006, Sarasin grew even faster through the crisis than before.

Apart from new business models, banks will also have to generate new business ideas, the moderator suggested, and the panelists agreed. The key words were “demography”, with financial products relating to age, as well as “geography”. This elicited a question from the audience concerning the competitiveness of banks in emerging markets. Giving the example of China, Ingo Walter, Professor of Finance, Corporate Governance and Ethics at the New York University Stern School of Business responded that “some banks have the potential to become a Credit Suisse with a Chinese footprint ten years from now”.

Summing up the day, SFI Managing Director Jean-Pierre Danthine thanked all the financial opinion leaders for their valuable contributions throughout the day-long research and knowledge transfer program, which had focused on systemic risks and government issues as well as product and market issues. He also thanked the PhD students for their contributions to the finance community, which was recognized in particular in the Prize-Awarding Ceremony preceding the panel discussion.

The 2009 Annual Meeting of the Swiss Finance Institute was jointly organized with research partner FINRISK and industry partners Raiffeisen and SIX Group. ♦



Panelists Christian Casal and Urs Rohner with Martin Spieler

: Corporate Governance and Regulations: A fine line between furtherance and hindrance

What impact did the financial crisis have on the Swiss banking industry? How did it affect global financial markets? Can corporate governance and regulations help prevent future crises? These were among the questions distinguished finance experts from academia and industry tried to answer in research and applied sessions at the Institute's Fourth Annual Meeting.



Viral V. Acharya giving his talk on "Restoring Financial Stability: How to repair a Failed System".

During his opening speech, Jean-Pierre Danthine, Managing Director of the Swiss Finance Institute, stressed that Swiss banks have new challenges to meet. Although the problems of the world cannot be solved with an equation, experienced bankers consistently use research in finding solutions. This was acknowledged by Harry Hurzeler, the Institute's Chief Operating Officer and Director of Executive Education, who chaired one of the applied sessions. As the first speaker, Hans-Ulrich Meister, COO of Credit Suisse Switzerland, posed the question, whether or not Switzerland needed internationally oriented large banks. "They are indispensable in meeting the complex needs of financial intermediation and on international capital markets", he affirmed.

Switzerland does not just need large banks, but the Swiss financial centre is of strategic significance to the domestic economy as well as to international clients, emphasized Konrad Hummler, Managing Partner of Wegelin & Co. Private Bankers*. Michel A. Habib, Professor of Finance at the Swiss Banking Institute of the University of Zurich, spoke about banking secrecy, stressing its

importance to Swiss private banking by citing Ivan Pictet, who said that he would expect Geneva's Gross Cantonal Product to be reduced by half if banking secrecy is abandoned.

Swiss Finance Institute Professor Rüdiger Fahlenbrach presented research on bank CEOs incentives. Interestingly, one of the conclusions of his research is that a lack of alignment of CEOs incentives with shareholder interests could not be blamed for the performance of banks during the crisis. As could be anticipated, Jean-Baptiste Zufferey, Professor at the Law Faculty of the University of Fribourg and member of the board of directors of FINMA (the Swiss Financial Market Supervisory Authority), revealed that after the crisis, one had to expect a wave of new regulations, despite the costs. "Regulating is not like investing – you cannot act anti-cyclical".

Will regulation save us from another crisis?

Not necessarily, according to Martin Hellwig, Director at the Max Planck Institute for Research on Collective Goods in Bonn. His research suggests that fine tuning would not lead to an improved regulatory regime. "No consideration has been given to the possibility that regulation itself might have been co-responsible for the financial crisis", he emphasized. "Thus, the prevailing system of regulation needs to be substantially reformed".

Viral V. Acharya, NYU Stern Professor of Finance presented an interesting joint effort of 33 faculty members at NYU that led to a book on how to restore financial stability after the crisis*. Finally, Prof. Jean-Charles Rochet provided new policy guidelines on how to enforce greater risk control and greater transparency for OTC derivatives transactions and bank lending facilities.

Asking what past crises told us about the recovery and credit in the future, Christian Upper, Head of Financial Markets in the Bank for International Settlements' Monetary and Economic Department, wound up the applied sessions by suggesting that while the recovery may not take long this time, the crisis may have long term consequences on GDP growth. Since banks will need to hold more capital in the future, they will have to increase their leverage, Upper is convinced, and this is costly. "There will be tension between supplying credit in order to sustain the recovery and undertaking necessary deleveraging", he concluded. ♦

** The lecture is available as podcast via www.swissfinanceinstitute.ch/podcasts.htm*

: Banking, Taxes and Politics - Switzerland quo vadis?

To work on a common denominator is vital for the Swiss financial center. In this respect the workshop for senior bank executives offered by the Swiss Finance Institute and the SFI Alumni Association on November 13, 2009 was well appreciated and attended. Participants enjoyed the opportunity to critically discuss views with Prof. Alfred Mettler from Georgia State University in Atlanta who until recently was a member of one of the expert commissions of the Federal Department of Finance of the Swiss government. Afterwards, Daniel Zuberbühler, vice president of the

board of FINMA informed about the current politically demanding situation of the Swiss market place. The workshop was completed by Heinz Jeger, Partner of Baumann & Cie. Banquiers. He put forward the challenges of the private banking industry in Switzerland and pointed out the strengths and weaknesses of the traditional Swiss private banking. Based on the positive reaction from the participants and on the Swiss Finance Institute's mission, more such discussion platforms will be offered in the future. ♦

: Executive Program Diploma Ceremony on December 9, 2009 in Zurich



Graduates and guests at the Graduation Ceremony of the Executive Program 2008/2009

On December 9, the Swiss Finance Institute invited to the diploma ceremony for the twenty-second cycle of the Executive Program. 82 successful graduates and their guests were present when Beat Fraefel, president of the Swiss Finance Institute Alumni

Association (SFIAA), awarded the Alumni prize. Based on criteria like applicability, degree of innovation and style, the SFIAA chose the award-winning thesis. This year, the award was conferred to Marc Trösch for his thesis on structured products. ♦



IMPRESSUM

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