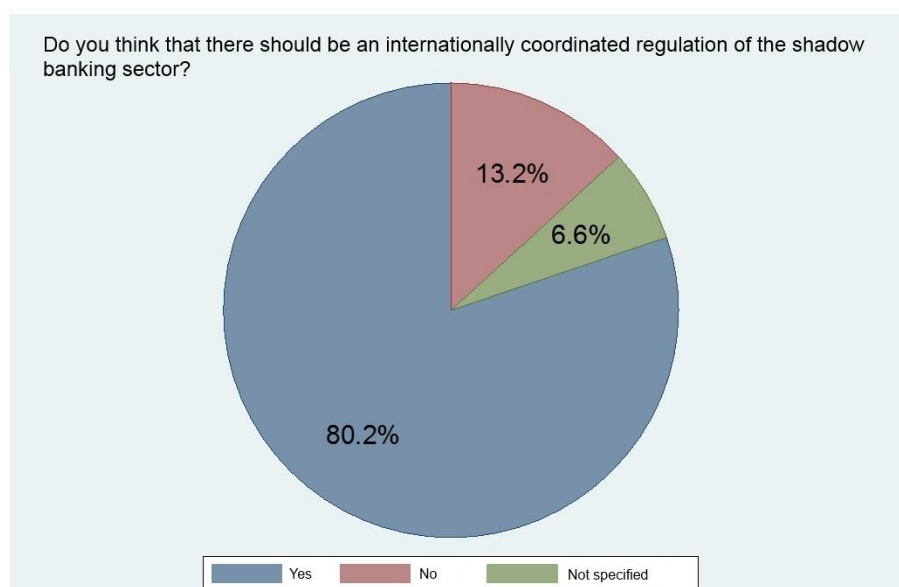


Press Release

Financial industry pushes for regulation of the shadow banking sector

Shadow banking sector is expected to grow further / Financial institutions see increased competition with insurance companies

FRANKFURT, 21 July 2014. The German financial industry sees the shadow banking sector as an increasing threat. In a survey conducted by the Center for Financial Studies among German financial institutions and service providers, a vast majority (80%) expressed the wish for internationally coordinated regulation of the shadow banking sector. Financial institutions in particular (86%) consider this to be a step in the right direction, while among service providers, 74% are in favor and around 18% are against regulating shadow banking in an internationally coordinated manner.



However, only one third of survey participants considered the shadow banking sector to have a destabilizing effect on the European financial sector as a whole. 15% even expressly thought it has a stabilizing effect. “The demand for internationally coordinated regulation of the shadow banking sector is most likely due to banks’ desire for a level playing field,” Jan Pieter Krahen, Director of the Center for Financial Studies and academic head of the survey, noted. “Financial institutions are afraid that companies from the shadow banking sector could have a competitive advantage if they are less regulated than banks themselves.”

The shadow banking sector is growing

A majority of survey participants (58%) reported that the market share of the shadow banking sector has been increasing or strongly increasing over the last three years in the areas in which the surveyed companies are doing business, or with which they have professional contacts. Around 20% indicate that the market share has not changed.

| For the next three years, the market share of the shadow banking sector in the areas in which your company is doing business or with which you have professional contacts will ... | |
|--|--------|
| ... strongly increase | 7.1 % |
| ... increase | 56.1 % |
| ... not change | 16.2 % |
| ... decrease | 2.1 % |
| ... strongly decrease | 0.6 % |
| Not specified | 17.9 % |

For the next three years, the majority of survey participants expect the shadow banking sector to grow further: 63% foresee an increase or strong increase of market shares; 16% think that the market share will not change; and around 3% expect a decline.

According to 89% of survey participants, the rise in market share of the shadow banking sector in their business areas is due to increasing

regulation of the traditional banking sector. 85% attribute part of the reason to growing regulation of the trading business of banks. Two thirds see the prevailing low interest rate environment, that induces investors to search for new profit opportunities, as a further reason for the increasing importance of shadow banking.

Insurance companies and funds are gaining ground

Asked about new direct competitors, as compared to ten years ago, the surveyed financial institutions most often mentioned insurance companies (42%). Furthermore, they cited asset managers (21%), hedge funds (15%) and private equity companies (15%) as other new direct competitors.

Around 15% of survey participants stated that their company has already switched to bank services provided by competitors from the shadow banking sector, or that it is planning to do so in the future. Half of participants have not taken up offers, and do not consider it likely that they would do so in the future either.

The results are based on a quarterly survey, carried out by the Center for Financial Studies, among 400 decision makers in the German financial industry (return about 50% on average).

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

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