



PENSION INSURANCE
CORPORATION

WHAT DOES THE FINANCE INDUSTRY COST?

London, 7 November 2018 – Ground-breaking research launched today discloses the cost of finance to the end user in the UK, France and Germany over a period of 70 years. Despite the centrality of the UK’s financial services sector in the functioning of the economy, no one has ever measured its cost to the end user, also known as the cost of intermediation¹. This measure should be of vital importance to politicians, regulators and the industry itself, because history shows that lowering aggregate costs has significant benefits for the real economy.

Key findings:

- The UK has consistently had the most cost efficient financial services sector over the past 70 years, even more cost efficient than the US²
- France saw a dramatic decrease in the cost of financial intermediation following a period of deregulation from the 1950s onward
- On current trends, France will have a more cost efficient financial services sector than the UK over time
- The cost of intermediation today in the UK is similar to the cost 70 years ago, albeit with significant increases in costs prior to “Big Bang”, followed by significant falls.

This research is extended in a new paper, “Has efficiency improved in the European finance industry?”, authored by Dr Guillaume Bazot³, assistant professor at The University of Paris VIII. It is the third paper in the [Purpose of Finance](#) series⁴.

The paper raises important questions:

- How do we increase the cost efficiency of UK financial services in light of Brexit?
- What are the factors acting to lower the end user cost of financial services, including technology, innovation and competition, and how are they counteracted by factors

such as abuse of asymmetric information, regulation, risk aversion, short-termism and the sheer growth of financial services over 70 years?

- Taking into account these factors, what is the right level of cost efficiency?
- What do we expect of our financial services industry?

Dr Bazot said: “The really key finding for me is that despite the march of technology and the employment of financial innovation not dreamed of 70 years ago, the end user cost has stagnated in the UK and Germany. The big question is why this should be the case.”

Tracy Blackwell, CEO of Pension Insurance Corporation, said: “This is a fascinating piece of work and we are delighted to publish it as part of the wider Purpose of Finance series.

Guillaume’s work throws up some really crucial questions for policymakers, regulators and financial services itself, including the right cost of financial intermediation. The answer is that we just don’t know, although there are several good theories. Further research needs to be done to bring this to light, because the prize for the UK could be huge – a reinvigorated economy.”

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Notes to Editors:

- 1) See, Bazot, G. (2018) “[Financial Consumption and the Cost of Finance, Measuring Financial Efficiency in Europe \(1950-2007\)](#)” *Journal of the European Economic Association*, vol. 16(1), pp. 123-160, for details
- 2) Work by Thomas Phillippon “[Has the US Finance Industry become less efficient?](#)” set out the cost of financial intermediation in the US over 130 years. Work by Guillaume Bazot “Financial Consumption and the Cost of Finance, Measuring Financial Efficiency” set the unit cost of financial intermediation in Europe
- 3) Dr Guillaume Bazot is assistant professor at The University of Paris VIII. Having completed his doctorate at the Paris School of Economics and EHESS, Paris he went on to teach at University Paris VIII. He has published and researched in the area of financial efficiency and consumption for several years. His other research interests

include economic history, economics of banking, monetary policy and financial regulation

- 4) The principle aim of “The Purpose of Finance” project, managed by Pension Insurance Corporation, is to facilitate a debate, from a position of support, about how best to repair the disconnect between society and an industry that is of fundamental importance to the UK: financial services. The project brings together policymakers, regulators, people who work in financial services and others to tackle this deep-rooted problem. There will be practical policy solutions aiming to ensure financial institutions focus on their purpose and are then regulated to that purpose. This focus will help build an efficient, balanced financial industry that serves society. This paper and all materials relating to the Purpose of Finance, including the two previous papers can be downloaded at <https://www.pensioncorporation.com/thought-leadership/the-purpose-of-finance>

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About Pension Insurance Corporation

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