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NEW FINANCIAL

WHAT ARE STOCK EXCHANGES FOR AND WHY SHOULD WE CARE?

London, 12 June 2019 – Stock exchanges are the most powerful tool ever created to enable the profits of wealth creation to be shared across society. Stock exchanges allow everyone, as savers and investors, to benefit from the innovations and entrepreneurialism to which they have contributed. But this fundamental tenet of capitalism, an outcome of the vital role that stock exchanges play in raising capital, sharing risk, setting governance standards, improving accountability, and democratising wealth creation, is under profound threat.

This warning is contained in a new paper, “The Purpose of Stock Exchanges”, by William Wright, Managing Director of think tank New Financial. It is the fourth paper in the [Purpose of Finance](#) series¹.

The rapid growth of alternative sources of capital such as private equity, venture capital and the bond market has resulted in fewer companies coming to market and less money being raised on stock exchanges. The increased burden of disclosure and public scrutiny of listed companies, designed to protect investors, has made the stock market a progressively less attractive place to be. And certain developments in the finance industry, including technology and competition, have brought complexity and misaligned incentives which have helped to undermine the fundamental purpose of stock exchanges.

As a result, many of the most compelling growth companies are choosing to stay private for longer and deferring their listings on stock exchanges until they are more mature, if at all. With 10 million people effectively becoming investors for the first time under auto enrolment, there is a real opportunity to strengthen their connection to capitalism and prevent

a future pensions crisis. Unfortunately, current trends suggest there will be increasingly fewer public companies to invest in.

In fact, the number of listed companies on both sides of the Atlantic has nearly halved over the past 20 years, the number of new issues has dropped by three quarters, and the amount of capital being raised is down by two thirds.

William Wright, Managing Director at New Financial, said: “Stock markets have played a vital role at the heart of the economy for hundreds of years. They have effectively balanced the needs of those wishing to raise capital, with those wishing to trade. The paradox of stock exchanges today is that whilst those in the UK and US are bigger, deeper and more efficient than ever before, fewer companies are choosing to be listed on them than at any time since the 1980s.

“There are three main areas that can be improved to help stock markets perform their vital role at the heart of the economy. These are, resetting the regulatory framework, including a more long-term focus; rethinking exchanges themselves, including rationalisation and consolidation; and collective industry action to support initiatives such as refocussing asset owners on stewardship.”

Tracy Blackwell, CEO of Pension Insurance Corporation, said: “Stock markets play a critical role at the heart of the economy and enable retail investors to benefit from corporate wealth creation. There has never been a more effective system for sharing wealth across society. Today that benefit is under threat.

“Since the advent of auto enrolment, 10 million people are effectively becoming investors for the first time and yet it seems that there will be fewer and fewer public companies for them to invest their pensions in. We have to urgently address the issues William raises in this excellent paper so that wealth is shared across all levels of society, strengthening our bond with capitalism at a time when quite the opposite seems to be taking place.”

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Notes to Editors:

1) 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 is a better servant to society. This paper and all materials relating to the Purpose of Finance, including the three previous papers and new podcast series can be downloaded at <https://www.pensioncorporation.com/thought-leadership/the-purpose-of-finance>

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About Pension Insurance Corporation

The purpose of Pension Insurance Corporation (“PIC”) plc is to pay the pensions of its current and future policyholders. PIC provides secure and stable retirement incomes through leading customer service, comprehensive risk management and excellence in asset and liability management. At year-end 2018, PIC had insured 192,100 pension scheme members and had £31.4 billion in financial investments, accumulated through the provision of tailored pension insurance buyouts and buy-ins to the trustees and sponsors of U.K. defined benefit pension schemes. Clients include FTSE 100 companies, multinationals and the public sector. PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). For further information please visit www.pensioncorporation.com