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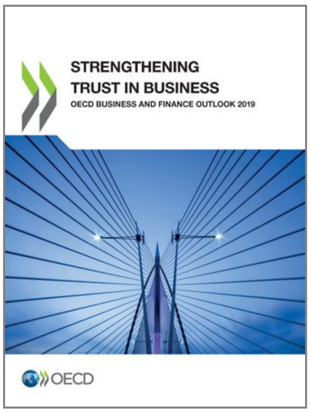
OECD Business and Finance Outlook 2019

Summary in English



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Executive Summary

Trust is a basic element for the well-functioning of institutions, including governments, markets and businesses, and for society more broadly. In the decade since the global financial crisis, many policies and initiatives have been designed to help restore trust at national and global levels. However, the backlashes against globalisation and mounting protectionism trends mean that questions remain about whether enough has been done by public and private stakeholders to support healthy trust in the financial and business landscape. And, if not, what can be done to address remaining concerns?

Against this backdrop, the 2019 OECD Business and Finance Outlook explores how to strengthen public trust in business and finance, to support economic and societal well-being. The Outlook looks at five perspectives that, while non-exhaustive, provide policy makers with concrete considerations for action. These perspectives include a focus on trust and: financial markets (Chapter 1); financial institutions—such as banks and pension funds (Chapter 2); company liability—that is, trust in companies to obey the law (Chapter 3); the level playing field, focusing on the rising importance of state-owned enterprises (SOEs) and their associated conduct risks (Chapter 4); and online markets (Chapter 5).

Trust in Financial Markets

The Outlook considers potential risks that could erode trust in the financial sector in the future. These risks include, for example, the abundant issuance of sovereign, corporate and bank debt, which has supported post-crisis growth but has raised concern over potential risks of excessive debt as the credit cycle matures. The Outlook also considers financial market developments and innovations—including high-frequency trading and crypto-assets—that can make financial markets both more efficient and inclusive, but also exposes them to volatility and loss.

To strengthen trust in financial markets, policy makers should target financial authorities' ability to identify and mitigate risk in their management of public debt and in ensuring the liquidity of the financial system, for example through the greater use of tail-risk stress scenarios. Market-based finance could also benefit from more consistent implementation of FSB/IOSCO recommendations, in order to improve liquidity risk management in investment funds. Greater assessment of the impact and risks of algorithmic and high-frequency trading strategies during periods of market stress should also be undertaken, in order to reduce the likelihood that flash crashes occur and result in market contagion.

Trust in financial institutions

Population ageing, low returns on retirement savings, low growth, less stable employment careers, and insufficient pension coverage among some groups of workers: These trends have eroded the belief that pension systems are managed with workers' best interests in mind and that they will deliver on their promises, once workers reach retirement age.

The Outlook considers three policy objectives to win back trust in financial institutions: promoting prudent pension management and supporting pension funds' fiduciary duties; enhancing financial consumer protection; and addressing environmental and social risks.

A starting point in this regard is strengthened implementation and enforcement of existing OECD policy instruments, such as the OECD Core Principles of Private Pension Regulation, the G20 High Level Principles on Financial Consumer Protection, and the OECD Guidelines for Multinational Enterprises. Policy responses in this respect must also adequately address the challenges of increasing digitalisation, as well as the need to align financial institutions with societal duties, such as the integration of ESG factors in investment strategies.

Trust and corporate liability

A key pillar of trust in business is the belief that companies conduct their operations —at a minimum— in compliance with the law. This trust is built in two ways: First, companies need to take steps to prevent unlawful activity from occurring. Second, if there are suspicions of unlawful conduct, companies should take steps to report these suspicions to law enforcement authorities and to cooperate in the resolution of the matter.

Governments have a key role to play in establishing the framework conditions for these actions. This includes establishing and effectively implementing a robust corporate liability framework, with effective incentives for cooperation. Progress has been made: Over the 20 years since the Anti-Bribery Convention entered into force, Parties to the Convention have introduced corporate liability for foreign bribery and, more recently, compliance incentives. At the global level, further efforts should be made to collaborate on and harmonise country-by-country corporate liability systems, given the increasing number and complexity of multijurisdictional corporate crime cases.

Trust and the level playing field

The importance of SOEs in domestic and global markets is on the rise. An effective policy response to SOEs' heightened exposure to corruption risk is necessary to build trust and ensure a level playing field for business. OECD data indicates that SOEs are uniquely exposed to corruption risk: SOEs active in certain sectors – notably steel production – tend to be less profitable than private peers, yet less likely to go out of business. Similarly, SOEs have a higher risk of engaging in certain forms of corruption. They are also less likely than private companies to divest from certain projects or disengage from business partners, due to integrity concerns.

To address the potential SOE 'trust deficit', governments must hold SOEs equally liable—both at home and abroad—to anti-corruption and integrity legal, regulatory, and policy frameworks. In so doing, policy makers should focus on raising transparency, improving investment regulation related to state ownership, and fighting corruption in SOEs. These directions reflect the policy advice in the recently adopted and G20-endorsed OECD Guidelines on Anti-Corruption and Transparency in SOEs.

Public trust in online markets

Online markets offer a host of benefits for consumers through new and cheaper products. However, online markets can only fulfil their potential if they benefit from consumer trust. Where product information is hard to obtain and assess, markets may not respond to consumers' needs. Consumers may be forced to rely on imprecise indicators of quality—such as brand names—to establish trust. This, in turn, limits firms' incentives to improve their offering and deters new entrants. In other cases, consumers may be deterred from using online markets altogether.

Establishing an environment of trust in online markets requires multidisciplinary (and likely cross-border) approaches from authorities charged with ensuring fair competition, consumer protection, and data protection, as well as other regulators. Both enforcement and advocacy efforts are necessary to ensure that consumers are given meaningful opportunities to make choices in online markets, and in so doing stimulate competition in order to get the best deal possible.

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