BlackRock

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Thank you, Dr. Faber, for that kind introduction.

It's a pleasure to be here with you all today and to be asked to speak at such a distinguished gathering.

Frohes Neues Jahr to all of you.

25 years ago, we witnessed the collapse of the Soviet Union.

In the aftermath, Germany proved its willingness and pragmatism in adapting to a changing world – and it continues to do so today.

2016 was a tumultuous year, but it also reaffirmed the critical role that Germany plays in Europe and around the world.

And I stand here privileged to witness the strength of Germany's political system, its remarkable economy, the work ethic of its citizens, as well as the moral leadership that Chancellor Merkel and Germany have played in an increasingly discordant world.

And despite the terrible events in Berlin only a couple of weeks ago, Germany has demonstrated its ability to balance acts of humanity and economic and political challenges that come along with it.

This economic, political and moral stewardship has been vital to global security and growth.

With the nation facing presidential elections next month and general elections in fall, I sincerely hope that Germany chooses to continue its role as a leader and stabilizing force in the world.

The past year upended many of the assumptions held by policymakers, businesspeople, and journalists. The events of 2016 demonstrated the depth of frustration that people around the world are feeling.

In Europe, populist movements have capitalized on voter anger, much of it directed at immigrants, the global economy, and the threat of terrorism.

There is also significant frustration from workers who are losing their jobs to technology – and in many countries, experiencing lackluster or nonexistent wage growth.

At the same time, many of those who have lost their jobs are watching technology provide new employment opportunities – and rising wages – for more highly educated workers.

So as we begin the New Year, we must think about how to promote shared growth and security.

I believe that increasing economic opportunity will play an essential role in calming tensions and preserving European ideals.

Today I want to talk about just two aspects of that project – deepening capital markets in Europe and increasing retirement security.

It's an honor to speak on these topics in Germany. BlackRock has operated here since 1994, and we have over 150 employees in the country, split between Munich and Frankfurt.

And we work with the full spectrum of financial institutions in Germany – from state pension funds to insurance companies to Sparkassen all over the country.

And our work here is focused, as it is around on the world, on helping German savers from all walks of life plan for long-term goals. Their goals are our goals – we are fiduciaries, and the funds we manage belong exclusively to our clients.

About three-quarters of the five trillion dollars that BlackRock manages supports people's retirement.

So we are constantly focused on ways to help our clients better prepare themselves and their families for the future – as well as making sure that they are supported by forward-thinking, responsible public policy around retirement.

Without question, a nation's preparedness for retirement plays a central role in its economic prospects and, I believe, its political stability.

Today, voters are increasingly concerned about those prospects – and I believe that their anxiety about retirement gets far too little attention in discussions about populism and rising anger.

Retirement

How can workers hope to prepare for the future in a negative interest rate world?

The uncertainty workers are already experiencing in their working life is compounded by the uncertainty of how they'll support themselves in retirement – particularly if they lose their job.

Low or negative rates are punishing savers, pushing their retirement date further and further away, and workers are shouldering more of the responsibility for saving, with countries around the world shifting from company pensions to defined-contribution accounts.

Retirement systems around the world have failed to prepare workers for the future.

In countries that have moved to emphasize individual accounts – such as the United States – company plans have not always incorporated structural enhancements like auto-enrollment and auto-escalation, nor have they given workers the proper financial literacy to plan for the future.

On top of these changes, people around the world are living longer lives, raising the likelihood that they will have to work many additional years to pay for their retirements.

As a result of these weaknesses, workers around the world tend to be over-reliant on state pensions, which themselves cannot provide savers with the retirement income they will need to support their longer lives.

If I may speak about Germany specifically for a moment:

Germany has already taken some important steps to improve retirement security, including raising the retirement age.

But just as in the U.S., more work needs to be done, especially with age-related government spending set to rise by as much as 4.5 percent of GDP by 2040.

With Germany and other governments around the world working on improving the retirement system pension reform, policymakers need long-term, holistic strategies, with industry and government working together.

Workers will need clear communication along the way, such as better explanations from employers and the state on how to realistically achieve retirement goals.

The solution for Germany remains in its three-pillar system: the state-administered pay-as-you-go, employer-sponsored plans, and voluntary, tax-enhanced savings.

As it stands, German citizens are over-reliant on state pensions. Again, this is a quite a common problem around the world, including in the U.S.

But, the problem is in some ways more significant in Germany, in part because the second and third pillars of the system are relatively underdeveloped.

In order to strengthen the second pillar, businesses and government must work together to improve the quality and reach of workplace plans.

While employees of Germany’s larger companies enjoy access to workplace plans, there is still insufficient retirement coverage at smaller and medium-sized companies.

And where plans do exist, they often lack features that can help prepare workers for retirement, such as auto-enrollment and auto-escalation.

Still, even with these features, Germany needs to revamp the makeup of workplace plans.

The requirement for a nominal capital guarantee in workplace plans has severe consequences for savers – particularly in a world of negative interest rates.

The guarantee has a natural appeal to the public, but most savers are unaware of the long-term costs they are paying for these guarantees.

In part this is because of a lack of financial literacy – a problem in no way unique to Germany.

The transition to workplace plans has not been coupled with the education that savers need to succeed.

Companies have an obligation to teach financial literacy – especially because if workers were given the tools to fully understand retirement planning, they would demand the additional returns they are often forgoing.

Indeed, many German workers may accept the capital guarantee as sensible because they haven't been empowered to understand what they are giving up.

And in the U.S., without the capital guarantees of German plans, this lack of financial literacy is even more damaging.

The capital guarantee forces managers into a highly risk averse asset allocation – almost entirely in fixed income – and prevents retirement savers from reaping the benefits of equity returns in a meaningful way.

By lowering returns, it also reduces consumption in the overall economy.

There are a variety of solutions – recalibrating the guarantee to only a portion of the account, promoting target-based goals, increasing allocation to target-date funds, and making sure that pension funds are invested in a wide variety of assets.

Additionally, plan advisors, banks and asset managers need to do a better job educating people on the basics of investing for retirement, which will also help strengthen the third pillar of individual, tax-advantaged accounts.

The key obstacle for these individual plans is changing the investment culture in Germany.

German savers hold more than 60% of their assets in cash, indicating significant hesitation about the benefits of investing.

The drawbacks are clear: the DAX has returned an incredible 470%, inflation-adjusted, over the past 25 years – compared to 20% in a money market account over the same period.

Without greater equity exposure, it will be increasingly difficult for German savers to reach their retirement goals, especially as fiscal pressure creates greater uncertainty in the future shape of the state system.

Today's investors have a variety of options to achieve their goals, from traditional actively managed mutual funds to index funds and ETFs.

ETFs, through their low costs, tax advantages, and trading features are democratizing the investment landscape – bringing down the costs of investing across the industry and helping people keep more of what they earn.

But regardless of how German savers choose to invest, there needs to be better guidance for them about the investment process outside of workplace plans, including information about the costs of underinvesting, the decumulation process, and how to allocate savings effectively.

The resistance to equity investing, and capital markets in general, is not limited to individuals, of course.

Strengthening Capital Markets

Reluctance about investing has contributed to underdeveloped capital markets in Germany and the rest of Europe, restraining the growth of its companies and employment opportunities.

I understand and respect the reluctance of some to invest in the capital markets – and the fact is, a full appreciation for the risks inherent in capital markets is a prerequisite for creating healthy ones.

But in Europe, this reluctance has also created an excessive reliance on bank funding and insurance pools.

For example, 80 per cent of long-term company finance in the U.S. is provided by investors, compared to only 30 percent in the eurozone.

And in the past five years, venture capital markets as deep as the US could have provided as much as €90bn in funding to European companies.

This difficulty in accessing capital markets – especially for small- and medium-sized businesses – restricts economic growth, contributing to the already sizeable frustration felt by workers in Europe.

It also has stifled economic recovery – one of the drivers behind the recovery in the U.S. was that institutional investors poured money back into the markets almost immediately, providing much-needed funding for businesses at a time when banks were in no position to lend.

Deutsche Börse itself has taken an important step towards healthier markets through the proposed merger with LSE. Indeed, Brexit means that maintaining ties with London is even more important today, given its more developed capital markets.

Skeptics of this merger must consider the need for stronger capital markets in Europe – as well as the ways the alliance could in fact benefit competition by deepening access to capital on the continent.

In some ways, the EU is pulling itself in two directions. The establishment of the Capital Markets Union is an incredibly important step towards fuller and more flexible capital markets.

On the other hand, various initiatives could undermine the CMU's chances for success.

Solvency 2, for example, has the admirable and important goal of reducing overall risk in the system. But it could severely restrict a key source of funding for European companies.

While a long-term objective is greater funding from capital markets, limiting insurance companies' capacity for investment before capital markets are fully developed could significantly damage growth.

In fact, we believe that strong banks and insurance companies can and should play a role in improving capital markets overall in Europe.

From an economic perspective, a variety of financing sources for businesses, free from overreliance on a specific source, are good for financial stability.

The goal should then be to broaden and deepen those financing sources, helping to drive innovation and give new companies the opportunity to succeed.

An important aspect of that goal will be improving the quality, availability, and standardization of data in European markets.

This effort must reflect the needs of individual investors as well as larger asset owners.

European savers lack reliable, standardized data and guidance on how to invest and plan for the future.

Similarly, larger investors need a more uniform and reliable means of investing. The lack of a unified European corporate bond market raises costs for companies, deters investors, and holds down liquidity.

Selective standardization for issuances over 500 million Euros would allow these bonds to be traded on exchange, increasing liquidity and reducing the cost of issuance.

Liquidity can also be increased by responsibly reviving securitization markets, which will help move loans off of bank balance sheets and free up capital for lending.

In order not to repeat the mistakes of the financial crisis, however, mortgage securitization must be coupled with high-quality underwriting standards and clear information about a loan and its history.

As part of these efforts to reduce stress on bank balance sheets, Europe can also seek to build a market for investment in bank whole loans, by transforming bank loan assets into security-like instruments.

Finally, policymakers and financial institutions should work to deepen private credit and equity markets by increasing transparency, cross-border uniformity, and the standardization of data about investment opportunities.

Deep venture capital markets, for example, helped propel the growth of some of the largest U.S. technology companies even in the post-crisis era.

A more standardized approach to data in Europe will help attract investors to opportunities such as infrastructure investment or lending to small and medium-sized businesses – including startups – which are the most disadvantaged by underdeveloped private markets.

Conclusion

In the years since the crisis, much of Europe's economic potential has been locked up. Strengthening capital markets and retirement systems can help unlock that potential – and doing so will be vital to Europe's economic future.

A key condition for these goals – not just in Germany, but around the world – will be strengthening financial literacy. Workers have been handed more responsibility for their financial futures but not the tools to help them succeed.

Companies need to reevaluate their responsibilities to help workers plan for the future – especially when voters have spoken so clearly about their frustrations.

As stewards of their employees' retirement plans, companies have a responsibility to build financial literacy in their workforce.

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As we gather here at the stock exchange, the bastion of capitalism, we are reminded both of capital's incredible potential for long-term wealth creation – as well as its temptations for short-sighted behavior.

All of us need to instill, at our companies and to the public, a sense of investing for outcomes, not for the moment. The popular view of investing is about "the trade" – people think it's about making money right then and there.

But investing at its best is about the future – driving innovation, preparing for retirement, or saving to buy a home.

With coordinated efforts from business and government, all nations can help contribute to a virtuous cycle, with employees both better prepared for their futures and playing a role in the capital markets that will drive growth.

Germany will no doubt play a central role in any efforts to strengthen the European economy, its retirement systems, and corporate responsibility to workers' financial literacy. And I am eager to witness its leadership.

The European project endured great doubt and criticism in 2016. But Germany's leadership – its dedication to European ideals of tolerance and shared prosperity – has helped keep that vision alive.

As we begin the new year, I offer my best wishes for a stronger, safer, and more prosperous 2017.

Thank you.