INTERVIEW

With Claire Célérier, winner of the 2024 Best Young Researcher in Finance and Insurance IEF/SCOR Foundation for Science Award.

Claire Célérier: « If the financial sector is to contribute to the economy, distortions must be limited »

The IEF/Scor Foundation for Science 2024 Prize for the Best Young Researcher in Finance and Insurance was awarded on 19 March during the second day of the Risk Forum, organised by the Institut Louis Bachelier and held at the Paris Chamber of Commerce and Industry. This year's prize, sponsored by the Scor Foundation for Science, was awarded to Claire Célérier, Associate Professor of Finance at the University of Toronto's Rotman School of Management. On the side-lines of the award ceremony, she answered some questions.

How do you feel about receiving the IEF/Scor Foundation for Science Prize for Best Young Researcher in Finance and Insurance?

I'm very pleased that my research topics have attracted so much attention from my peers. This prize is both a source of pride and an encouragement to continue my research.

Can you tell us about your areas of research?

The backbone of my research is the role played by banks in the economy, and in particular their effects on households. To analyse the impact of banks on household finance, I address three distinct issues.

The first concerns traditional financial intermediation: how banks collect deposits and grant loans, and their impact on households. The second relates to financial innovation, particularly structured products. The third issue is not directly linked to household finance, but to the allocation of talent in the economy.

To address this, I look at remuneration in the financial sector, which makes it possible to analyse the distribution of the most talented profiles in the economy, as well as the effects on education and innovation.

Can you describe in more detail some of your research papers?

On the subject of financial innovation, for example, in an article published in 2017 in the journal Quarterly Journal of Economics (Catering to Investors through Security Design: Headline Rate and Complexity, co-authored with Harvard professor Boris Vallée), we studied structured products to see whether or not this innovation benefits households. These products represent a market worth several trillion dollars and are innovative because they offer a return at a certain maturity, which is non-linear and based on the performance of an underlying asset. These products grew rapidly in the 2000s and were marketed to households. The design of these products is very complex, with a high degree of information asymmetry, which can lead banks to use them to feed the biases of households in search of returns and thus satisfy their demand, while concealing certain risks. We found that the more complex the products, the higher the return they promise, with a degree of hidden risk. They are also more profitable for banks, which are under pressure to promote them more when interest rates are low.

However, in an article in the Journal of Finance (Can Security Design Solve Household Reluctance to Take Risk?, co-authored with Laurent Calvet, Paolo Sodini and Boris Vallée), the findings are more nuanced.

In fact, some structured products come with a capital guarantee, which allows households to invest more in the financial markets and thus benefit from the market risk premium offered by these investments, which are riskier than risk-free assets. In this way, financial innovation, which is at the core of the banking business, can serve households, depending on how it is used by banks, which can also use it as a means of extracting rents.

Another topic I feel strongly about is the use of advertising by banks to lure households into sub-optimal or even fraudulent financial products. In a recent article (Finance, Advertising, and Race , co-authored with Purnoor Tak), using a historical approach based on 19th century newspaper archives, we look at how bank advertising practices can contribute to racial discrimination. We analyse the case of Freedman's Savings Bank, the first bank to collect deposits from African-Americans after the American Civil War. This period saw the emergence of household banking and newspaper advertising. After five years in business, and taking advantage of a change in legislation, the bank began to issue questionable loans, particularly to its management, most of which were not repaid. At the same time, the bank intensified its advertising messages, using false promises and moral pressure, to attract more deposits and increase the volume of its fraudulent loans, before being forced into bankruptcy. By making comparisons with failures of other American banks over time, we found that the level of losses sustained by Freedman's Savings Bank was one of the highest in history. This example shows how advertising can be used by banks to target more vulnerable groups. And it shows the implications for consumer protection, the lack of diversity in management and the persuasive power of advertising and the need to regulate it.

Finally, in an article published in 2019 in the Review of Financial Studies (Returns to Talent and the Finance Wage Premium , co-authored with Boris Vallée), we examine remuneration in the financial sector, where scale effects are very high compared to other industries (a trader may have a portfolio worth several million or more to manage).

What's more, talent is highly mobile in finance, which means that there is strong competition to attract the best, and therefore there is a higher remuneration premium than elsewhere. This means higher salaries than in other sectors in France, which affects the distribution of talent in the economy by encouraging them to work more in finance. All other things being equal, talent is compensated three times more in finance than in other sectors.

We have also observed, based on U.S. data, that the salaries of finance professors in universities are 50% higher than those of professors of other fields at the same institution. Indeed the difference is twice as high in the case of a philosophy professor! This difference in pay can be explained by the higher tuition fees in finance, which boost the budgets of universities. In turn universities have to share this surplus with professors in order to retain them, at least the best of them. This mechanism operating in the United States can also be observed in Europe, but we don't yet have any precise data on this.

To conclude, what are your next research projects?

My aim is to continue improving our understanding of the role and functioning of banks, in particular their effects on households, on distortions, and on the allocation of resources and risks in the economy, if possible using a historical approach. If the financial sector is to contribute to the economy, such distortions must be minimised.