Reforms required to make India world class

CITY COMMENT
STUART FRASER

CITYA.M. readers struggling with the end of the UK winter won't want to hear I am in India. My business on your behalf is strengthening ties with India's financial services community, but the hot topic with locals on the street is the Indian Premier League. The remarkable success of this cricket tournament, which only got off the ground in 2008, exemplifies the entrepreneurial spirit, flexibility and commercial know-how that are a big feature of Indian life.

India, like China, will play a crucial role in driving the global economy forward during the 21st Century and beyond. But the massive growth of Indian businesses both domestically and overseas has not yet been matched by changes in its financial services infrastructure. Mumbai has the potential to become an investment gateway to Asia, not just India. But long-awaited reforms in areas such as pensions, banking and insurance are essential before India can boast a world-class financial services centre. In our most recent Global Financial Centres report, it slipped to 58th place – and 14th in the Asian rankings.

The City of London is working to build relationships with Indian decision makers and business leaders so that we are part of this discussion on reform and development of the financial sector. Last week's decision by the government to open India's doors to foreign universities was a step in the right direction. As a result of this proposal, British universities will be able for the first time to enter the Indian educational marketplace and help meet the demand from thousands of students. Working alongside domestic providers, this will help build the pool of domestic talent needed to ensure India's financial services sector thrives in future. The benefits of a more inclusive and open approach are well documented. For example, it is estimated that over 3m new Indian jobs have been created in the insurance sector since it first opened up in 1999, with scope for similar growth in legal and other professional services. The City can help realise this vision.

Closer to home, I was pleased to see decisions on the AIFM Directive have been delayed. As I told EU policy makers in Brussels last week, further work is needed on this draft before it becomes law. It is important we get this issue right by factoring in the current regulatory environment outside of Europe. That is why next month's G20 Summit is the perfect forum for further discussion – especially given US Treasury secretary Tim Geithner's recent intervention into debate.

Concerns that the directive could potentially damage funds on both sides of the Atlantic are real. As Geithner says, any new regulation should "maintain a level playing field" by ensuring international funds have access to the European market and vice versa. Protectionist legislation runs the risk of retaliatory action from other jurisdictions. This would be disastrous for all involved.

Stuart Fraser is Policy Chairman of the City of London Corporation.

UK investors live in fear of tax increases

UK ECONOMY

BY MARK SHAPLAND

TAX increases are the biggest threat to UK investors' finances in 2010, according to research by the Association of Investment Companies (AIC).

A survey by the body has revealed that 45 per cent of investors and 21 per cent of the general public view changes in the tax rates as their major worry.

In order to avoid possible tax increases, the number of investors choosing to use their full ISA allowance has increased.

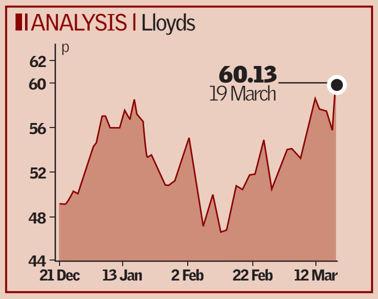
Annabel Brodie-Smith, communications director of AIC, said: "With a general election on the horizon, it's clear that investors consider the prospect of tax changes to be the biggest threat to their finances. It's not surprising that more investors are planning to use their ISA allowance this year to avoid the clutches of the taxman."

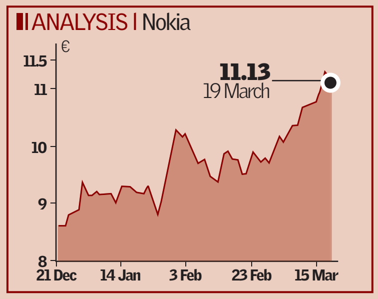
Investor confidence in the stock market has taken a tumble with 40 per cent saying they will increase their equity investments this year, down from 50 per cent in March 2009. Although investors appetite for emerging markets has picked up with 13 per cent looking to invest in the region compared to six per cent last year.

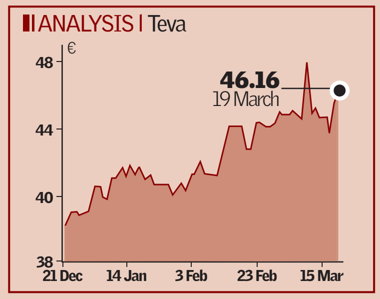
"Investor confidence amongst active investors is slightly down on last year, indicating that investors are now a bit more cautious having seen such an impressive market recovery," Brodie-Smith added. However, an increasing number of active investors are favouring emerging markets indicating an increasing appetite for risk and the popularity of this sector.

According to AIC, 45 per cent of investors expect the stock market to outperform the property market. Confidence in the housing market fell to two per cent in spring last year leading AIC to comment that the UK's love affair with property is officially dead. Other concerns for active investors were the recession, a possible stock market crash, inflation, and the possibility of Britain's AAA credit rating being downgraded.

BEST OF THE BROKERS







LLOYDS

Execution Noble says the government will sell down Lloyds shares ahead of the election due to strong results and a good level of income growth. Costs are well controlled and lower than the equivalent period in 2009. We continue to expect Lloyds to report net profit of at least £529m for 2010, against a consensus loss of £973m.

NOKIA

Standard and Poor's, the credit ratings agency, has maintained its "buy" recommendation for the mobile phone provider. The handset market is developing well for Nokia, with increased demand for mid-tier smartphones and solid subscriber growth in emerging markets, led by India, the agency said.

TEVA

The pharmaceutical group has announced that it has entered into a definitive agreement to acquire Ratiopharm for €3.625bn (£3.26bn). RBS Equity Research says the deal represents a strategic fit for Teva. There are risks, according to RBS, but it is not changing its sales and earnings estimates and has maintained a "buy" rating.

To appear in Best of the Brokers email your research to **notes@cityam.com**

Axa wants public sector pensions cut

INSURANCE

AXA, the French insurance group, has called on the UK's three main political parties to spell out how they plan to tackle the increasing cost of generous public sector pensions.

The insurer wants public sector workers to start contributing to their pensions during their careers rather than receiving a set income in retirement. It added that the current system of funding for public sector pensions is not sustainable, given the large budget deficit. In 2008 alone the cost to the country of public sector pensions was more than £45bn – equivalent to around 80 per cent of that year's budget deficit.

Paul McMahon, managing director of Axa Corporate Benefits, said: "An affordable solution for the country would be for the public sector to migrate towards offering defined contribution schemes (DC) as the private sector has already done. Provided that members begin saving early enough, and increase their contributions moderately during their lifetime, DC plan members should receive good pension benefits when they retire."

Axa revealed that six in 10 voters believe it is unfair people in the public sector generally receive better pensions than the private sector.

CITY MOVES | WHO'S SWITCHING JOBS

Edited by Victoria Bates

Prupim Asia

The real estate investment company, a joint venture between Prupim UK and Prudential's Asian fund management business, has appointed Scott Girard as its new chief executive.

Girard, currently chief investment officer at the firm, started his career at ANZ Funds Management in Australia before working at a consultancy. He takes over from Alex Hambly, who will now focus on his role as chief executive of the Pru's private equity businesses in Asia.

Société Générale

The bank has named Craig Overlander, a respected investment banking industry veteran, as deputy chief executive of its American corporate and investment banking unit. Overlander previously worked for 26 years at Bear Stearns, latterly as co-head of global fixed income. Following the collapsed firm's takeover by JP Morgan Chase, he became vice chairman of the investment banking division.

Most recently, he worked at Wachovia Securities as global head of fixed income.

Slaughter and May

The law firm has appointed Lisa Chung and Richard Smith to its partnership, effective from 1 May.

Smith works in the corporate team at the firm, while Chung is a corporate and financing specialist who also previously worked in the law division of Morgan Stanley Dean Witter Asia.

BoA Merrill Lynch

The bank has hired Alberto Ades to co-head emerging markets fixed-income strategy and economics and Anne Milne to lead emerging market corporate credit research, according to an internal memo.

Ades joins from Citigroup and will work alongside Daniel Tenengauzer, who is currently head of global emerging markets fixed income strategy.

Milne previously worked at Deutsche Bank.

Omega Insurance Holdings

The insurer has appointed Richard Pexton, the former chief executive of Heritage Underwriting Agency, as its new chief executive.

Pexton replaces Richard Tolliday, who is no longer a director of the company. He joined Heritage in 2002 and later oversaw its 2006 flotation on the LSE.

Neonet

Matthew Jefford has joined the global agency brokerage and trading technology provider, as vice president of sales.

Jefford most recently worked at Tradeweb and Instinet, where he focused on electronic equity trading sales. He brings with him over 20 years of experience in the financial markets in trading, sales and account management.

Chromozome

The derivative and collateral management consultancy has hired Alan Green as head of legal practice, tasked with managing and overseeing the strategic development of its newly-created legal services division.

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