

***Bank stabilization  
Industry View***

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***Is Europe underbanked or overbanked?***

## Vulnerabilities

### What makes a bank safe

- **Capital**
- **NIM comfortable above CDS**
- **Liquid assets**

- ✓ Deleverage continues
- ✓ Low interest rates
- ✓ Sovereign assets

### What makes it vulnerable to stress

- **Size**
- **Concentration**
- **Wholesale funding**
- **Interconnectedness**

- ✓ Larger and more complex
- ✓ Large caps were in focus, real estate
- ✓ Banks rely on wholesale funding
- ✓ Cross ( capital + funding )

**Difficult to solve without banking union and strong resolution regime**

## Underbanked or overbanked EU?

	RO	EURO	US
# credit institutions	41	6000	6000
Assets	80B	30.4Tn	10Tn
L/D	114%	>400%	<150%
Assets/GDP	62%	3.3times	<100%
Leverage T1/Assets	8% <sub>(gross)</sub>	3%? <sub>(net)</sub>	11% <sub>(net)</sub>

*“Free market in life, nationalised in debt”*

### No place to hide....

- Deleveraging: late start 3.2tn or 10% of assets
- Capital position strengthened and is expected to improve (another 3tn deleverage)

## New headwinds?

*A new Mantra*

# Re-regulation to break the Sovereign – Bank nexus

## A new Mantra

### Banking union

- SSM
- SRM
- Single rulebook for supervision and resolution
- Harmonisation NPL, coverage, RWA
- New role for DIA

### Strong resolution mechanism

- Resolution funds: 0.8%, no risk adjustments yet, 10yr to build
- Bail-in: pecking order aligned to risk, at min 8% of liabilities or 20%RWA (if RF above 3%)
- Funding capped at 5% of liabilities
- MREL: G-SIFI at 6-10%
- Recovery and resolution plans
- EBA review by EOY 2016

**Architecture meant to improve market discipline and restore confidence**

## A new Mantra

### Structural changes

- 2014 - ECB single bank supervisor
- Construction of **SRM will take time** and is disconnected from a single deposit guarantee fund. Orderly bankruptcy process for SIFIs.
- **Bail-in before taxpayers.** Improves market discipline and enhance accountability!
- “Living wills”
- **Single DIA** to prevent disintegration – far in scope

***RO – underbanked or overbanked?***

# Why me?

## Underbanked or overbanked RO?

	EURO	RO
Public debt/GDP	90.7%	37.8%
Assets/GDP	3.3 times	62%
Expected deleverage	2.9Tn	?

*Sovereign – Bank Nexus! Bail-out or Bail-in?*

## Solutions....

- Disintermediation looks like sole solution for now – periphery will be affected as banks return to core markets
- Alternative debt solutions to lending: bonds + re-launch securitisations
- Non-bank lending (lesser regulated) – push the risk out, don't nurture NPL
- Provide liquidity (sovereign debt still above 60% threshold) and lower-for-longer rates
- FDI reversal at periphery? RO: apply bail-in before fiscal support

**Deleverage will affect periphery**

# Why me?

## Underbanked or overbanked RO?

	RO	EU	US
Assets/GDP (%)	62	300+	100-
Outlets/10K	2,5	<1	2,7

## Unrealistic expectations....

- Fresh branch networks may become profitable through higher intermediation – Procrastination?
- Consolidation started with retail portfolios – to be continued...
- DIA and resolution – not designed to resolve or prevent systemic crises. Expect P&As: no bank run, no disruption!
- Unintended consequences: innovation capacity, brain drain, scarce capital, local market contraction, polarisation

**Don't expect "regulatory arbitrage"**

***Restore confidence***

# Same mission: protect depositors and promote financial stability

## Supervisor and DIA share responsibility in stabilisation

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- Ex-ante funding
  - *FGDB covers 2.7% for 16M depositors*
  - *Resolution fund living and growing*
- Communication channel with supervisor
  - *Inclusive memorandum in place*
- Public debt below threshold, no excess deficit
- Legislation under (re)construction
- Specialist team selection in progress



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- Rely solely on fiscal backstop
- Define systemic
  - *Can Non-SIFIs become systemic?*
- Crowded banking system
- Larger banks became larger and more complex
- Resolution tools are developed for developed capital markets
- Weak insolvency law
- Valuation - legitimate appraisals

# Same mission: protect depositors and promote financial stability

## NBR and FGDB share responsibility in stabilisation

	RO	MPE strategy	SPE strategy
# credit institutions	40	31	12
Assets	80	75	19
Own Funds		7	2
Covered deposits		28	10
Assets/GDP	62%	58%	15%

40%      60%

- Early detection with transparent triggers. Corrective actions applied
- Bail-in tool
- Cross-border issues – MPE MoUs needed.
- DIA - Preparedness with participation of stand-by contractors

**Don't expect "regulatory arbitrage"**

# Same mission: protect depositors and promote financial stability

## Shared responsibility and accountability

### Resolution authority

- **Early detection or forbearance?**
  - Denial – anger – bargaining – depression – acceptance”?
  - Set strict rules and triggers for intervention!
- **Accountability & Governance**
  - Matrix triggers/responsibilities. Who pays controls

### Planning

- **Consistency b/w regulator and DIA**
  - Review the information process and action plan
  - Involved in the stress tests
- **DIA contingency plan**

### DIA

- **Ex-post independent review when DIA funds are called**
  - What is the take-out?
- **Bail-in is just a tool!**
  - No new capital, liquidity, strategy
- **Lessons learned? Make them public!**

### Questions

- Asymmetry: Is DIA involved in the planning of resolution
- Access to early warning signals - material information to identify banks in distress
- Periodic simulations to validate the coordination mechanism in the safety net
- Matrix of responsibilities and accountability for all safety net players

# Successful intervention



***Banks share responsibility  
to restore confidence***

# Same mission: protect depositors and promote financial stability

## Industry contingency planning.....

### Faced this?

- Excessive risk taking, real estate, sizeable underwriting exceptions, concentrations, correlated sector lending, valuation, NPL and coverage
- Competition for market share, rapid asset growth, local underwriting competence
- MIS - Technologically challenged
- Workout expertise
- Liquidity, stickiness of liabilities, interest rate sensitivity, funding mismatches
- Management – participative, responsive, sufficient oversight, risk and control culture

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Strategic partnerships

Tap the capital markets

BB and OBS not in scope for non-systemic

# Same mission: protect depositors and promote financial stability

## Industry contingency planning.....

### Note that resolution tools were developed for functional capital markets

- Governance
- Shareholders and management
- Identify Core business & Critical functions
- Scenario Analysis and Stress Testing
- Separability analysis: SPE / MPE, divestiture
- Recovery and resolution options: funding, capital, risk

***Be aware!***  
***Risk based premium. LAC developed in peace time deteriorates in the run-up to crisis. MREL protects depositors/taxpayers. P&A works better than BB and OBS***

# Same mission: protect depositors and promote financial stability

## Bail-out is passé

### Systemic

- **CRMs - Early detection or forbearance?**
  - “Denial – anger – bargaining – depression – acceptance”?
- **Don't rely on capital infusion**
  - Put your house in order! Deleverage, revisit RWA, liquidity, MREL, adopt capital reform early. Shed the bad assets, don't nurse them!
- **Accountability**
  - DIA expected to intervene? Then, make DIA part of your planning and ask advise from host non-CRM DIA
  - Management: clawback, license, reputation
- **Ask DIA for feedback and advise**
  - Keep us in the loop. Speed of events does not allow for reliable disclosure

### Non-Systemic

- **Ask DIA for advise**
  - Stress testing, contingency plans
- **Bail-in option**
  - No new capital, liquidity, strategy
  - BB is not for everyone. Neither is Open Bank Tool
- **Don't work around the edges. Act now!**

### Questions

- What do you expect from DIA
- Asymmetry: Do you know what clients you take from systemic banks? Is it an “exit” client?
- Early warning signals – how many times did you see same client on your watch list? Should be an “exit”
- How profitable is your branch footprint
- Small, yet complex franchise?
- Management – participative, diversity, risk awareness

## “Banking is essential, banks are not”

*Bill Gates*

?

- Define systemic

?

- Is Europe overbanked

?

- “Denial – anger – bargaining – depression – acceptance”

!

- We share responsibility in restoring the confidence

*Thank you!*