European Banking Supervision: The First 18 Months

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Agenda

• New system
  ➢ Functioning of SSM
  ➢ Euro area banking market

• Assessment
  ➢ 3 core criteria: effectiveness, toughness and fairness
  ➢ 2 other criteria: efficiency and market integration

• In sum: compelling start, lingering challenges

• 9 country reports show major differences
The new system

ECB banking supervision

Supervision

Oversight

National competent authorities

Supervision

Key decisions: license, change of ownership, fit-and-proper test

Significant institutions (currently 129)

Less significant institutions (currently 3167)
**Governance of the 100 significant banks**

<table>
<thead>
<tr>
<th>Governance</th>
<th>Number of banks</th>
<th>Total assets (€ billions)</th>
<th>CET1 ratio in %</th>
<th>Leverage ratio in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>41</td>
<td>€ 12,258</td>
<td>12.4</td>
<td>4.9</td>
</tr>
<tr>
<td>- Dispersed ownership</td>
<td>30</td>
<td>€ 11,892</td>
<td>12.4</td>
<td>4.8</td>
</tr>
<tr>
<td>- Privately held</td>
<td>11</td>
<td>€ 366</td>
<td>13.7</td>
<td>7.3</td>
</tr>
<tr>
<td>Cooperative</td>
<td>27</td>
<td>€ 6,269</td>
<td>13.6</td>
<td>5.2</td>
</tr>
<tr>
<td>Government</td>
<td>32</td>
<td>€ 3,591</td>
<td>17.9</td>
<td>4.9</td>
</tr>
<tr>
<td>- Public sector banks</td>
<td>22</td>
<td>€ 2,279</td>
<td>19.2</td>
<td>4.9</td>
</tr>
<tr>
<td>- Nationalised</td>
<td>10</td>
<td>€ 1,312</td>
<td>15.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>€ 22,118</td>
<td>13.6</td>
<td>5.0</td>
</tr>
</tbody>
</table>
What do non-performing loans tell us?
1. Effective

• Joint Supervisory Teams overcome previous home-host squabbles -> clear line of command
  ➢ But conflict of interest: loyal to ECB or NCA boss?

• Joined-up / consolidated view of banks at euro-area level

• So far: banking supervision not been softened by loose monetary policy
2. Tough

• More intrusive + less capture/political intervention
  - Supervisory coordinator at a distance in Frankfurt

• Actions speak louder than words: more capital
  - higher SREP scores (pillar 2)
  - also tough with recap in Greece over summer 2015
  - but determination of SREP scores is black box
3. Fair

- No country- or institution specific pattern at ECB

- But differences in size systemic risk buffers applied by NCAs
4. Efficiency: areas for improvement

• Bureaucratic: all decisions in Supervisory Board
  ➢ Example: major delays for fit-and-proper tests
  ➢ Solution: more use of delegation

• Data driven: multiple and overlapping data requests

• Independence requires transparency and accountability
  ➢ Lack of transparency over supervised banks
  ➢ Accountability: limited access European Court of Auditors
Figure 7: Price-to-book ratio of the listed SIs (in %)
5. Single Banking Market?

• Aim of Banking Union to break bank-sovereign loop
  - Decoupling should lead to integrated market
  - Unrealistic to eliminate all bank-sov links in short term

• End geographical ring-fencing
  - Both ECB and NCAs still impose intra-€A constraints
  - Banks may convert subs into branches
  - Prospects for cross-border M&A

• Need to complete Banking Union
  - Risk sharing: European Deposit Insurance Scheme
  - “Risk reduction”: limits on sovereign exposures (and stop counting deferred tax credits as capital)
Country-level experience

- Diversity of structures/experiences/perceptions
- Examples
  - Program countries (Greece, Portugal, Spain) vs others
  - Countries with many small banks (Austria, Germany, Italy) vs concentrated systems (e.g. France, NL) + Institutional Protection Schemes in Austria, Germany
  - Home (e.g. France, Germany, Italy, Spain) vs Host (e.g. Belgium, possibly Greece & Portugal in near future)
  - Recent supervisory failures (e.g. Austria, Portugal)
- Ongoing sector-wide fragility challenges
  - especially Italy and Portugal
Thank you for your attention