



Fondo Interbancario di Tutela dei Depositi

***After the global financial crisis:
challenges for the EU Banking System***

Conference on «The Changing Environment and Deposit Insurers»

Session 1

Tokyo, 16 February 2017

Giuseppe Boccuzzi



Fitd

Agenda

- 1 The macroeconomic environment: the two-speed Europe
- 2 Challenges for banks
- 3 Regulatory challenges
- 4 What do we need?



Fitd

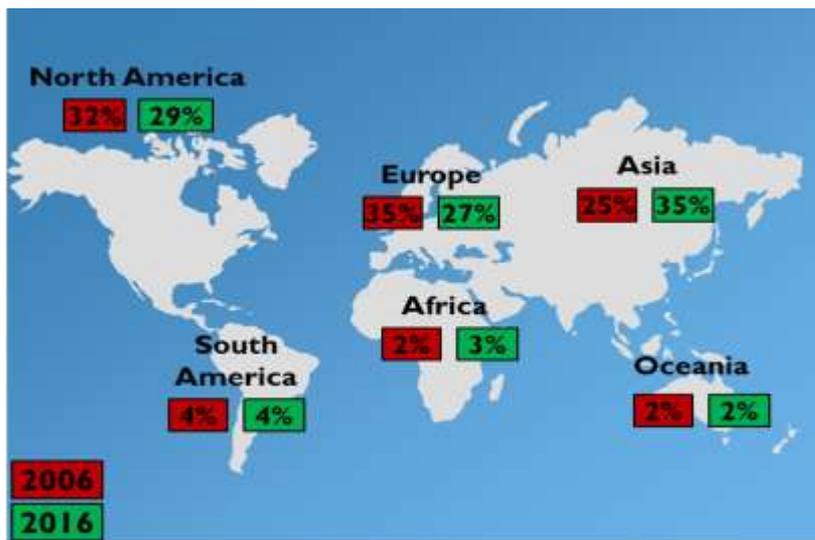
1

The macroeconomic environment: The two-speed Europe

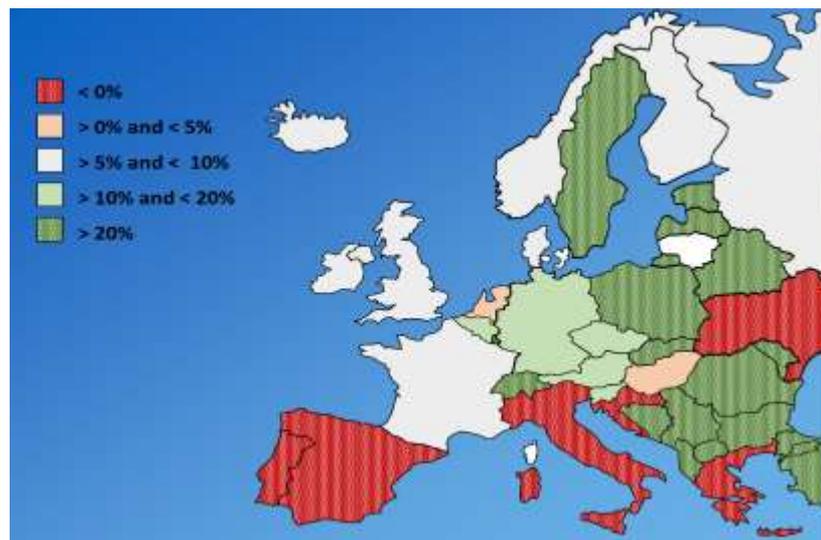


Global redistribution of GDP and differentiated GDP growth in Europe

GDP distribution across Continents (2006 2016)



GDP growth in Europe (2006 2016)



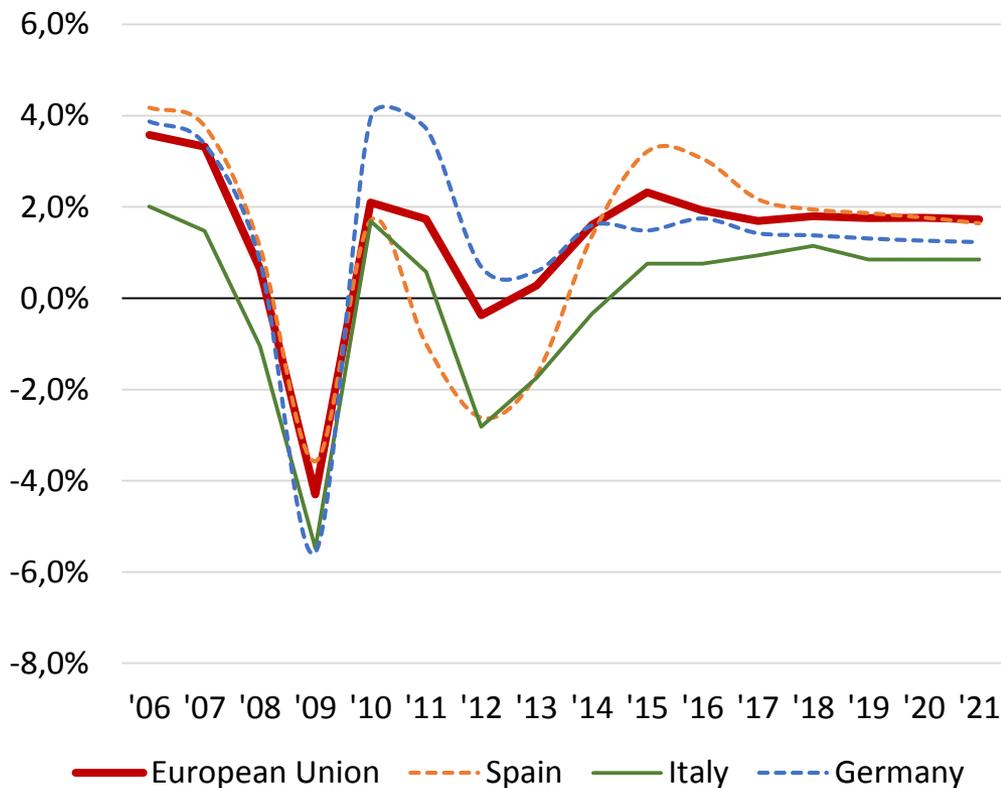
Notes: GDP current prices, U.S. dollars.

Sources: International Monetary Fund, World Economic Database, April 2016; European Central Bank, Financial Stability Review, November 2016; Bank of Italy, Financial Stability Report, 2/2016.



Market and political factors: a never-ending succession of events

GDP growth



Main drivers:

- High level of sovereign debt
- Low investments
- Low productivity
- Low inflation rate
- Political uncertainty

Notes: Data as of September 2016.

Sources: International Monetary Fund, World Economic Database, October 2016; European Central Bank, Financial Stability Review, November 2016.



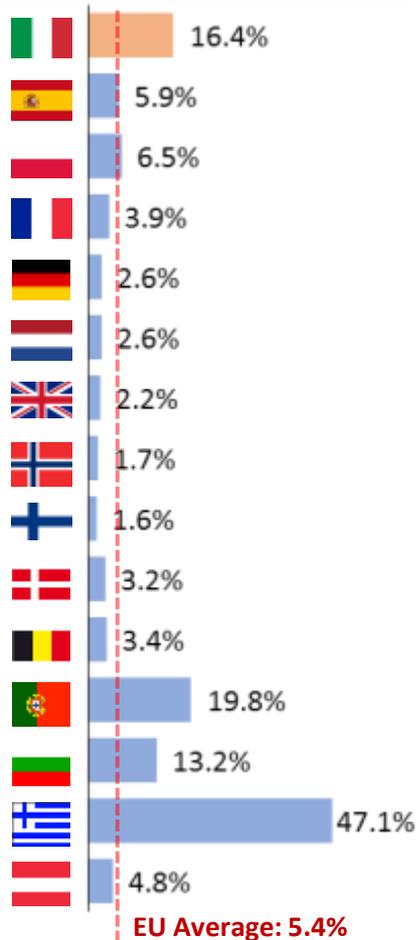
2

Challenges for banks

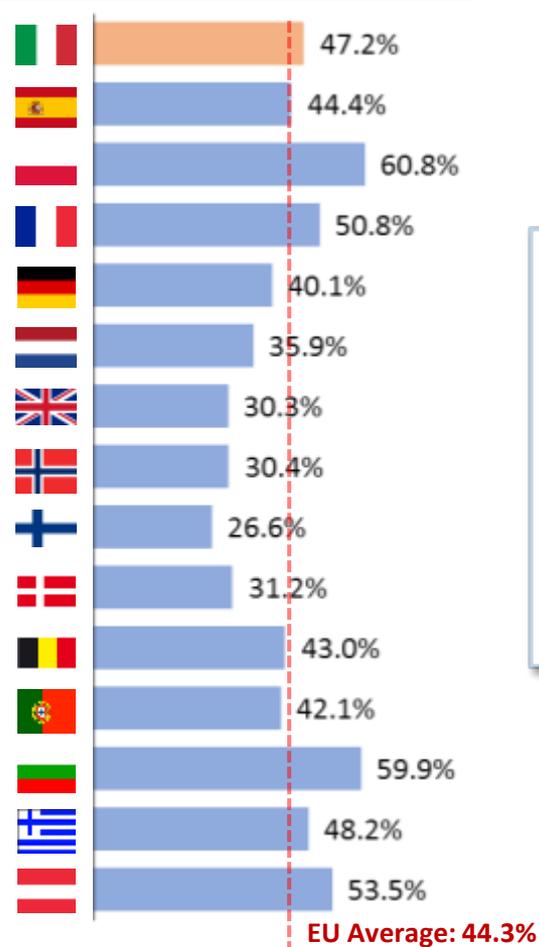


2.1 Asset quality: NPLs and...other risks? How to remove NPLs from bank's balance-sheet?

NPLs ratio



Coverage ratio



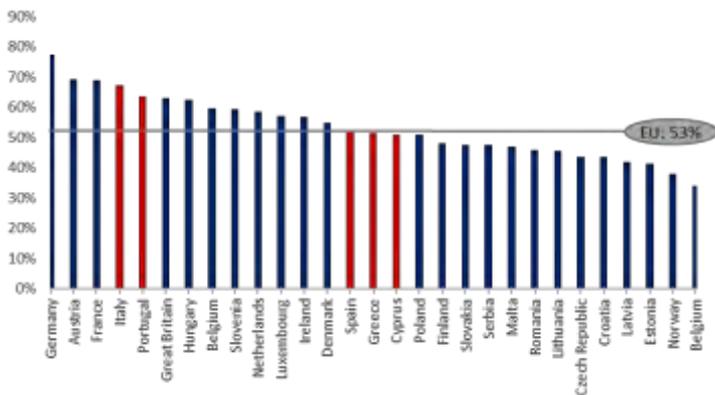
Other risks, especially for
Global Systematically
Important Banks:

- Operational risks
- Legal risks
- Level 3 assets

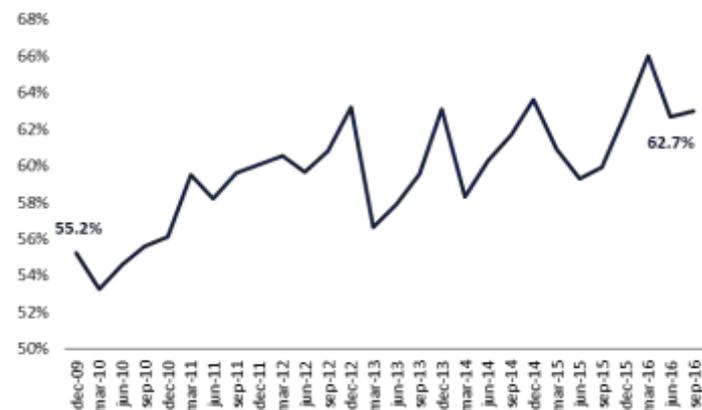


2.3 Overcapacity

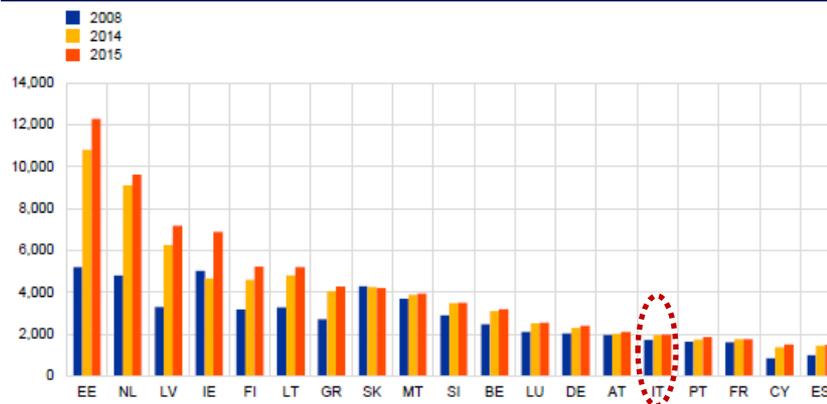
Cost / Income across countries⁽¹⁾



Cost / Income trend



Population per local branch



Notes:

Sources: EBA, Risk Assessment of the European Banking System, December 2016; ECB, Report on financial structures, October 2016. (1) Data as of September 2016



2.4 FinTech: Opportunity or threat?

FinTech Revolution



Technologically-enabled financial innovation that could result in new business model, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services (FSB)

- *Still limited in Europe*
- *Cross-country differences*

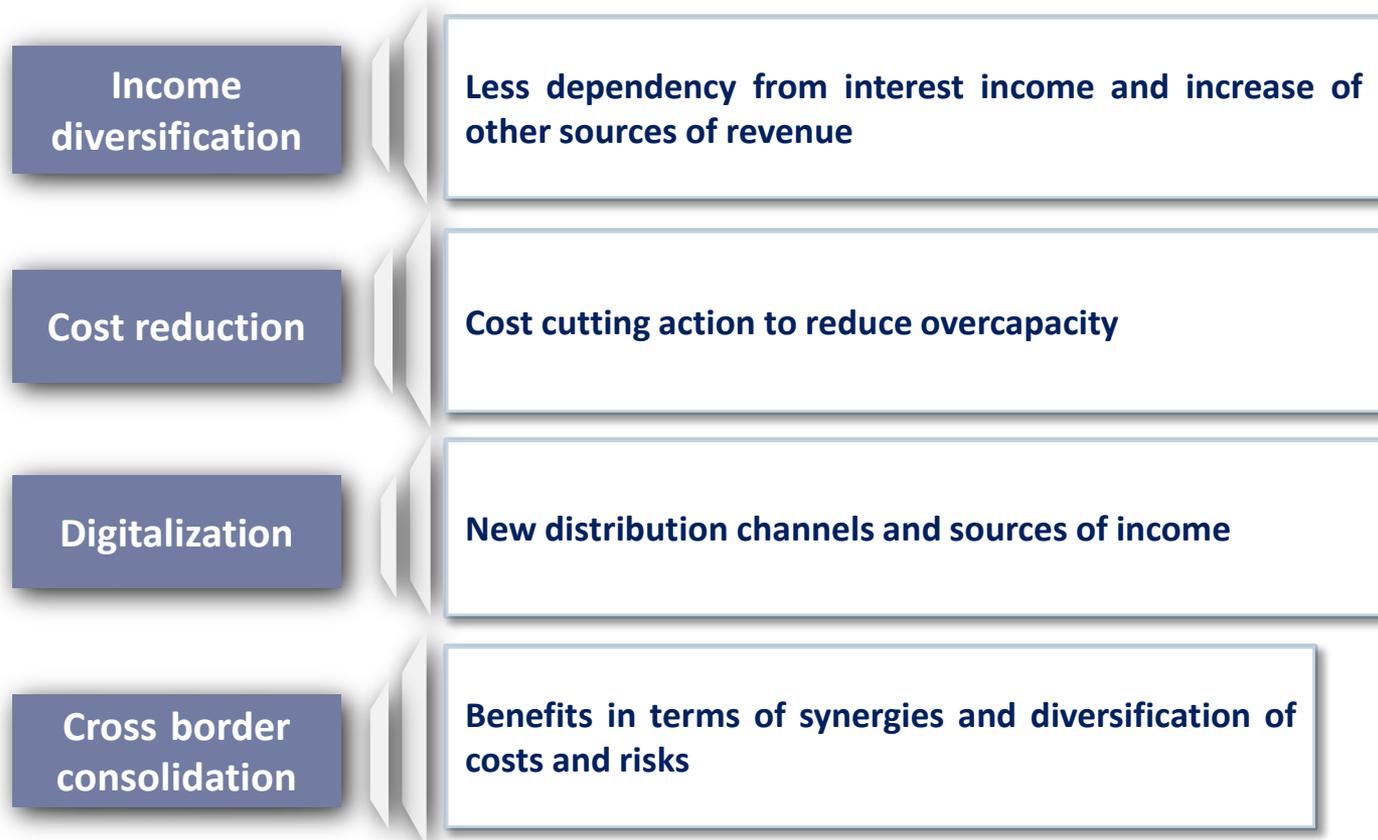
- **financial stability issues**
 - **regulatory implications**
- (FSB to report at G20 next July).

In the EU: ECON report

PRINCIPLE OF "SAME SERVICES: SAME RULES"



2.5 Rethinking the business model. How?



NO "ONE SIZE FITS ALL"



To change or to exit

Change business model

OR

Exit the market

Insolvency

Mergers and acquisitions with/by healthy banks

Resolution

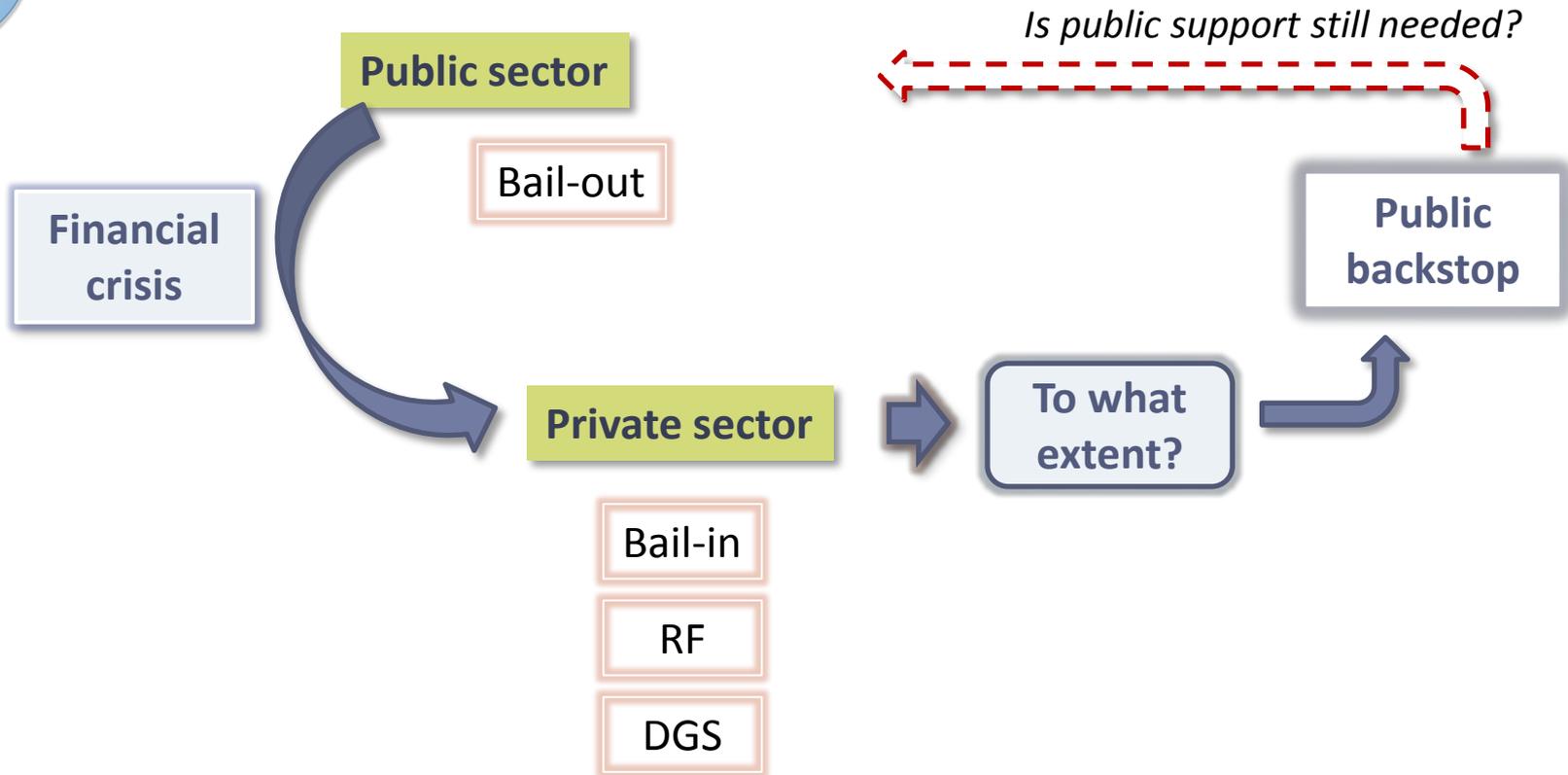
Liquidation



3

Regulatory challenges.

The resolution framework: need to revise it? More flexibility?



The European framework envisages that, where necessary, to preserve financial stability, also public funds should be used.



Is bail-in always effective? May it affect financial stability?

IMF
2016

*The European Union State Aid rules and the BRRD are important checks on market distortions and moral hazard, **but they should be implemented carefully, as public support may still be needed in a crisis.***

OECD
2016

The exposure of the leveraged financial sector to bail-inable debt should be limited so as to contain potential contagion risks and financial instability...
...Households may not be fully aware of the risks associated with bail-inable debt, **thus potentially raising consumer protection concerns.** In this respect, ad-hoc policy intervention may enhance bail-in credibility

ECB

Low interbank cross-holdings of bank bail-inable debt in the network appear to prevent direct contagion....
Resolution authorities also need to carefully monitor the **effect of the bail-in on the systemic relevance of the bank under resolution**, since on average banks become more central and more interconnected when exiting resolution...



Fitd

Recent experience in Italy

4 banks put in resolution in November 2015

Burden sharing of subordinated debt holders was applied



Due to **financial stability and confidence concerns**,
the legislator decided to reimburse
retail subordinated debt holders
(costs paid by the banking system via FITD)



Fido

State support to solvent banks in temporary difficulties

December
2016

Law decree n. 237/2016 (art. 32 BRRD)



Solvency

Precautionary recapitalization
*to support solvent banks
having a capital shortfall as a
result of an adverse scenario
in stress test carried out at
both national and EU level*



Liquidity

**State guarantee
on newly issued liabilities
or
on Emergency Liquidity
Assistance (ELA) given by the
Central Bank**



What can DGSs do?

No preventative or alternative interventions according to State aid rules

*Wide Mandate envisaged by European Directive 2014/49/UE
«go beyond a pure reimbursement function»*

State aid rules

EC 2013 Communication - paragraph 63

The use of DGS funds to assist in the restructuring of credit institutions may constitute State aid to the extent that such resources (even though from private sources) are under the control of the State and the decision as to the funds' application is imputable to the State



*DGS resources constitute State resources due to the public mandate
State aid triggers resolution under BRRD*



Fin-Tech: what challenges for DGSs?

Deposit guarantee is currently linked to deposit taking institutions



..... and in the future?

Focus on the object of protection regardless of the entity that collects deposits



4

What do we need? More Europe and risk-sharing

A right balance between competition and financial stability objectives

To complete Banking Union

A common European backstop

SRF

EDIS well designed and a backstop in liquidation

EDIS

**A European solution for NPLs?
Asset Management Company?**



Final remarks

Bank traditional business model is at stake

How to change the business model

Adequacy of resolution toolkit
(idiosyncratic crises vs systemic crises)

National vs European risk-sharing

Credible common fiscal backstop

European solution for NPLs