



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*



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## Agenda

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



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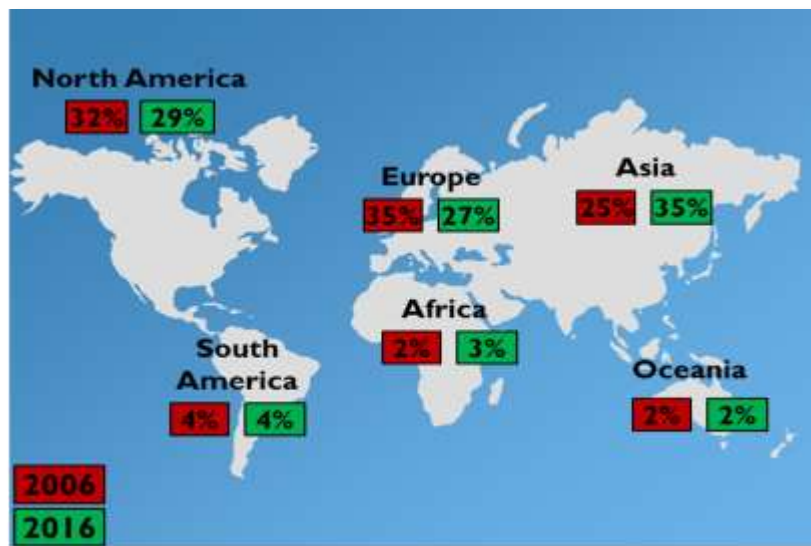
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## The macroeconomic environment: The two-speed Europe

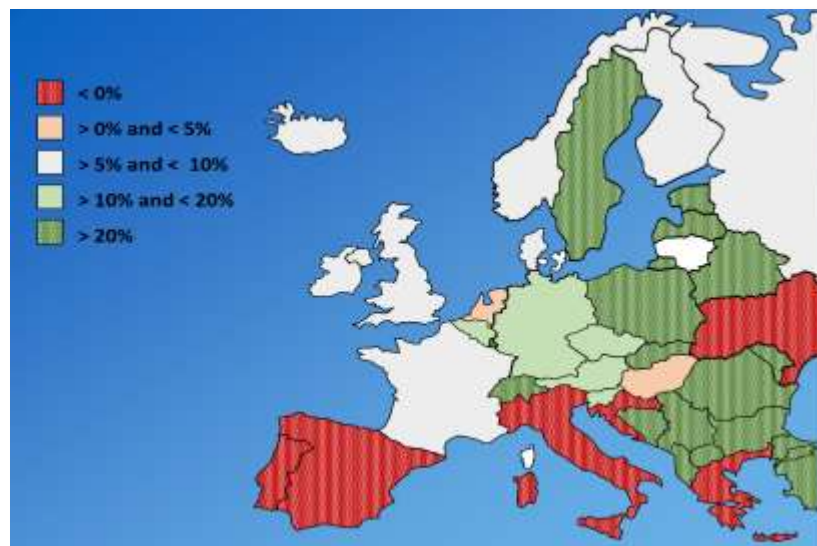


## Global redistribution of GDP and differentiated GDP growth in Europe

GDP distribution **across** Continents (2006 2016)



GDP growth in Europe (2006 2016)



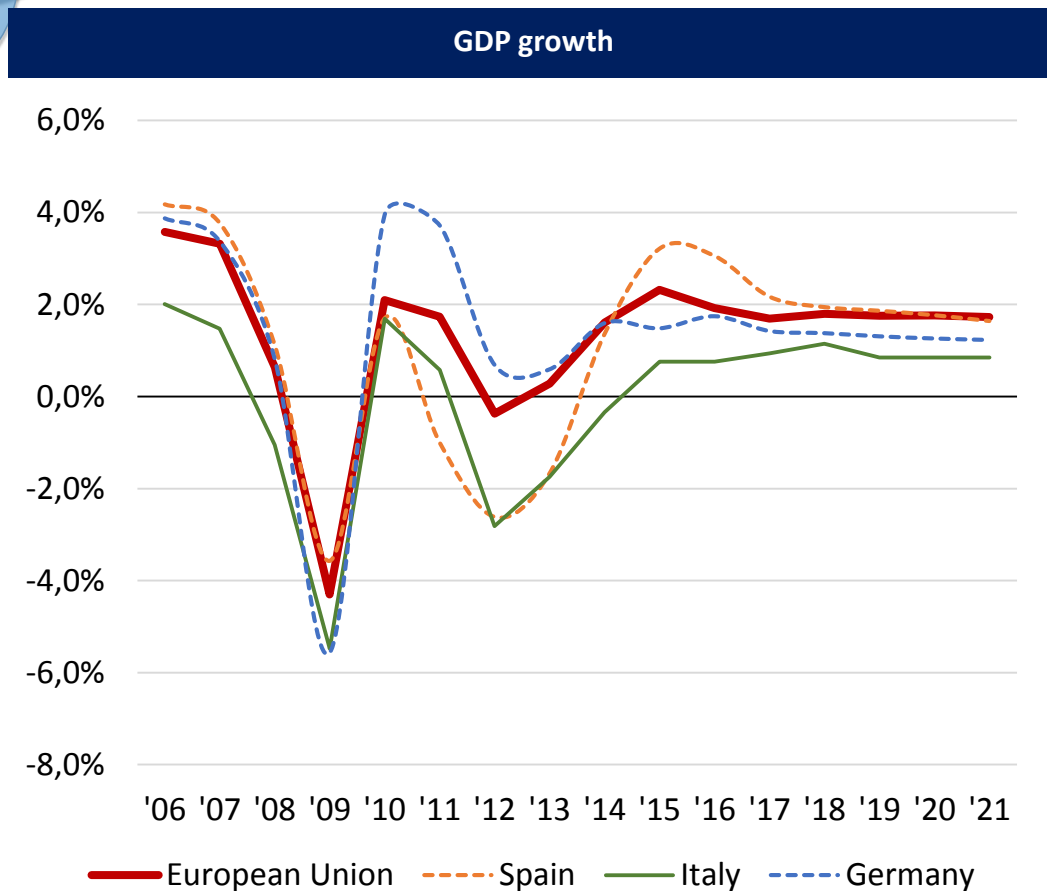
Notes: GDP current prices, U.S. dollars.

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.



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



### 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.



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## Challenges for banks

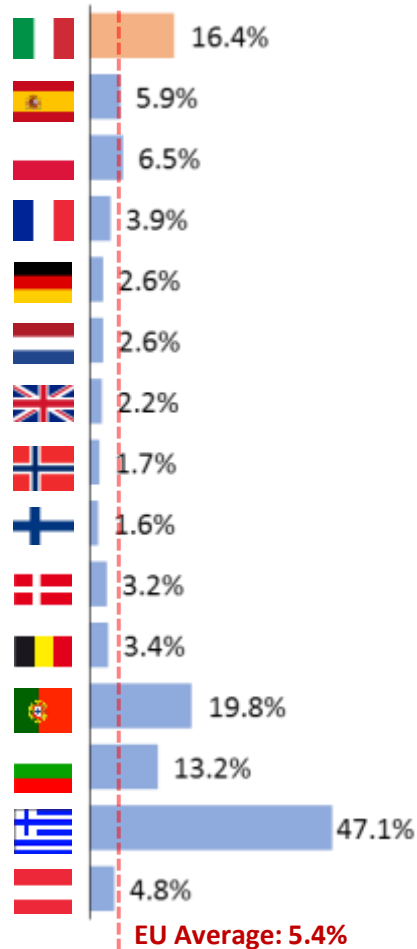


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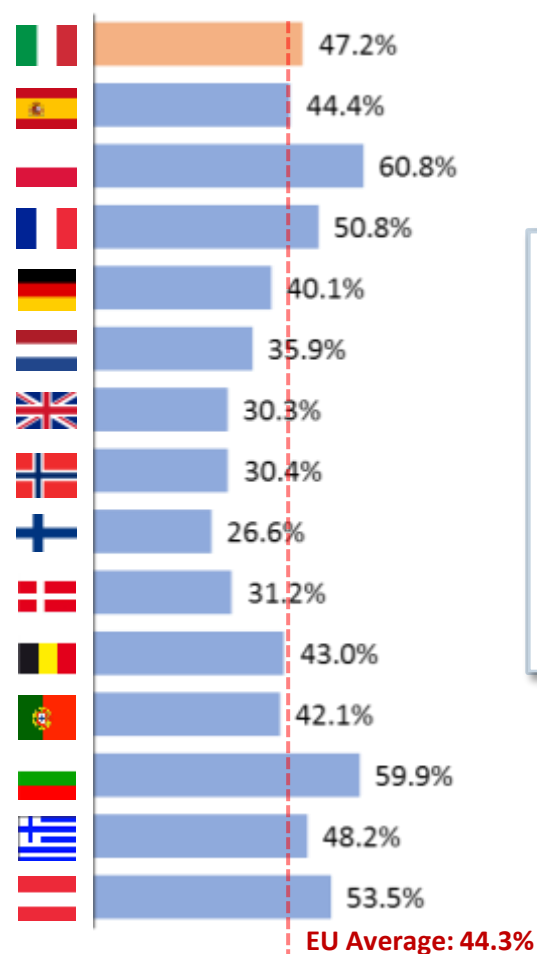
## 2.1 Asset quality: NPLs and...other risks?

### How to remove NPLs from bank's balance-sheet?

NPLs ratio



Coverage ratio



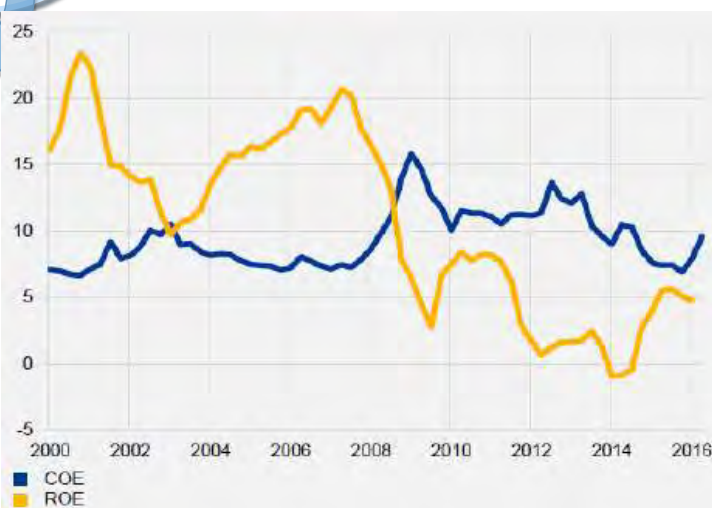
**Other risks, especially for  
Global Systematically  
Important Banks:**

- Operational risks
- Legal risks
- Level 3 assets

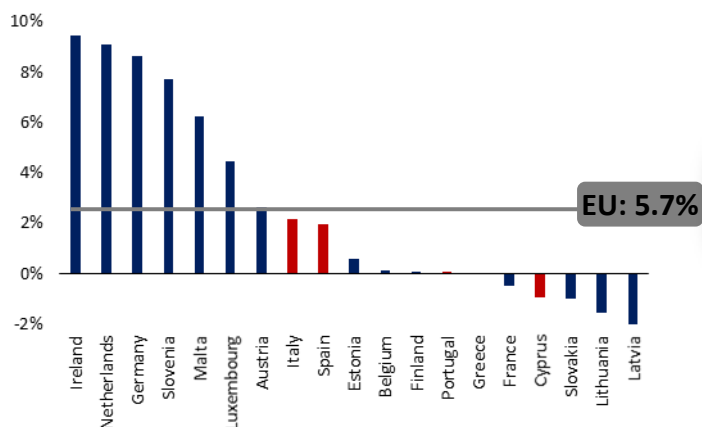


## 2.2 Profitability in a context of negative interest rates

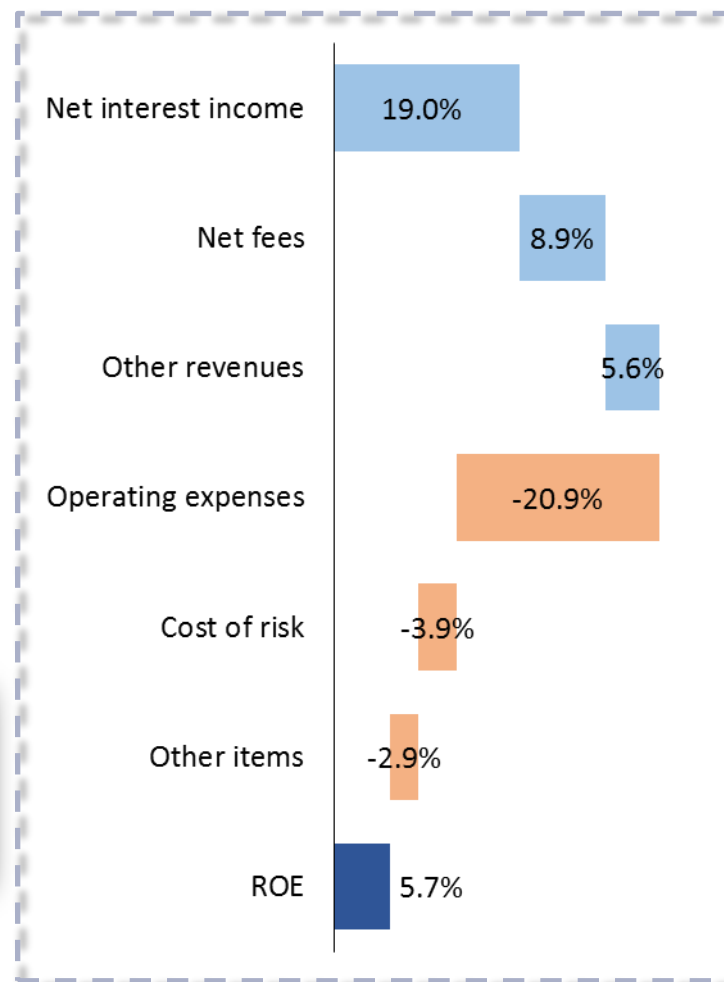
## European ROE and COE



## ROE across countries<sup>(1)</sup>



## Decomposition of ROE<sup>(1)</sup>



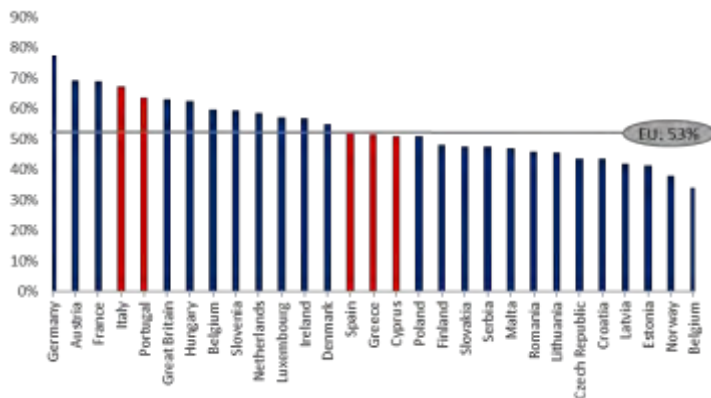
(1) Data as of September 2016 (% of Equity).



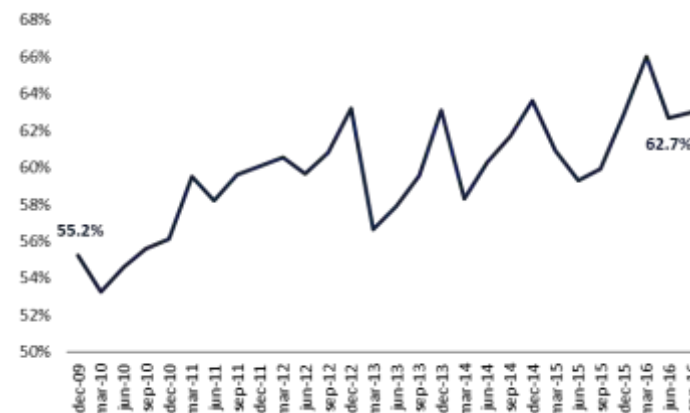


## 2.3 Overcapacity

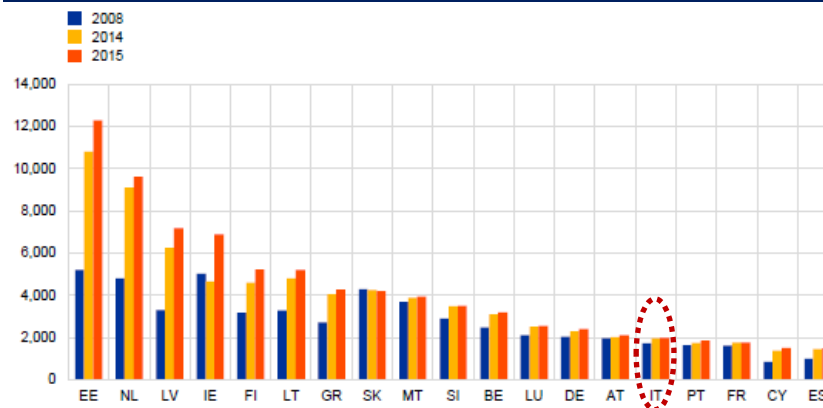
Cost / Income across countries<sup>(1)</sup>



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



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## 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).

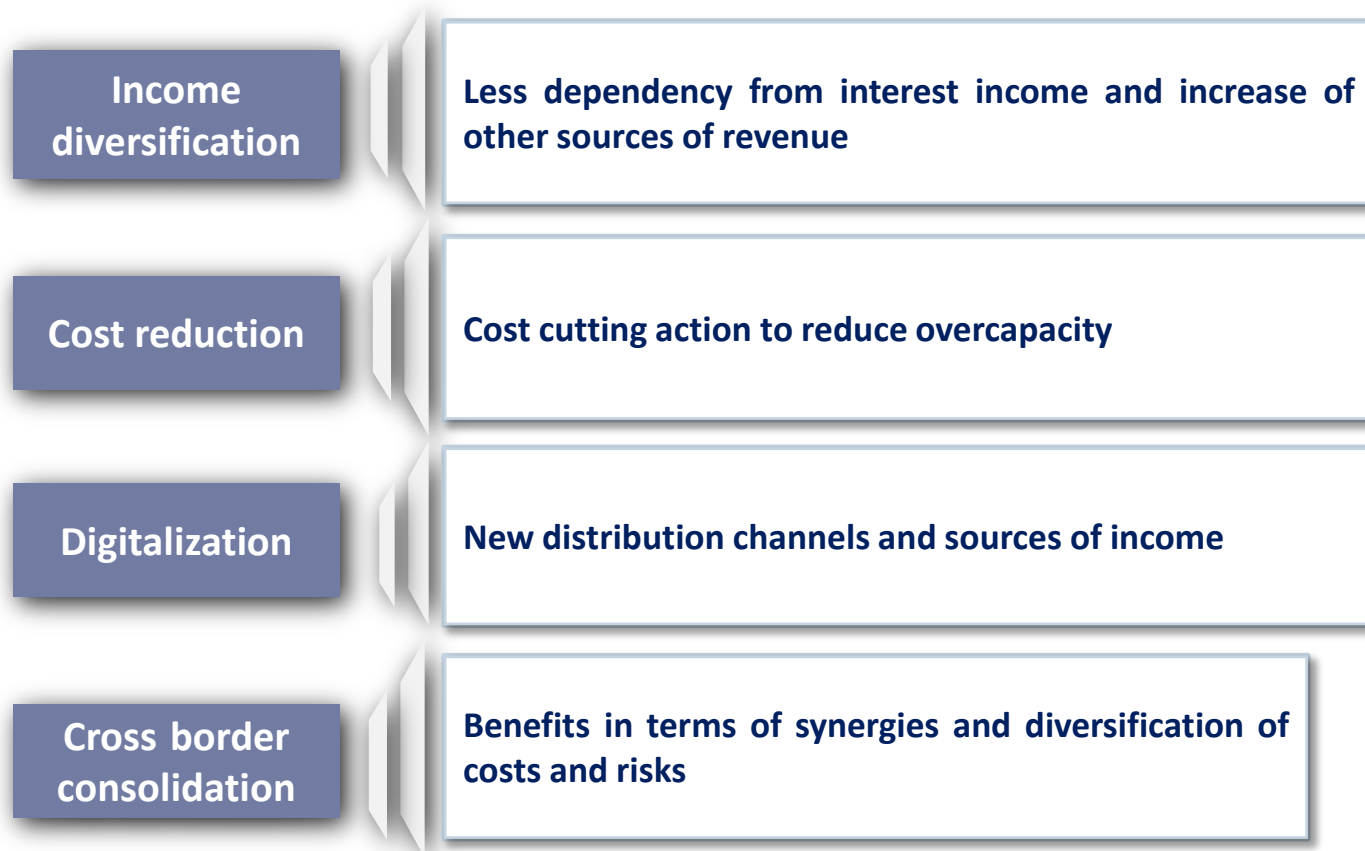
In the EU: ECON report

PRINCIPLE OF "SAME SERVICES: SAME RULES"



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## 2.5 Rethinking the business model. How?



**NO "ONE SIZE FITS ALL"**



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To change or to exit

Change business  
model

OR

Exit the market

Insolvency

Mergers and  
acquisitions with/by  
healthy banks

*Resolution*

*Liquidation*

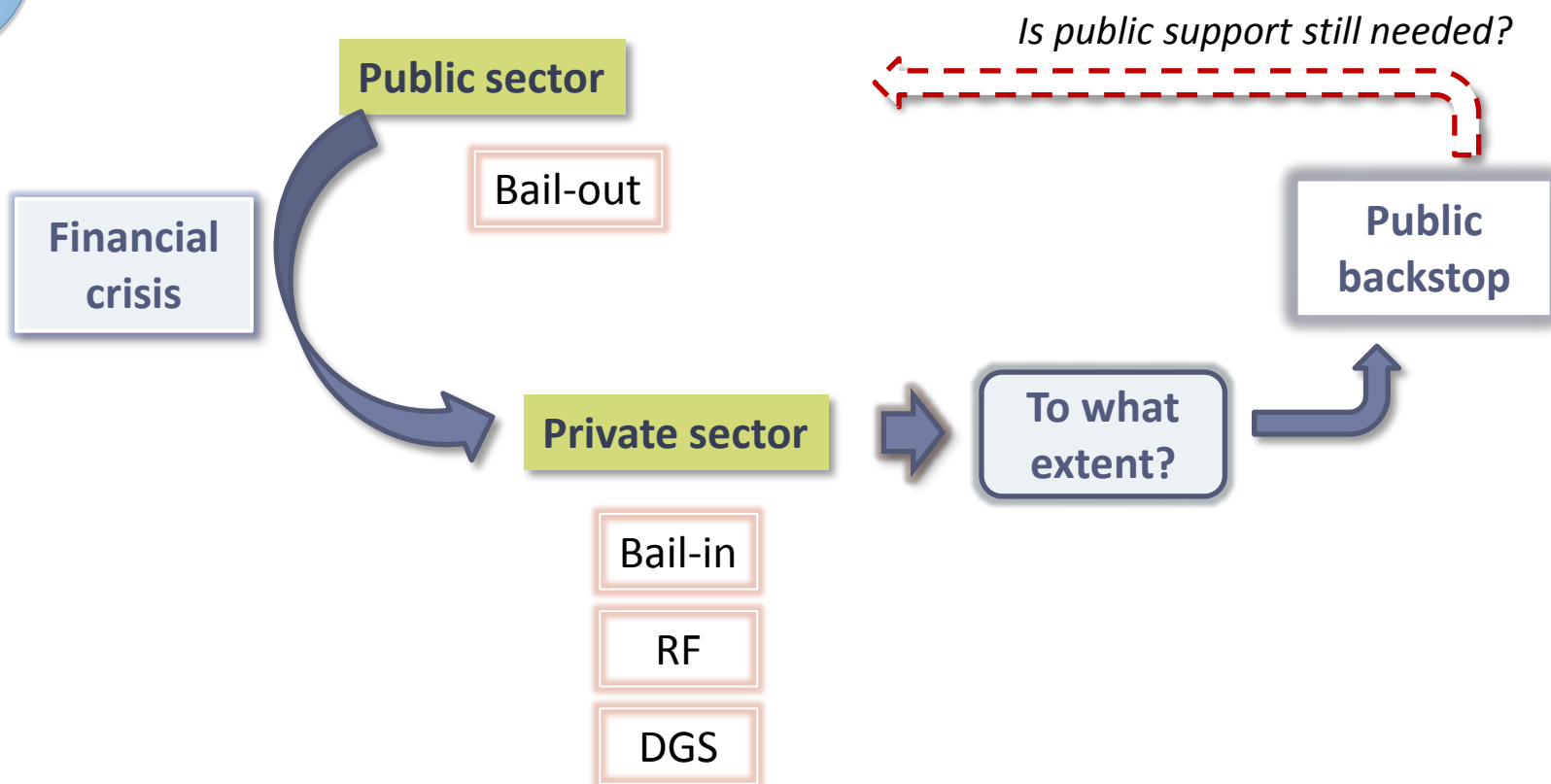


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## Regulatory challenges.

### 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.



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## 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...



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## 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)



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## 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**





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## 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**



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## 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?**



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## 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