PANEL ON GLOBAL BANKING: TRENDS AND POLICY ISSUES

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GLOBALISATION

• Borrower/investor access
• Location
• Cross-border business
• Spread of financial innovation
• International share-holding
• Arbitrage: markets and institutions
• Financial intermediation domain
GLOBALISATION

• Global competition: institutions and markets
• Shocks transmission
• Global MCC
DIMENSIONS

- Structure of financial systems
- Business ethos: SHV in ascendancy
- Corporate governance
BANK v. MARKET-BASED MODEL

- Corporate financing
- Inside v. Outside control
- Relationship
- Capital market discipline
- Close v. diverse ownership
- MCC
- Governance
NO STRICT DICHOTOMY

- Always a mix
- Securitisation
- Use of derivatives by banks
- Trading in credit risk
- Loans in tradeable form
- Underwriting by banks
- Banks’ securities trading
- Risk management by derivatives trading
MARKETS IN ASCENDANCY

- Globalisation of markets
- Euro capital market
- Institutionalisation of fund management
- Regulation arbitrage
- IT/communications technology
- Financial innovation
- Competition and margins
- SHV ascendancy
- Securitisation
SHV v. STV MODELS

The STV/SHV mix varies between countries

- view of the company: social institution
- who are stakeholders
- stakeholders v. shareholder
- bottom-line business objective
- exclusivity of objective
- strategy implications
- capital market pressure
- market in corporate control
SHV STRATEGY

• ROE: exogenous
• Raise rate of return
  – Cost strategy
  – Revenue strategy
• Capital-free business
• Remove assets from balance sheet
  – Disengage
  – Sell business
  – Securitise assets
• Return capital to shareholders
• Organisational structure
Figure 1: Banking sector profitability versus market share of mutual banks

F statistic of 14.03 implying a 99% probability of relationship

R² = 0.539

Market share of mutual banks (2001)%
GLOBALISATION AND SHV ASCENDANCY

• Global competition: capital
• SH activism
• International SH base
• Institutional SH from SHV ethos
• Corporate governance laws
• Global equity market evaluation
• Global MCC
GOVERNANCE CONVERGENCE

- Rights of shareholders: 1:1
- Shareholder activism
- Lower cross-shareholding
- Disclosure regime
- Capital market discipline
- MCC: defences eroded
SOME CONCLUSIONS

• Increased emphasis on SHV
• Corporate governance implications
EFFICIENCY, ROBUSTNESS, STABILITY

- Competition exposure and efficiency
- RAMs
- Pricing of risk
- Resource allocation
- Management and expertise
- Financial innovation
- Access to capital
- Diversified system
- Choice
- Market discipline
- Governance
- Less myopia
CONCERNS

- Foreign control
- Decision focus: global v. local focus
- Subsidiaries minor importance to parent but systemic to host
- Complexity of supervision
- Information loss
- Excess lending
- “Cherry-picking”? 
CONCERNS

- Consolidation
- Global MCC
- Exit?
- Exposure to external shocks
REQUIRED CONDITIONS
(Monitoring => Action => Sanction)

• Relevant, timely, accurate, consistent information disclosure
• Sufficient number of stake-holder monitors capable of analysing information
• Incentives for SHMs to monitor
• Managers incentives to respond
POLICY ACTIONS

- Limit deposit insurance
- Credible no bail-out policy
- PCA: rules on intervention
- Privatise state banks
- Disclosure: relevant, timely, accurate and consistent
- Corporate governance issues
- Subordinated debt?
- Management incentives
- Financial stability: euphoria
- Less prescriptive regulation
GOVERNANCE AREAS

- Legal legitimacy and authority
- Clarity of mandate
- Transparency
- Accountability
- Independence
- Integrity
GOVERNANCE AREAS

- Intervention procedures
- Communication and consultation
- Legal immunity
- Appointments
GOVERNANCE IS IMPORTANT

- Power of the agency
- Discretion
- Over-regulation bias: discipline
- Role model
- Credibility and legitimacy
- Intervention/disciplinary powers
- Potential for capture: government and industry
- International credibility