

# PANEL ON GLOBAL BANKING: TRENDS AND POLICY ISSUES

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Brunnen

# 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*

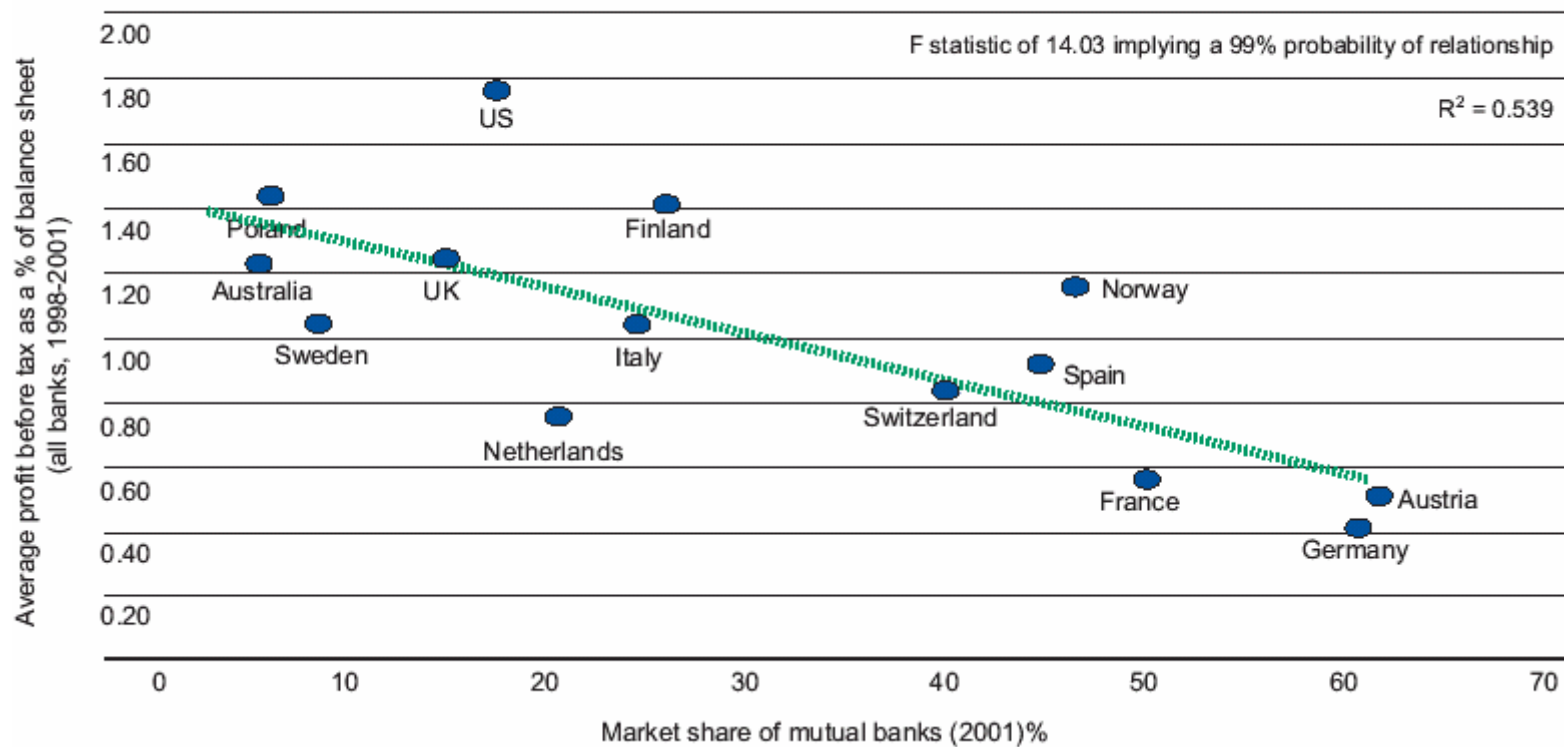
- view of the company: social institution
- who are stakeholders
- stakeholders v. shareholder
- bottom-line business objective
- exclusivity of objective
- strategy implications
- capital market pressure
- market in corporate control



# 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



# 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
- Privatised 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