

DeNederlandscheBank

EUROSYSTEEM

“Be prepared to be flexible”

Opening speech Nicole Stolk at the seminar ‘Design and practice of bank resolution’
Dutch-Belgium IMF constituency
Amsterdam, 11 October 2019

On 11 October 2019 The Dutch-Belgium IMF constituency held a seminar ‘Design and practice of bank resolution’ in Amsterdam. DNB’s resolution director Nicole Stolk opened the seminar with a speech in which she summarized the Dutch experience with bank resolution within the European context. She concluded by pointing out the two challenges for resolution in the near future: engaging with the banks and close cooperation between all parties involved.

Good morning and welcome to Amsterdam. We are here today in the Presidents' Room. If you look over to the far wall you can see that all the former presidents of De Nederlandsche Bank are watching us. At the top left is our very first President, Paul Iwan Hogguer. In 1814 he was appointed by King Willem the First of the Netherlands to oversee the creation of DNB. He was also mayor of Amsterdam at the same time! As the son of a Swiss banker and a Prussian mother, and with a brother who served as a diplomat at the Portuguese and the Russian courts, he would have appreciated such esteemed international company. As I am sure you do.

One of the main goals of this seminar is to meet each other and to share our experiences. It's good to see such a diverse range of nationalities. Most of you are from countries of the Dutch-Belgium IMF constituency. But we also have with us representatives from other jurisdictions, such as Indonesia, Egypt and Albania. There is also diversity in how you approach resolution. The different resolution regimes may of course reflect specific aspects of a jurisdiction, such as the structure of its banking sector. But each country's approach is also shaped by its history in dealing with a banking crisis. Some jurisdictions are already at an advanced stage in developing a designated resolution function. Others are just getting started. Some, like the Ukraine, have already dealt with resolution cases in the past, while others may have little hands on experience. This seminar is aimed at high-level management, to discuss the more strategic issues. The focus is on how resolution regimes are set up, as well as the guiding principles for resolution. The banking industry operates increasingly on a cross-border basis. This means effective cooperation between regulators is vital.

Meetings like this give us the opportunity to understand each other's approaches better. So we can become better aligned at a time when the industry is not in crisis. Today we can compare the lessons learned, and listen critically and constructively to one another. And – I hope – return home with fresh ideas and new contacts.

Now I will discuss our experience with resolution here in the Netherlands. Although we did not experience a real case since the establishment of the resolution regime, we have quite a lot experience in the set-up and design of a resolution function. I will describe our experiences so far from three different angles:

- our history
- the European context
- and the challenges we face.

The historical angle

First, the historical angle. I already indicated that we – fortunately – have had no experience with crisis cases since we established the resolution function in 2015. This of course does not mean the Dutch banking sector is a calm landscape, as we witnessed with the full blown financial crisis of 2008 to 2010. During this crisis, the Netherlands had its fair share of crisis management experiences. And that was actually very much in the hands of Mr. Nout Wellink, depicted on the lower right hand side of the gallery.

In that period, we had two bank failures, but the crisis also affected more systemically important banks and there was no resolution framework in place. The Dutch government had to support banks with taxpayers' money. This resulted in a difficult balancing act: maintaining public confidence while retaining critical bank functions. Since then, our guiding principle has been that taxpayers' money must never again be used to save failing banks. Losses incurred by banks must first and foremost be borne by the banks' shareholders and creditors.

This principle was actually partially applied to the public takeover of SNS Reaal in 2013, when the minister did write down on equity and subordinated debt. The Netherlands was, and still is, a very keen supporter of this "paradigm shift", which has also paved the way for the establishment of the current European resolution regime.

Although we have had no concrete cases of failure in the Netherlands since, lessons learnt elsewhere can help us improve our approach to resolution. Later during this seminar, we will analyse the few resolution cases in the EU, so we can see how the European resolution regime has been applied in practice. Ms. Rozhkova from Ukraine will also share the implications of the resolution of a major Ukrainian bank. Some authorities have experience with dry-runs and tests. I hope all of you will feel inclined to share lessons learned in the discussions of today.

The European context

The second angle I want to highlight is the European context. The introduction of European resolution legislation in the wake of the financial crisis offers strong benefits. But it certainly also presents challenges. For example, is our decision-making process effective enough? Aren't we too bureaucratic to act swiftly when needed? Achieving common policy outcomes can be complex and time-consuming. This is understandable and perhaps inevitable, given the different views and interests of Member States. But have we made enough progress to enhance resolvability since the crisis?

I believe there are still some remaining issues that need further action. For example, further efforts are needed to ensure adequate levels and quality of banks' loss absorbing capacity as well as to operationalise the resolution tools. You may have different views on this and I'd love to hear them. It would give us valuable food for thought.

A second major challenge we face, is that there are still gaps in the European resolution regime itself. For instance, the absence of a more harmonised insolvency regime at the European level may hinder an effective and consistent approach across Member States. Within the European Union, placing for example a French bank into insolvency proceedings can still be completely different than in case of an Estonian bank. The principles may be the same, but the recovery and timeframes can differ. We would like to see more consistency throughout the EU in this respect.

That said, in my view the benefits of a single resolution framework greatly outweigh these challenges. We now have a single framework that applies to all banks in the European Union. This really strengthens the level playing field. And on top of that, it can contribute to more effective cross-border solutions.

Clearly the solution of Fortis back in 2008 serves as a bad example here, when the problems and crisis response were ringfenced across Benelux borders. The new regime ensures that resolution tools can be applied to bank which is active in multiple countries. Ultimately, we are convinced that risks to the financial sector can be mitigated more effectively as part of a joint European effort.

Challenges

The third angle concerns the challenges facing DNB as Resolution Authority. Here, I want to highlight two challenges that you may well recognize. The first challenge is engaging with the banks. In the early years of resolution, banks didn't seem to take the new regime very seriously. However, in recent years the resolution perspective has become more integrated in the hearts and minds of banks.

We see that resolvability has increasingly become a standard consideration in strategic decisions. Institutions need to accept that resolvability has a cost. And that the resolution authority can set requirements, which may impact their financial and organisational structure. Requirements for loss-absorbing capacity, operationalisation of resolution tools, contributions to financing arrangements: all these measures can be quite costly, but they are – as we all know – necessary to ensure effective resolution. And this is a message that banks increasingly agree to, but not without continuous efforts.

The second challenge is cooperation. It is important that all our colleagues, whether they are in supervision, at the central bank, or at our Ministry of Finance, work closely with Resolution. They also have to take resolution into account in their decisions – just like banks are learning to do. However, interests and objectives may not always converge. The going-concern and gone-concern perspectives do not necessarily find common ground. So discussions between supervision and resolution can become heated. Nonetheless, these discussions also offer opportunities.

Having an integrated prudential view of a bank can help anticipate crisis scenarios. It also enables more effective coordination in the phases leading up to resolution. At DNB we see a lot of these synergies, given the various combinations of tasks that fall within our mandate. I haven't mentioned this yet, but besides being a resolution authority and a central bank, we also act as the supervisory authority, deposit guarantee authority, and macro prudential authority. All under one roof.

What's more, we have the deposit guarantee function and resolution function in the same directorate. This offers another valuable advantage, as it provides an integral view on resolvability. We will also discuss this cooperation in the fourth part of the seminar.

I have already taken a lot of your time in sharing our experiences, so let me wrap up and add one final thought. Five words that pretty much sum up resolution: Be prepared to be flexible. The essence of our job and this seminar is to be prepared for the worst. Being prepared is key for making sure resolution regimes work effectively in practice. But since we can never fully predict how bank failure will play out, a plan with no flexibility is not a good plan. Here, crisis simulation exercises are a key tool for developing flexibility.

Conclusion

Summing up, my three main messages this morning are:

First, cooperation. Cooperation between resolution authorities, but also with other authorities like DGS's, supervisory authorities and ministries, is key to promote an effective and consistent resolution regime.

Second, preparation. Although practice will be different from planning, we can boost the chances of successful resolution action if we step up crisis preparation, while maintaining a flexible approach. This will also decrease the legal risk of resolution actions.

Finally, to establish a strong resolution regime: we need to persist in our endeavours. It takes time and perseverance to overcome hesitation or reluctance, which is still present at some banks and authorities. Yet we also need to keep up our collective efforts if we really want to minimise the impact of bank failures on the real economy and society as a whole. It is fitting that the word "resolution" can also mean "will power", or "determination". Because these are exactly the qualities we need to overcome doubts in the sector and get everyone on board. I am sure today will produce some valuable insights which will help us all gain a deeper understanding of how we approach resolution in our respective jurisdictions. And of course, this understanding will only serve to strengthen our collective approach.

Thank you!