



Have lessons  
from previous  
bank crises been  
learned?

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the Basel Committee on Banking Supervision

2013-11-12, Geneva

# Today's agenda

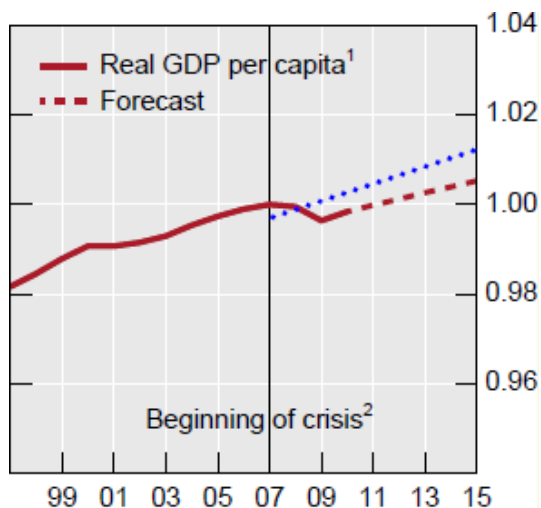
- Financial crisis – nothing new
- Banks in crisis
- The Swedish 1990's experience
- Response – new regulation
- Have lessons been learned?

# Financial crisis – nothing new

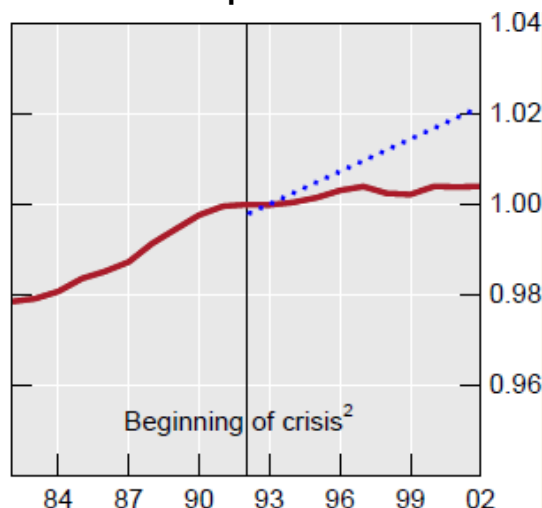
- 1637 – Dutch "Tulip mania", first known speculative bubble
- 1772 – Credit crisis in Great Britain and its colonies
- 1857 – World wide financial crisis
- 1873 – US/Europe, "The long depression"
- 1929 – Wall Street crash
- 1930's – "The great depression"
- 1970's – Oil crisis
- 1990's – Crises in Scandinavia, US, Asia, Russia
- 2001 – Dot-com bubble burst
- 2008 – Present crisis

# Financial crises have significant long run costs

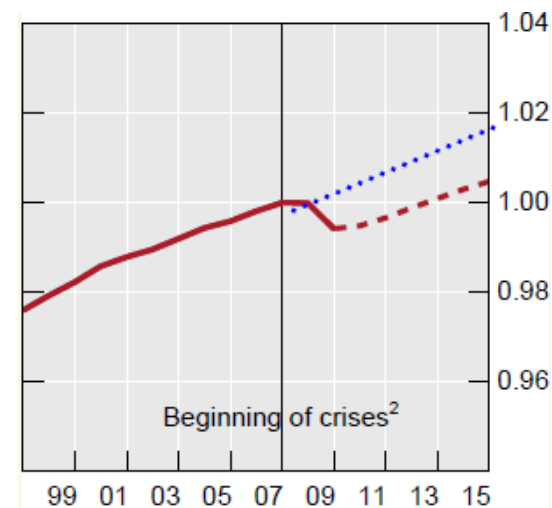
US



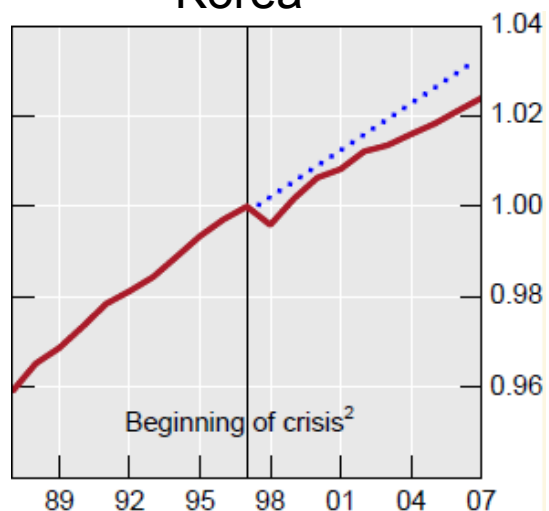
Japan



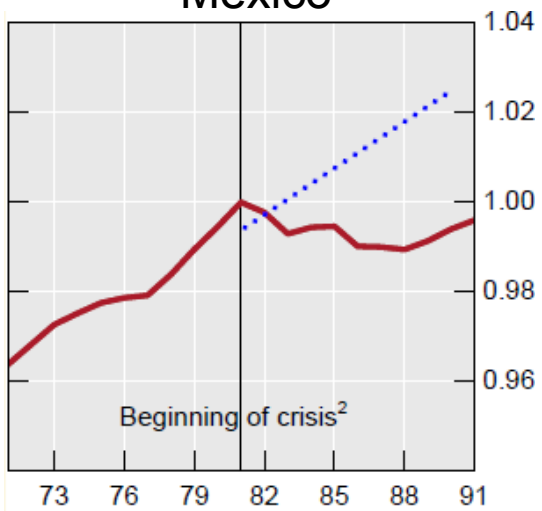
UK



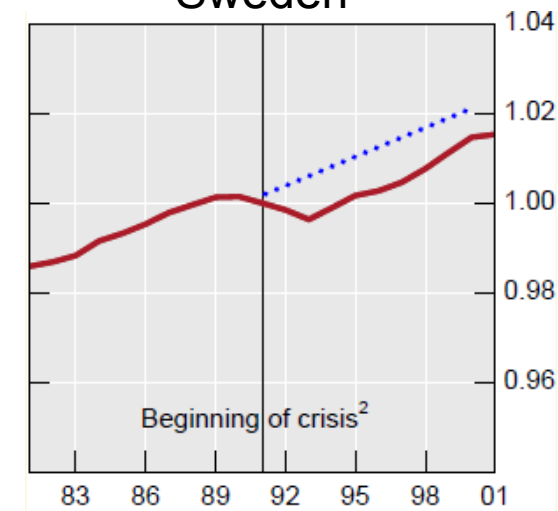
Korea



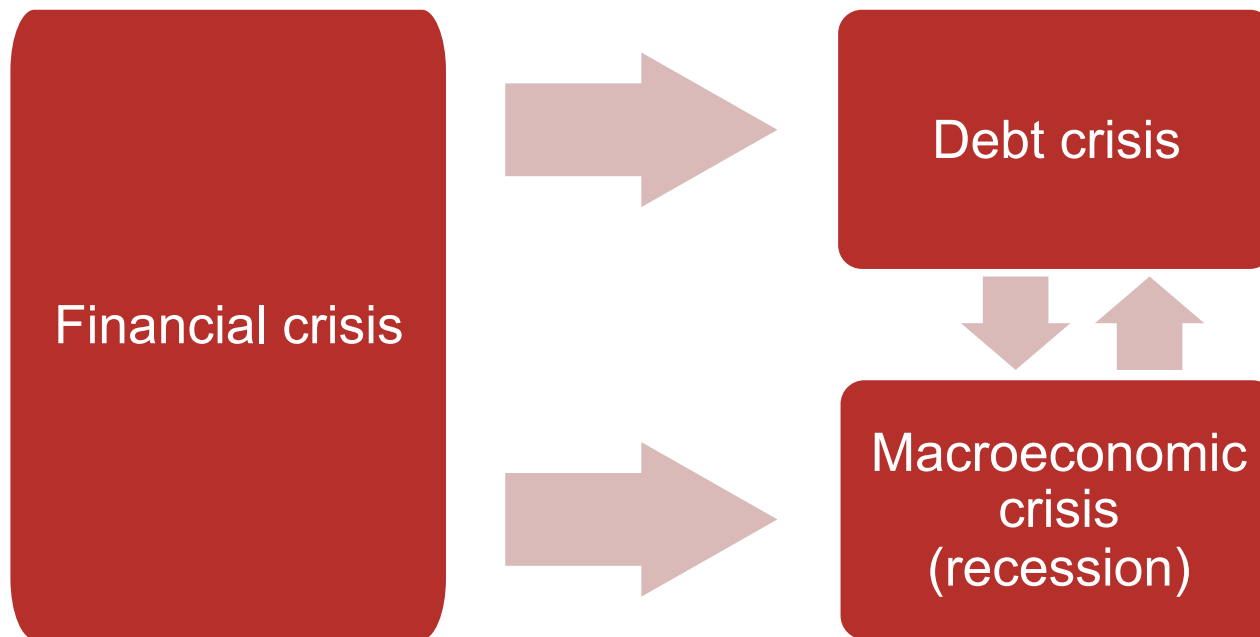
Mexico



Sweden



# The most recent crisis – in fact several crises



# What happens to banks in a crisis?

## - Understanding a banks balance sheet

### Assets

Assets

#### Examples

- Loans to firms
- Loans to households
- Loans to other banks
- Stocks
- Bonds

### Liabilities & equity

Equity

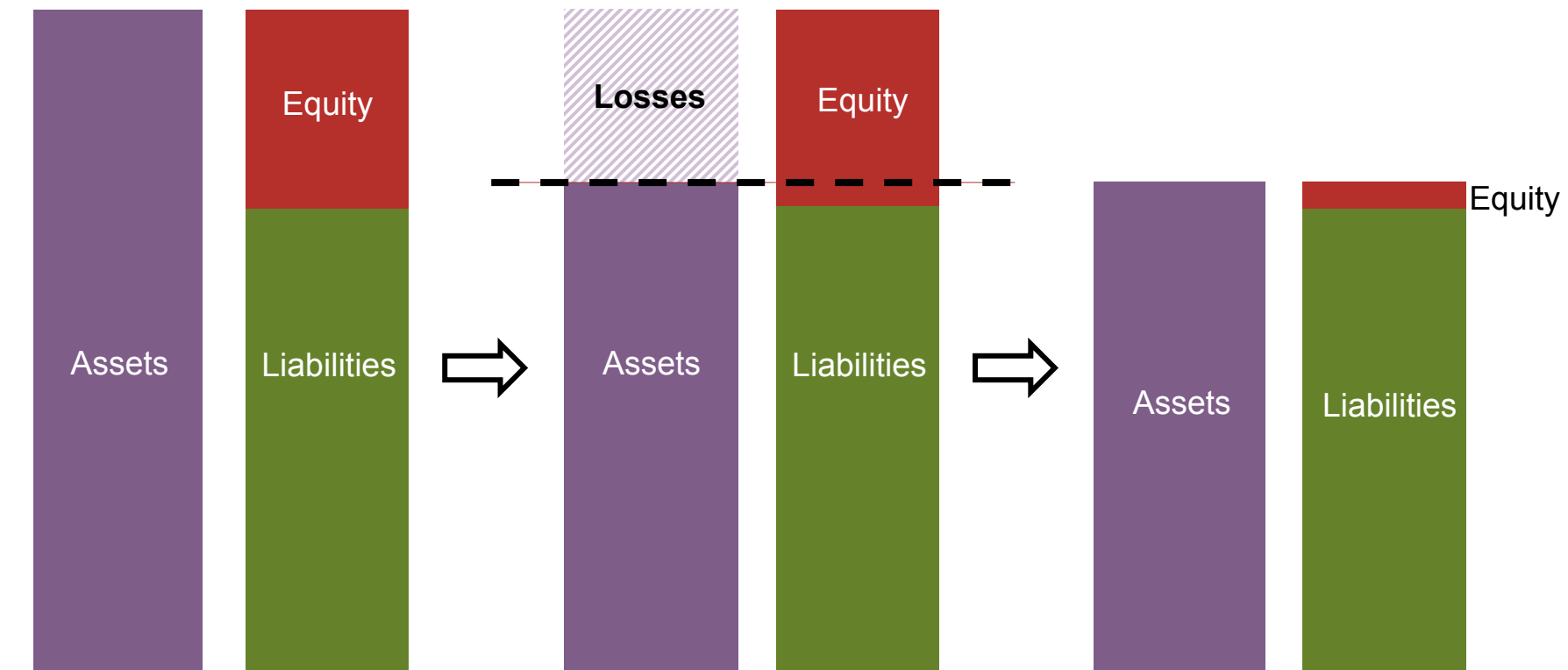
Liabilities

#### Examples

- Household savings
- Firms' deposits
- Borrowing from other banks

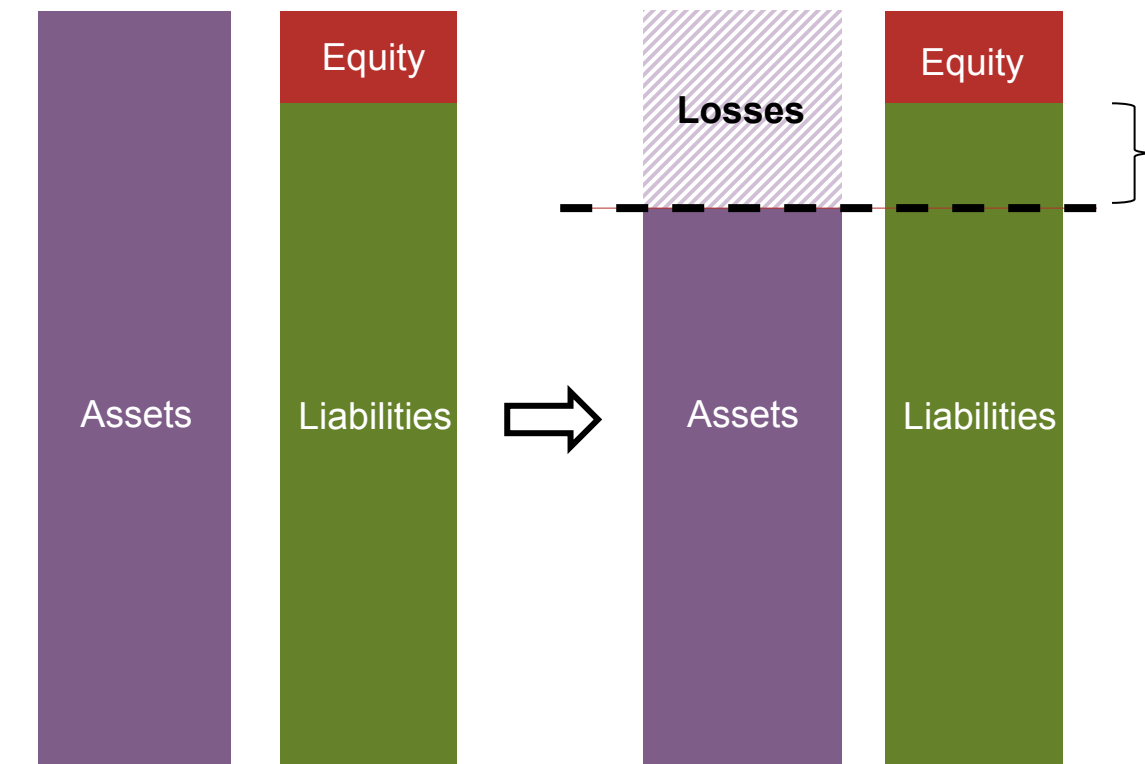
# What happens when the value of lending falls?

- a bank with equity exceeding losses



# What happens when the value of lending falls?

- a poorly capitalised bank



Who should pay for this shortfall and how?

- **Creditors?**
- **Household depositors as well?**
- **Government?**



# Comparison between traditional bail-out and the bail-in tool

	Traditional bail-out	Bail-in
Implication	Government covers equity shortfall, letting creditors off the hook	Some creditors lose money, shielding taxpayers (to some extent)
Advantage	Can be applied quickly	May discipline banks
Risks	<ul style="list-style-type: none"><li>■ May undermine discipline</li><li>■ Litigation with equity holders</li></ul>	<ul style="list-style-type: none"><li>■ Not tested large scale</li><li>■ May be too slow</li></ul>
Household contribution	As taxpayer	As depositor or saver

# The EU Banking Union and the asset quality review

- In 2015, ECB will take over supervision of large European banks
  - A so-called asset quality review will be undertaken during 2014
  - The purpose is to discover hidden losses and establish their magnitude
    - Increase transparency
    - Distribute costs
    - Revive banking sector
-

# Financial analysis



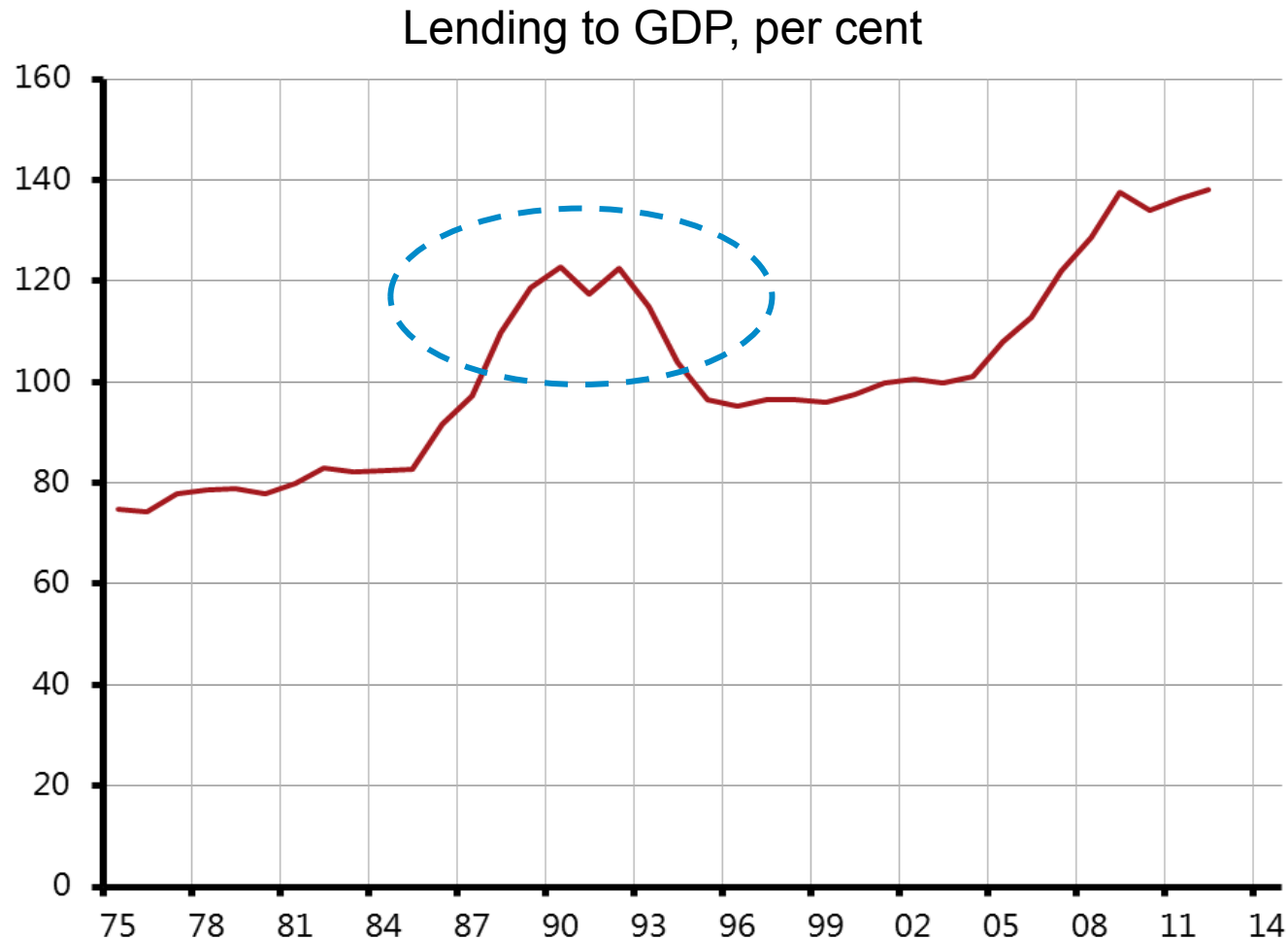
The Bank  
Auditors

The Bank  
Valuation  
Board

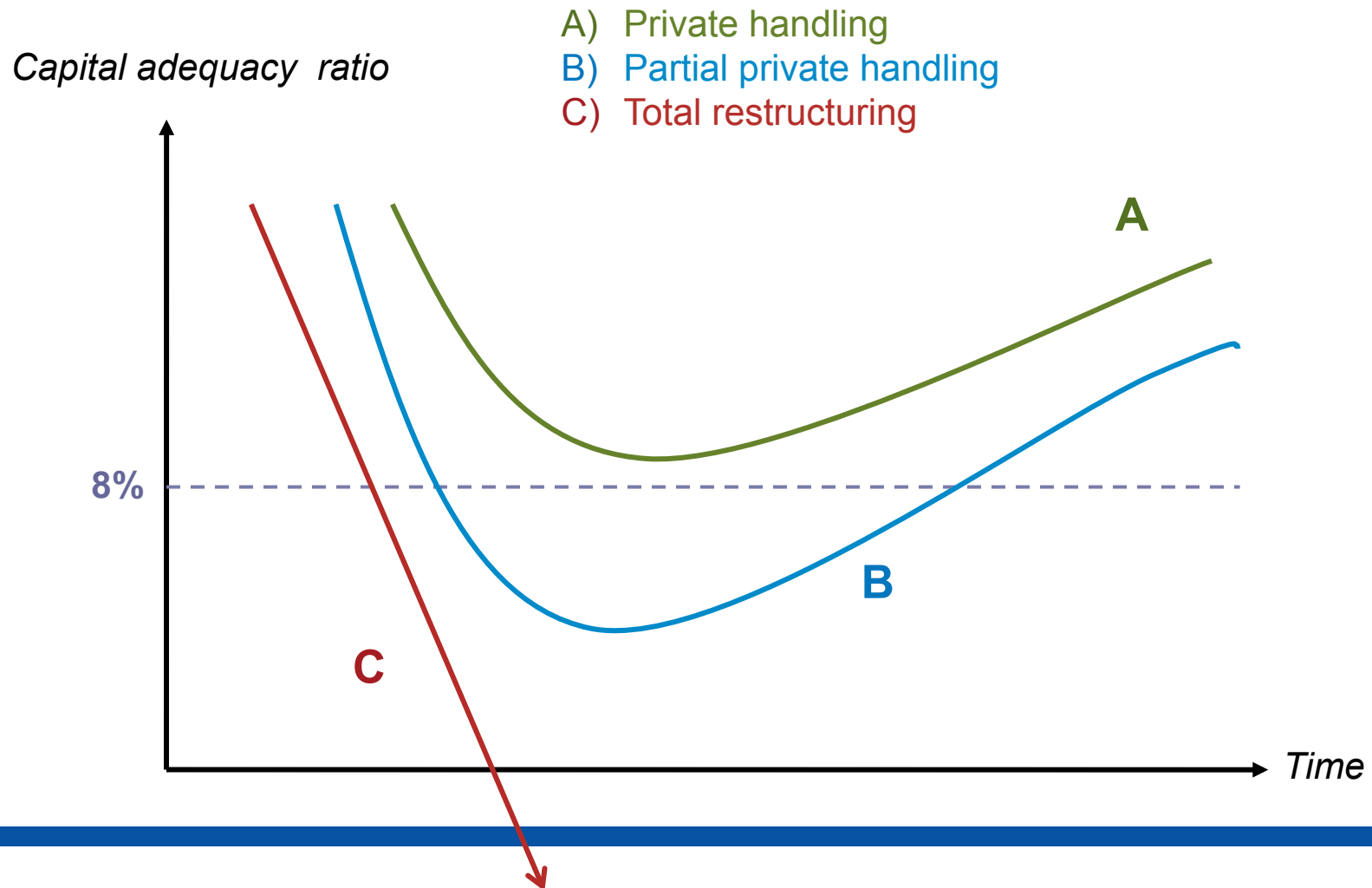
The Bank  
Auditors

Advisors

# The Swedish experience – 1990's crisis



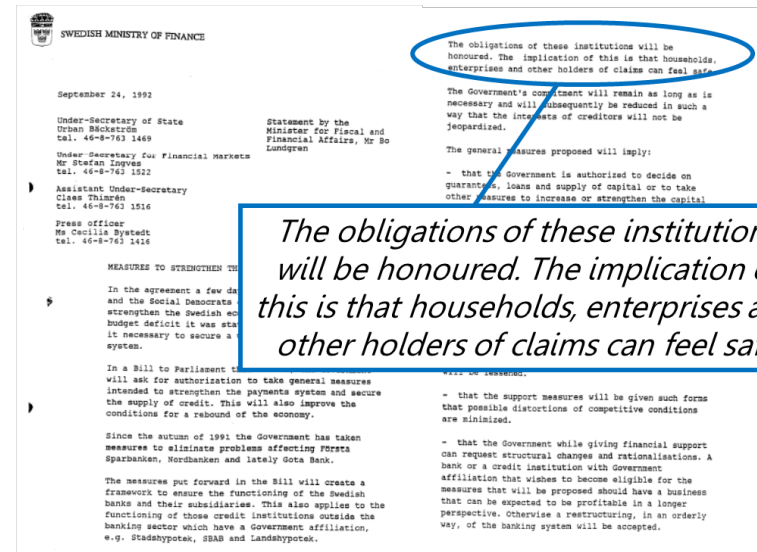
# How do you handle a bank in crisis?



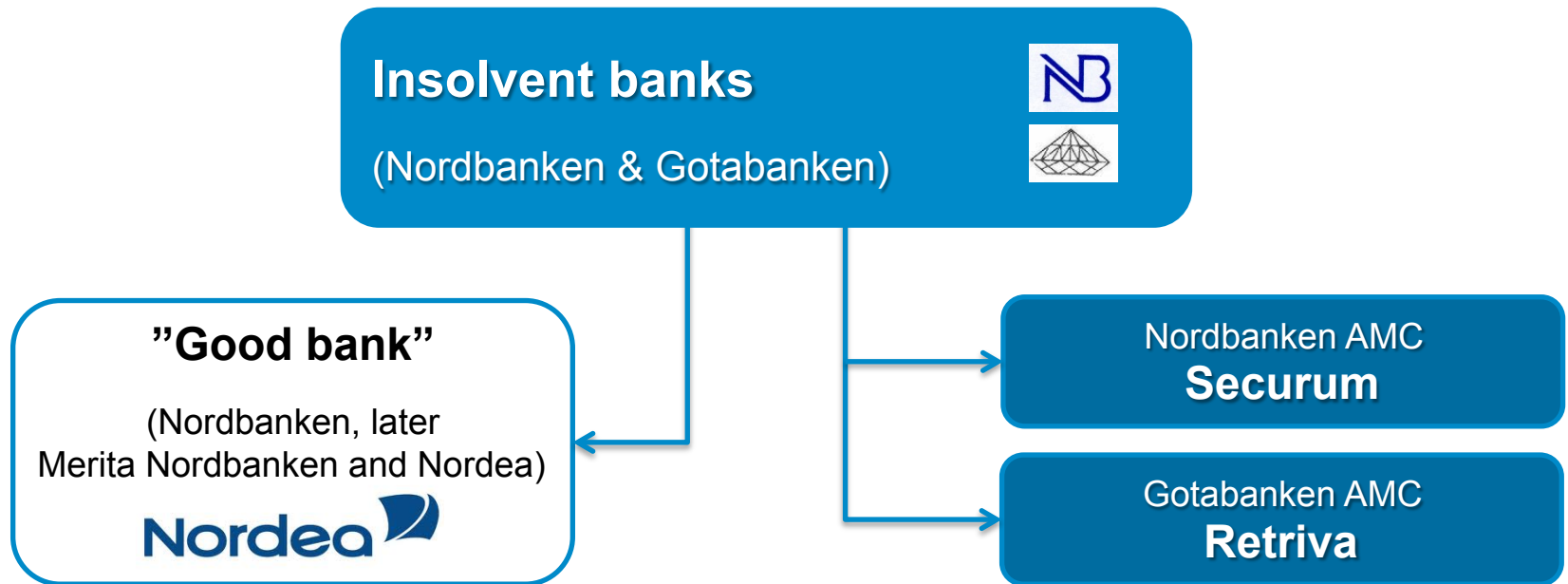
# Elements of the Swedish 1990's bank resolution

- Unanimous and swift political action
- Blanket guarantee
- Differentiated resolution strategies for solvent and insolvent banks
- Bank support authority
- Transparency

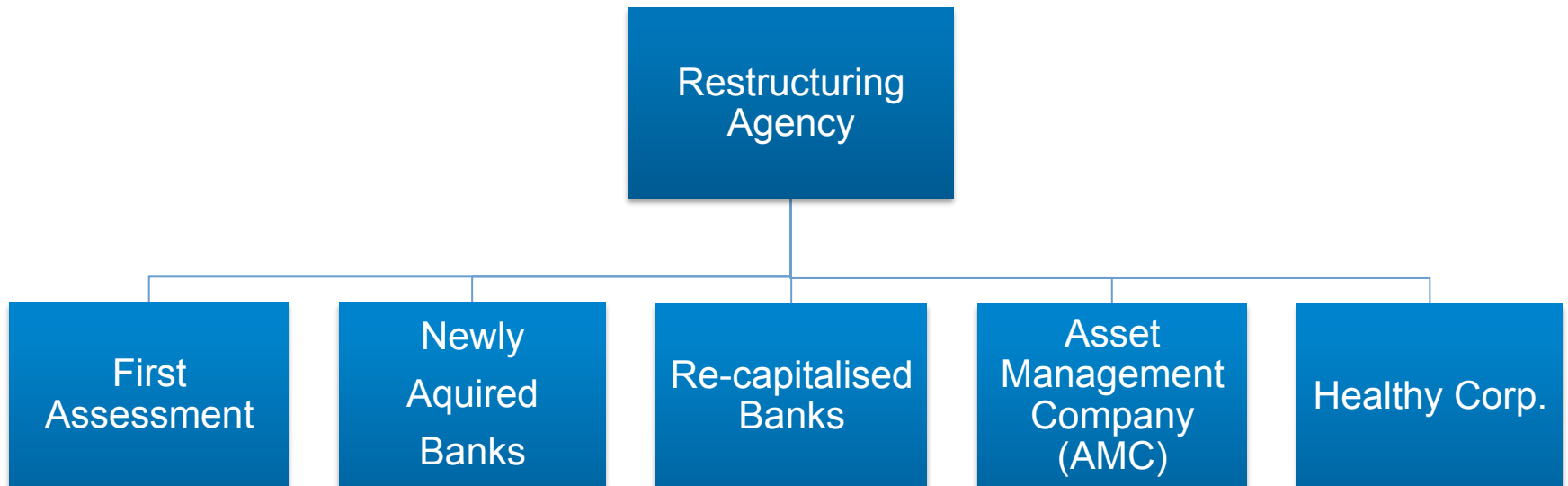
## MoF Press Release, 24 september 1992



# Insolvent banks were split up in "good" and "bad"



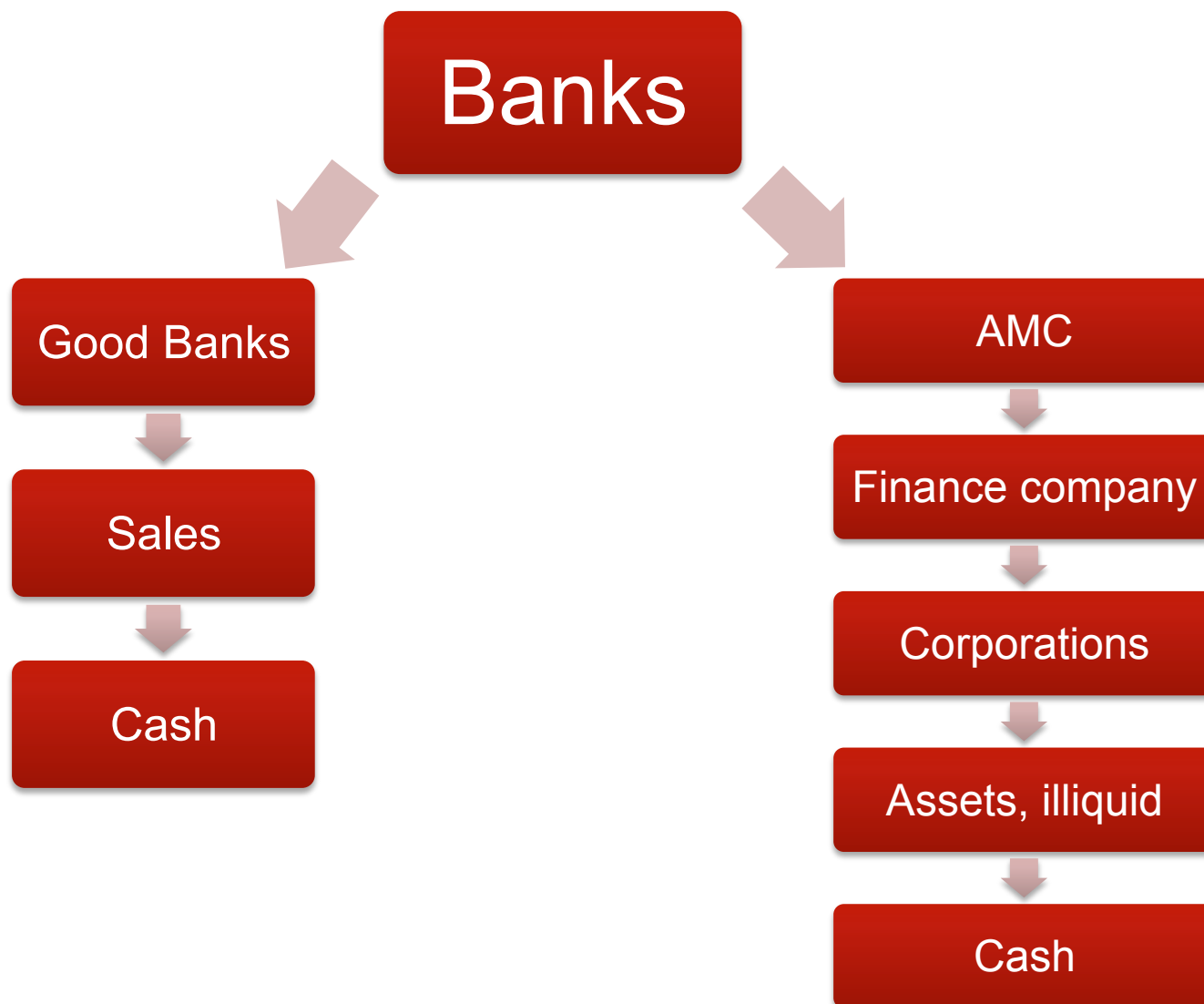
# Time line



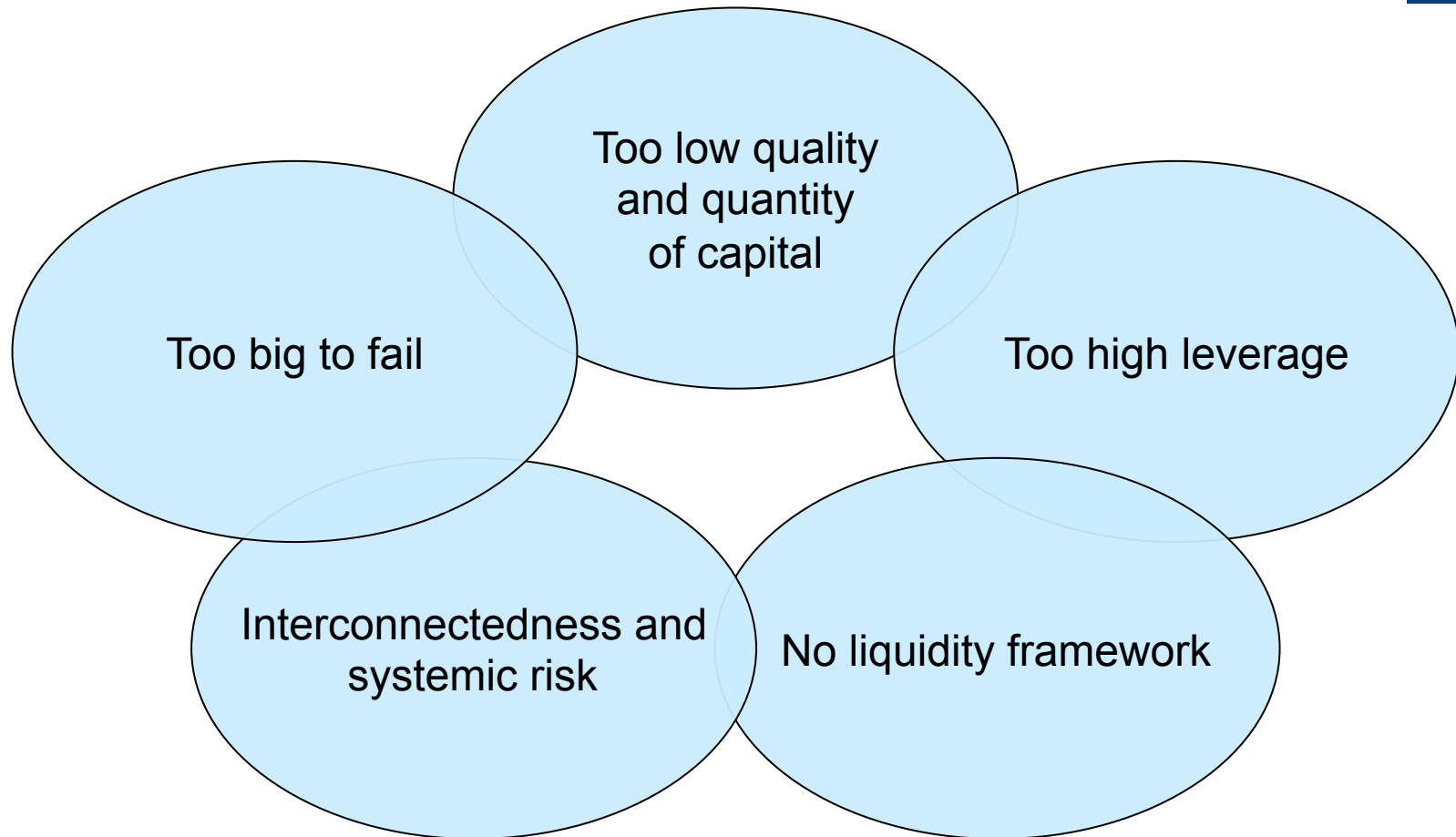
**Time** 



# Corporate flow



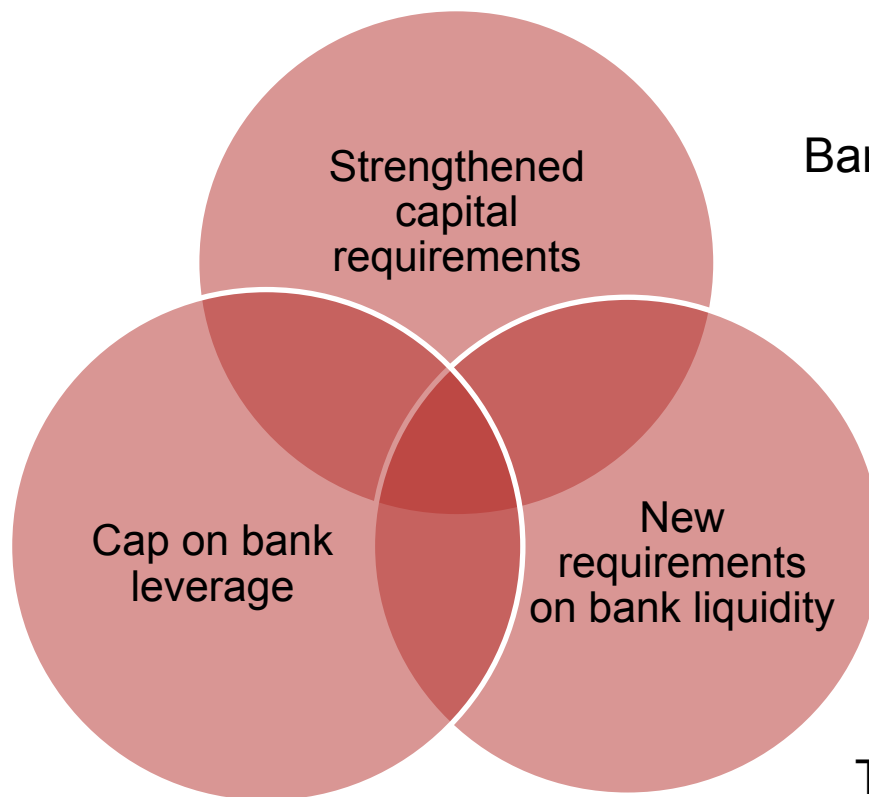
# Underlying problems of recent crisis



# Basel III – regulatory response to the financial crisis

- A key component of the official response to the financial crisis (G20)
- Objective: reduce the probability and severity of banking crises in the future
- Replacing and complementing the Basel I (1988) and Basel II (2004) frameworks

# Basel III – regulatory response to the financial crisis



Banks need more and better capital

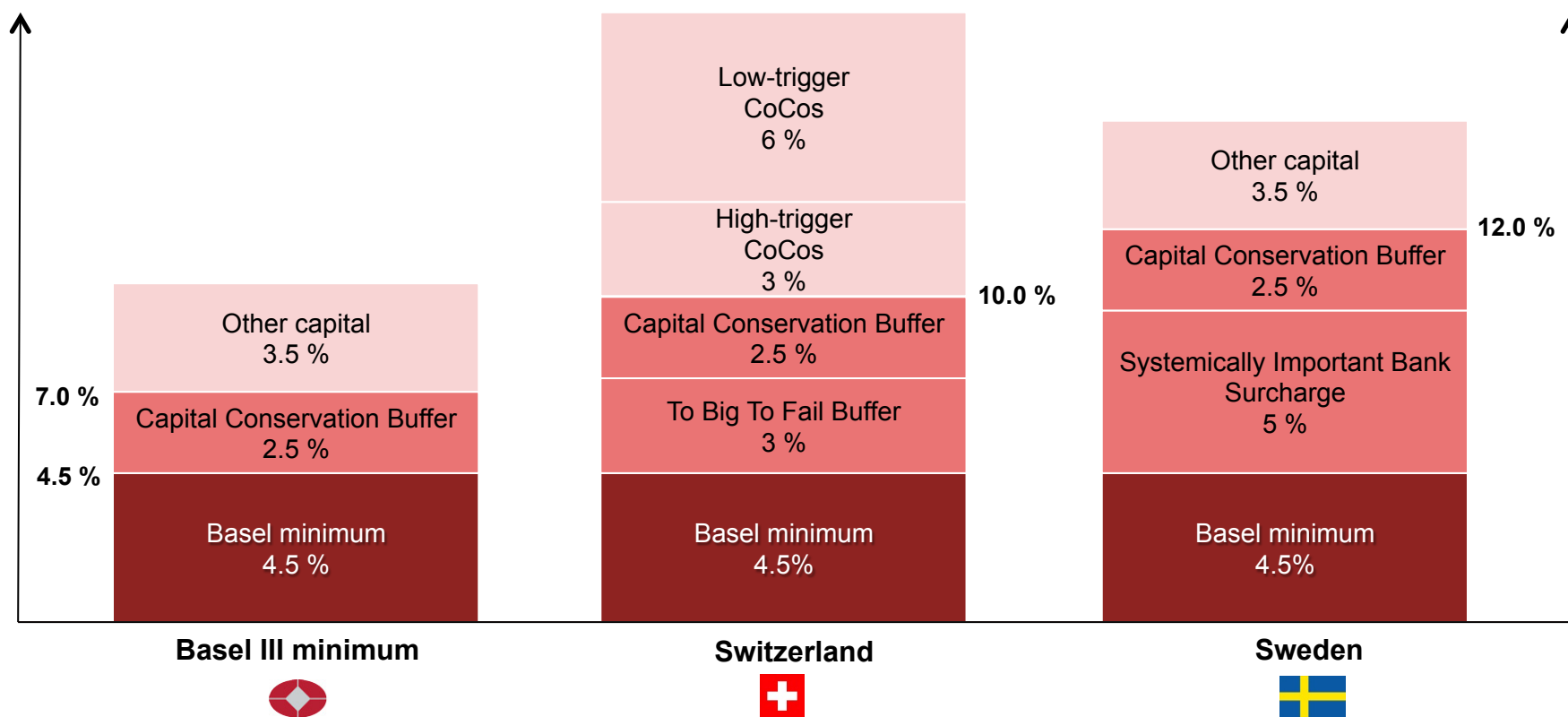
An extra perspective on the banks capital

Two new measurements:  
Liquidity coverage ratio (LCR)  
Net stable funding ratio (NSFR)

# Some countries have introduced stricter requirements

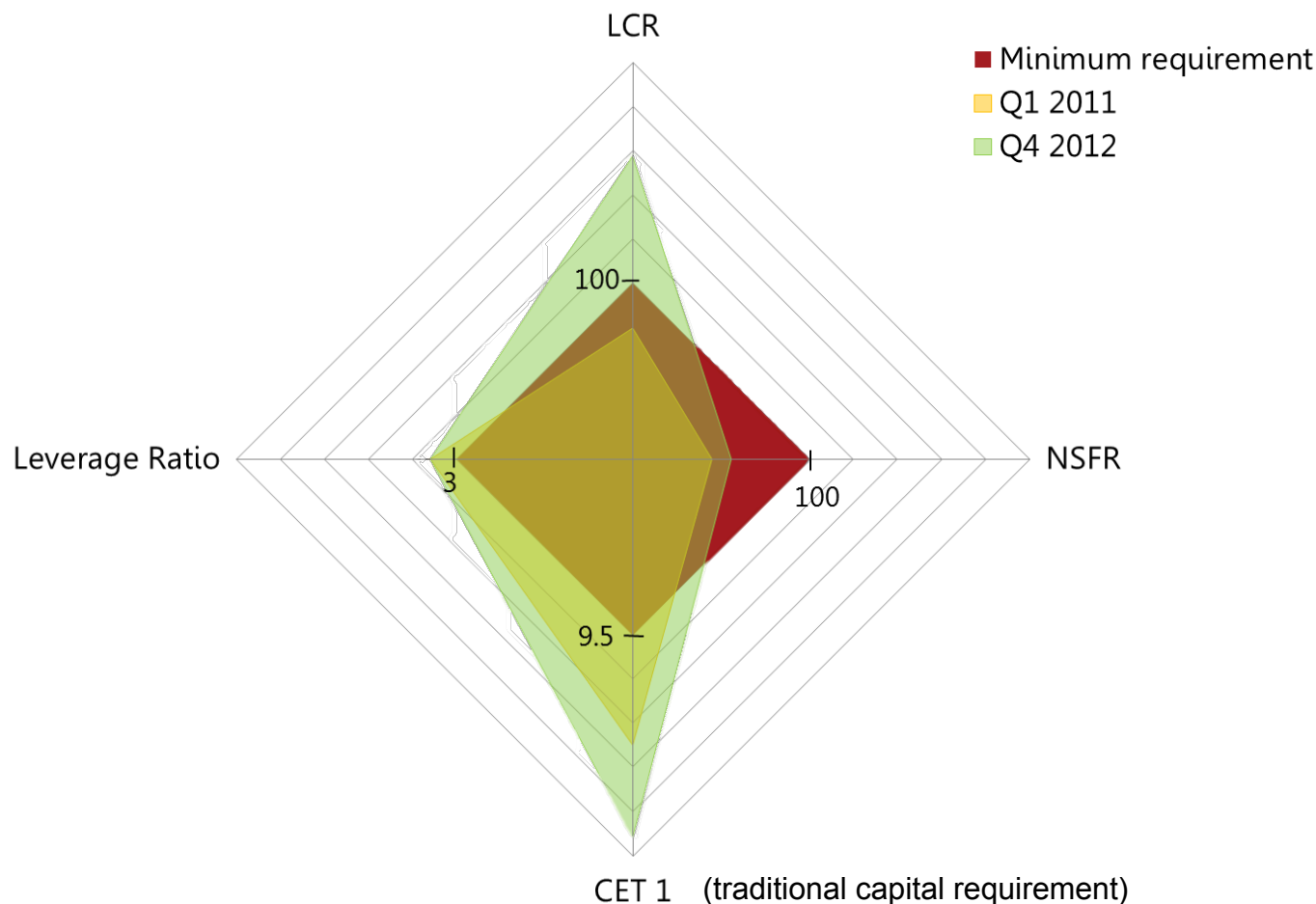
CET1/RWA

CET1/RWA



Note: CoCos = Contingent Convertibles, a security similar to a convertible bond.

# Swedish banks' progress towards the new regulatory requirements



Note: the indicated positions in the diagram shows the average Basel III ratios for the major Swedish banks. For CET 1 Sweden has currently a higher requirement at 12 % CET 1. the Basel requirement is 9.5% if the contra cyclical buffer and capital conservation buffer are included.

# Better regulation contributes to a more sustainable system

**Better  
regulation**

**Enhanced  
financial  
stability**

**Fewer and  
milder  
financial  
crises**

**Stronger  
real  
economy**

**Have lessons from previous bank crises  
been learned?**

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Thank you