



Have lessons
from previous
bank crises been
learned?

Stefan Ingves

Governor of the Riksbank and Chairman of
the Basel Committee on Banking Supervision

2013-11-12, Geneva

Today's agenda

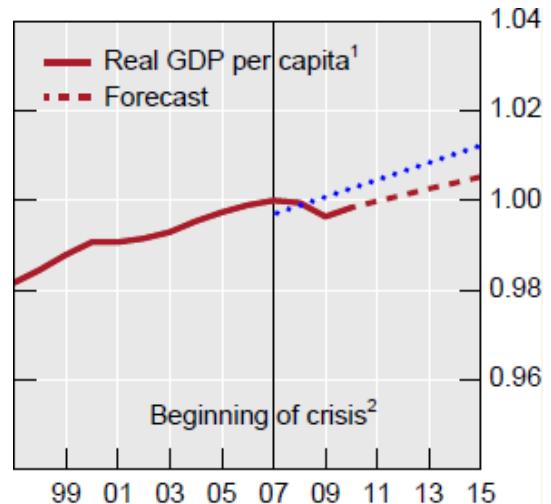
- Financial crisis – nothing new
- Banks in crisis
- The Swedish 1990's experience
- Response – new regulation
- Have lessons been learned?

Financial crisis – nothing new

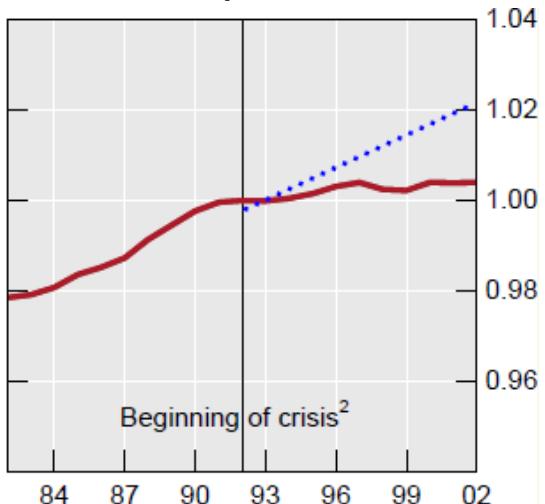
- 1637 – Dutch "Tulip mania", first known speculative bubble
- 1772 – Credit crisis in Great Britain and its colonies
- 1857 – World wide financial crisis
- 1873 – US/Europe, "The long depression"
- 1929 – Wall Street crash
- 1930's – "The great depression"
- 1970's – Oil crisis
- 1990's – Crises in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

Financial crises have significant long run costs

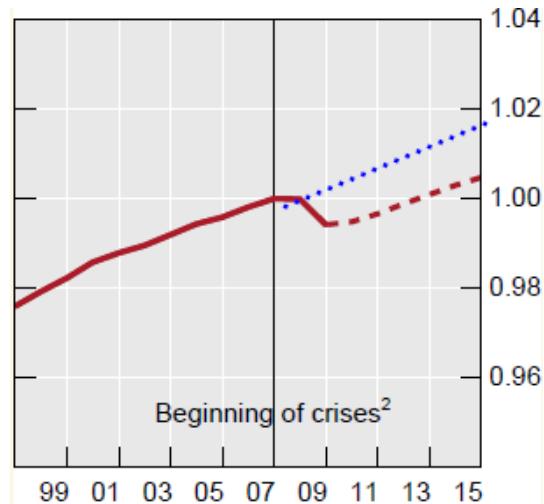
US



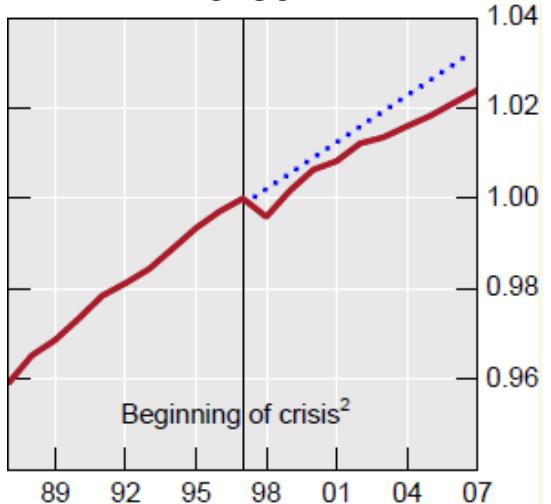
Japan



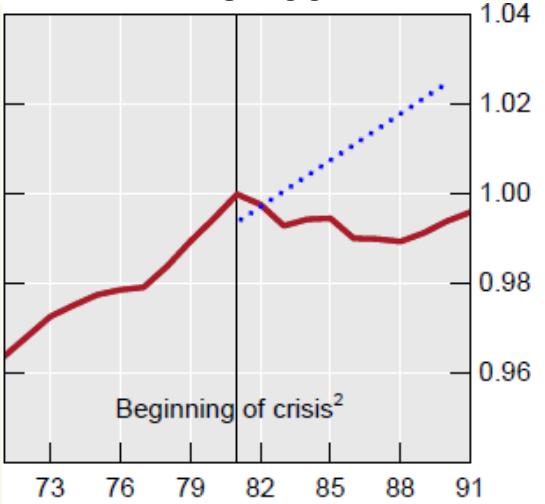
UK



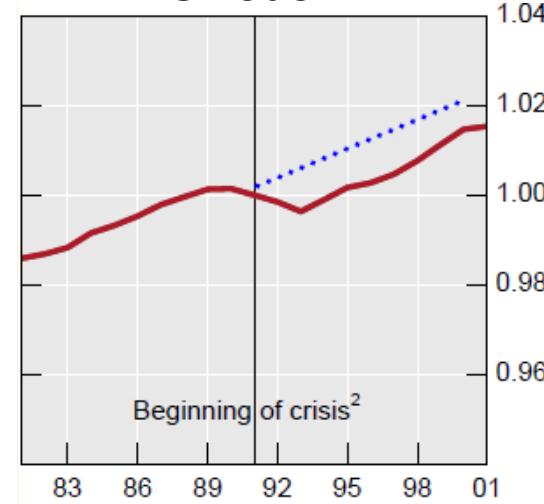
Korea



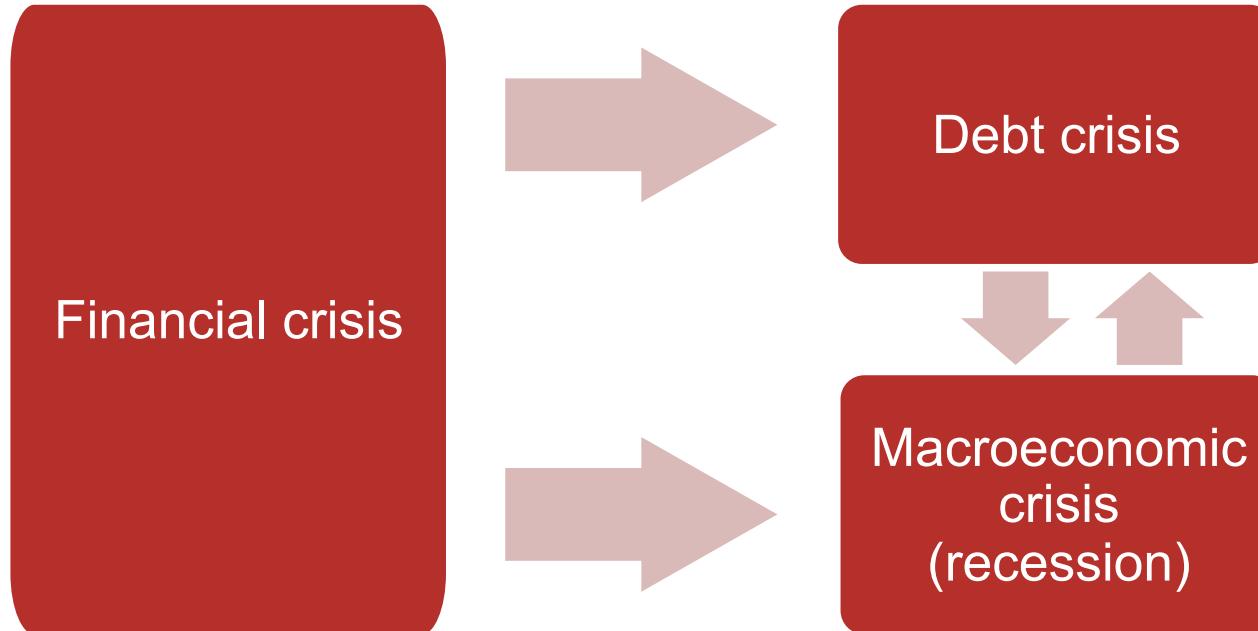
Mexico



Sweden



The most recent crisis – in fact several crises



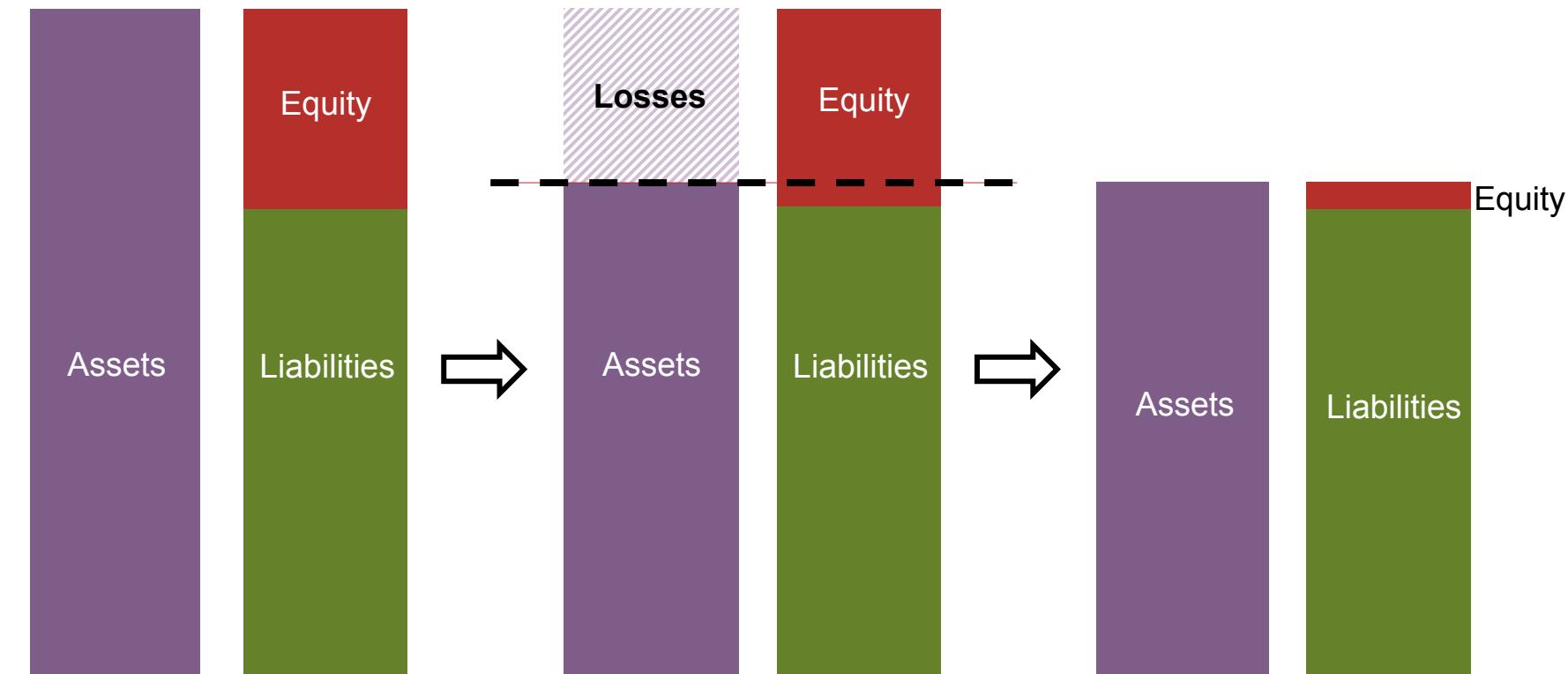
What happens to banks in a crisis?

- Understanding a banks balance sheet

	Assets	Liabilities & equity	
<u>Examples</u> <ul style="list-style-type: none">• Loans to firms• Loans to households• Loans to other banks• Stocks• Bonds	Assets	Equity Liabilities	<u>Examples</u> <ul style="list-style-type: none">• Household savings• Firms' deposits• Borrowing from other banks

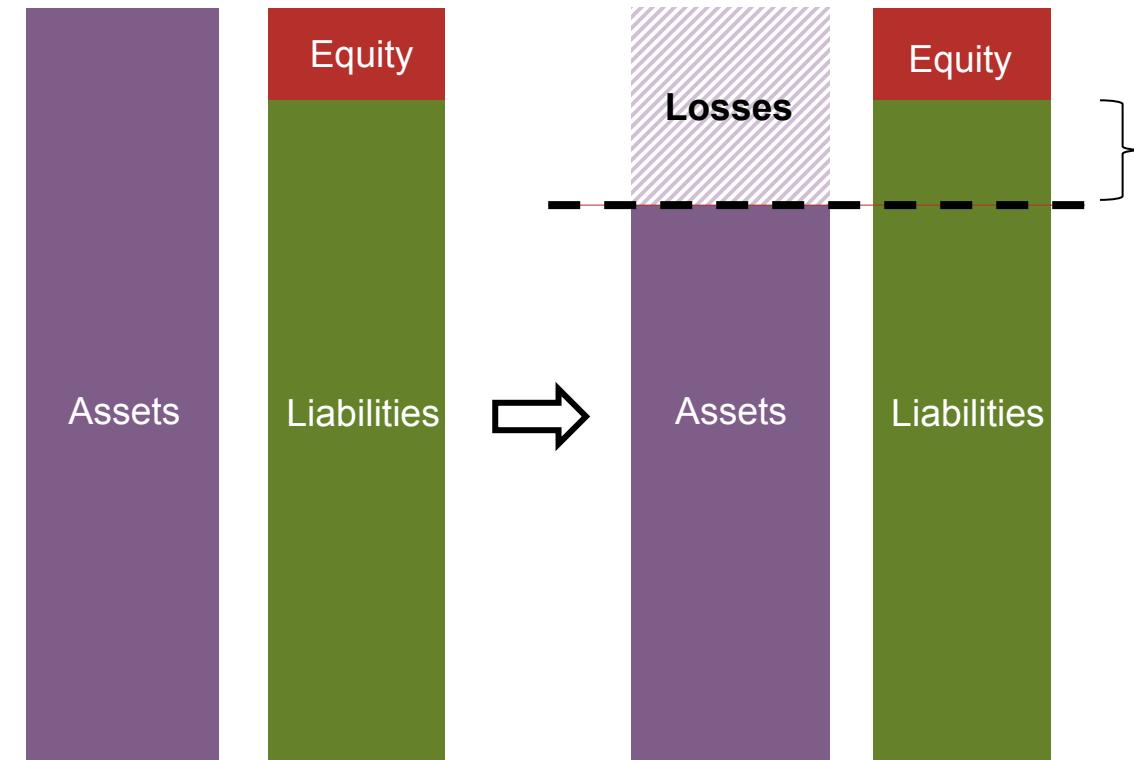
What happens when the value of lending falls?

- 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



Implication

Traditional bail-out

Government covers equity shortfall, letting creditors off the hook

Advantage

Risks

Household contribution

Bail-in

Some creditors lose money, shielding taxpayers (to some extent)

May discipline banks

- May undermine discipline
- Litigation with equity holders

As taxpayer

- Not tested large scale
- May be too slow

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

Classification of
Credit Portfolio

Valuation of
Property
Collateral

Valuation of
Credit
Portfolio

Sensitivity
Analysis in the
Financial
Model

Evaluation

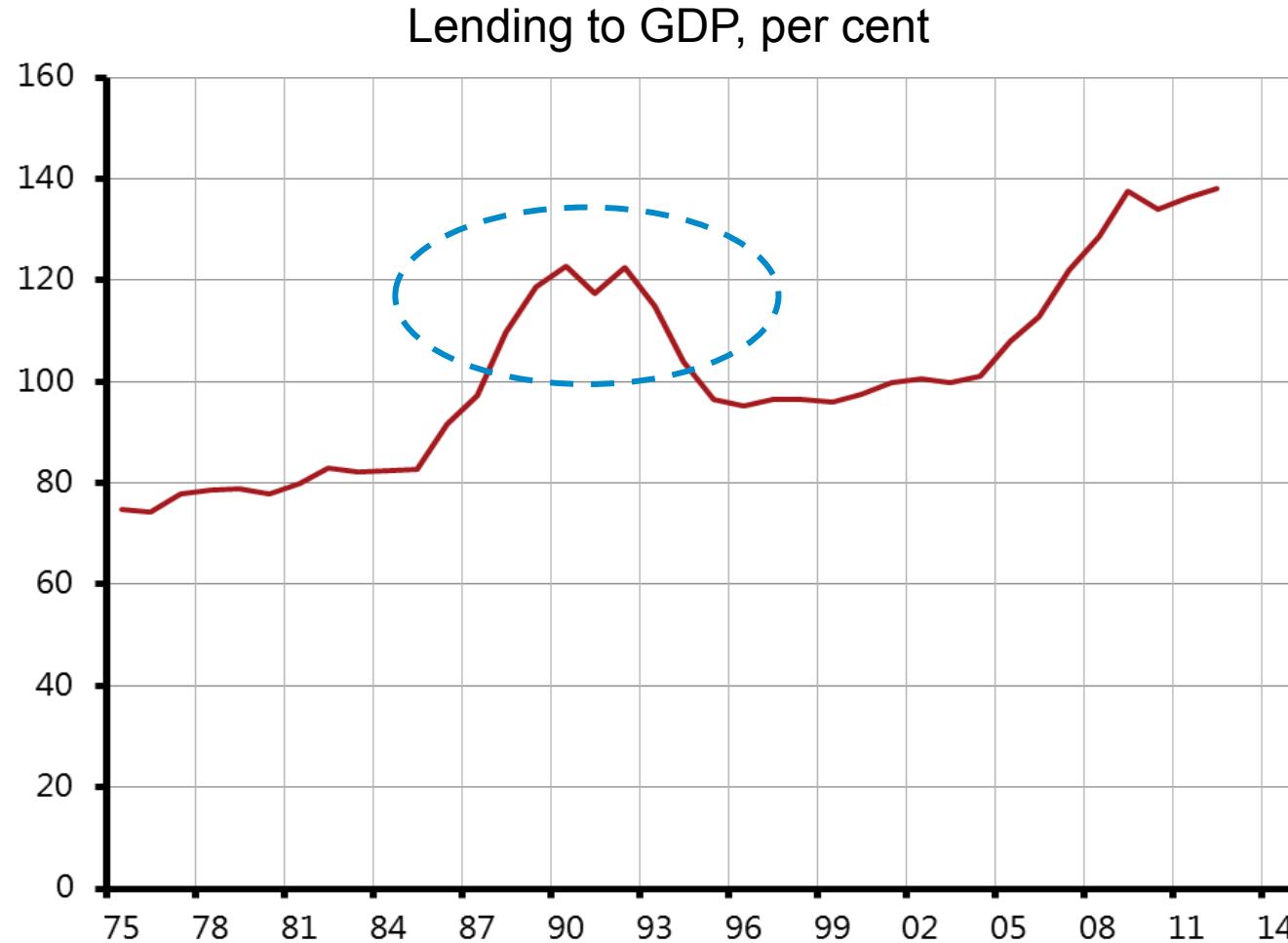
The Bank
Auditors

The Bank
Valuation
Board

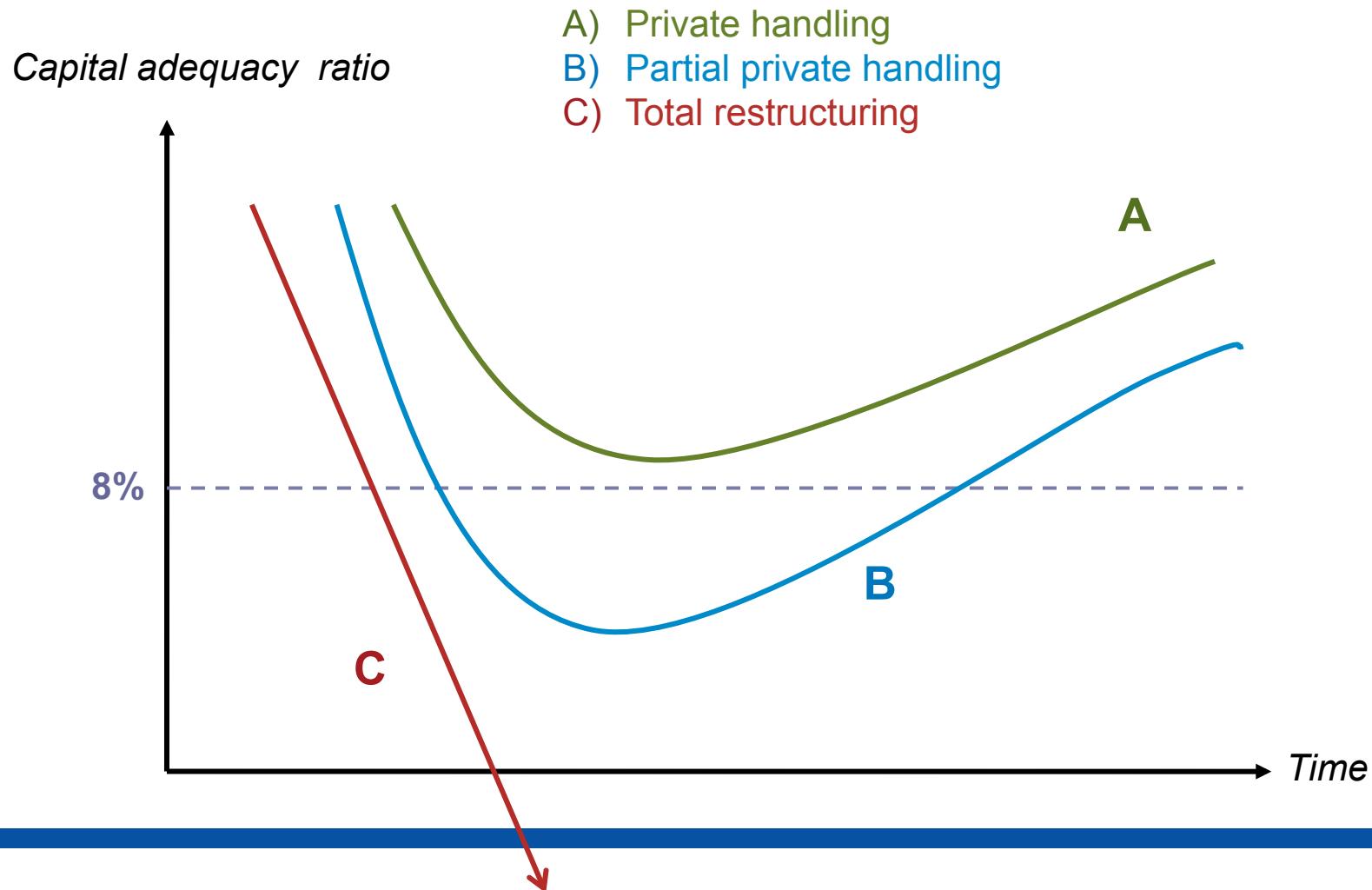
The Bank
Auditors

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

SWEDISH MINISTRY OF FINANCE

September 24, 1992

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Statement by the
Minister for Fiscal and
Financial Affairs, Mr Bo
Lundgren

MEASURES TO STRENGTHEN THE PAYMENT SYSTEM

In the agreement a few days ago between the Social Democrats and the Swedish Socialists it was decided that it was necessary to secure a system.

In a Bill to Parliament to be presented in the autumn the Government will ask for authorisation to take general measures intended to strengthen the payment system and secure the supply of credit. This will also improve the conditions for a rebound of the economy.

Since the autumn of 1991 the Government has taken measures to eliminate problems affecting Första Sparbanken, Nordbanken and lately Gota Bank.

The measures put forward in the Bill will create a framework to ensure the functioning of the Swedish banks and their subsidiaries. This also applies to the functioning of those credit institutions outside the banking sector which have a Government affiliation, e.g. Stadshypotek, SBAB and Landshypotek.

The obligations of these institutions will be honoured. The implication of this is that households, enterprises and other holders of claims can feel safe.

The Government's commitment will remain as long as is necessary and will subsequently be reduced in such a way that the interests of creditors will not be jeopardized.

The general measures proposed will imply:

- that the Government is authorized to decide on guarantees, loans and supply of capital or to take other measures to increase or strengthen the capital

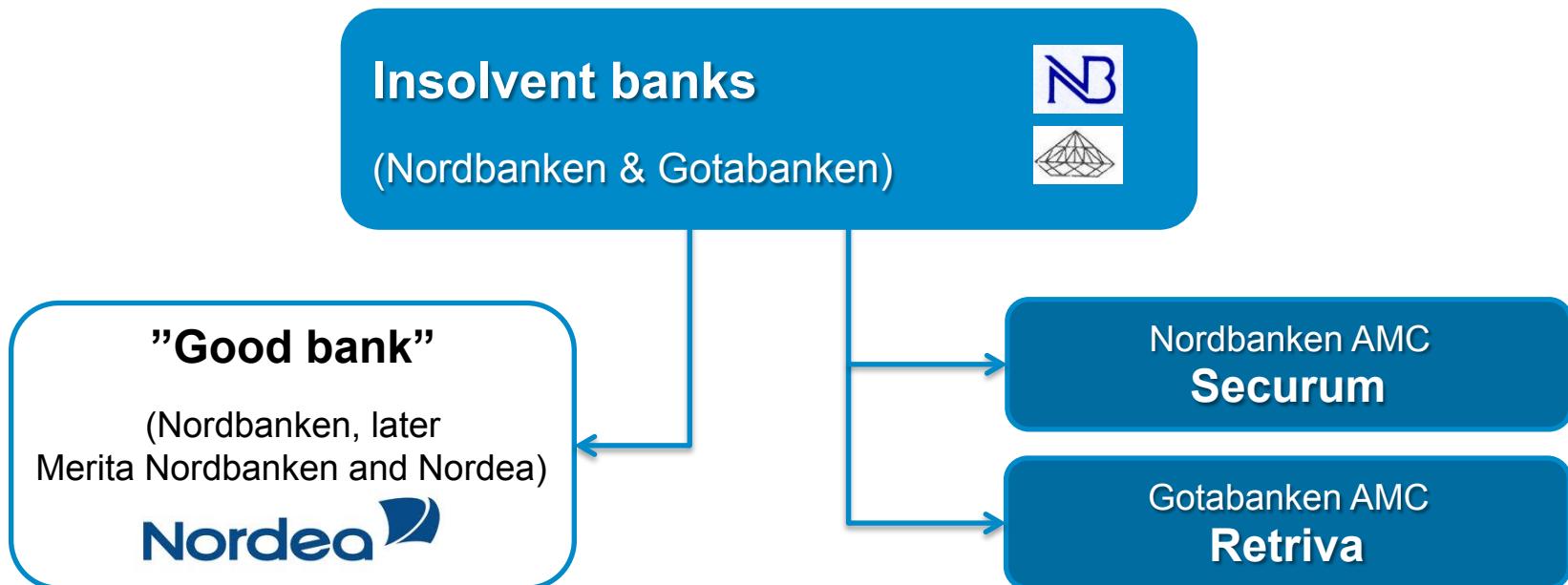
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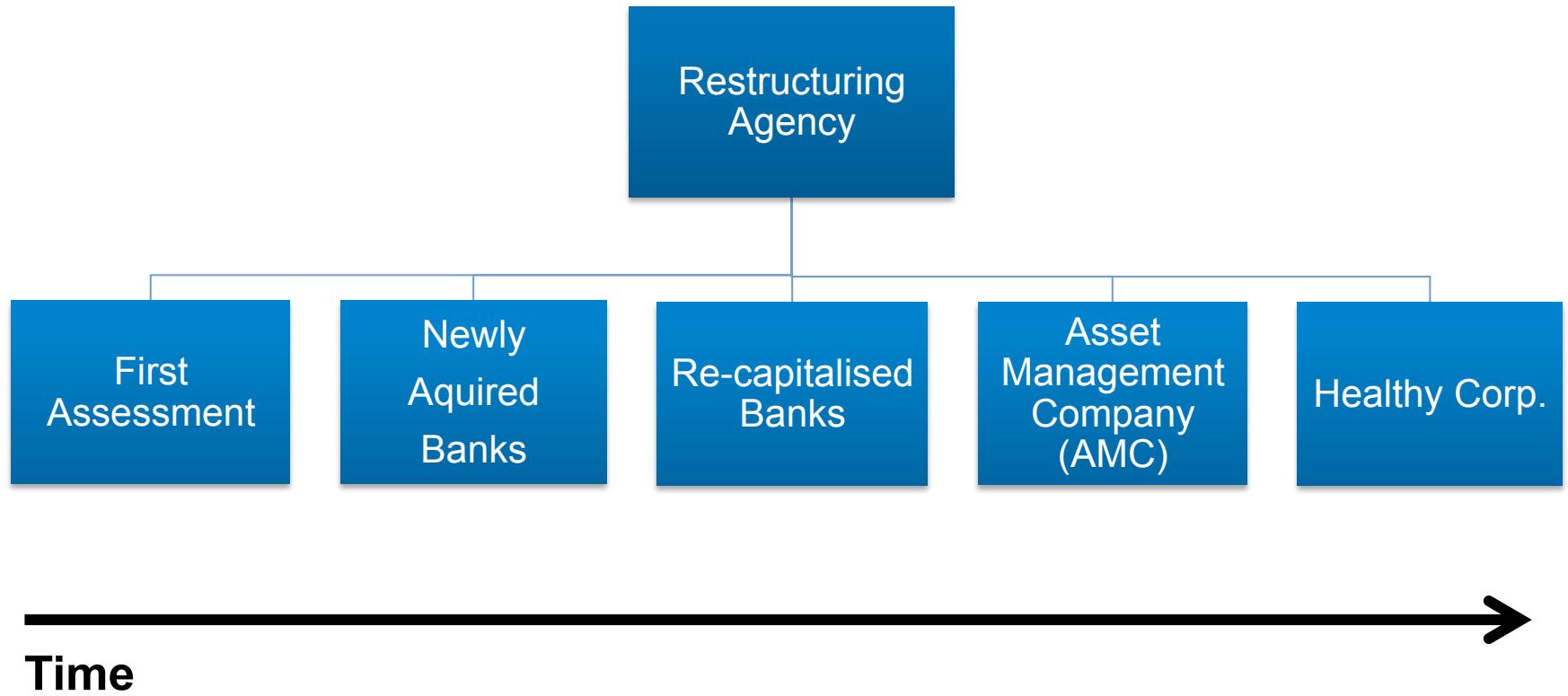
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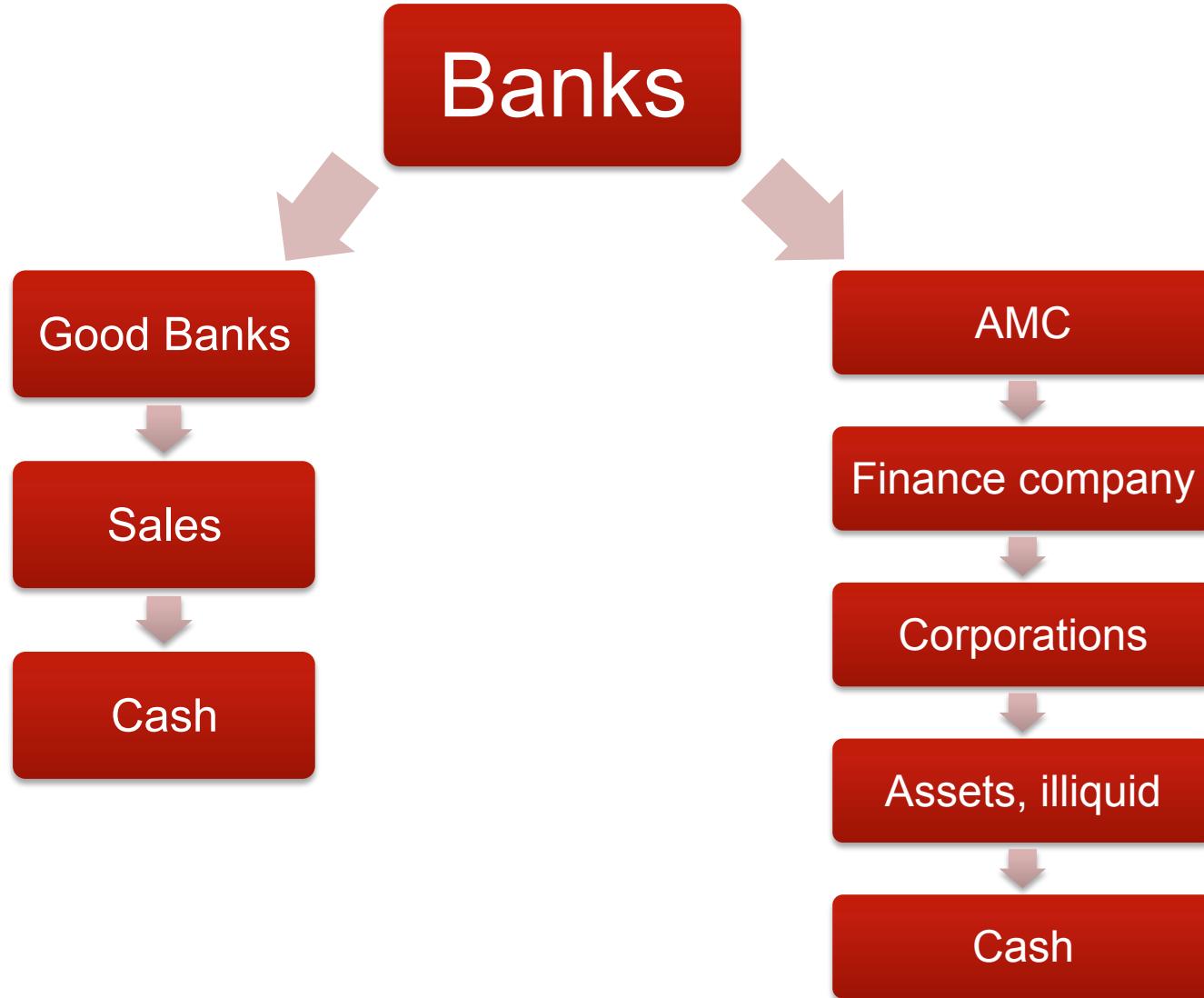
Insolvent banks were split up in “good” and “bad”



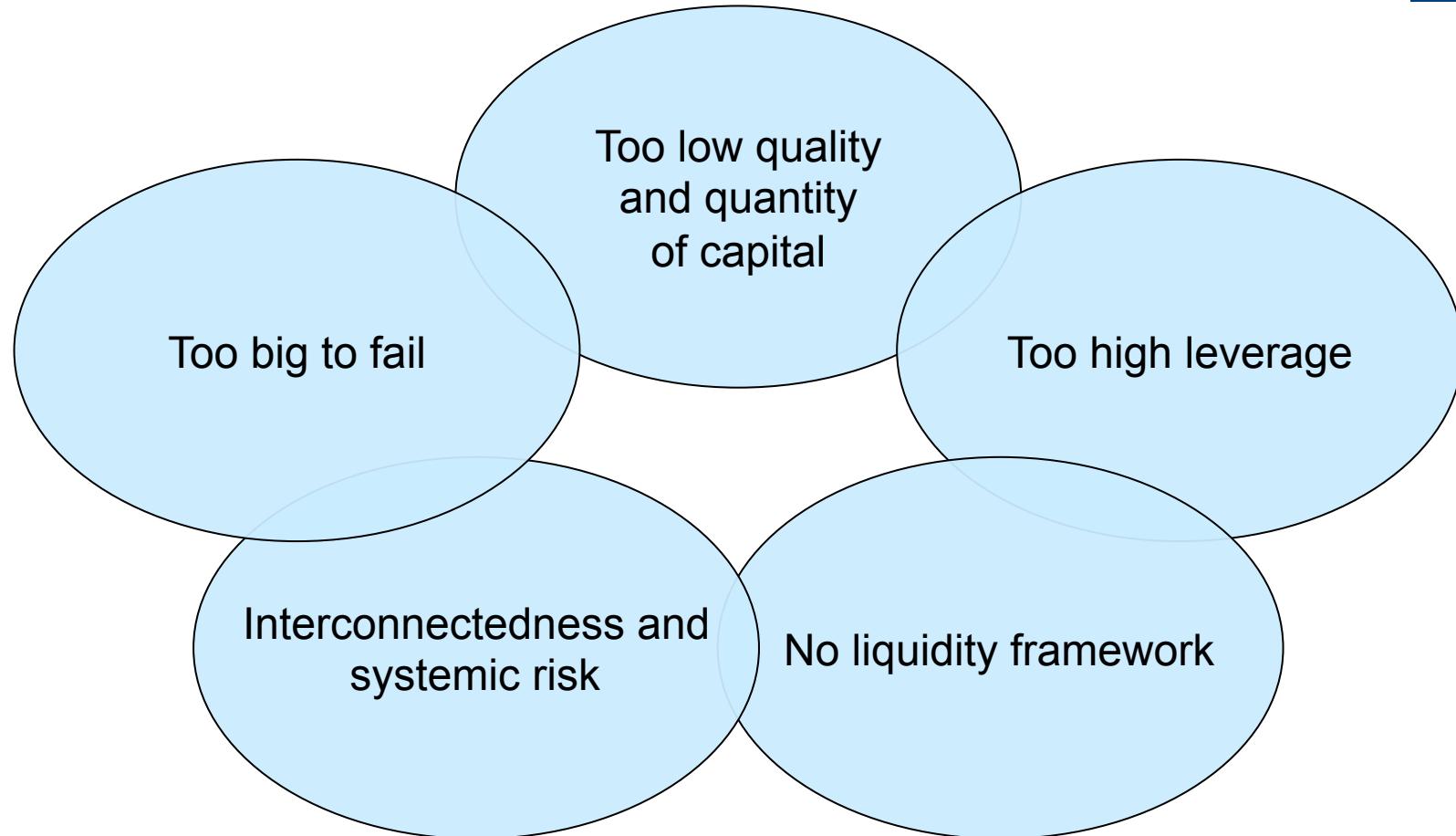
Time line



Corporate flow



Underlying problems of recent crisis

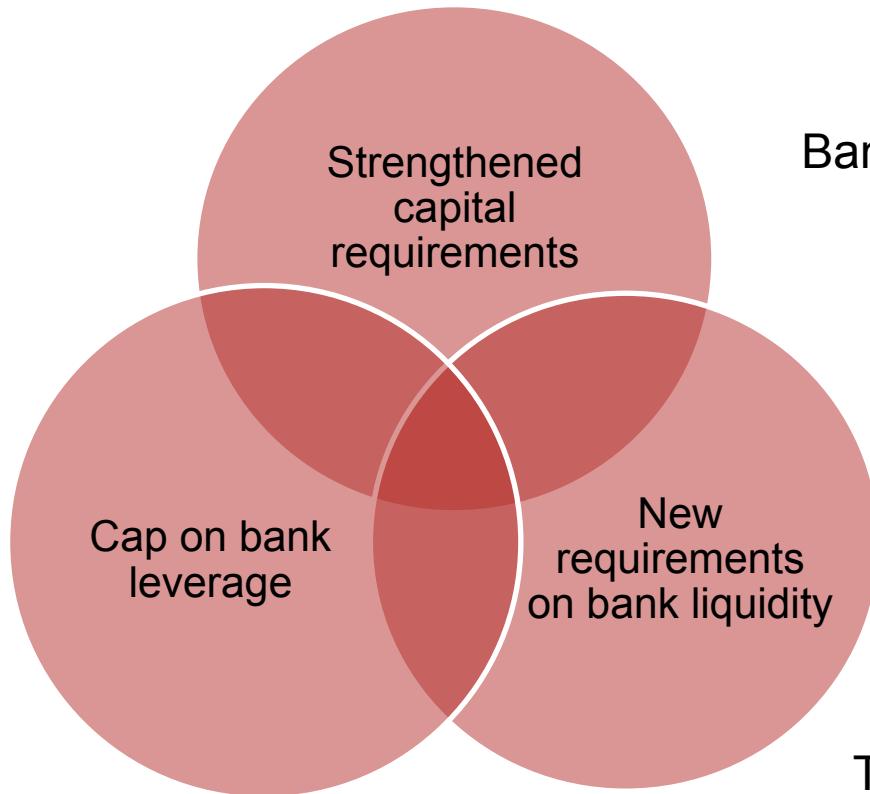


Basel III – regulatory response to the financial crisis



- 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



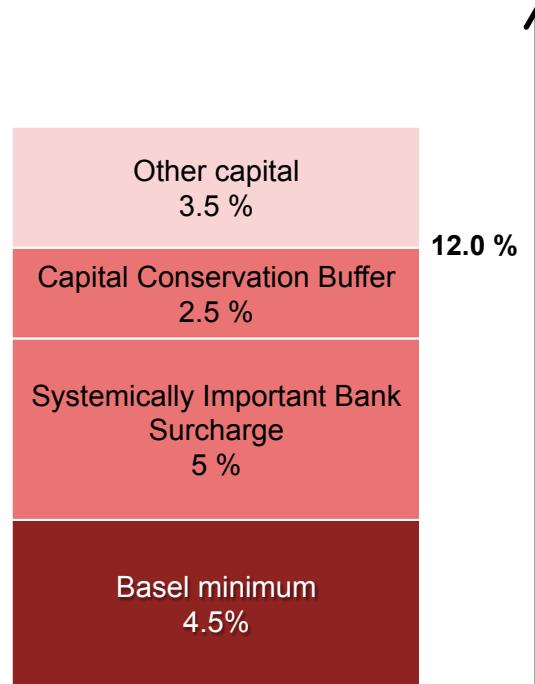
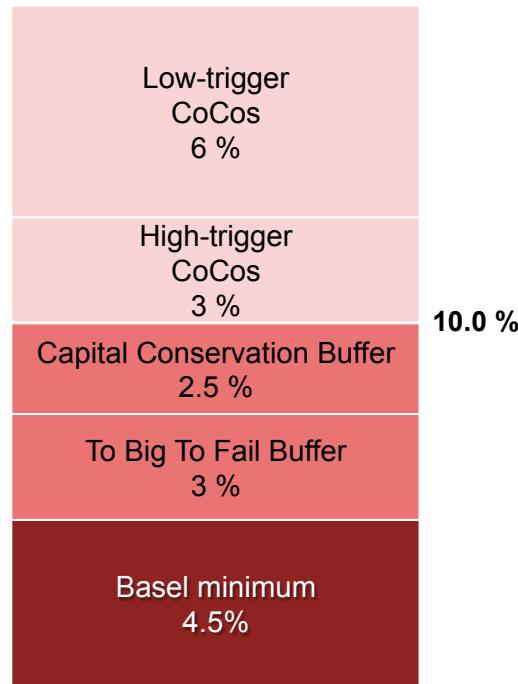
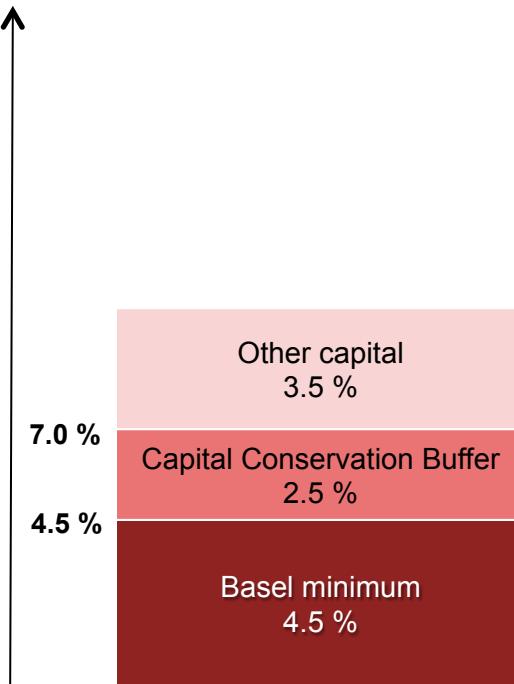
An extra perspective on
the banks capital

Banks need more and
better capital

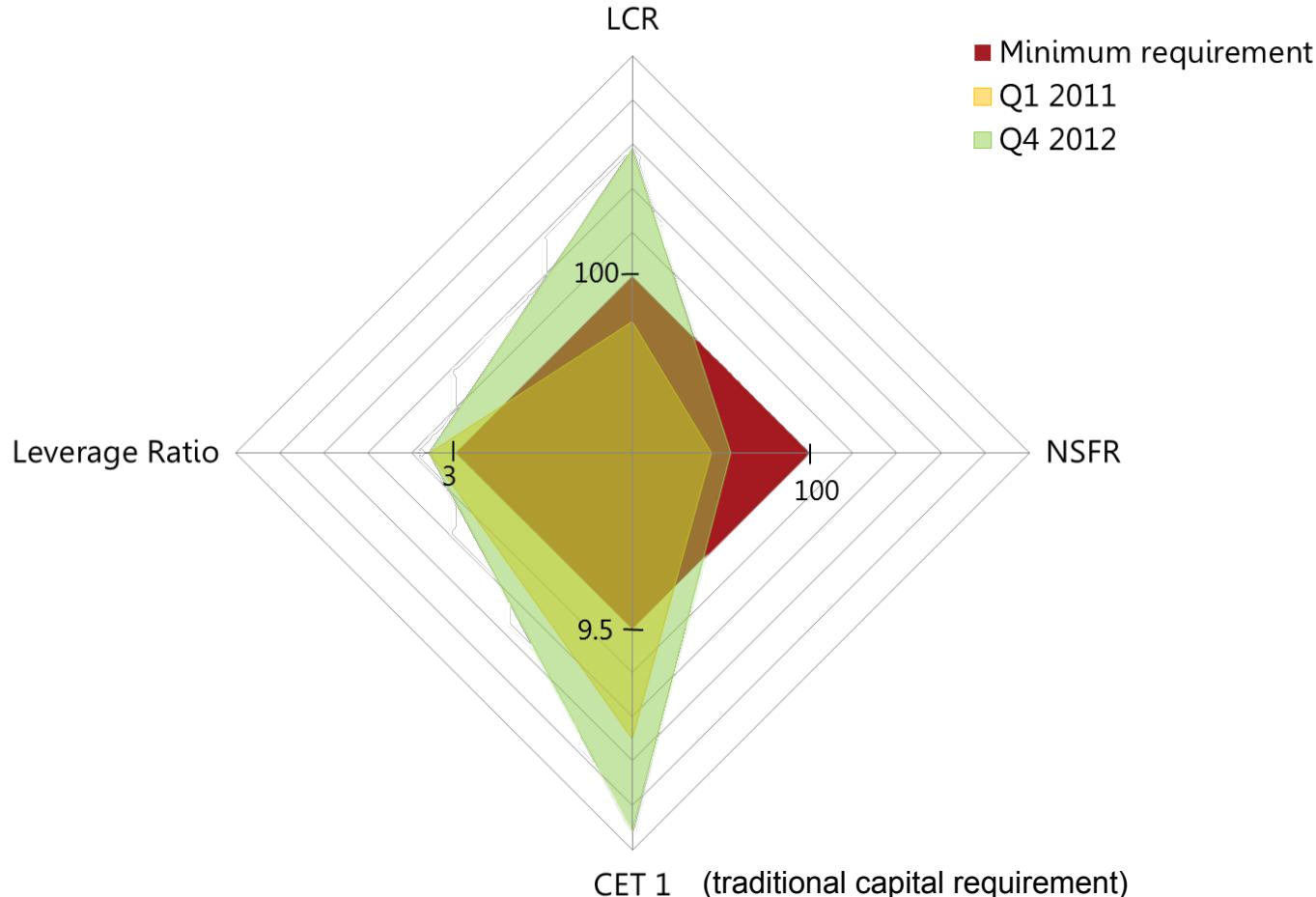
Two new measurements:
Liquidity coverage ratio (LCR)
Net stable funding ratio (NSFR)

Some countries have introduced stricter requirements

CET1/RWA



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?



Thank you