



Future of European Banking

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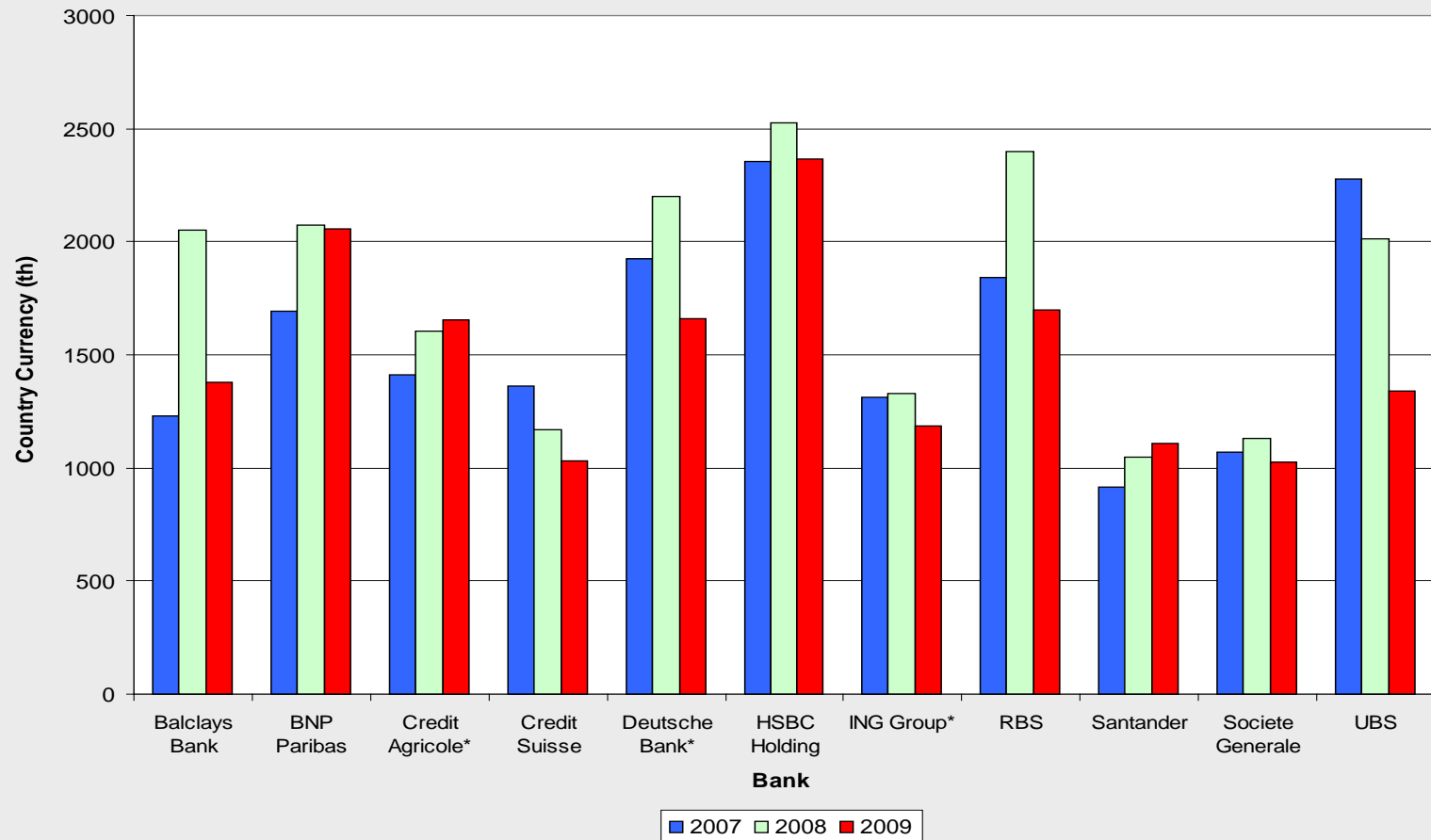
Banking Post Crisis

- De-leveraging and downsizing
- Moral hazard widely present
- Cost of financial catastrophe:

% GNP	approved	effective
EU-27	31.4	12.7
Eurozone	25.3	11.2

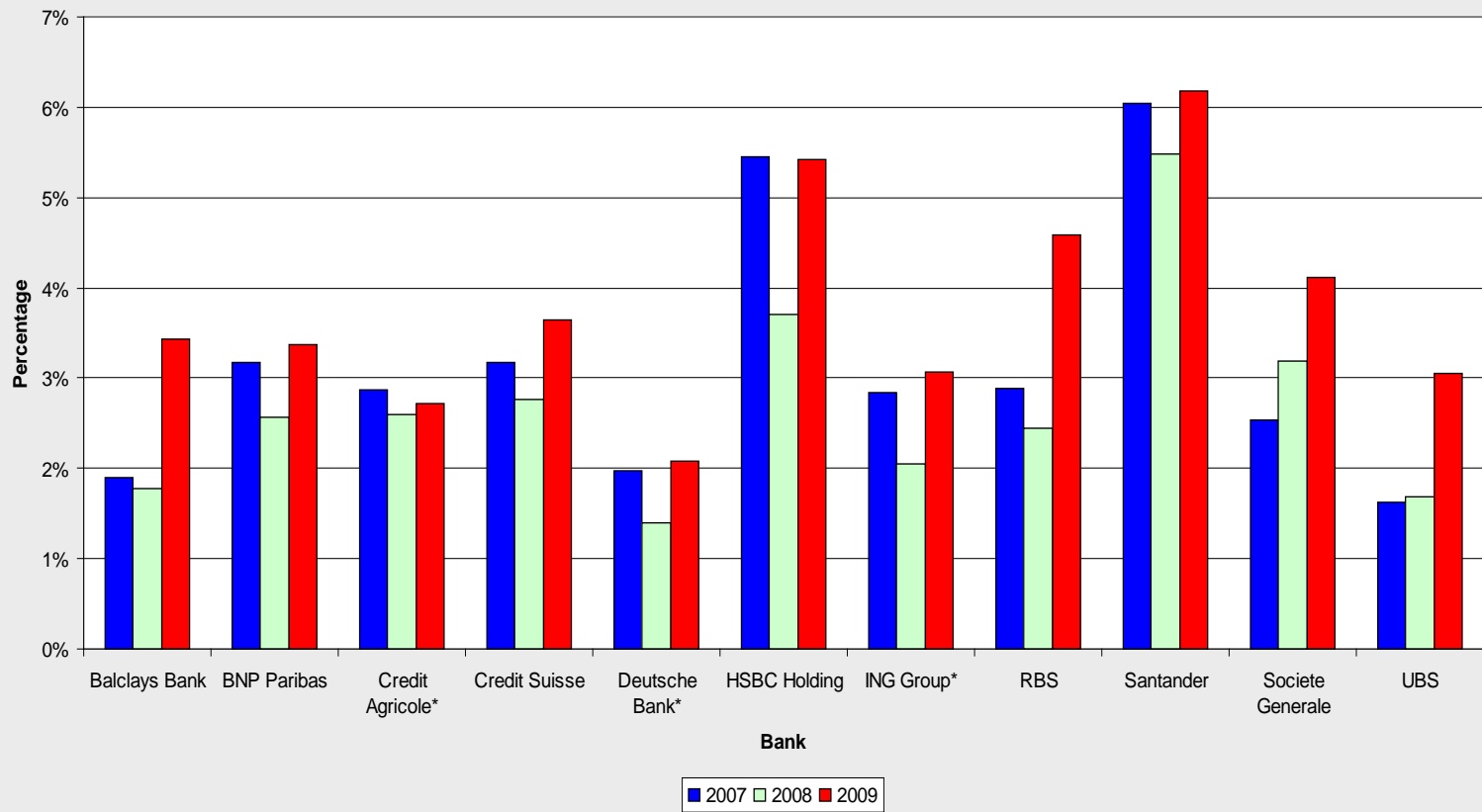
Deleveraging in European 1 trn banks

Balance Sheet Size of Largest European Banks



And capital strengthening

Capital Ratios of Largest European Banks

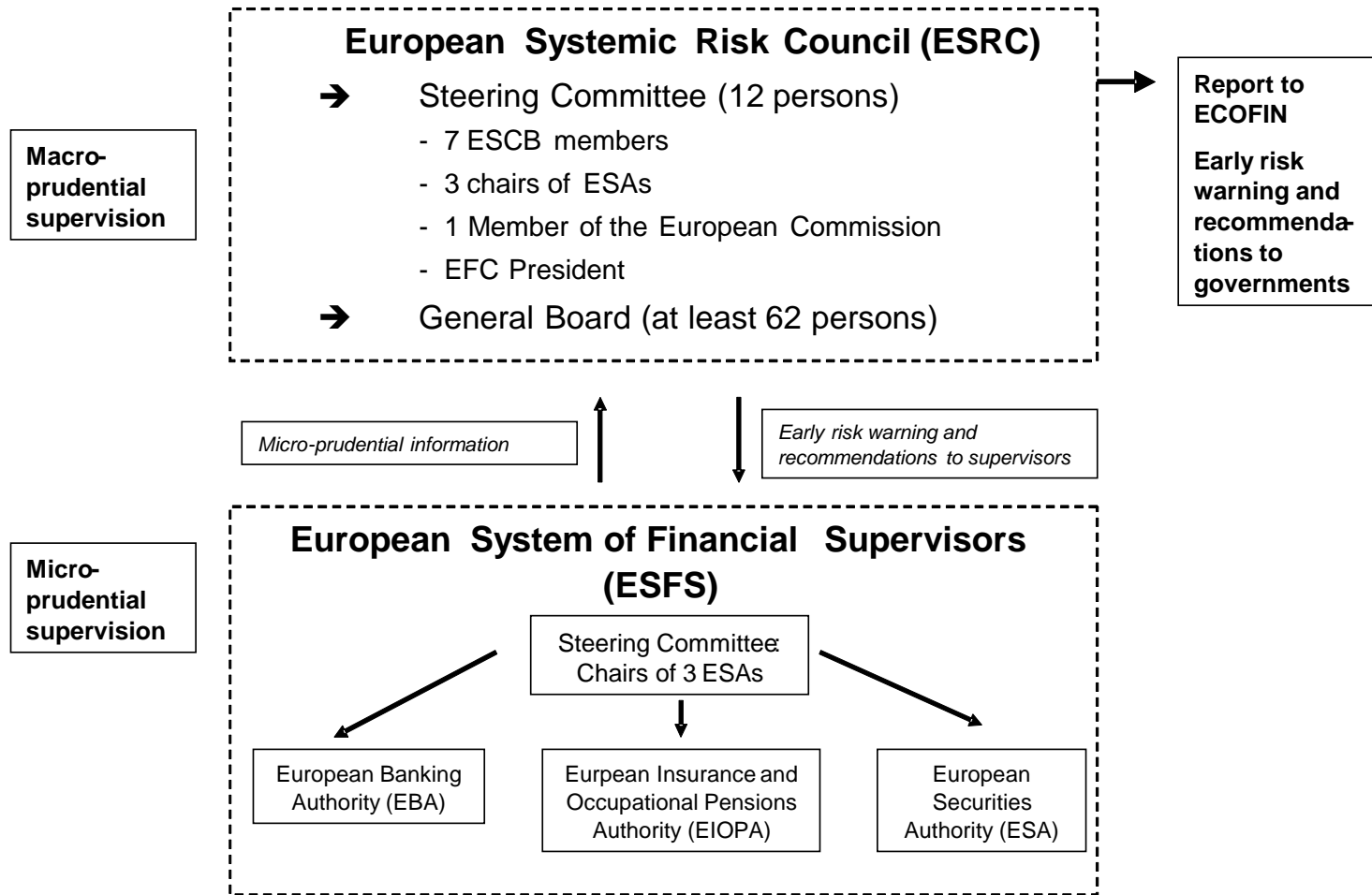




What is in the reforms ?

- New institutional structure (ESA, ESRC)
- New harmonising rules
 - **Prudential**: Basel epidemic: CRD II, III, IV... ; liquidity regulation, deposit protection schemes; CCPs
 - **Products**: hedge funds, deriv's
 - **Conduct**: market abuse, short selling, CRA's, bonus rules, review of MiFID
- In the pipeline?
 - Transaction tax?
 - Volcker rule?

The new European supervisory structure





European Supervisory Authorities

- 3 new authorities with legal personality (and liability)
- Task:
 - ‘single **rulebook**’;
 - enforcement;
 - supervising the supervisors (!);
 - participation in supervisory colleges and supervision of financial infrastructures (CRAs);
 - coordination in crisis-situations;
 - central European **data-base** and exchange of information

New regulatory requirements

	Current Minimum Requirement	Expected Minimum Requirement
Core tier 1 Ratio	2%	4%
Tier 1 Ratio	4%	8%
Total Regulatory Capital Ratio	8%	16%

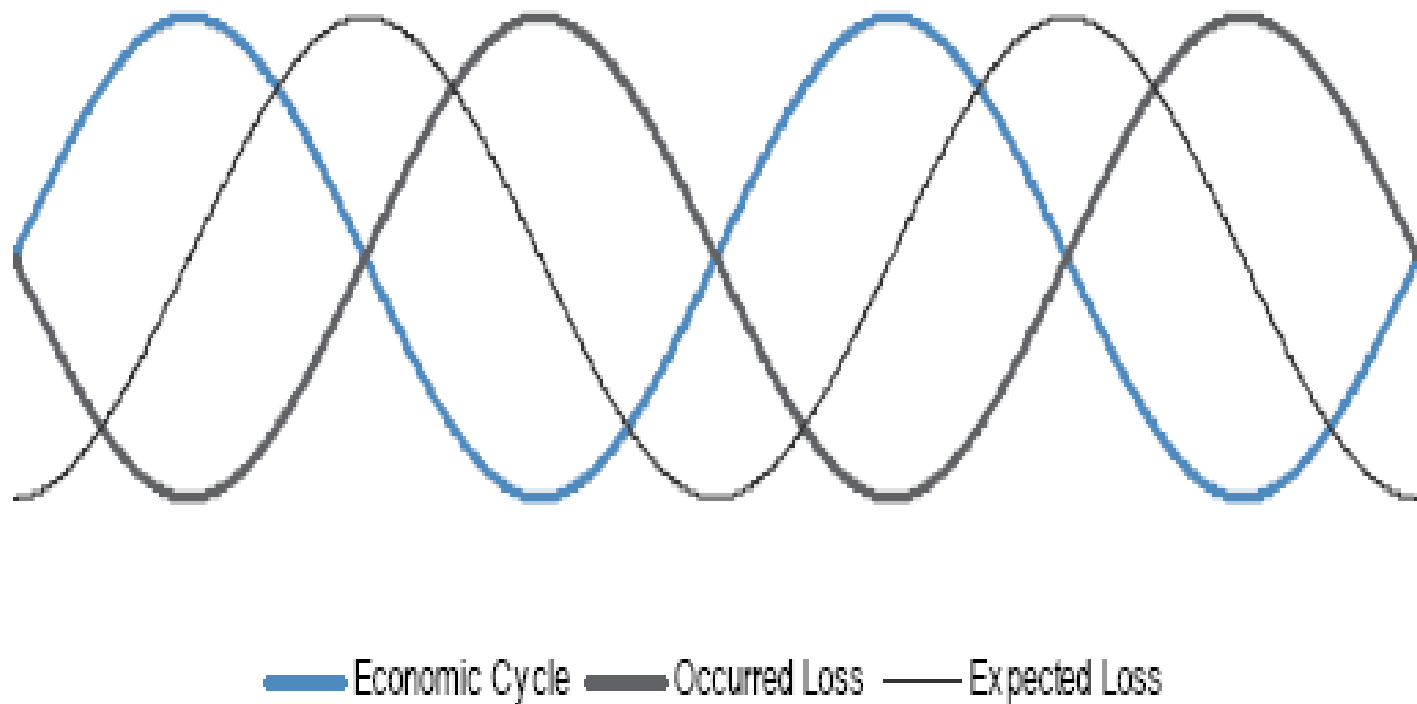
Source: J.P. Morgan estimates.

$$\frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over a 30-day horizon}} \geq 100\%$$

$$\frac{\text{Available amount of stable funding (ASF)}}{\text{Required amount of stable funding (RSF)}} > 100\%$$

New regulatory requirements

Figure 13: Provisioning and the economic cycle – Incurred Loss and Expected Loss



Source: J.P. Morgan estimates.

New regulatory requirements

\$ million

Capital Impacts	BoA	Citi	GS	MS	CS	UBS	DB	Barc	HSBC	Lloyds	RBS	STAN	BNP	SocGen	SAN	UCG	Avg	Total
2. Capital	23,185	6,021	7,949	6,544	4,505	5,224	17,623	14,542	15,981	22,020	35,238	1,699	23,478	17,343	1,565	7,858	13,173	210,774
o.w. BIS III	14,801	0	0	0	0	0	7,442	4,483	9,623	20,550	24,321	0	16,917	12,446	0	6,149	7,296	116,730
o.w. Trading RWAs	8,384	6,021	7,949	6,544	4,505	5,224	10,180	10,059	6,358	1,470	10,917	1,699	6,562	4,897	1,565	1,709	5,878	94,044
4. Leverage	0	0	0	0	4,807	833	555	0	0	1,298	0	0	1,187	1,009	0	0	606	9,689
7. Resolution	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	800
Grand Total	23,235	6,071	7,999	6,594	9,362	6,107	18,228	14,592	16,031	23,367	35,288	1,749	24,715	18,401	1,615	7,908	13,829	221,264
Current Estimates																		
2011E Tang. Equity	147,053	148,122	80,407	54,013	33,346	38,485	44,618	75,807	118,104	57,728	76,224	22,302	71,297	44,355	70,067	56,788	71,170	1,138,715
Adjusted Estimates																		
2011E Tang. Equity	170,288	154,192	88,405	60,607	42,708	44,592	62,846	90,399	134,136	81,095	111,512	24,051	96,012	62,756	71,683	64,696	84,999	1,359,978
% Change in Estimate																		
2011E Tang. Equity	16%	4%	10%	12%	28%	16%	41%	19%	14%	40%	46%	8%	35%	41%	2%	14%	19%	19%

Source: J.P. Morgan estimates. Note RBS has a contingent capital facility with the UK government, and Lloyds has issued contingent capital instruments that could be drawn upon in times of stress (ECNs)

Capital needs for global banks would be increased by 221B\$ which is equivalent to 19% of estimated tangible equity in 2011

Product pricing across financial segments will increase by 33% in order to fully offset the increase in regulatory cost in terms of profitability



Threats and impact

- Regulatory overkill
- Need for capital raising
- 2012 refinancing bubble
- Reduced profitability
 - 2011 RoE from 13.3% to 5.4% (JPM)
- Bank rating downgrades as exit policy advances, as state support is withdrawn
- Lower economic growth



Bank strategies

- Big is complex and costly
- Smaller is beautiful (but small banks fail)
- Focus on core strengths
 - Disposal of non-core assets
- Back to good old relationship banking
- Segmentation of financial system, specialised is more efficient
 - Impact of payment services directive (PSD)
 - Asset management
 - End of bankinsurance
- New non-financial competitors?
 - Telecom companies
 - Retail sector



Conclusion

- Crisis stabilised thanks to enormous state support – how to organise exit?
- EU has managed to extend powers, notwithstanding limited initial leadership
- Will single market be repaired?
- Smaller, more adapted but less profitable banking to come