Federal Ministry of Finance

Statements for the Panel

Banks' business models: trends towards specialisation or outsourcing to the shadow banking system?

-

Do we need a "shadow banking union"?

Ludger Schuknecht

Director General „Economic and Fiscal Policy Strategy, International Economy and Finance"

Federal Ministry of Finance, Germany

Frankfurt (Main), 4. February 2016

Bundesministerium der Finanzen

Berlin

Four main drivers towards change in the financial sector

(1) Deleveraging of banks' balance sheets

- Banks shift back to core business, consolidation in the sector

(2) Low interest environment

- Profit margin pressures create incentives for outsourcing.

(3) Regulatory environment

- New regulation leads to more separation of bank activities (commercial and investment functions). High costs.

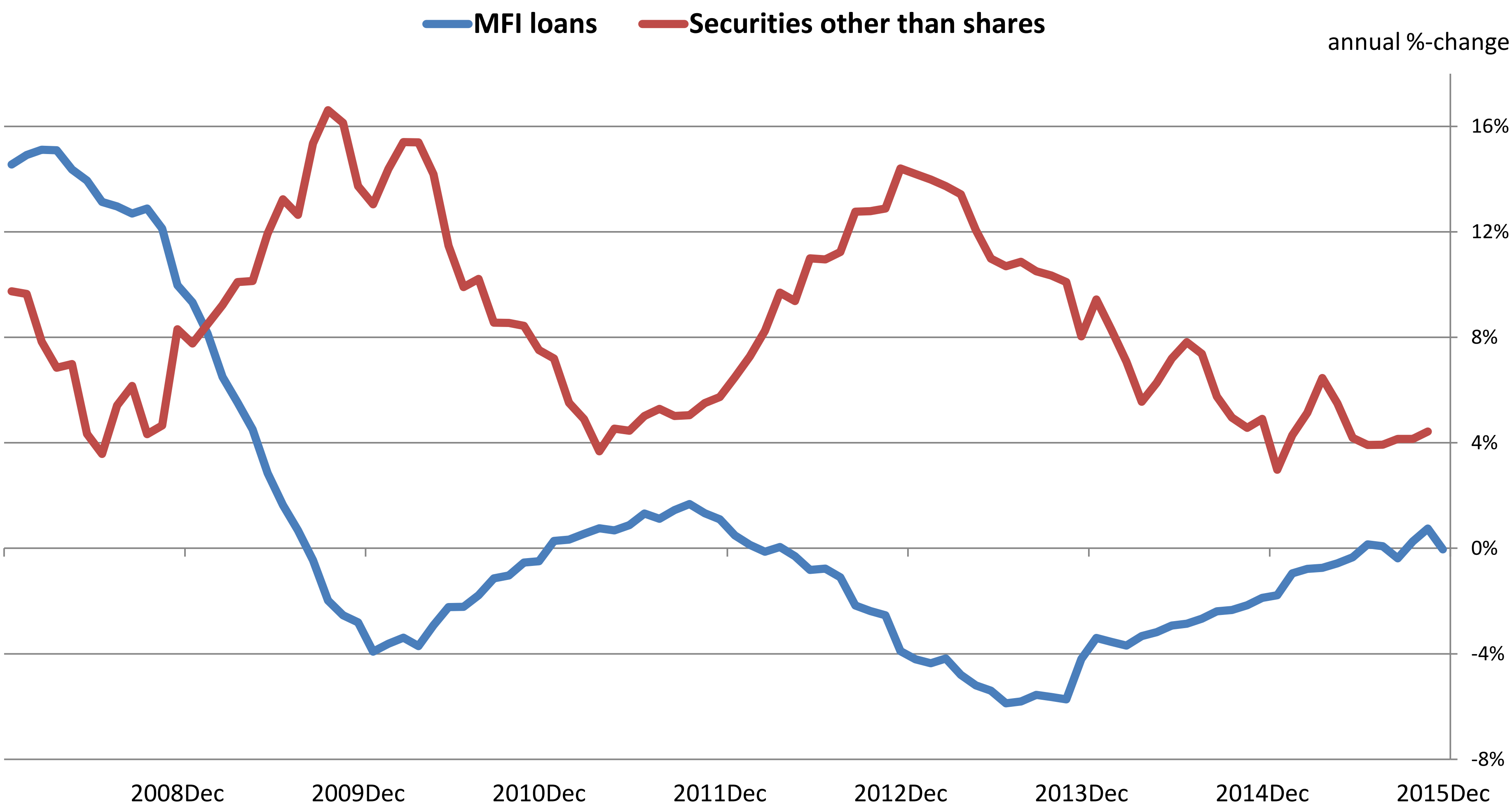
(4) Digitalization

- Creates new competitors to the traditional banking sector ("FinTechs").

Financing outside the banking system: Instruments

- Market financing (corporate bond issuance)
- Fund-based financing (lending by asset managers/funds, project financing by investment funds, Money Market Funds)
- Derivative trading via CCPs
- Simple, transparent, standardised securitisations (STS) as a bridge between banks and capital markets (Financial Vehicle Corporations)
- Private placements
- … Risk capital, Crowd Funding …

External financing of non-financial corporations



Source: ECB

Overregulation? Lack of regulation? Wrong regulation?

Checklist for issues to be looked into:

- Liquidity mismatch and run risks (e.g. market liquidity; project financing by funds)
- Risk of volatility / spillovers from ETFs/ sophisticated ETFs
- Derivatives and CCPs: regulatory arbitrage?
  Lack of resolution regime? Loss distribution?
- Financial and real economy spillovers?
- Other points?

Do we need a “shadow banking union”?

No, we should concentrate on implementing global and EU agenda:

1. Complete and implement banking union (capital, bail-in).
2. Global approach needed; FSB agenda addresses challenges/risks involved.
3. For DEU and elsewhere: Banking sector consolidation.
4. Anchors of system: Government solvency…

Importance of sound public finances

Government solvency needed for…

- safe assets in bond markets
- backstop
- government-finance loop
- own source of volatility
- international insurance

Governments as providers of safe assets (stabilisation)

Country / S&P Rating	31.12.1992 (or nearest available)	31.12.2007	31.12.2015	Market Volume 2015Q3 (central gov. debt securities in million US-$)
Australia	AAA	AAA	AAA	274,704.4
Canada	AAA	AAA	AAA	505,508.4
Germany	AAA	AAA	AAA	1,338,946.2
Netherlands	AAA	AAA	AAA	395,806.5
Switzerland	AAA	AAA	AAA	-
United Kingdom	AAA	AAA	AAA (Outlook: ↘)	2,199,550.6
Austria	AAA	AAA	AA+	253,014.6
United States	AAA	AAA	AA+	14,400,815.0
Belgium	AAA	AA+	AA	392,567.7
France	AAA	AAA	AA (Outlook: ↘)	1,790,249.1
Japan	AAA	AA	A+	7,813,378.9
Spain	AAA	AAA	BBB+	956,242.9
Portugal	AAA	AA-	BB+	144,516.1
Italy	AA+	A+	BBB-	2,062,267.1
Mexico	AA-	A+	BBB+	323,720.3
Korea	A+	A+	AA-	-
Russia	-	A-	BB+ (Outlook: ↘)	117,378.0
China	BBB	A	AA-	(2015Q2) 1,617,959.2
Greece	BBB-	A	CCC+	-
India	BB+	BBB-	BBB-	-
	∑ AAA = 13		∑ AAA = 6	