The need for enhanced role of local supervisors and shareholders’ oversight

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Agenda

- Integration, what is it about?
- Associated risks
- Supervisory role
- Shareholdes’ oversight
- Examples
- Conclusions
Integration

• EU market integration should combine different local economies.

• Each local economy has a set of rules that are applied on a common basis to all local market participants.

• These local economies constitute different parts that can be integrated to form a harmonious whole.

• Such a process may not lead, however, to desintegration of the local markets.

• Health of local markets is a warranty for development of global economy.
Associated risks

- Growing market of corporate bonds may narrow the possibility of bank lending to large companies.

- Banks would be forced to look for other sources of income. One of them is loan activity on serving some basic social needs providing consumer and mortgage credit.

- Funding these loans by means of wholesale borrowing increases the gap between loans and savings and may imply unstable boom.
Associated risks

• Banks are institutions of public trust.

• Banks have decisive influence on the financial stability both on the local and global level.

• The banking industry should stay one of the most heavily regulated industry on the local as well as global level, since they are taking risk on their own account in contrast to investment and pension funds.
The role of banking supervision

- Supervisors’ primary task is to assure long term stability of the banking system and fulfilling the national and European legal obligations.

- Focusing on current capital adequacy ratios and liquidity measures is not enough to assure banking system long term stability.
The role of banking supervision

• Recent experiences of many countries illustrate that banking supervision should shield economies against the risk of boom-bust cycles.

• These experiences show also that the origins and the evolution of bubbles is usually determined by local conditions, so the measures should be applied predominantly at local level.

• Local regulators and supervisors are well placed to use these powers.

• All this falls to the conclusion that capital and liquidity management should remain on local level.
Shareholders’ oversight

• Banks’ race for short term profit at the cost of excessive risk is against the interest of bank shareholders as well as supervisors.

• Therefore shareholders could be a natural ally for supervisors, especially in:

  ➢ Building up bank’s value in long term perspective
  
  ➢ Eliminating activities that may damage the local market
  
  ➢ Supporting organic growth financed mainly by domestic savings (like it exists in many Latin American and Asian countries)
  
  ➢ Promoting „risk management culture“ within a bank
Common sense

• Avoiding unstable credit booms lies in the interest of both home and host countries.

• Unstable local markets pose a threat to the global stability due to the spill over effect.

• Recent Ireland experience is the striking example of this phenomenon.

• The other example was the potential threat of a serious currency crisis that was averted by Vienna Initiative.
Current trends in bank lending

• The key issue is how to motivate banks to support the economic growth and avoid unstable booms in consumer and mortgage lending.

• In emerging Europe, the share of loans extended to corporate sector is decreasing.

• Banks are more and more focused on consumer and mortgage loans.
Loans' portfolio structure

**Current structure**

- Consumer finance: 47%
- Mortgages: 34%
- Enterprises: 19%

**At the end of 2008**

- Consumer finance: 50%
- Mortgages: 31%
- Enterprises: 19%

**At the end of 2006**

- Consumer finance: 56%
- Mortgages: 22%
- Enterprises: 22%
Housing loans - development of PLN and FCY volumes
Conclusions

• Local supervisors should have at their disposal effective tools to avert local lending booms.

• Long term perspective in banking could be provided by the alliance of supervisors and banks’ shareholders but the necessary institutional solutions should be created to achieve this goal.
Thank you for your attention