

P.R.I.M.E. Finance

Panel of Recognized International Market Experts in Finance



P.R.I.M.E. FINANCE
Panel of Recognized International Market Experts in Finance



Eddy Wymeersch
P.R.I.M.E. Finance Annual Conference 2019
4 & 5 February, Peace Palace, The Hague

Where are the main risks to the financial system?

Macro risks

Old and New

Political risks

Brexit

Social Unrest

Remedies: are we sufficiently prepared? EU and worldwide

Governance: “responsible bankers”



Where are the main risks to the financial system?

After the GFC, where are the **main risks** to the financial system?

Macro risks

- more uneven global expansion with emerging downside risks; output is down by about 10% worldwide; recession fears.
- tightening financial conditions; raise in interest rates; bank charges
- capital outflows from many of the emerging market economies

FSB:

- Interconnexion between world markets, esp. securities
- New challenges; Fintech and Cyber risks and non-bank finance (shadow banking)
- Central Counterparties; recovery and resolution
- Insurance sector: also systemic risk
- Misconduct; ECB's "Correspondent Banking Action Plan" for AML- CTF



Micro Risks

- Worldwide openness for incoming securities investment
- **Banking**
 - Weak banking systems: NPLs; low return on capital; undercapitalization.
 - Cyber security - in banking and beyond
 - Cov.lite and leveraged loans: warnings by FED and BoE; less in Europe
 - Resolution: SRB – relation with banking supervisors (ECB) – with third countries
- **Relation** with securities supervisors (CCP, a.o.)
- **Cooperation** with non-EU, BoE. FDIC
- **Social unrest** esp in France: how will society develop?



Potential Solutions?

- **Remedies**
 - Stricter supervision? Overload/ complexity of regulation
 - “split the banks” ; Liikanen report ? Is this a UK only problem?
 - Effectiveness check on regulation
- **Rationalisation/** harmonisation is needed: stop the EU sectoral approach
- **Monitoring systemic risk:**
 - ECB: composite financial stability risk index (FSRI) - 2018
 - Debt dependency of economic systems likely to change with higher interest rates



Potential Solutions?

- **Strengthen governance – “responsible bankers” –**
- see: sustainability debate
 - Euro and Non-Euro cases
AML - fraud – internal governance + strengthen supervision – enforcement –
Role of the auditors
 - Drug trade: Mexico
 - Libor manipulations
 - Trading with Russians, Iran

Who will set the rules, who will sanction: the US ?
coordination?

