



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

# Crisis Management Framework: European and National Perspective

OeNB Seminar

**Integration in Europe: EU and EEU**

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**Historical background**

**Main pillars**

**Single resolution mechanism (SRM)**

**Financing arrangements**

# Crisis as a trigger ...



**Many bank failures worldwide, including in Europe:**

- More than **110 banks** in 22 EU countries in difficulties since the crisis ( $\approx$ **25%** of total assets)\*
- CESEE region rather healthy (SK,CZ,PL,HR,EE,RO..)

**Unprecedented state aid provided (bail-out)**

- EU: **EUR 608 billion** in capital and assets relief ( $\approx$ **5.2%** of average EU GDP) + **EUR 835 billion** in state guarantees (2009) \*

**Disastrous wider consequences: financial stability & real economy**

**Absence of cross-border solutions**

*\* Source: Almunia ,COM Vice-President (19 September 2014)*

# European banks in difficulties



| COUNTRY               | No  | EXAMPLES  |
|-----------------------|-----|---|
| <b>Austria</b>        | 2   | Hypo Alpe-Adria Bank International, Komunalkredit Austria AG    |
| <b>Belgium</b>        | 2   | Dexia (Belfius), Fortis, KBC                                    |
| <b>Bulgaria</b>       | 2   | Corporate Commercial Bank, First Investment Bank                |
| <b>Cyprus</b>         | >20 | Bank of Cyprus, Cyprus Popular Bank (Laiki Bank), Hellenic Bank |
| <b>Denmark</b>        | >10 | several regional banks  |
| <b>Greece</b>         | 6   | Eurobank EFG, Alpha Bank, National Bank of Greece               |
| <b>Ireland</b>        | 6   | Bank of Ireland, Allied Irish Bank, Anglo Irish Bank            |
| <b>Italy</b>          | >15 | Monte Dei Paschi di Siena                                       |
| <b>Latvia</b>         | 2   | Parex Bank (Reverta, Citadele), Latvijas Krajbanka (Snoras)     |
| <b>Lithuania</b>      | 1   | Bankas Snoras AB, Ukios Bankas                                  |
| <b>Netherlands</b>    | 2   | Fortis (ABN Ambro), SNS REAAL                                   |
| <b>Spain</b>          | >5  | Bankia, Banco de Valencia, Catalunya Banc, NCG Banco            |
| <b>United Kingdom</b> | >30 | Royal Bank of Scotland, Lloyds TSB, HBOS                        |

*Source: Failed Bank Tracker, Internet, Central Banks and Author's Compilation*

Background

Pillars

SRM

Financing

# Addressing shortcomings...



Crisis responses strengthened a **few myths** & thus **moral hazard** by banks

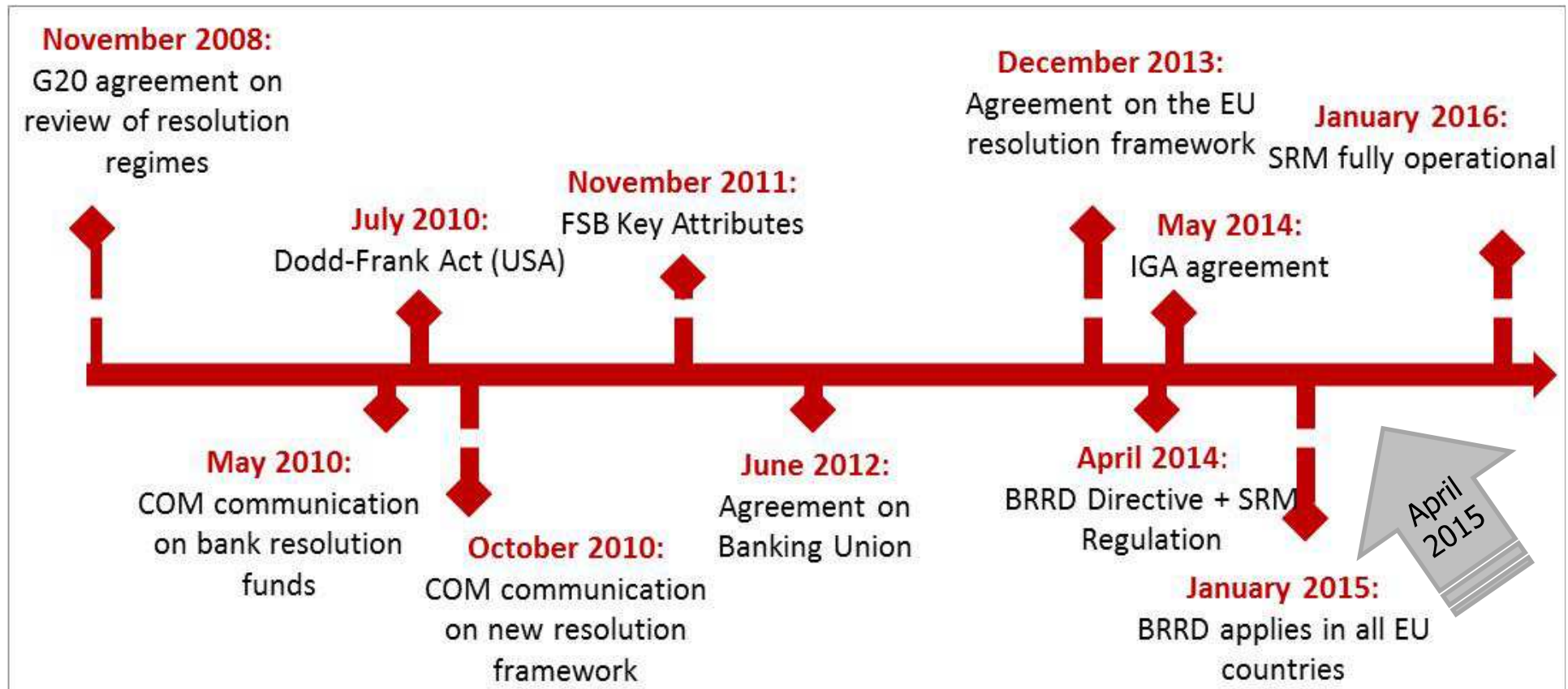
- **Implicit backstop by the state (vicious circle)**
- **Too big to fail**
- **Cross-border banks are international in life, but national in death**



## Goal of the reform:

**A speedy and transparent resolution of any failing bank (group) without any recourse to public funds (owners bear the losses), with minimal overall costs, adequate protection to depositors and by securing long-term financial and economic stability**

# Main milestones



Source: Author's Compilation

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SRM

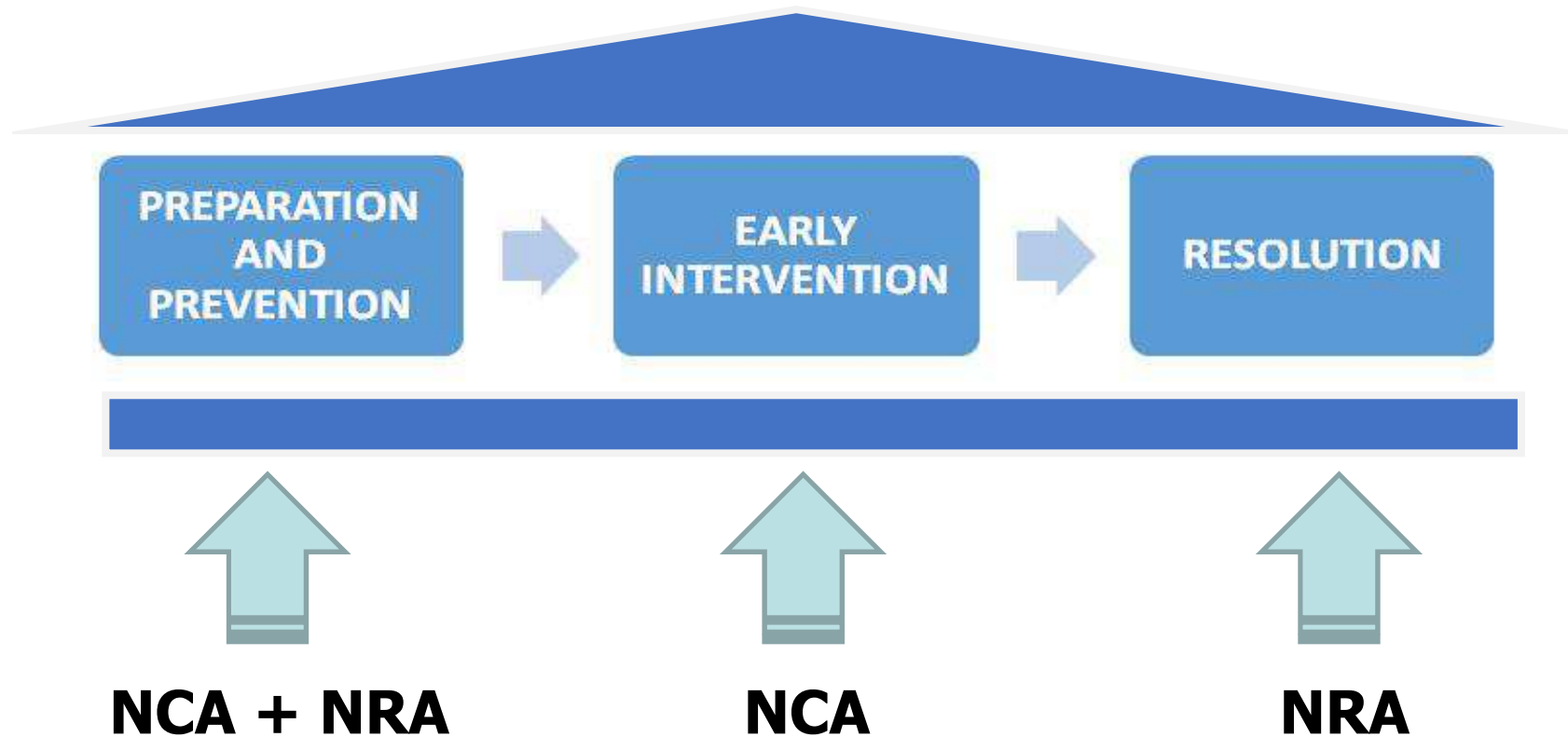
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# Three main pillars



**Scope: credit institutions & investment firms**



*Note: NCA (national competent authority – supervision), NRA (national resolution authority)*

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# Preparation and prevention I.



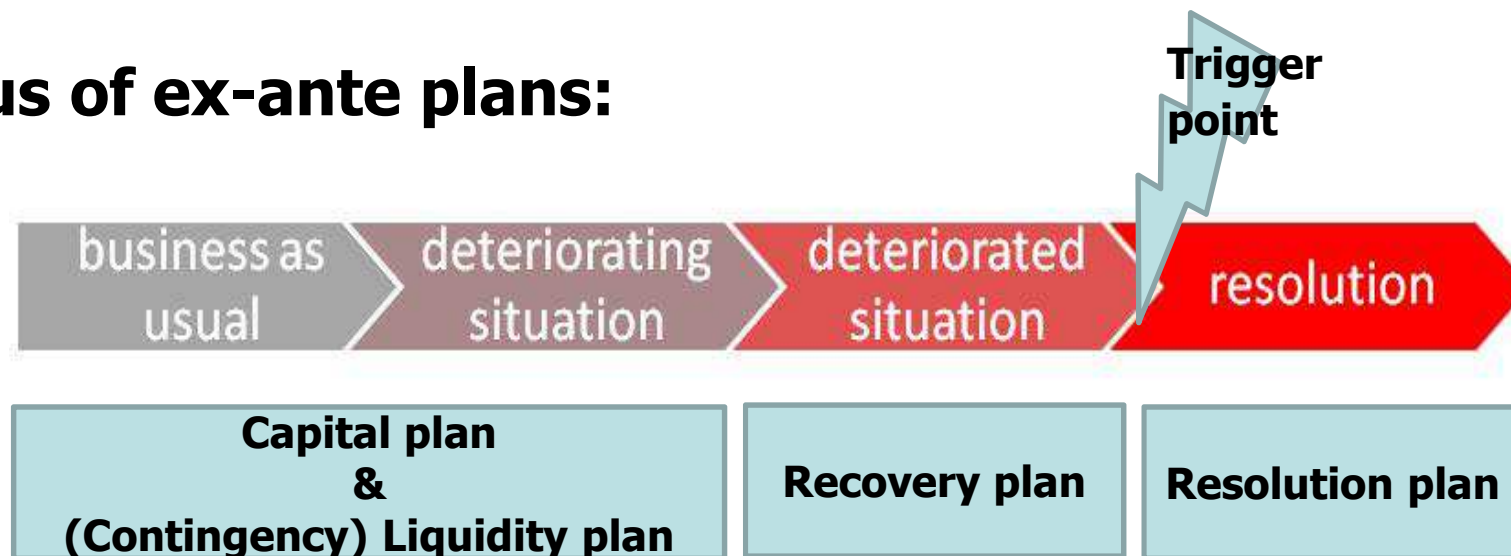
**Prevention: Intra-group financial support**

**Preparation: Two ex-ante plans**

**Recovery plan: institutions (NCA approval)**

**Resolution plan: NRA**

**Focus of ex-ante plans:**



*Source: Author based on BBVA research*

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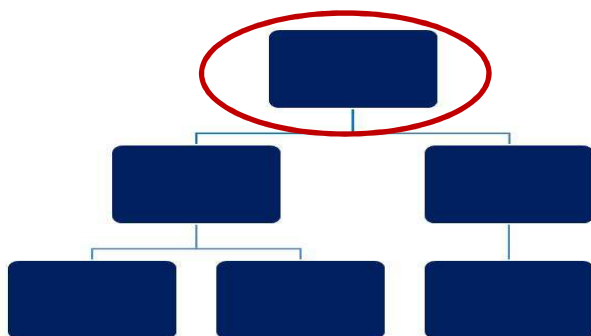
# Preparation and prevention II.



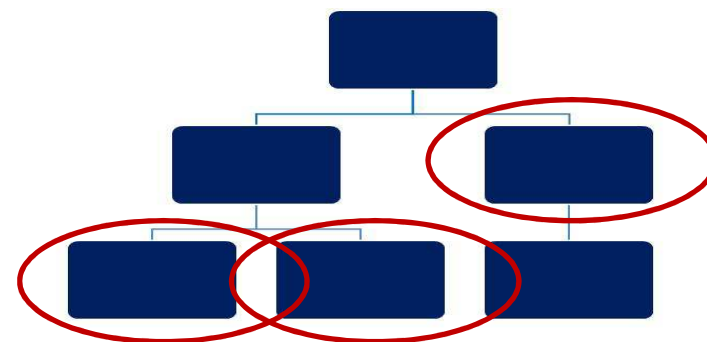
**Supra- & National perspective:**

**Group-level plans & Individual plans**

**Two alternative resolution strategies:**



**Single point of entry (SPE)**



**Multiple points of entry (MPE)**

**Ideal for:**

global highly integrated centralized  
wholesale institutions with large  
group support

decentralized retail banks  
structured as local subsidiaries  
(e.g. CESEE region)

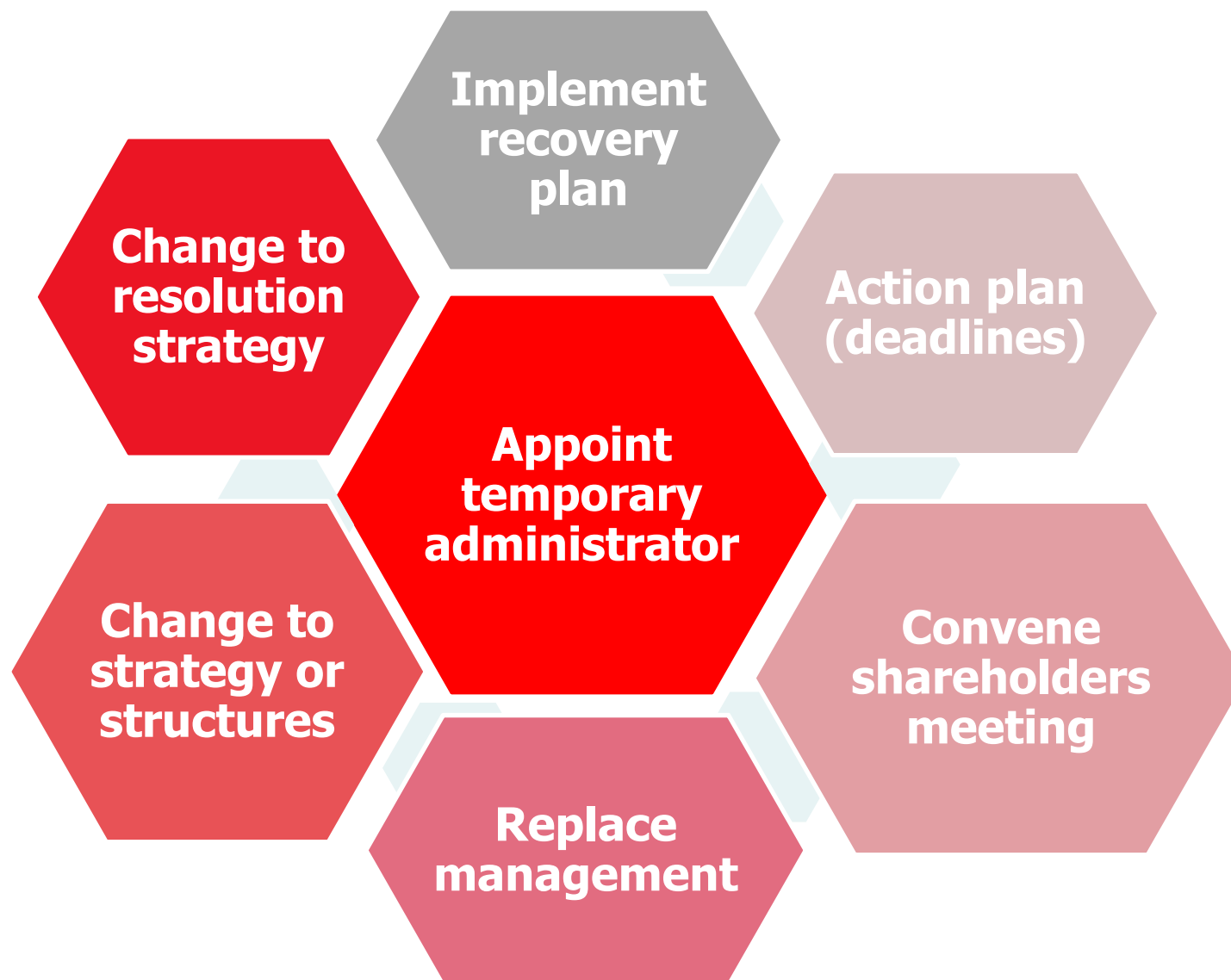
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# Early Intervention measures



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# Resolution tools I



## **Liquidation or Resolution?: criticality and systematic significance**

### **Resolution tools:**

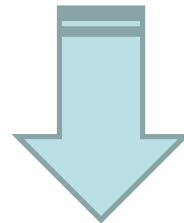
- 1. Sale of business:** A right to sell without shareholders' consent, but on "commercial terms"
- 2. Bridge institution:** A right to transfer instruments to a "bridge bank" (owned by a public authority) and further
- 3. Asset separation:** A right to separate "bad" assets via an asset management vehicle (AMV, publicly owned)
- 4. Bail-in:** A right to write-down or convert into equity of bank's creditors, honoring the hierarchy of claims

### **Safeguards: No Creditor Worse Off Principle**

# Resolution tools II



Fundamental condition for resolvability: Appropriate level of **loss absorbing capacity**



A new quantitative requirement on credit institutions  
Minimum requirement for own funds and eligible liabilities (MREL)

$$\% \text{ MREL} = \frac{\text{Own funds} + \text{Eligible liabilities}}{\text{Total liabilities and own funds}}$$

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# Banking Union



## Rationale for Banking Union (BU):

Harmonisation + uniform implementation  
Reduced fragmentation (end to a vicious circle)  
Enhanced cross-border resolutions

## Legal basis:

|                             | Supervision              | Resolution           | Deposit Guarantee |
|-----------------------------|--------------------------|----------------------|-------------------|
| EU level                    | CRDIV / CRR              | BRRD Directive       | DGSD Directive    |
| BU level<br>(banking union) | SSM Framework Regulation | SRM Regulation + IGA | (N.A.)            |

## Three pillars envisaged, two implemented:

**I. pillar: Single Supervisory Mechanism (SSM)**

**II. pillar: Single Resolution Mechanism (SRM)**

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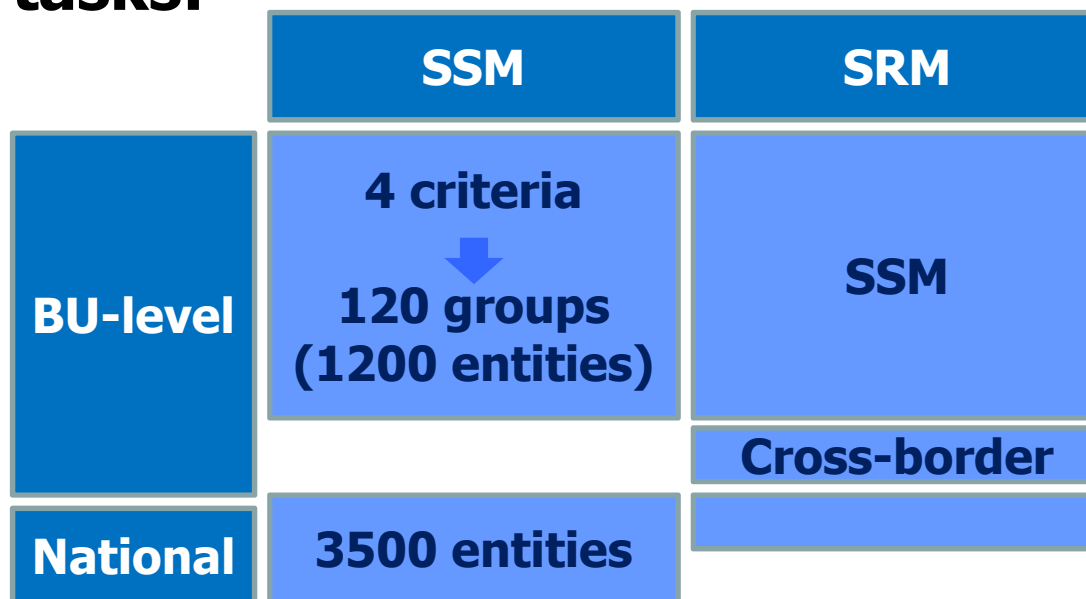
Financing

# Institutional set-up



**BU-wide and National** resolution institutions:  
**Single Resolution Board (SRB)**  
**National Resolution Authorities (NRAs)**

**Division of tasks:**



**Example: 13 banks in Slovakia (11 SRB, 2 NRA)**

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# Intensive cooperation



**SRB meets in **two sessions**:**

**Executive Session: 5 members**

**Plenary Session: Executive + NRAs**

**Decision & Implementation:**

**SRB: Takes decision + oversight NRAs**

**NRAs: Implement decisions**

**Strong **cross-border** coordination & cooperation**

**Internal resolution teams (intra-BU perspective)**

**Resolution colleges (outside-BU perspective)**

**Accountability (COM, Parliament,...)**

# Financing arrangements



## Rationale:

Increased credibility of the system

Financed by the industry: Protection of public funds

Available temporary funding, e.g. to avoid spillover effects and bank panics

**Target Level: 1% of covered deposits by 2024**

## Financial contributions:

**Ex-ante** on annual basis (until target is reached)

**Ex-post** (extraordinary)

**Individual contributions (not group-level!):**

**defined as: size \* risk profile**

# Gradual mutualisation of costs



## Resolution Funds:

**National Resolution Funds: As of 2015**

**Single Resolution Fund (SRF): As of 2016 only**

## **No burden-sharing for legacy issues:**

**Contributions in national compartments**

**Full mutualisation of costs after 2024**

## **If resources **not sufficient?****

**Private loan facility**

**Borrowing from other funds**

**ESM direct recapitalisation tool**



**Thank you for your attention!**

**Any questions?**

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