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”
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?