

Banks under stress – Culture & Governance in focus

Dr. Denise Bauer-Weiler
Head Group Compliance, Regulatory & Governance
and Member of the Management Board, UBS Europe SE

19 September 2023

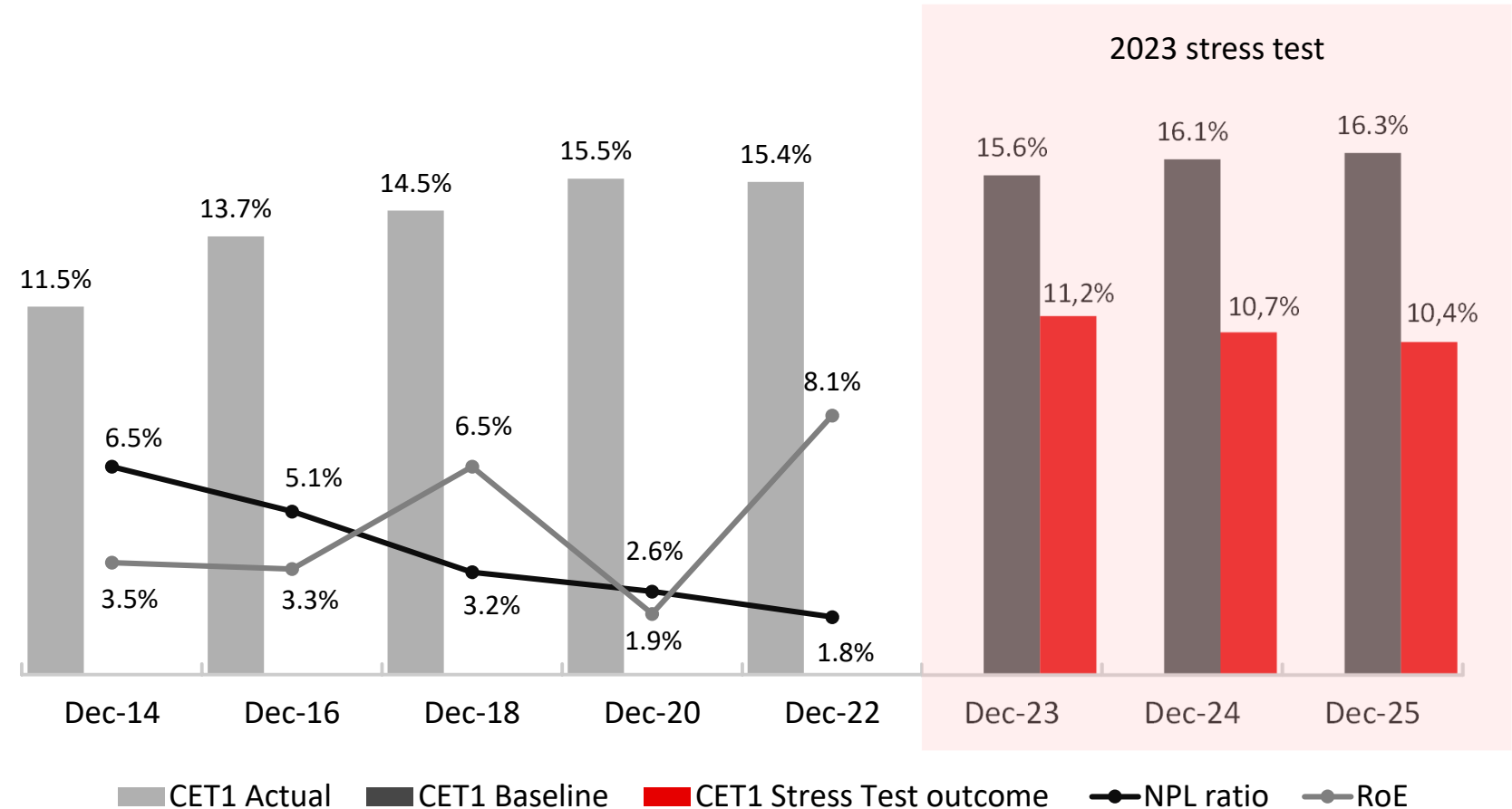


Regulatory reforms and bank initiatives led to enhancements in the European banks' capital positions and asset quality since the Global Financial Crisis

2023 EU-wide EBA stress test results

- A solid capital position at the start of the exercise, with an average fully-loaded CET1 ratio of 15%, allowed banks to withstand the capital depletion under the stress test adverse scenario
- Positive tendency in the capital position, asset quality and profitability, since the roll-out of pillar 1 and 2 of the Banking Union in 2014

EU Banks CET1 ratio, NPL ratio & RoE development



Source: EBA

ECB Supervision is robust and ready to enhance risk-based prioritization with focus on business model and governance

Assessment of the ECB's SREP Report by the Expert Group

*"ECB Banking Supervision has successfully established itself as an effective and respected supervisory authority. It has built a strong and prudent methodology to ensure risk-based and consistent supervision. [...]. Building on these achievements, the Expert Group believes that the ECB can **further improve** the **efficiency and effectiveness** of its existing supervision processes by making them **more integrated and risk sensitive**."*

*"While the ECB has made impressive progress in ensuring an adequate level of capitalisation and supporting the clean-up of banks' balance sheets, the ECB's supervisory approach appears to be too capital centric. Capital alone cannot address all risks: **weak business models and internal governance practices**, as well as climate-related and environmental risks or IT/cyber risk, require the **whole range of measures available in the supervisory toolkit** to be tackled effectively."*

Potential upcoming enhancements

- New supervisory risk tolerance framework
- Multi year SREP
- Avoiding "tick the boxes" exercises
- Increased focus on qualitative measures, especially to tackle governance and culture related issues
- ...

The recent banking turmoil



Early intervention measures – targeted adjustments to further enhance the regulatory framework

Beyond prudential compliance

Authorities need **early intervention powers**, and to the extent that they in theory already exist, be able to effectively use them, potentially even at a time where a bank may still be **reporting prudential ratios fully compliant** with, or indeed higher than, regulatory requirements

Forward looking objective criteria

Interventions would need to be based on **clearly defined, objective criteria** and would help mitigate weaknesses early on and gain valuable time to allow orchestration of restructuring **measures at a time when a credible recovery is still possible**

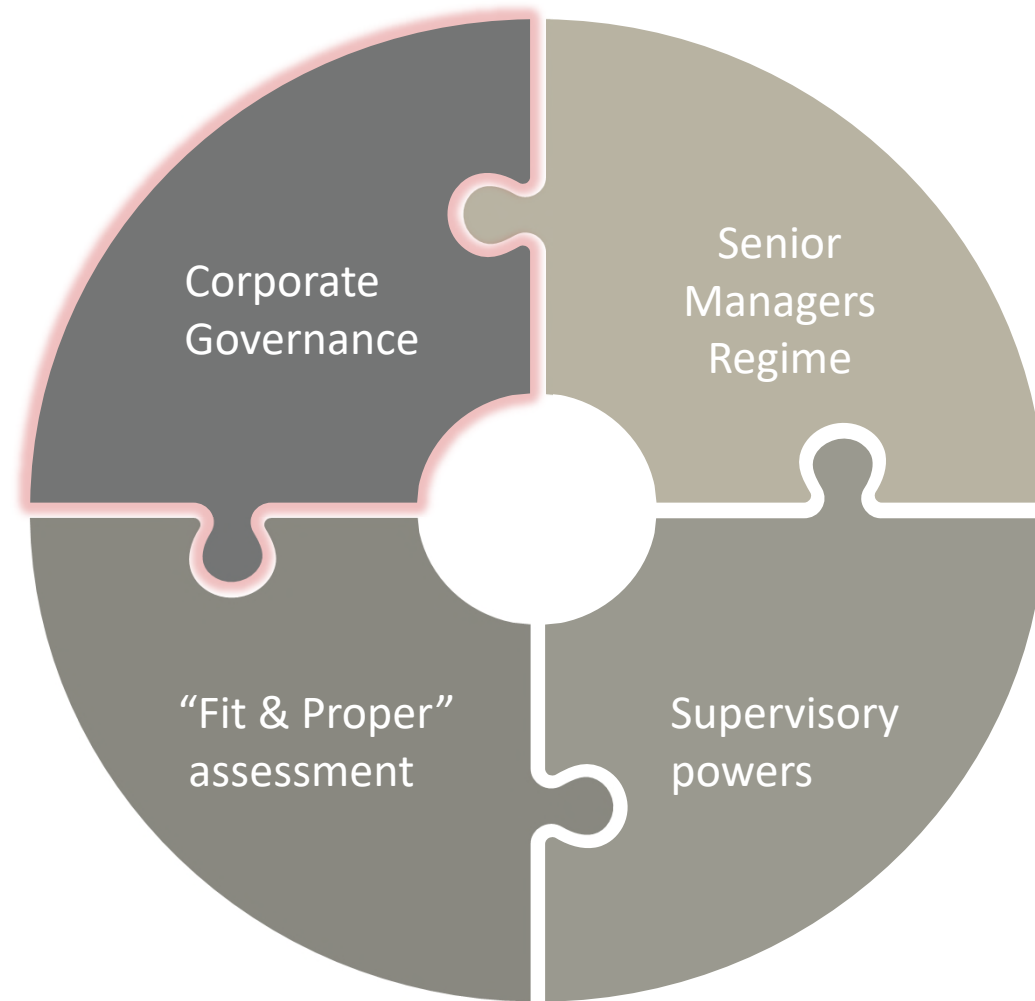
Cooperation among authorities

Measures aimed at facilitating **cooperation and interaction between competent and resolution authorities** as well as better **outlining responsibilities in the initial stages** of the crisis and in the ramp-up toward resolution could be considered

Management accountability and fitness are essential elements of a bank's strong governance and risk culture

***“Well run banks**
– in other words those with
strong risk management and
governance –
don't fail.*

Andrea Enria



Conclusion - Culture & Governance are expected to be in focus

