

ECA Research Notes

OFFICE OF THE CHIEF ECONOMIST

EUROPE AND CENTRAL ASIA

Bank Regulation and Supervision a Decade after the Global Financial Crisis

December 2019



Hi Everyone,

Hope those of you in the US had a wonderful Thanksgiving holiday. Last month we launched the *Global Financial Development Report 2019/2020: Bank Regulation and Supervision a Decade after the Global Financial Crisis*. This is a good time for us to take stock of what reforms have been happening, whether or not they were adopted in developing countries, and what their impact has been.

With the report, we also released the latest round of the Bank Regulation and Supervision Survey which provides detailed information for 160 countries over the last 20 years. What do we see? Take a look at the blogs, launch video, and of course the full report – all of which are included below.

The launch continued with an event in Turkey organized by Sabanci University at their Center of Excellence in Finance, and we are working on a companion piece that takes a closer look at ECA countries – so stay tuned for more. For further reading, we have included links to related background research on regulation and supervision in this newsletter.

Following up on our [Fall update](#), we are continuing to work on migration. We had an [ECA Talk](#) with Michael Lokshin and Martin Ravallion on generating a market for work permits to reduce resistance to immigration in destination countries. We also have ideas on how to apply this to refugees, as we discuss more in a blog below. On December 5th, we will be hosting a screening of the Emmy award-winning HBO documentary [It Will Be Chaos](#) followed by Q&A with the producers. Hope you will join us.

Happy holidays and happy reading!
Asli Demirgüç-Kunt



Over a decade has passed since the onset of the largest global economic crisis since the Great Depression. The crisis revealed major shortcomings in market discipline, regulation, and supervision. The [Global Financial Development Report 2019/2020](#) provides new data and evidence on the regulatory remedies adopted to prevent future financial instability and sheds light on ongoing policy debates.

From left to right: Asli Demirguc-Kunt, ECA Chief Economist, World Bank; Aart Kray, Director, Development Research Group; Yira Mascaro, Practice Manager, FCI Global Practice

[Report](#) | [Launch video](#) | [Data](#)



The GFDR dissemination continued with the event organized by the Sabanci University at their Center of Excellence in Finance which was held on November 15 in Istanbul, Turkey.

[About event](#) | [In media](#)

Asli Demirguc-Kunt, ECA Chief Economist, World Bank

RELATED WORLD BANK RESEARCH

[Bank Regulation and Supervision Ten Years after the Global Financial Crisis](#)

October 2019 – Policy Research Working Paper 9044

Deniz Anginer, Ata Can Bertay, Robert Cull, Asli Demirgüç-Kunt, and Davide S. Mare

This paper summarizes the latest update of the World Bank Regulation and Supervision Survey. It explores the evolution in bank capital regulations, capitalization of banks, market discipline, and supervisory power since the global financial crisis. The analysis shows the importance of defining bank regulatory capital narrowly, as the quality of capital matters in reducing bank risk.

[Bank Runs and Moral Hazard: A Review of Deposit Insurance](#)

September 2018 – Policy Research Working Paper 8598

Deniz Anginer and Asli Demirgüç-Kunt

This paper reviews the economic costs and benefits of deposit insurance and highlights the importance of institutions and specific design features for how well deposit insurance schemes work in practice.

[Bank capital, institutional environment and systemic stability](#)

August 2018 – Journal of Financial Stability, Volume 37, pages 97-106

Deniz Anginer, Asli Demirgüç-Kunt, and Davide S. Mare

This paper uses data on publicly traded banks in 61 countries and examines how the institutional environment affects the relationship between bank capital and system-wide fragility. Consistent with prior studies, the authors find that bank capital is associated with a reduction in the systemic risk contribution of individual banks.

[Corporate Governance of Banks and Financial Stability](#)

March 2019 – European Banking Center Discussion Paper Series No. 2014-010;

Journal of Financial Economics, Volume 130, Issue 2, November 2018, Pages 327-346

Deniz Anginer, Asli Demirgüç-Kunt, Harry Huizinga, and Kebin Ma

The authors find that shareholder-friendly corporate governance is associated with higher stand-alone and systemic risk in the banking sector. Specifically, shareholder-friendly corporate governance results in higher risk for larger banks and for banks that are located in countries with generous financial safety nets as banks try to shift risk toward taxpayers.

[Cross-Border Spillover Effects of the G20 Financial Regulatory Reforms: Results from a Pilot Survey](#)

January 2018 – Policy Research Working Paper 8300

This paper presents the results of a qualitative surveys of senior officials at regulatory agencies, local banks, and global banks that are active in seven emerging markets and developing economies with respect to the G20 financial regulatory reforms that were designed in 2009. The survey finds that banks and regulators routinely have different perspectives on the impacts. Most banks claim adverse effects on financial products, services, and markets; regulators broadly expect the effects to be positive over the longer term, but some recognize they may be negative during the transition phase.

[Concentration in the Banking Sector and Financial Stability: New Evidence](#)

October 2018 – Policy Research Working Paper 8615

Pietro Calice and Leone Leonida

Using a sample of 68 countries from 1997 to 2015, this paper proposes a unified empirical framework to test for the simultaneous presence and impact of the mediators through which concentration is expected to impact financial stability. The results indicate that the magnitude and net effect depend upon the level of concentration.

[Regulatory Arbitrage and Cross-Border: Syndicated Loans](#)

October 2018 – Policy Research Working Paper 9037

Asli Demirgüç-Kunt, Bálint L. Horváth, and Harry Huizinga

This paper investigates how international regulatory and institutional differences affect lending in the cross-border syndicated loan market. The results indicate that international banks have a tendency to switch loan origination toward countries with less stringent bank regulation and supervision consistent with regulatory arbitrage, but that they prefer to originate loans in countries with higher-quality institutions related to financial market monitoring, creditor rights, and the speed of contract enforcement.

RELATED BLOGS

Bank regulation and supervision a decade after the global financial crisis

Asli Demirguc-Kunt, November 2019

Over a decade has passed since the onset of the global financial crisis. This crisis revealed major shortcomings in market discipline, regulation, and supervision. This blog focuses on the main findings from the Global Financial Development Report 2019/2020 which provides new data and examines the key reforms in regulation and supervision focusing on the experience of and lessons for developing countries. [Read the blog »](#)

Bank capital regulation

Claudia Ruiz and Miriam Bruhn, November 2019

Since the global financial crisis (GFC) surprised the world a decade ago, many problems with the way bank capital was regulated became evident. In a few words, banks did not have enough high-quality capital nor incentives to sufficiently curb risk-taking. Regulation was so complex that even regulators struggled enforcing it. Since then, bank capital regulation has been revamped. Basel III is the most notorious example. [Read the blog »](#)

A New Policy to Better Integrate Refugees into Host-Country Labor Markets

Asli Demirguc-Kunt, Michael Lokshin and Martin Ravallion, November 2019

Integrating refugees into host-country labor markets will continue to prove difficult if citizens do not see the benefits, or do not feel that they are adequately compensated for the expected costs. Turkey is a relevant example of this challenge today, which the

authors explore in this blog post. [Read the blog »](#)

CALENDAR OF EVENTS

- **December 5, 2019:** Screening of Emmy award-winning documentary "[It Will Be Chaos](#)" followed by Q&A with the film directors Lorena Luciano and Filippo Piscopo.
- **January 15, 2020:** [ECA Academy](#) Award Ceremony with presentations of winning papers

Check [ECA Lectures](#) and [ECA Talks](#) to learn more about our events.

The ECA Research Notes newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to ECACEoffice@worldbank.org.

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