



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### After the Crisis is Before the Crisis

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08/17/2017

Jan Krahnert calls for further restructuring of banks and more determined liability rules



Ten years after the outbreak of the financial crisis SAFE Director Jan Pieter Krahnert (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/14-krahnert.html>) considers the European financial sector to be “on the right track”. However, a lot of restructuring has yet to be done, Europe’s banking system was still too big and not profitable enough, Krahnert said in an interview with the daily newspaper Frankfurter Neue Presse on 16 August 2017. In combination with the lack of willingness to implement structural reforms in several European countries, these open tasks have pushed the central banks into a role that is not up to them to fulfill. Instead of many national champions Krahnert favors “real European banks which operate transnationally.” This would help to better cushion cyclical fluctuations in Europe.

Krahnen stressed that there has been a lot of progress in European financial regulation while, at the same time, demanding further efforts. Financial markets authorities should constantly check that the minimum requirement for own funds and “bail-inable” liabilities of 8 percent of bank’s total liabilities – required by the bank recovery and resolution regime – is sufficient to absorb an event of default. According to Krahnen, private investors, banks as well as, if possible, companies and foundations should not own such bail-in bonds. To minimize the economic and systemic impact in case of a crisis, life pension insurers and pension funds, which have no short-term liabilities, would be “ideal” owners of such bonds. Having liabilities with a duration of 30 years or longer these could distribute single losses widely over time, so that no single shock of income would occur. Moreover, Krahnen demanded a clear definition of state liability above the 8-percent threshold.

Nobody could tell where the next banking crisis would come from, Krahnen said. A hacker-attack to the software of financial institutions or – under extreme conditions – the breakdown of a big clearing house could be potential triggers. The creation of big clearing houses, which secure OTC-transactions since the financial crisis, has built a new systemic risk. Krahnen recommended to require banks to raise their ratio of bail-inable capital in order to better prevent possible crises. “Simply raising the equity ratio, however, is not realistic – and not effective either,” the Professor of Finance added.

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