



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

SAFE Finance Blog

Banking Failures: Consolidation is Better than Rescue

06/22/2017

Jan Pieter Krahen: Bailing out ailing banks distorts competition



The exit of the ailing Banco Popular from the Spanish banking market – as a consequence of the takeover by Banco Santander – is a success for the young EU banking resolution regime (BRRD). It could be considered as a partial victory on the path to a new European financial architecture were it not for the recapitalization of the Italian bank Monte dei Paschi di Siena (MPS) and the planned rescue of the two banks from Venice, Banca Popolare di Vicenza and Veneto Banca.

Bailing out verifiably mismanaged banks is economically not reasonable. It gives wrong incentives, by rewarding the willingness to take excessive risks, and causes distortions in favor of market participants who have proven to be incapable of surviving. Supporting troubled financial institutions prevents market

consolidation and deprives other banks of new market opportunities. Both effects will decrease social welfare and financial stability over the medium term.

Instead of intentionally preventing a consolidation of the banking market, a strong competitor could be put in a position, via a “reversed bailout policy”, to take over the bank in trouble, or at least parts of its assets or business units. This would be in accordance with the initial intention of the Single Resolution Mechanism (SRM), which allows for the exit of weak banks without burdening savers and small investors.

Clearly, the provision of fresh capital to one or more “strong” banks would have to be conditional on e.g. the obligation to only use it as intended and during a specific period of time. The financing of the “reversed bailout policy” could be provided by the national bank rescue fund to which all banks contribute. This way, the danger that a banking crisis causes contagion effects may be contained without undermining competition.

Resolution authorities should not only consider national banks as possible “saviors”. Also pan-European financial institutions could play an important role. However, for a “reversed bailout policy” the current regulation would have to be amended. Currently, there is only little political and regulatory support for the evolution of pan-European banks, although this would be desirable. The rescue of a small foreign bank could provide a good opportunity for the entrance in a new market. A manageable size of well diversified pan-European banks (<http://safe-frankfurt.de/news-media/all-news/news-view/pan-european-banks-would-reduce-the-need-for-a-european-deposit-insurance.html>) would, in turn, contribute considerably to a balancing of risks in Europe.


Jan Pieter Krahenen (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/14-krahenen.html>) is Director of the Research Center SAFE and Professor of Finance at Goethe University Frankfurt.

Keywords: Financial Institutions ([https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html](https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=180&cHash=ae33c76342e22f01085651c7b9b65)), Bank Restructuring (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/bank-restructuring.html>), Banking Resolution (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/banking-resolution.html>), BRRD (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/brrd.html>), SRM (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/srm.html>)



Back (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)

Want to get regular updates?

 Subscribe to the Finance Blog RSS feed (<http://safe-frankfurt.de/home/rss-policyblog.xml>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

Enter your email address to get regular blog updates.

* Please read our data protection statement (<https://safe-frankfurt.de/about-safe/data-protection.html>)(pdf version (https://safe-frankfurt.de/fileadmin/user_upload/editor_common/Files/Data_Protection_Statement_10Jan2020.pdf))

I agree to the data protection statement.*

Subscribe

RECENT POLICY PUBLICATIONS

Apr 2020

Corona-Bonds und ihre Alternativen (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/corona-bonds-und-ihre-alternativen.html>)

Marcel Thum, (https://tu-dresden.de/cdd/leitung_und_beteiligte/mitglieder/lebensraum-und-infrastruktur/Thum) Alfons J. Weichenrieder (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/52-weichenrieder.html>)

Apr 2020

The Case for Corona Bonds (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/the-case-for-corona-bonds.html>)

Matej Avbelj, (<https://www.eui.eu/DepartmentsAndCentres/Law/People/Fellows/BBF/Matej-Avbelj>) Antonia Baraggia, (<https://www.mmg.mpg.de/person/99018/2553>) Jürgen Bast, (https://www.uni-giessen.de/fbz/fb01/professuren-forschung/professuren/bast/team/prof_leitung) Bojan Bugarič, (<https://www.sheffield.ac.uk/law/staff/bbugaric/index>) Emanuel Castellarin, (<https://unistra.academia.edu/EmanuelCastellarin>) Francesco Costamagna, (<https://www.law.georgetown.edu/ctls/staff/francesco-costamagna/>) Anuscheh Faraha, (<https://www.oer5.rw.fau.de/prof-dr-anuscheh-farahat/>) Matthias Goldmann, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/549-goldmann.html>) Anna-Katharina Mangold, (<https://www.europeanstudies.info/en/about-ma-eus/our-team/administrative-team/prof-dr-anna-katharina-mangold-ilm-cambridge/>) Mario Savino, (<https://unitus.academia.edu/MarioSavino>) Alexander Thiele, (<https://www.uni-goettingen.de/de/pd-dr-alexander-thiele/418590.html>) Annamaria Viterbo (<http://www.dg.unito.it/do/docenti.pl/Alias?anna.viterbo#profilo>)

Apr 2020

Emerging Evidence of a Silver Lining: A Ridge Walk to Avoid an Economic Catastrophe in Italy and Spain (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/emerging-evidence-of-a-silver-lining-a-ridge-walk-to-avoid-an-economic-catastrophe-in-italy-and-spa.html>)

Christopher Busch, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/468-busch.html>) Alexander Ludwig, (<https://safe-frankfurt.de/research/researchers/researchers-details/showauthor/112-ludwig.html>) Raül Santaaulàlia-Llopis (<https://www.barcelonagse.eu/people/santaeulalia-llopis-raul>)

All Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)

Contact

Leibniz Institute for Financial Research SAFE

Theodor-W.-Adorno-Platz 3
60323 Frankfurt am Main

Phone: +49 69 798 30080
Fax: +49 69 798 30077
Email: info@safe-frankfurt.de

Find the right contact person (<https://safe-frankfurt.de/about-safe/contact.html>)

 Follow us on Twitter (https://twitter.com/SAFE_Frankfurt)

SAFE →

- About SAFE (<https://safe-frankfurt.de/about-safe.html>)
- Job Offers (<https://safe-frankfurt.de/about-safe/career/job-offers.html>)
- How to find us (<https://safe-frankfurt.de/about-safe/how-to-find-us.html>)

Policy Center →

- SAFE Senior Policy Fellows (<https://safe-frankfurt.de/policy-center/safe-senior-policy-fellows.html>)
- Policy Publications (<https://safe-frankfurt.de/policy-center/policy-publications.html>)
- SAFE Finance Blog (<https://safe-frankfurt.de/news-latest/safe-finance-blog.html>)
- Policy Center Team (<https://safe-frankfurt.de/policy-center/policy-center-team.html>)



Home (<https://safe-frankfurt.de/footer-menu/home.html>) →

About this site (<https://safe-frankfurt.de/footer-menu/about-this-site.html>) →

Data Protection (<https://safe-frankfurt.de/footer-menu/data-protection.html>) →

© 2020 SAFE

Research →

- Research Departments (<https://safe-frankfurt.de/research/research-departments.html>)
- Researchers (<https://safe-frankfurt.de/research/researchers.html>)
- Data Center (<https://safe-frankfurt.de/data-center.html>)

News & Events →

- All News (<https://safe-frankfurt.de/news-latest/all-news.html>)
- Newsletter (<https://safe-frankfurt.de/news-latest/newsletter.html>)
- Expert List (<https://safe-frankfurt.de/press/expert-list.html>)