

Warsaw, 15.09.2016

**Summary of PhD dissertation “Analysis of the effectiveness of the bank resolution tools during the systemic crisis”**

Author: Magdalena Maria Kozińska

Thesis supervisor: prof. zw. dr hab. Małgorzata Zaleska

Supporting thesis supervisor: dr Emil Ślęzak

The main goal of the thesis was to verify the effectiveness of the resolution tools (proposed in the Bank Recovery and Resolution Directive; so called BRRD) at the times of systemic banking crises. To this end, the author conducted the literature review and empirical research. The latter one comprised of ex post quantitative analysis and the questionnaire. The aim of ex post analysis was to determine the level of effectiveness of the interventions applied during the last global banking crisis in the European Union (that could be classified as resolution tools according to the current BRRD). However, the legal framework for resolving banking crises was changed after the last financial turmoil. Therefore, the author decided to carry out the questionnaire (targeted at resolution authorities in the European Union), to create the ex ante evaluation of the new conditions and its implications for the effectiveness of resolving systemic crises. The goal of the questionnaire was to complement the quantitative analysis. As a consequence as such aims and assumptions of the thesis, the author proposed the hypothesis, that during the systemic crisis public funds may have to be used in order to resolve problems of ailing banks.

Chapter 1 handles about bank risk and the reasons of banking crises. The main aim of the conducted literature review was to determine the potential relationship between the type of the factors that led to the crisis and the effectiveness of the applied tools. For each of the factors (which were divided into two groups: internal and external) the potential consequences for the application of resolution tools have been identified. On the whole, the literature review led to the conclusion that the kind of the factor that triggered the crisis may negatively influence the effectiveness of the applied tool.

In Chapter 2, the phenomenon of the systemic banking crises has been presented. The analysis of its main aspects (contagion effect, channels of contagion, interconnectedness between institutions, bank panics) and of the “too big to fail” and “too many to fail” doctrines, led to the outcome, that materialization of systemic risk may have the negative impact on the effectiveness of resolution tools. Therefore, the governments should be prepared to intervene when it is necessary.

Chapter 3 gives the overall view on the resolution regimes as a response to the bank crises. The resolution frameworks were introduced in many countries around the world in order to provide appropriate rights for public authorities to intervene during the banking crises and, in this way, limit the costs of them for the taxpayers and to reduce the negative influence of banking turmoil on the real economy. In the chapter, the main rules governing the resolution regimes in the EU were also presented.

In Chapter 4, the author presented the theoretical aspects of application of resolution tools, put forward the results of the quantitative analyses conducted so far (which usually did not take into account the systemic aspect of the banking crises) and showed the results of its survey. The ex post analysis revealed low (but very diversified) effectiveness of resolution tools during the last systemic bank crisis. It was very rarely, that the ratio of successful implementations of resolution tools had been higher than 30% (depending on the defined effectiveness criteria). Among resolution tools, the most valuable tool seemed to be the bad bank. The results indicated that the least efficient tool was the bridge bank.

In Chapter 5, the analysis of public stabilization tools has been presented (similarly to the analysis of resolution tools). The analysis was conducted in the way identical to the resolution tools. The results suggested higher average efficacy of public than resolution tools. The most effective tool seemed to be nationalization. However, the levels of its efficiency was comparable to the bad bank. The main aim of this chapter was to compare the effectiveness of resolution tools to other opportunities of resolving the banking crisis. In this way, the author determined the absolute and relative effectiveness of resolution tools.

Chapter 6 combines the results of the questionnaire. They show that the resolution authorities notice the special importance of the systemic risk in the banking crises, which may reduce the effectiveness of the resolution tools. However, they rarely take it into consideration when planning resolution. The responses of the resolution authorities (regarding specific resolution tools) confirmed the results of the ex post quantitative analysis. Also in the opinion

of the resolution authorities, bad bank seems to be the most efficient resolution tool. Simultaneously, the liquidation was assessed as the least appropriate tool during the systemic banking crises.

Finally, the hypothesis of the dissertation was verified positively. The efficiency of resolution tools seems to be lower than of public stabilization tools (however, the efficiency of resolution tools is very manifold and there are some tools, like for example the bad bank, which efficiency is similar to the public tools). Therefore, the governments should not rely only the resolution tools during the systemic crisis and should be prepared also to use public funds.

