



# Bank of Finland Survey on Bank Capital Requirements: Preliminary Results

April 2019



## Survey Team

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<sup>†</sup>The Bank of Finland is the national monetary authority and the central bank of Finland. At the same time, it is also part of the Eurosystem, which is responsible for monetary policy and other central bank tasks in the euro area and administers use of the world's second largest currency - the euro. The Survey, its contents, and potential use does not necessarily reflect the views, opinion, and intended course of action of the Bank of Finland, its Board, or the Eurosystem.



## Survey Description

Following the Global Financial Crisis of 2007–2009, banking regulation has undergone significant reforms. In conjunction, the academic literature on banking regulation has made a great deal of progress in identifying key issues and tackling many of these in turn. The optimal amount of capital banks should have remains a central question.

In order to facilitate an overview of the current state and future of banking regulation, with a focus on bank capital requirements, we have conducted a survey addressed to leading academic experts worldwide in the field of economics and finance. As these experts are familiar with the literature but may also draw different conclusions from it, the survey provides one way of drawing together all the new research results and forming a balanced view of them.

The survey focuses on two key aspects. Firstly, how much capital banks should have, and secondly, how, in broad terms, the regulatory requirements enforcing this should be designed. Given that bank capital regulation is a multi-dimensional issue and deeply interconnected with other aspects of banking regulation, the survey was designed to take the various aspects into account while striving to maintain clarity and sufficient simplicity.

The survey was conducted anonymously and has purely academic aims. While the results may be helpful in guiding future policy discussions on banking regulation, the survey is not directed at supporting any specific policy initiative.

The survey was launched online on February 14, 2019 and was successfully concluded on March 10, 2019. A total of 1,383 experts were sent invitations and 149 responses were received.<sup>1</sup> The survey questionnaire was pre-tested several times on a select group of intended recipients and was designed under the guidance of an Advisory Board.<sup>2</sup> The resulting questionnaire consisted of 18 question groups which could be completed in about 5-15 minutes. The next section presents a summary of the survey questions and responses.

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<sup>1</sup>1,045 experts were invited to participate in the Survey on February 14, 2019. Reminders were sent on 25 February and 8 March. An additional 338 experts were invited on 25 February who were also sent a reminder on 8 March. The experts were chosen based on their publication records and academic credentials, including their standing in the field. The selection of respondents is intended to provide a representative, although non-exhaustive, sample of experts from academia.

<sup>2</sup>Any remaining errors and deficiencies are solely the responsibility of the survey research team.



## Survey Results

A brief summary of the survey responses are reported in Table 1.<sup>3</sup> Figures 1-9 visualize the distribution of survey responses for each question. The specific questions are reported in the captions of the figures. The sample questionnaire can be found in the Appendix of this report.

Table 1: Summary of survey responses.

	Question	Modal Answer	No. of categories <sup>2</sup>	Dispersion Index <sup>3</sup>	No. of responses
Demographic	Region	Europe	3	0.160	149
	Gender	Male	2	0.581	143
Expertise	Self rating on banking regulation	Expert	4	0.170	148
	Main Field	Banking and Finance	3	0.177	147
	Academic experience (years)	10	11	0.030	144
	Priv. Sector experience (years)	5	11	0.257	73
	Pub. Sector experience (years)	5	11	0.106	90
Minimum capital requirements	Answer option	I will give values for book equity to risk-weighted assets AND leverage ratio	3	0.099	140
	Leverage ratio	10	11	0.114	106
	Equity to risk-weighted assets	15	11	0.152	104
Effect of higher requirements	Average cost of capital to the bank	Probably increase	5	0.251	148
	Loan volumes	Minimal to no change	5	0.209	144
	Cost of bank lending	Probably increase	5	0.304	148
	Economic activity	Minimal to no change	5	0.343	146
	Likelihood of crisis	Probably decrease	5	0.238	147
	Social losses in crisis	Probably decrease	5	0.236	145
Mode of regulation	Leverage ratio	Yes and would complement risk-weighted capital requirements	3	0.387	146
	Additional G-SIB requirements	Yes	2	0.547	146
	Counter-cyclical buffer	Yes	2	0.261	143
	Use of hybrid instruments	Yes	2	0.050	134
	Market-based measures of capital	Yes and would complement book-/accounting-based capital requirements	3	0.143	146
	Liquidity coverage ratio	Yes and a complement to capital requirements	3	0.534	138
	Net stable funding ratio	Yes and a complement to capital requirements	3	0.423	127
General views	On strictness of Basel III	Somewhat strict	4	0.167	137
	On strictness of own views relative to peers	Somewhat strict	4	0.528	133
	Improved resilience of financial system relative to the past	Yes	4	0.237	148
	Improved resilience of financial system going forward	No, about the same	4	0.144	143
	Likelihood of crisis over next 5 years	Unlikely	4	0.273	144

<sup>2</sup>Number of categories are number of possible answer options excluding *No Opinion*.

<sup>3</sup> Standardized Simpson's (Herfindahl-Hirschman Index). The dispersion index is a measure of dispersion in responses with 1 indicating no dispersion and lower values indicate greater dispersion (calculated as  $(HHI - 1/N)/(1 - 1/N)$  where N is the number of options).

<sup>3</sup>To ensure the anonymity of respondents, we exclude responses to the question on respondents' age and aggregate responses to the question on current region of residence to *Europe*, *North America*, and *Other*.

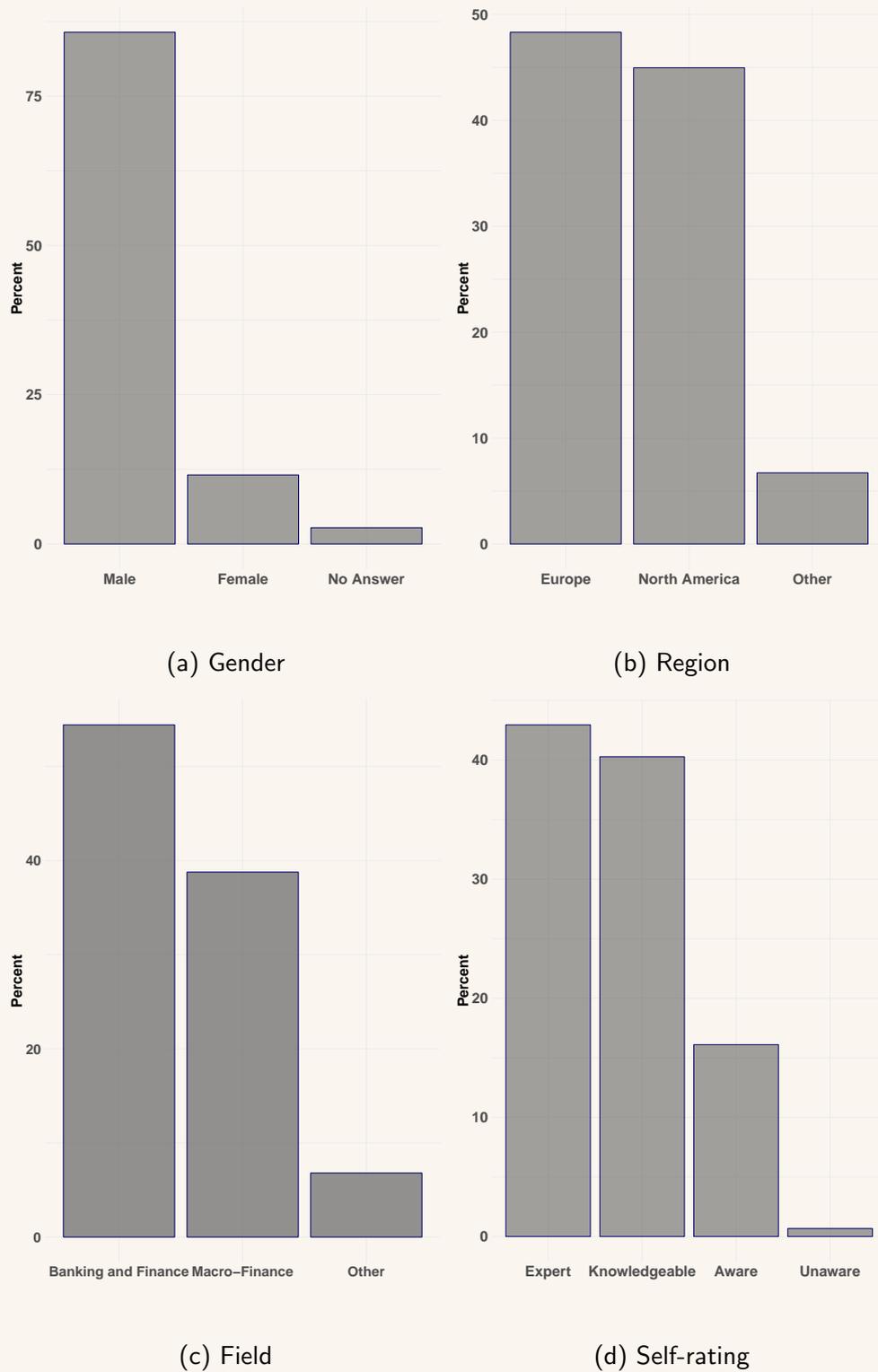
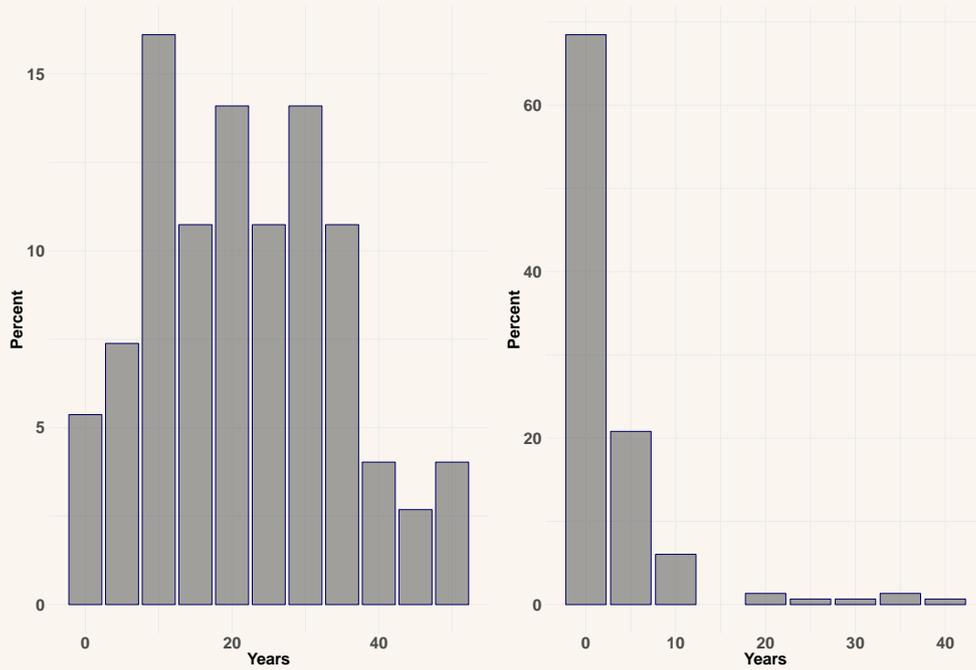
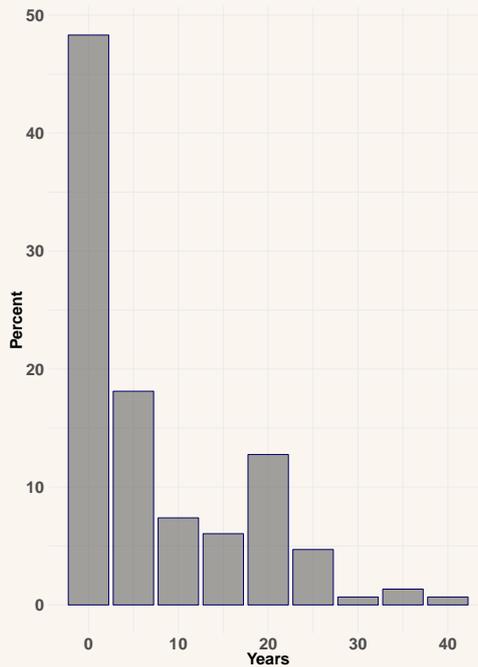


Figure 1: Respondents' demographics, field of expertise and self-rating on familiarity with banking regulation.



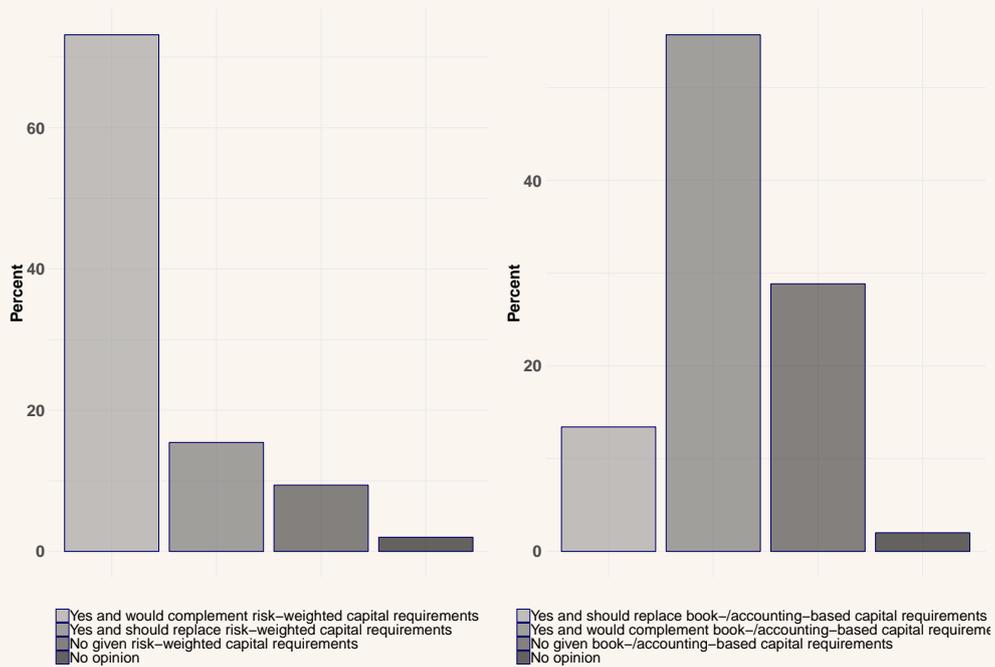
(a) Academic experience

(b) Private sector experience



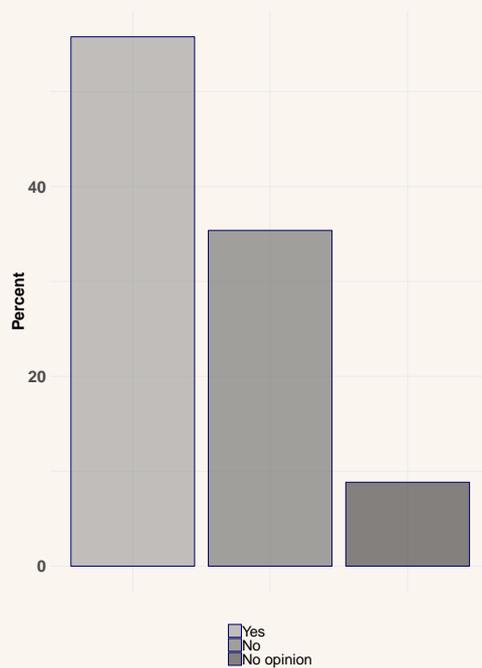
(c) Public sector experience

Figure 2: Respondents' total experience in different sectors measured in years. Possible values for the responses were limited to the range from 0 to 50 in 5 year increments (e.g. 0,5,10,15...).



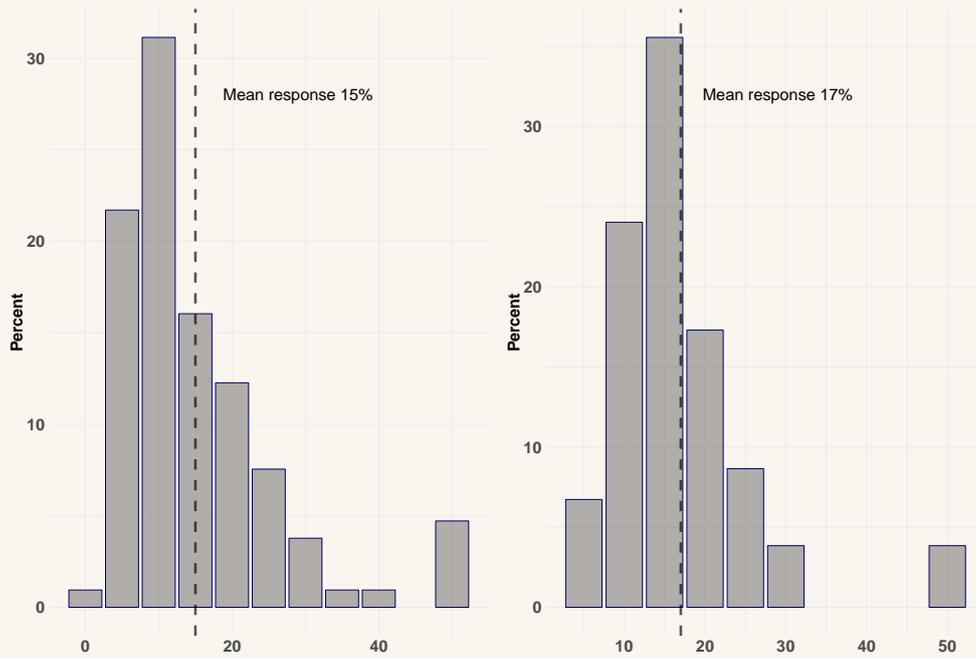
(a) Leverage ratio

(b) Market-based capital measures



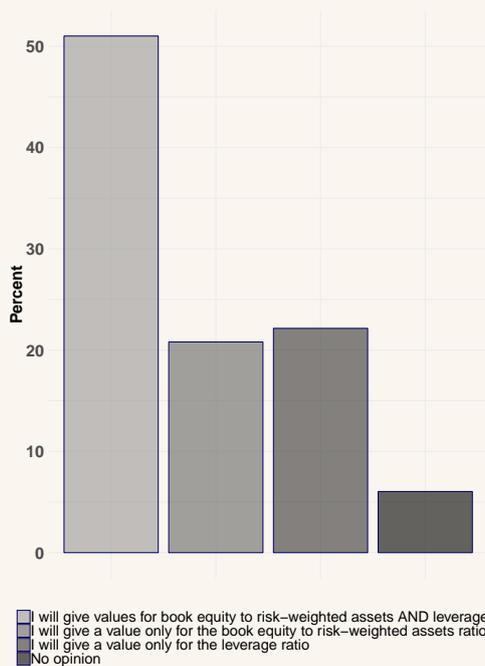
(c) Hybrid and bail-inable securities

Figure 3: Questions: a) Should a leverage ratio form part of minimum bank capital requirements? b) Should market-based measures of capital form part of minimum bank capital requirements? c) Should hybrid securities (e.g. contingent convertibles) and/or bail-inable securities be used to meet bank capital requirements together with equity?



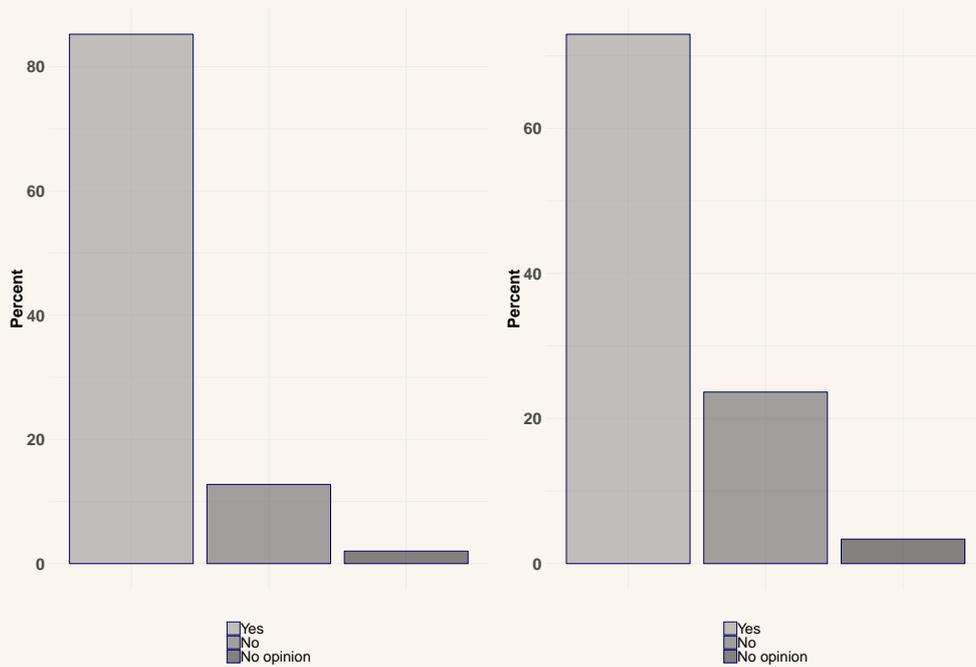
(a) Leverage ratio

(b) Book equity to RWA



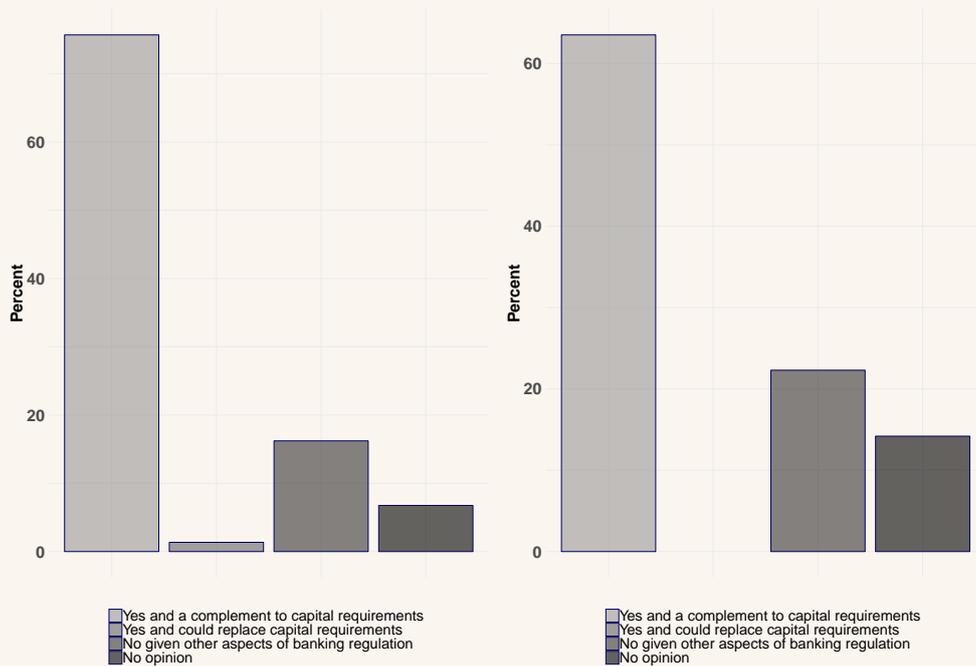
(c) Minimum capital ratio type

Figure 4: What approximate values of the following capital ratios (in terms of book value equity and in percent) is closest to your view of the level of capital that all banks should have as a minimum at all times: a) common equity to total assets b) common equity to risk-weighted assets? Possible values for the responses were limited to the range from 0 to 50 in 5 percent increments (e.g. 0,5,10,15...). The highest possible response value of 50 means 50 and over. Mean responses in the figures are rounded to the closest integer. c) What is the type of capital ratio(s) that you want to provide value(s) for?



(a) SIFI

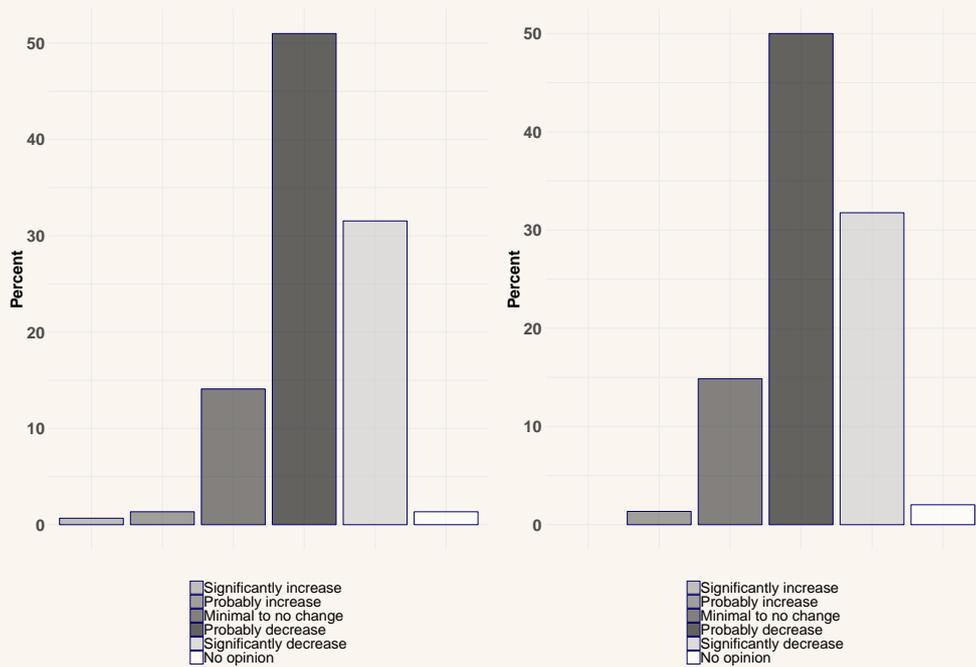
(b) Dynamic component



(c) LCR

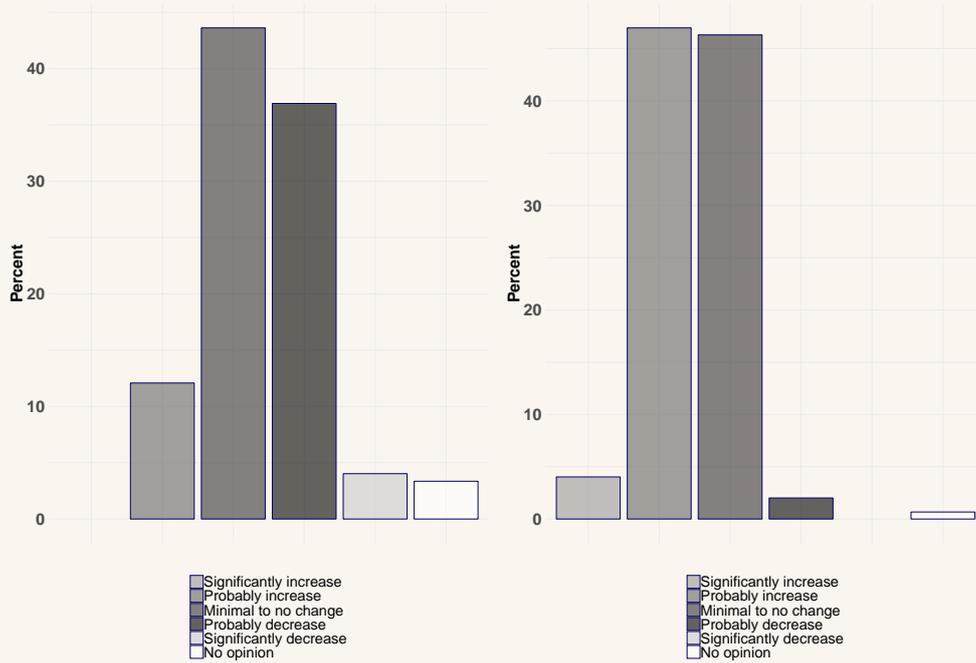
(d) NSFR

Figure 5: a) Is there a need for systemically important banks to hold additional capital as part of minimum requirements? b) Is there a need for a dynamic component (e.g. responding to the business or credit cycle) to bank capital requirements? Is there a need for some form of minimum liquidity requirements in banking regulation such as the Basel III c) Liquidity Coverage Ratio? d) Net Stable Funding Ratio?



(a) Likelihood of crises

(b) Social cost of crises



(c) Provision of lending

(d) Cost of lending

Figure 6: How are the following likely to be different (in the steady state) if capital requirements were higher by approximately 5 percentage points across the board and relative to Basel III recommendations: a) the likelihood of banking crises b) the social losses incurred in the event of a banking crises c) the provision of bank lending d) the cost of bank lending?

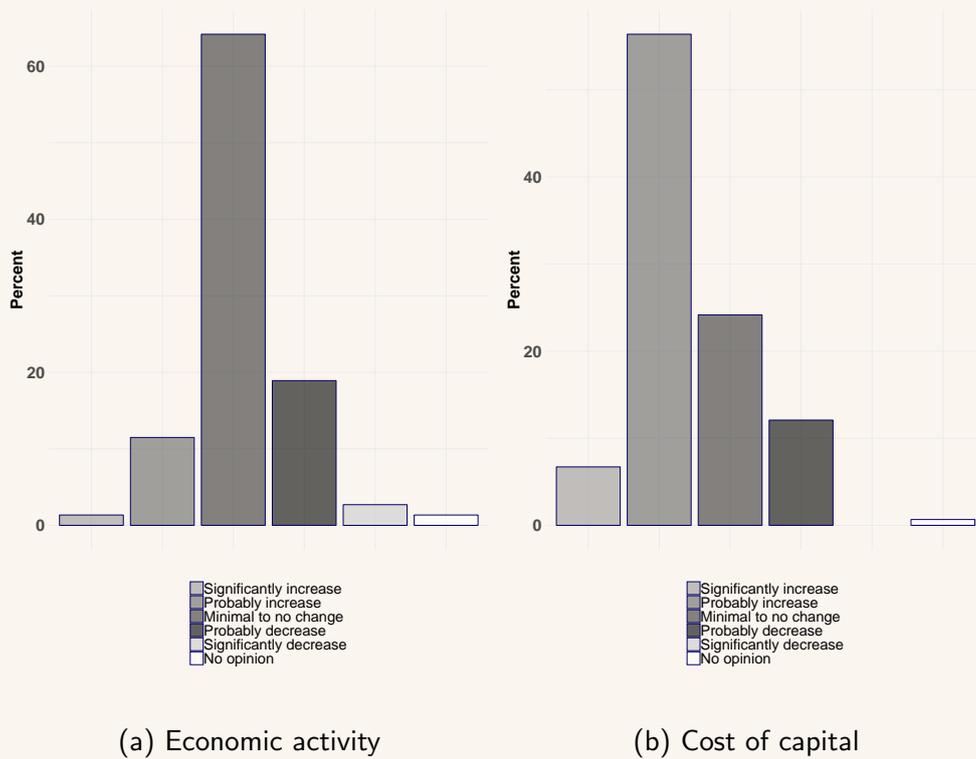
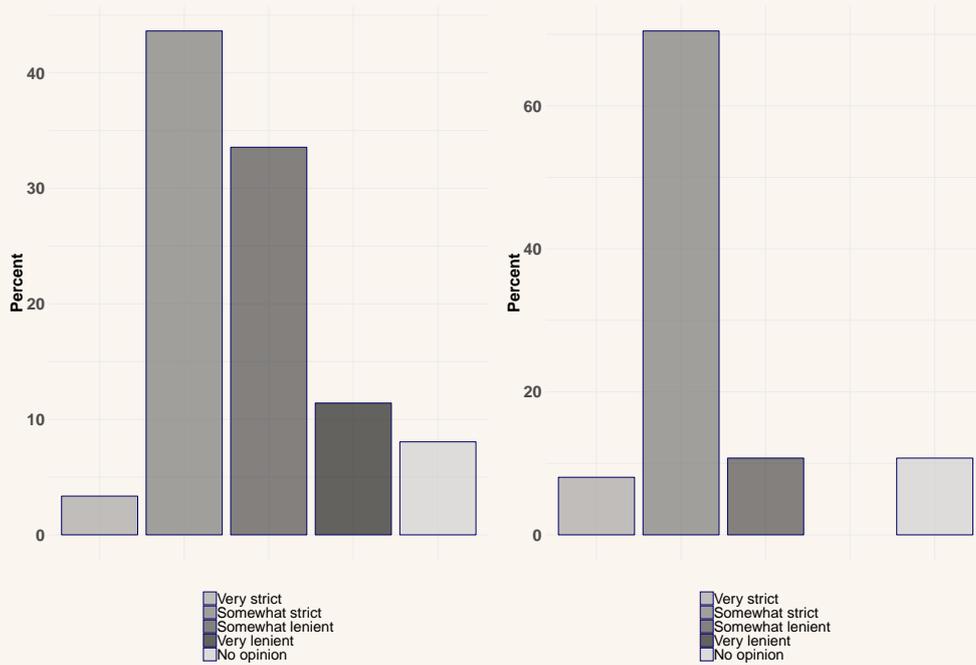
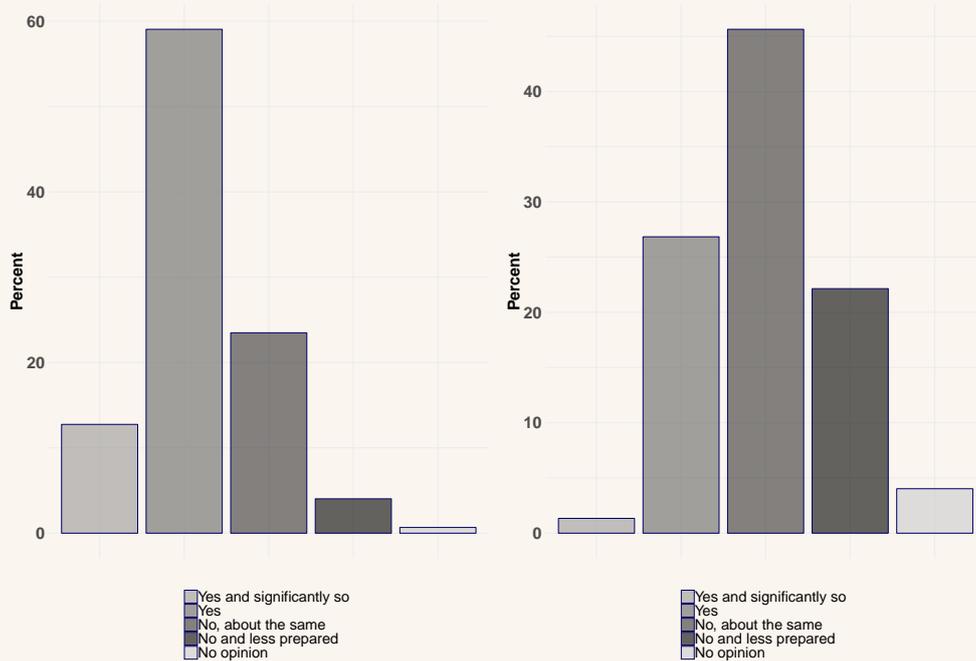


Figure 7: How are the following likely to be different (in the steady state) if capital requirements were higher by approximately 5 percentage points across the board and relative to Basel III recommendations: a) the level of economic activity b) the weighted average cost of capital to the bank?



(a) Strictness of BASEL III

(b) Strictness of your views



(c) Is the financial system prepared

(d) Will the financial system be prepared

Figure 8: a) How would you describe the overall strictness of the Basel III recommendations? b) How would you describe the overall strictness of your views on banking regulation relative to your peers and colleagues? c) Is the current financial system better prepared for a global financial crisis than it was 10 years ago? d) Given current trends, will the financial system in five years from now be better prepared for a global financial crisis than it is today?

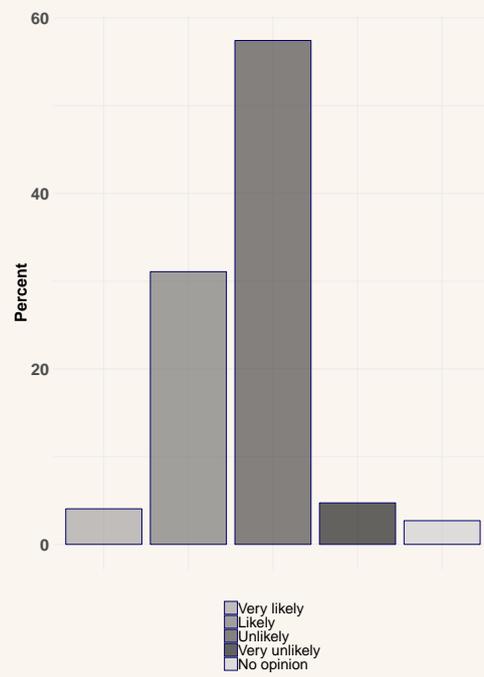


Figure 9: How likely do you see a financial crisis with global reach occurring over the next five years?

## **APPENDIX: Sample Survey Questionnaire**



## Bank of Finland Survey on Bank Capital Requirements

You are invited to participate in the Survey on Bank Capital Requirements, conducted by a research team at the Bank of Finland, the central bank of Finland and member of the Euro system.\* The survey consists of 18 questions which will take 10-15 minutes to answer. For mobile devices, we recommend that you use the latest versions of Google Chrome, Microsoft Edge, or Mozilla Firefox in landscape orientation to view the survey.

The purpose of the survey is to collect academic expert opinion on bank capital requirements (see also this [VoxEU blog](#)). At a later stage, the survey may be extended to other interest groups, such as supervisors and bank practitioners.

The results will be analyzed and reported as an academic study. They are not meant to directly guide any policy decisions. Your participation would be essential to the success of this study and would be highly appreciated.

The survey is anonymous and will not ask for any identifying information. The survey and the survey platform do not collect or store identifying information such as your name, email address, or IP address.

Your participation in the survey is completely voluntary. You may refuse to take part in the research or exit the survey at any time. You are free to decline to answer any particular question for any reason.

Please submit your responses by **March 10, 2019**.

If you have questions at any time about the study/the survey procedures or if you want to be removed from the e-mail list of invited survey respondents, please contact the survey team by email at [capitalsurvey@bof.fi](mailto:capitalsurvey@bof.fi). You may also visit the survey webpage [here](#).

At the end of the survey, we will provide a link to the survey webpage where we will post the survey results in the next few months following the completion of the survey.

By clicking NEXT and continuing with the survey, you are indicating that:

- You have read the above information
- You voluntarily agree to participate

Thank you very much for your time.

Sincerely,

The Survey Team

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## Instructions:

- Please do not forget to click the Submit button at the bottom of the page.
- Please note that, unless explicitly stated, the survey pertains to issues in banking regulation in general and not specifically on the Basel III reform.
- We understand that bank capital regulation is multi-dimensional and deeply connected to other aspects of banking regulation and it may be difficult to provide answers to the questions below without further qualifications. We encourage you to pick the options which best reflect your views and to use the Feedback section at the end of the survey to expand on your answers.

1. Please indicate in which demographic group(s) you belong to

• Age

- 20-29       30-39       40-49       50-59       60-       No Answer

• Gender

- Male                       Female                       No Answer

2. Please indicate in which region you currently reside in

- Africa                                       Asia and Oceania  
 Europe - European Union               Europe - non-European Union  
 Latin America and the Caribbean       North America

3. Please indicate your primary field of research and expertise

- Macro-Finance                       Banking and Finance                       Other

4. Please indicate the approximate number of years of professional experience you have accumulated in each of the following sectors:

*[Possible values for the responses where limited to the range from 0 to 50 in 5 year increments (e.g. 0,5,10,15...)]*

- Academic  
 Private sector  
 Public and International organizations sector

5. How would you rate yourself in terms of familiarity with issues on bank capital requirements?

- Unaware                       Aware                       Knowledgeable                       Expert

6. Should a leverage ratio form part of minimum bank capital requirements?

*Risk weighting refers to the concept in general.*

- Yes and would complement risk-weighted capital requirements  
 Yes and should replace risk-weighted capital requirements  
 No given risk-weighted capital requirements  
 No opinion



## Bank of Finland Survey on Bank Capital Requirements

7. Should market-based measures of capital form part of minimum bank capital requirements?
- Yes and would complement book-/accounting-based capital requirements
  - Yes and should replace book-/accounting-based capital requirements
  - No given book-/accounting-based capital requirements
  - No opinion
8. Should hybrid securities (e.g. Contingent Convertibles) and/or bail-inable securities be used to meet bank capital requirements together with equity?
- Yes                                       No                                       No opinion
9. What approximate value for the following capital ratios (in terms of book-value equity and in percent) is closest to your view of the level of capital that all banks should have as a minimum at all times?

Please use the drop-down menu to select how you would like to answer this question and use the box below to provide your answer.

- I will give values for book equity to risk-weighted assets AND leverage ratio
- I will give a value only for the book equity to risk-weighted assets ratio
- I will give a value only for the leverage ratio
- No opinion

Please provide your approximate value(s) for the capital ratio(s) using the scale(s) below. Please note that the scale goes from 0 to 50 where 50 represents 50 and over.

*[Possible values for the responses where limited to the range from 0 to 50 in 5 percent increments (e.g. 0,5,10,15...)]*

- Common equity as percentage of Risk-weighted Assets
- Common equity as percentage of Total Assets

10. Is there a need for systemically important banks to hold additional capital as part of minimum requirements?
- Yes                                       No                                       No opinion
11. Is there a need for a dynamic component (e.g. responding to the business or credit cycle) to bank capital requirements?
- Yes                                       No                                       No opinion
12. Is there a need for some form of minimum liquidity requirements in banking regulation?
- Such as the Basel III Liquidity Coverage Ratio
- Yes and a complement to capital requirements       Yes and could replace capital requirements       No given other aspects of banking regulation
  - No opinion
- Such as the Basel III Net Stable Funding Ratio



# Bank of Finland Survey on Bank Capital Requirements

- Yes and a complement to capital requirements   
  Yes and could replace capital requirements   
  No given other aspects of banking regulation  
 No opinion

*Under the Basel III recommendations, the Liquidity Coverage Ratio requires banks to have sufficient high quality liquid assets to withstand a 30-day stressed funding scenario.*

*Under the Basel III recommendations, the Net Stable Funding Ratio requires banks to have sufficient stable funding relative to funding needs. Stability in funding sources and needs is in part determined by tenor (short-term vs long-term), type, quality, and counterparty.*

13. How are the following likely to be different (in the steady state) if capital requirements were higher by approximately 5 percentage points across the board and relative to Basel III recommendations?

	Significantly increase	Probably increase	Minimal to no change	Probably decrease	Significantly decrease	No opinion
The likelihood of banking crises	<input type="checkbox"/>					
The social losses incurred in the event of a banking crisis	<input type="checkbox"/>					
The provision of bank lending	<input type="checkbox"/>					
The cost of bank lending	<input type="checkbox"/>					
The level of economic activity	<input type="checkbox"/>					
The weighted average cost of capital to the bank	<input type="checkbox"/>					

14. How would you describe the overall strictness of the Basel III recommendations?

- Very lenient                       Somewhat lenient                       Somewhat strict  
 Very strict                               No opinion

*Strictness may be interpreted in terms of scope, coverage or intensity where a more restrictive state (e.g. higher capital requirements) is more stringent.*

15. How would you describe the strictness of your views on banking regulation relative to your peers and colleagues?

- Very lenient                       Somewhat lenient                       Somewhat strict  
 Very strict                               No opinion

*Strictness may be interpreted in terms of scope, coverage or intensity where a more restrictive state (e.g. higher capital requirements) is more stringent.*

16. Is the current financial system better prepared for a global financial crisis than it was 10 years ago?

- Yes and significantly so                       Yes     No, about the same  
 No and less prepared                       No opinion

17. Given current trends, will the financial system five years from now be better prepared for a global financial crisis than it is today?

- Yes and significantly so                       Yes     No, about the same  
 No and less prepared                       No opinion



## Bank of Finland Survey on Bank Capital Requirements

18. How likely do you see a financial crisis with global reach occurring over the next five years?

- Very likely                       Likely                       Unlikely  
 Very unlikely                       No opinion

Please use the space below to further express your views on banking regulation and elaborate on your answers above. You are also welcome to provide feedback on the survey.