A balance between conflicting objectives

• Need to strike a balance between sometimes conflicting objectives where banks:
  
  – Need sufficient capital to absorb major shocks but not so high as to discourage intermediation at reasonable price
  
  – Large enough to be diversified between asset classes and regionally, but with a structure that allows them to fail without systemic risk
  
  – Competitive enough to provide range of services at reasonable price, but not prone to periods of excess competition where risk is under-priced and competitors fail with systemic consequences
Financial Regulation is justified when it is needed to address identifiable market failures, can succeed in correcting the problem without making matters works, and can do so efficiently.

- Over-regulation stifles competition and renders the system inefficient.
- Too-lax regulation opens the door to moral hazard and conflicts of interest.
Regulatory and institutional frameworks

• Play a very important role for financial stability
• Regulation affects the resilience of financial institutions to a crisis
  – Countries with strong regulatory and institutional frameworks have been less prone to financial distress
  – A well-designed regulatory framework can also help reduce the potential detrimental effects of competition on financial stability, in particular by improving banks’ risk taking incentives
  – i.e., Regulation can make banks less inclined to take on excessive risk.
Some OECD findings from the Roundtable

- Regulatory failures rather than excessive competition led to the crisis

- Better prudential regulation and supervision can improve stability going forward

- Restrictions to competition would not contribute to a greater resilience of financial institutions to financial distress.

- Instead, they would just have a negative effect on efficiency.

- Competition authorities should engage in a dialogue with supervisory and regulatory authorities in order to help frame regulation and to ensure that it is consistent with a robust competition policy.

- Time for “intelligent regulation by intelligent regulators”

- Get the most of the model of competition while still having prudential safeguards
• Competition is socially beneficial
• Provided that regulation is adequate
• In practice a trade-off between competition and financial stability arises along some dimensions due to:
  – regulatory imperfections or
  – outright regulatory failure
COMPETITION AND BANKING STABILITY

Antonio Capobianco
Acting Head of Division
OECD Competition Division

Mauritius, 16 March 2019