

Lessons and reforms for a fragile financial system

New report explores what the 2023 banking turmoil revealed about financial regulation and highlights the unfinished agenda of banking sector reforms.



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In March 2023, the U.S. experienced its biggest banking failure since the 2008 global financial crisis. Several banks — including a major lender in the tech industry and a bank of

global financial significance — crashed, as depositors hastily withdrew their savings, putting a strain on the already weak financial institutions dealing with soaring interest rates. Hundreds of billions of dollars were pumped into the system by lenders of last resort — central banks — and the banking industry's strongest players.

Read IESE professor Mireia Giné's 2023 [interview with Jamie Dimon](#) on the day JPMorgan Chase rescued First Republic Bank from bankruptcy.

The turmoil reignited concerns about the stability of the global financial system, underscoring critical issues surrounding deposit behavior and interest-rate risks. It highlighted the fragility of relying heavily on uninsured deposits, particularly in an era of rapid withdrawals through digital banking.

Most importantly, it put to test the regulations put in place after the 2008 crisis: Were they effective in this new era of banking? Have digital banking and social media fundamentally changed the landscape? And what role has monetary policy played?

A new report led by IESE Prof. [Xavier Vives](#) examines these critical questions, as well as exploring how banking regulation can prepare for future crises. The report, titled [Banking Turmoil and Regulatory Reform](#), calls for proactive measures to safeguard financial stability, to mitigate systemic risks, and to ensure the robustness of banking sector regulations and supervisory practices in light of recent crises.

The sixth in a series by IESE's [Banking Initiative](#), the report brings together academics, regulators and the private sector — including co-authors Viral Acharya from New York University Stern School of Business, Elena Carletti from Bocconi University and Fernando Restoy from the Bank for International Settlements. It's published by the U.K.-based [Centre for Economic Policy Research](#) (CEPR).

Regulatory effectiveness and the need for reforms

The failures of Silicon Valley Bank (SVB) and other mid-sized banks in early 2023, along with Credit Suisse's collapse, highlight both old and new vulnerabilities in the banking sector. The

rapid withdrawal of uninsured deposits amid interest-rate hikes — made possible by digital technologies — and the reversal of quantitative easing (QE) exposed significant liquidity and solvency issues. These incidents suggest that existing regulatory and supervisory measures may not be robust enough to account for the speed and scale of modern financial crises.

The Basel III reforms, designed in the aftermath of the 2008 financial crisis, aimed to strengthen regulatory standards. And while 2023's failures were not due to regulatory design flaws, they did highlight weak implementation across global standards. Many supervisors were aware of the problems but were slow to react, exposing gaps in early intervention frameworks and enforcement capabilities.

The crisis underscored the need for consistent and disciplined approaches — especially regarding interest-rate risk and liquidity regulation — which would ensure a more effective treatment of systemic risks across jurisdictions. An accounting loophole known as the AOCI filter, for example, allowed regulatory capital to be overstated by failing to reflect investment losses, contributing to SVB's downfall. Removing the AOCI filter and applying consistent interest-rate risk requirements across banks could mitigate such issues in the future.

The liquidity coverage ratio also requires rethinking, particularly the deposit run-off rates. A Pillar 2 add-on for high-quality liquid assets could provide a buffer in times of crisis, giving supervisors more time to respond effectively.

In a digital world where news spreads faster than ever through social media, the provision of liquidity and the demand for instant liquidity are evolving, as is the role of non-bank financial intermediaries. That's why it's crucial to have a reevaluation of liquidity coverage ratios, central bank operations and the efficiency of deposit insurance schemes.

Managing bank failures

The global financial crisis prompted significant changes in bank resolution frameworks, notably the introduction of the bail-in tool by the Financial Stability Board (FSB). But implementation remains uneven across FSB jurisdictions, creating gaps between policy intent and execution. Although the recent bank failures were resolved outside of the revised solution regimes, they highlighted the need for more effective and flexible resolution tools, as well as external support.

Resolution plans should include a mix of strategies instead of relying on a single approach. If backstops and resolution frameworks work together, they can reduce the need to provide

blanket bailouts to failing banks. It's crucial to extend resolution planning to all banks that may affect the financial system.

The European Union's Crisis Management and Deposit Insurance (CMDI) marked an important step forward by proposing to expand its resolution scope and refine funding strategies for banks in crisis, but the completion of a Banking Union is still lacking.

Recommendations for future stability

The report emphasizes the need for a holistic approach to regulatory policy — integrating capital, liquidity, accounting and disclosure requirements. The interplay between different monetary policies, such as QE and quantitative tightening (QT), must also be considered for their impact on financial stability. These recommendations include:

- **Uniform prudential rules.** Systemic risk must be addressed consistently across institutions, regardless of their individual size. This includes smaller banks which, collectively, can pose significant risks.
- **Adapting to digital technologies.** Liquidity regulation needs to be updated to reflect the rapid changes brought about by digital banking and social media. These platforms have accelerated the speed at which withdrawals and contagion can occur, amplifying risks.
- **Proper pricing of liquidity insurance.** Introducing risk-based premiums for deposit insurance and collateral pre-positioning for lender-of-last-resort support can help ensure that liquidity insurance is appropriately priced.
- **Strengthening early intervention and resolution planning.** Enhancing early intervention frameworks and resolution planning, with a focus on market-based signals, can help in preempting crises. Consistent implementation of global standards is crucial to ensure uniformity and reliability across jurisdictions.

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