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Macroprudential Surveillance and Statistical Challenges

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1 Introduction

Ladies and gentlemen

Thank you for inviting me to speak to you tonight. Many of the statistical challenges that are related to macroprudential surveillance have already been addressed this afternoon. Allow me to offer some thoughts from the point of view of a macroprudential practitioner, who is also involved in statistics.

It is a crucial aspect of macroprudential surveillance, as we see it in Europe, that the macrofinancial analysts receive all the information relevant for them to do their job. From my point of view, four aspects stand out:

1. Data requests must be analytically driven.
2. Micro and macro-views should be reconcilable.
3. Single entity and consolidated data are equally important.
4. The Data gaps issue needs to stay on top of the agenda.

2 The significance of macroprudential surveillance

There is, more than ever, a strong case for mutual understanding and close ex ante coordination, because in recent years we have witnessed nothing less than a significant change in the paradigm of macroprudential surveillance. Three steps can be distinguished.

As a first step, in spring of 2009, an international reform agenda has been agreed upon, and the Financial Stability Board has been assigned a key function.

Then, at the beginning of 2011, the European Systemic Risk Board has taken up its work.

And, as a last step, we are in the process of national macroprudential mandates being drafted in several European countries. Actually, at the end of last year, the ESRB released an explicit recommendation on the macroprudential mandate of national authorities.

Macroprudential surveillance, at the European level, can be characterized by a three-pronged approach.

- Firstly: A legal mandate exists for safeguarding financial stability. Europe is setting standards with respect to macroprudential policy.
- Secondly: Macroprudential surveillance pursues an indirect approach to surveillance. This means that macrofinancial analysts are entitled to receive the totality of relevant information in order to be able to deliver early warnings and clear recommendations. Meanwhile, all operative, microprudential instruments remain in the hands of the relevant supervisory agencies.
- Thirdly: Central banks are to take on additional responsibilities.

The draft of an act to strengthen German financial supervision that was released just a few days ago follows exactly along these lines.

However, the indirect approach, which is a crucial element in the European concept of macroprudential surveillance, is far from being completely implemented. It remains an important challenge to find a system of rules and procedures for applying macro-prudential instruments to address country-specific or sectoral risks. It is important to reconcile the goal of completing a Single Market for financial services with the need for sufficient macroprudential flexibility.

Moreover, formidable challenges refer to the acquisition of what I have called the totality of relevant information. It is against this very background that statistics enter the stage. Statistics, together with IT, are probably the most important means for macrofinancial analysts to meet their information needs.

3 Conceptual challenges

The G20 Data Gaps Initiative aims at both strengthening existing statistics and at developing new ones. As regards the development of new statistics, the task is quite challenging. Take, for instance, the initiatives on enhancing information on financial linkages, on mapping exposure and funding patterns or on identifying the activities of non-bank financial institutions, just to mention a few. Off-the-rack blueprints on how to proceed do not exist. The legal framework for data collection needs to be broadened in some countries. Confidentiality issues

will have to be addressed. And, last but not least, analytical guidance is necessary for the collection of data and for prioritization and coordination of statistical activities.

3.1 Data requirements need to be based on sound arguments

Any request for statistical data should be analytically driven. To be provocative: “Do you really need the data that we do not have?” This means that the goal of any research must be clearly defined, and that at least some preliminary ideas of how to proceed must be developed in advance. It is a prerequisite for statisticians to set priorities when employing their resources in their search for data that is fit for purpose. For the macro-prudential analyst, though, it is often the other way around: developing good ideas needs having at least some stylized facts before theorizing. This is a prerequisite for macro-prudential analysts.

However, it has to be recognized that financial stability cannot be defined bluntly. To give an example: The measurement of financial distress requires a broad and open concept having many dimensions which evolve over time. What is necessary, therefore, is an iterative approach that addresses individual aspects of financial stability step by step and tackles the subject from a number of different directions.

3.2 Marrying micro and macro data

Macroprudential surveillance has a lot to do with gaining a bird's eye view of the individual market players and their interlinkages. Consequently, what the analysts need is an approach that appropriately integrates micro and macro data.

This observation presents a case for a more in-depth use of statistical micro data. To give an example: When we look at the balance sheet of a bank as reported to statistics, we know that it is precisely this data that is used to derive national and euro-zone money and credit aggregates, financial accounts referring to the banking sector, external positions, BIS locational banking statistics and so forth. This guarantees a high degree of consistency for analytical purposes. Not least for this reason, statisticians have begun to put additional emphasis not only on the provision of aggregates but also more and more on the provision of granular data that can likewise be used for micro and macro analysis. A case in point is the ESCB's well established Centralised Securities Database and the new ESCB project of a Securities Holdings Statistics Database.

3.3 Reconciling single entity and consolidated data

If macroprudential analysts are to rely more heavily on statistical micro data, statisticians will have to adopt a two-way approach. They will have to provide data on a single-entity as well as on a consolidated basis. Both approaches are necessary to get the full picture.

Ideally, the analysis of consolidated data would be compatible with single entity analysis. This would enable us to take a look from the corporate perspective while keeping in focus the interrelationship between branches and subsidiaries. It is up to the statisticians to develop viable solutions.

4 Filling important data gaps

As to the issue of data gaps, there are two areas which both from a statistical and from an analytical point of view appear particularly challenging. These are the scarcity of data on the shadow banking system and the unsatisfactory progress being made in building a broader database on the insurance sector.

4.1 Shadow banking system

Credit intermediation via shadow banking has been producing serious financial distress, which contributed to the crises and which continues to be a risk factor for the stability of the financial system. Moreover, risks for the financial system tend to be systematically stemming from this sector, making its macroprudential analysis very important but difficult to handle, statistically as well as conceptually. This situation presents extraordinary challenges for supervisory and regulatory authorities as highlighted in a FSB report to the G20 in October of last year, and, only recently, in the European Commission's Green Paper on Shadow Banking. The immanent concern with shadow

banking is thus its lack of transparency. What are our options for the territory of shadow banking to be charted?

Shadow banking involves entities and activities outside the regular banking system, and statistical data collection in many parts is still quite sketchy. Obviously, there is an urgent need for central banks to be given an extended mandate for the collection of data not only from banks but also from non-bank financial institutions.

What can be done in the short term? As you know, there are two standard prescriptions frequently recommended as an initial remedy. The first of these is an extended analysis of flow of funds data. The second is an evaluation of counterparty information from balance sheet statistics. As regards the flow of funds, these transmit an idea of the main structures of the financial system: no more, but no less. Building on this feature, the G20 Data Gaps Initiative suggests that flow of funds information be amended by detailed sectoral accounts in the form of “from-whom-to-whom” tables, and, in fact, the IMF has already presented a pilot by submitting a standardized report form, based on what they call the “Balance Sheet Approach”. A similar project is under way in the ESCB with promising results. Nevertheless, the critical point is that our basic statistics on financial institutions outside the regular banking system be improved.

As regards counterparty information from balance sheets, these allow the mapping of exposures between the reporting institutions and financial entities elsewhere. In order to shed more light on shadow banking activities, a more

disaggregated sectoral breakdown is needed. Initiatives have been launched, for instance, in the context of the BIS Consolidated Banking Statistics, where we will see positions vis-à-vis “other financial institutions” being broken out separately. There also exists a considerably more ambitious attempt at collecting detailed counterparty data in some other BIS surveys, notably the OTC Derivatives Statistics, where you can find data on credit default swaps broken down, among others, into positions vis-à-vis insurance firms, SPVs- and hedge funds. The problem here is that operational definitions – say, for hedge funds – have proven to be difficult to agree on, and, therefore, the issue of classification has been left to the discretion of reporters. This is far from being an optimal solution. The Bundesbank therefore is calling for the development of an international business register.

4.2 Insurance sector

Insurance companies are in the focus of macroprudential surveillance because of their function as risk brokers and their role as financial intermediaries. However, there is a striking contrast between the economic and financial relevance of insurance companies and the relatively scarce amount of statistical data at hand. This has prompted the Eurosystem to launch an initiative geared to setting up new statistics on insurance companies and pension funds at the European level. Actually, initial sets of data have been produced, but, as many central banks lack their own data collection systems for insurance data, much of the information has to be imported, on an aggregated basis, from supervisory sources. This necessitates the data having to be heavily supported, for analytical purposes, by in-house estimates. But, to

be clear on this point: Statisticians have to abstain from becoming “nowcasters” or “forecasters”.

Even after the implementation of Solvency II blind spots will continue to exist. For instance, there will be no new data on pension funds. Moreover, data timeliness and data frequency will have to be significantly improved. This means that there is still need for an additional ECB regulation on insurance statistics.

5 A strong case for statistical cooperation

The days when statistics was just about number crunching clearly are history. I regard a statistician as someone who is confident of his skills, well trained in economic analysis, and closely integrated in an institutional network ruled by proven, time-honored principles. Moreover, a cooperative spirit is called for, paired with a sense of accountability and responsibility. And these are the same construction principles to be followed when it comes to building stable bridges between the various statistical fora and systems. Seen against the background of the current debate on the future of the Committee on Monetary, Financial and Balance of Payments statistics (CMFB), let me express my hope that everyone in Europe fully appreciates the high value of good partnership. In that respect, the CMFB is not only a body, but rather a concept. I am sure that no one in Europe would understand why it should be a good idea to abolish the CMFB, especially in times like these, when a strengthening of its role is absolutely necessary.

6 Concluding remarks

Let me summarize my main messages:

- Europe is setting standards with respect to macroprudential policy. Germany is about to implement national macroprudential oversight.
- Macro analysts are entitled to receive all relevant information in order to be able to deliver early warnings and clear recommendations.
- Statistics are the most important means for macrofinancial analysts to meet their information needs.
- Micro and macro data should be happily married.
- A two-eyed approach is needed: Single entity and consolidated data are equally important.
- Enlightening the shadow banking system and the insurance sector requires our special attention.
- There is no alternative to good partnership, between statistical institutions and systems.
- Politicians should back our work.

At the end of the day, there can be no question that macroprudential surveillance is dependent on a solid statistical groundwork. On the basis of the discussed prerequisites, priorities and principles, I am confident that we will master the future of macroprudential statistics.

Thank you for your attention.

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