Balancing Prudential Regulation and Competition Considerations in Banking

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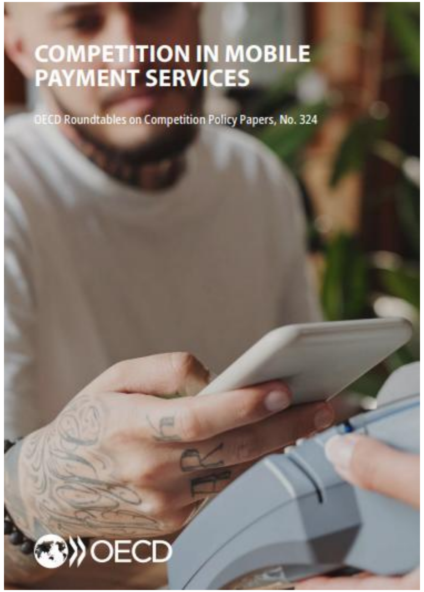
Key Concepts

- **Competition:** The process by which firms seek to attract customers away from rivals by offering better prices, quality, or innovation.
- **Market Structure:** The composition of a market, including the number of firms, their relative size, and the degree of concentration.
- **Contestability:** The extent to which new firms can enter and scale, and customers can switch providers, thereby exerting competitive pressure on incumbents.
- **Barriers to Entry and Expansion:** Regulatory, structural, or economic obstacles, such as licensing requirements, switching costs, network effects, or data advantages, that limit the ability of new firms to enter or existing firms to grow.
- **Switching Costs:** Financial, operational, or informational costs that make it difficult for customers to change providers.
- **Competitive Neutrality:** The principle that regulatory and policy frameworks should not confer undue competitive advantages or disadvantages on particular firms, and that entities engaged in similar economic activities should be subject to comparable regulatory treatment.

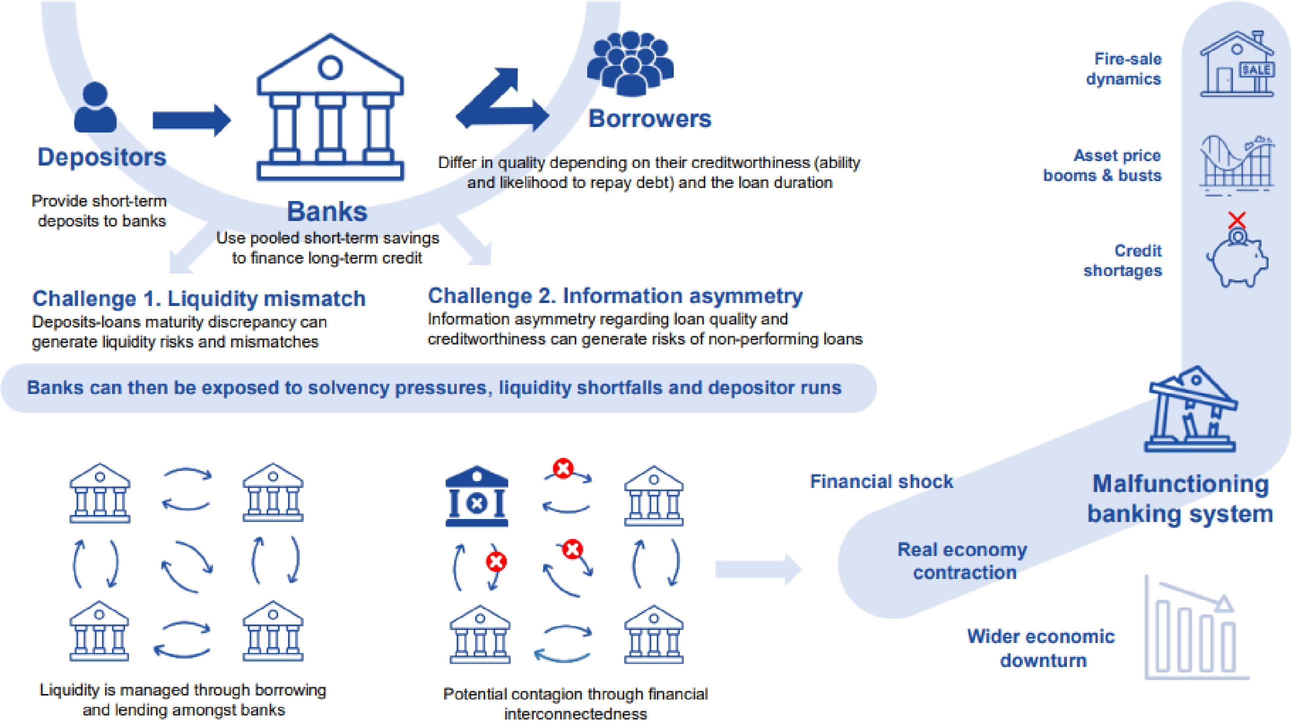
Structure of the Discussion

Presenting the OECD's Background Note	
1.	Tensions: entry, innovation, crisis
2.	Complementarities: resilience, credible exit, merger control
3.	Calibration challenges: capital requirements, authorisation and licensing
4.	Policy responses: proportionality, scaled licensing, simplification
5.	Cooperation: varying frameworks for enhanced cooperation and routine consideration of competition impacts

Recent OECD Work



Banking Market Challenges and Vulnerabilities



Tensions

- **Entry & Capital Requirements**
  - Contestability disciplines incumbents
  - Prudential screening safeguards stability
  - Risk of disproportionate barriers
- **Innovation**
  - Competition drives innovation
  - Prudential caution informed by past crises
  - Need for innovation within robust boundaries
- **Crisis & Consolidation**
  - Emergency mergers may promote stability short term
  - Long-term concentration and systemic risks
  - “Too-big-to-fail” dynamics (e.g. Lloyds/HBOS; UBS–Credit Suisse)

Complementarities

- **Competition Enhances Resilience**
  - Rivalry strengthens efficiency & risk management
  - Diversification reduces reliance on systemically important institutions
- **Credible Exit is Essential**
  - Contestability requires entry *and* exit
  - Orderly resolution protects stability
  - Inefficient firms should not be shielded
- **Modern Resolution Frameworks**
  - FSB Key Attributes
  - Living wills (recovery and resolution plans)
  - Bail-in tools vs. bailouts
- **Merger Control & Crisis Discipline**
  - Prevent excessive concentration
  - Avoid "too-big-to-fail" dynamics
  - Require prudential/competition cooperation

Capital Calibration & the Basel Perimeter

- **Capital as Stability & Entry Cost**
  - Loss absorption & confidence
  - "Price tag" for entry and expansion
- **Basel Implementation & Fragmentation**
  - Harmonisation vs. national divergence
  - Broad vs. targeted application
  - Proportionality for smaller institutions
- **Competition Implications**
  - Thresholds & exemptions shape incentives
  - Compliance costs affect entry & growth
- **Jurisdictional Illustrations**
  - Tunisia: elevated minimum capital thresholds
  - Australia & New Zealand: internal models vs. standardised approaches
- **Core Principle**
  - Capital requirements should reflect risk

BigTech and large FinTech pathways to entry

Tech firms	Bank partnership: Deposits	Bank partnership: Lending	Independent entry: Deposits	Independent entry: Lending	Banking license
Apple	US			UK, US	
Amazon		EU, India, US		UK, US	
Ant Group		People's Republic of China (China)		China, UK	China, Hong Kong (China), Singapore
Google		India			
Paypal	US	India, US			EU
Mercado Libre			Mexico*	Argentina, Brazil, Colombia, Mexico	
Meta		India			
Nubank			Mexico**	Brazil, Mexico**	Mexico
Tencent		China			China, Hong Kong (China)

Note: Partnerships between smaller FinTechs and banks are even more frequent, particularly in the provision of deposit services

Licensing regimes for NBFI deposit-takers

Country	Name of license	Demand deposits	Term deposits	Risk-based capital requirements	Deposit guarantee scheme	Supervisory reporting
Argentina	Finance companies	Available	Available	Apply	Apply	Apply
Brazil	Finance companies		Available	Apply	Apply	Apply
Colombia	Financing companies		Available	Apply	Apply	Apply
Hong Kong (China)	Deposit-taking companies		Available	Apply		Apply
India	Non-bank financial companies		Available	Apply		Apply
Mexico	Popular financial Societies	Available	Available	Apply	Apply	Apply
New Zealand	Non-bank deposit takers		Available	Apply	Apply	Apply
Singapore	Finance companies		Available	Apply	Apply	Apply

Simplification & Proportionality

- **Principle**
  - Simplification ≠ deregulation
  - Risk-based proportionality
  - Complexity can act as a barrier to entry and expansion
- **United Kingdom - “Strong & Simple”**
  - Simplified capital calculations
  - Streamlined reporting for smaller banks
  - Robust safeguards maintained
- **European Central Bank - Simplification Agenda**
  - Reduced supervisory reporting burdens
  - Elimination of duplication
  - Focus on material risks

Cooperation & Competition Assessments

- **Institutional Coordination**
  - Prudential-competition dialogue
  - Competition enforcement as a complement
- **Practical Mechanisms**
  - MOUs, joint task forces, joint market studies
  - Regulatory sandboxes
- **Systematic Competition Assessment**
  - Ex ante assessment of new measures
  - Ex post review of existing frameworks
  - Identify unintended entry and expansion bottlenecks
- **Competitive Neutrality**
  - Least distortive option consistent with stability

Conclusion: Aligning Stability & Competition

- **Calibrated Frameworks**
  - Risk-based capital & activity rules
  - Scalable or digital-only licensing
- **Credible Exit**
  - Modern resolution tools
  - Reduce reliance on crisis mergers
- **Effective Merger Control**
  - Guard against excessive concentration
  - Mitigate "too-big-to-fail" dynamics
- **Institutional Cooperation**
  - Regular dialogue & joint initiatives
  - Competition assessments & neutrality

THANK YOU

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