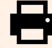
Letter

Letter: Accommodating private banks is in no one's interest

From RC Whalen, Chairman, Whalen Global Advisors, Scarborough, NY, US

YESTERDAY



Sheila Bair's comment ("Truth must be told about bank capital rules plans", On Wall Street, September 2) is only partly true. Yes, ending the absurd Basel practice of letting banks model their own capital needs is an improvement. And yes, ending the ability of smaller regional banks to ignore valuation swings in securities is a good thing. But ask yourself why these ill-considered accommodations to private banking interests existed at all.

The 2008 financial crisis and the three regional bank failures in Q1 2023 both highlight the same problem, namely that conflicted agents in the regulatory world cannot police the banking industry. Even with the massive Basel construct, regulators cannot properly characterise a bank's sources and uses of funds — aka the "business model" — nor identify outliers such as Silicon Valley Bank. Poor SVB actually died a year before the bank failed, but no regulator saw the obvious and suicidal trends in the bank's investments. What is the answer? First, transparency. Let computers do the work the regulators cannot or will not. Take all of the data gathered by regulators in the Basel nations and publish detailed ratings and peer rankings on every bank. Bair's former colleagues at the Federal Deposit Insurance Corporation and other US regulators gather the data and calculate peer rankings, but they don't use it effectively. Publish it in a way that consumers understand.

Second, competition. Allow better banks to operate without deposit insurance. The problem with banks today is not too little capital or regulation, but too little market discipline and poor (that is, negative) operating leverage. Allow banks with superior operations and capital to opt out of the society of mediocrity that are regulated depositories today. Profitable banks are safe and sound banks.

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