

Institution: 10007857 Bangor University
Unit of Assessment: UoA 19
Title of case study: Bank Securitization and Monetary Policy
1. Summary of the impact (indicative maximum 100 words)
<p>The demise of Lehman Brothers in 2008 marked the start of the current financial crisis and illustrated some of the adverse consequences of linkages between banks. The prospect of systemic crises has concerned bank regulators and monetary policy authorities for many years. Research by Professor Altunbaş at Bangor Business School, in close collaboration with the European Central Bank (ECB), has had substantial impact over 2008-2013 by influencing priorities in the international policy debate on how bank innovation can influence the conduct of monetary policy. It shows that the effectiveness of traditional monetary policy transmission mechanisms (such as the bank lending channel) is reduced by securitization activity and this also exacerbates the risk-taking channel of monetary policy. Evidence of the impact and overall scope of Professor Altunbaş' research is reflected in reference to his research at the highest monetary policy levels in Europe as well as widespread recognition in official central bank and international organization publications.</p>
2. Underpinning research (indicative maximum 500 words)
<p>The research underpinning this case study started when Professor Yener Altunbaş, a former doctoral student at Bangor and a full time staff member since 2000, won a visiting research fellowship in 2002 at the European Central Bank (ECB) to work on banking and monetary policy issues.</p> <p>Altunbaş' research applies innovative statistical approaches to model and understand bank behaviour and link this to public policy [a1, a2, a4 and a6]. A distinctive feature of this research is its' examination of the relationship between securitisation and the transmission of monetary policy and the role of the risk-taking channel [a3, a4, a5 and a6]. An important contribution of this work was to advance the view that to regulate the financial system effectively it is essential to understand forces that influence the microeconomics of banking, including how variations in bank risk management influence the effectiveness of monetary policy [a4, a5, and a6].</p> <p>Professor Altunbaş' research findings emphasise that the emergence and widespread adoption of securitisation between 1990 and 2007 was likely to have led to a change in bank lending dynamics and, in turn, to increase the supply of bank loans. In particular, advances in credit risk transfer instruments (e.g., securitisation) are likely to have reduced the effectiveness of monetary policy by expanding the breadth of credit markets [a3]. Securitisation also likely increased the risk appetite of banks [a5 and a6].</p> <p>Overall this research finds that securitisation can facilitate loose monetary policy stimulating excessive risk-taking that can ultimately lead to greater systemic fragility.</p>
3. References to the research (indicative maximum of six references)
<p>(Bold denotes currently full-time member of academic staff at Bangor)</p> <p>[a1] Ashraf, D., Altunbaş, Y. and J. Goddard (2007) "Who transfers credit risk? Determinants of the use of credit derivatives by large US banks", <i>European Journal of Finance</i>, 13(5) 483-500. DOI: 10.1080/13518470601137840</p> <p>[a2] Altunbaş, Y. and Marqués-Ibanez, D. (2008) "Mergers and acquisitions and bank performance in Europe: the role of strategic similarities", <i>Journal of Economics and Business</i>, 60(3): 179-290 (ECB working paper 398). DOI: 10.1016/j.jeconbus.2007.02.003</p> <p>[a3] Altunbaş, Y.; Gambacorta, L. and Marqués-Ibanez, D. (2009), "Securitisation and the bank lending channel", <i>European Economic Review</i>, 53: 996–1009 (ECB working paper 838). DOI: 10.1016/j.euroecorev.2009.03.004 (submitted to REF2014 ID 1904).</p>

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- [a4] Altunbaş, Y.; Gambacorta, L. and Marqués-Ibanez, D. (2010), “Bank risk and monetary policy”, *Journal of Financial Stability*, 6(3): 121-129. DOI: 10.1016/j.jfs.2009.07.001
- [a5] Altunbaş, Y.; Gambacorta, L. and Marqués-Ibanez, D. (2010), “Does monetary policy affect bank risk-taking?”, ECB working paper 1166 (BIS working paper 298), forthcoming in *The International Journal of Central Banking*. Available at SSRN: <http://ssrn.com/abstract=1572798> or <http://dx.doi.org/10.2139/ssrn.1572798>
- [a6] Altunbaş, Y.; Gambacorta, L. and Marqués-Ibanez, D. (2012) “Do bank characteristics influence the effect of monetary policy on bank risk?”, *Economics Letters*, 117(1): 220–222. DOI: 10.1016/j.econlet.2012.04.106 (submitted to REF2014 ID 1905).

4. Details of the impact (indicative maximum 750 words)

The impact of Altunbaş’ research on the formulation of public policy in the banking sector developed over 2008-2013 and was facilitated by the involvement of user groups from the outset. Specifically, Altunbaş acted as a consultant and collaborative researcher at a number of central banks and official international financial institutions, including the Bank of Italy (2007), European Central Bank (2008-2013) [b1], Bank for International Settlements (2011) [b2] and the Central Bank of Turkey (2012). These engagements meant that Altunbaş’ research was able to influence quickly the global policy debate on securitisation and monetary policy over the REF 2014 assessment period.

Research findings were disseminated through presentations to monetary policymakers at the highest level including: the Executive Board and Governing Council of the European Central Bank (ECB) (Frankfurt, March 2009, June 2009, September 2009, and October 2009); and the Board of the Bank for International Settlements (BIS) (Basel, September 2009). The same research has been debated with and by staff at central banks in workshops held at the ECB (April, 2009, June 2009), the Bank of England (December, 2011), the Korean Central Bank – BIS/IMF Conference (April 2012), and the Central Bank of Turkey (June, 2013).

The main pathway to impact was using these presentations and collaborations to influence public sector policy concerning bank securitisation and its influence on monetary policy. The importance of Altunbaş’ research became evident as central banks and global financial organizations grappled with the unintended consequences of financial innovation following the banking crisis of 2007. The results of his research then gained the attention of, and were showcased as a key priority for national central banks by the influential Committee on the Global Financial System (CGFS) (based at the Bank for International Settlements in Basel, which monitors developments in global financial markets for central bank Governors) [b3] as well as the Basel Committee on Banking Supervision [b4 and b5] and in ECB Monthly Bulletins (March and October, 2009). The importance of understanding Altunbaş’ risk taking channel in monetary policy was also highlighted by policy work by staff at the International Monetary Fund (IMF) [b6].

Evidence of Altunbaş’ impact is, therefore, the use of his research to support changes in priorities for the public policy debate on monetary policy and the supervision of banking activities by focusing attention on the “risk-taking channel” of monetary policy as a key field of study.

Further evidence of the impact and influence on monetary policy and the policy debate on bank supervision of Altunbaş’ research is found in extensive references to it by leading policymakers, including the:

- **President of the European Central Bank**, in delivering the *Susan Bies Lecture* (Kellogg Distinguished Lecture Series) entitled “What can central banks do in a financial crisis?”, Evanston, Illinois (27 April 2010), stated:
“Literature on the so-called “risk-taking channel” of monetary policy transmission provides a deeper insight into such behaviour; see (inter alia): ... (reference to [a4])” [b7]
- **Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements**, at the conference *The future of Monetary Policy*, Rome (1 October 2010), stated:
“Simply put, very low interest rates may create incentives for banks to take on more risks.

Recent research has provided empirical evidence compatible with such a notion. It has been documented [in [a5]], for example, how market based measures of bank's risks as perceived by financial market participants tend to react positively to changes in interest rates, so that a lower interest rate leads investor to perceive banks as less risky. ..." [b8]

- **President of the Deutsche Bundesbank**, at the Konstanz Seminar on Monetary Theory and Policy, Island of Reichenau, (28 May 2009) stated:
"As concerns the bank lending channel, a number of studies document that financial innovation – such as securitisation or credit derivatives – have led to banks becoming more flexible in reacting to monetary policy. More specifically, they may have become able to better isolate their loan costumers from restrictive monetary policy impulses (reference to [a3])." [b9]
- **Deputy Governor of the Sveriges Riksbank**, in a speech entitled "After the crisis – new thoughts on monetary policy" delivered at Nordea (one of the four big banks in Sweden and the Baltic Region), Stockholm (6 December 2010), stated:
"There is as yet rather limited empirical research on the risk-taking channel, but some papers on the subject have now begun to appear. The studies are based on data from the eurozone and the United States, as well as other countries. They appear on the whole to support the theory that low policy rates lead to the banks taking greater risks (reference to [a5])." [b10]

5. Sources to corroborate the impact (indicative maximum of 10 references)

Evidence of the impact of Altunbaş' research on monetary policy and the policy debate on bank supervision are found in the following two letters of support available on request:

[b1] Deputy Head of Division, Financial Research Division, European Central Bank (Statement)

[b2] Senior Economist, Monetary and Economic Department, Financial Markets, Bank for International Settlements (Statement)

Altunbaş' research is cited in important policy documents and has been widely discussed by central bankers at international seminars and workshops, examples of which include:

[b3] Committee on the Global Financial System / Bank for International Settlements (CGFS Papers) "Global liquidity – concept, measurement and policy implications". Report submitted by an ad-hoc group established by the Committee on the Global Financial System. The Group was chaired by Jean-Pierre Landau, Bank of France, (November 2011):

(<http://www.bis.org/publ/cgfs45.htm>, p. 6, italics in original).

[b4] Basel Committee on Banking Supervision (2012) "The policy implications of transmission channels between the financial system and the real economy", Working paper 20, Basel: *Bank for International Settlements*:

(http://www.bis.org/publ/bcbs_wp20.pdf pp. 14, 16 and 18).

[b5] Basel Committee on Banking Supervision (2012) "Models and tools for macroprudential analysis", Working paper 21, Basel: *Bank for International Settlements*:

(http://www.bis.org/publ/bcbs_wp21.htm, p.28).

[b6] International Monetary Fund (2013) "Bank leverage and monetary policy's risk-taking channel: Evidence from the United States", Working paper WP/13/143, Washington, DC: *International Monetary Fund*:

(<http://www.imf.org/external/pubs/ft/wp/2013/wp13143.pdf>, pp. 4 and 5).

[b7] President of the European Central Bank, in delivering the *Susan Bies Lecture* (Kellogg Distinguished Lecture Series) entitled "What can central banks do in a financial crisis?",

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Evanston, Illinois (27 April 2010),
(<http://www.bis.org/review/r100429d.pdf>,
http://www.ecb.europa.eu/press/key/date/2010/html/sp100427_3.en.html#5 p. 3).

[b8] Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, at the conference *The future of Monetary Policy*, Rome (1 October 2010), (<http://www.bis.org/review/r101130a.pdf>, p. 4).

[b9] President of the Deutsche Bundesbank, at the Konstanz Seminar on Monetary Theory and Policy, Island of Reichenau, (28 May 2009):
(<http://www.bis.org/review/r090602a.pdf>, p. 2).

[b10] Deputy Governor of the Sveriges Riksbank, speech entitled “After the crisis –new thoughts on monetary policy” delivered at Nordea, Stockholm (6 December 2010):
(<http://www.bis.org/review/r101208e.pdf>, p. 3).