

DO WE STILL NEED BANKS?

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DO WE STILL NEED BANKS?

Short answer: **Yes!**

But this raises other questions:

Why do we need banks?

What for?

And where are banks not fully delivering on their role?

To address them, let's go back to basics and think about banks' core functions.



FINANCIAL INTERMEDIATION

Banks' main role: channel funds from savers to borrowers.

- Firms and households can safely deposit their savings in banks.
- Banks will use these funds to lend to those who need to borrow to consume and invest.

By doing this, banks create liquidity, supporting economic growth.



REGULATION AND PROFITABILITY

Regulation puts a break in the maturity transformation.

After the 2023 U.S. banking turmoil, no one disputes that having these breaks is helpful to preserve financial stability.

But is regulation hurting banks' profitability?

Banks are less profitable today than 15 years ago. But is that a legitimate comparison?



THE RISE OF NON-BANKS

Tighter regulation on banks offers opportunities for non-banks to grow.

This boosts competition, increasing efficiency and consumer welfare.

But there are risks: fragility, amplification, systemic risks,...

How can regulation address this?



PROPORTIONALITY

Something we don't discuss as often: proportionality.

Banks face more regulatory and supervisory pressure than non-banks.

But the burden is not the same for all banks. Neither are the benefits.

Small and medium-sized banks are forced to dedicate a disproportionate volume of resources to these requirements (and other challenges, such as cybersecurity).

Should we worry? There are trade-offs.



PAYMENTS

Coming back to the list of critical roles played by banks, we cannot forget about their role in payments.

This is perhaps one of the areas where banks' market power has become more eroded.

But banks are not out of this game.

Payments are also often the entrance door to **financial inclusion**.



TRANSMISSION OF MONETARY POLICY

Another critical reason for the existence of banks: their role in the transmission of monetary policy.

Non-banks also play a role in the transmission of monetary policy, but a much weaker one.

Monetary policy also deeply interacts with bank profitability (in a way, part of the transmission mechanism).



DO WE STILL NEED BANKS?

Long answer: **Yes!**

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THANK YOU!