BRIEFING

European Parliament

# Banking Union - Is there still a watchdog role for journalists?

*After the financial crisis, the supervisory framework of the euro area banking sector has been seriously scaled up. This briefing argues, however, that there still is a watchdog role for journalists, as banking supervisors cannot single out banks that take excessive risks or fall short of other obligations. Based on a survey, we find that more than half of the significant banks in the euro area organise press conferences, which could provide a suitable forum for dedicated journalist to ask challenging questions, if needed.*

## I. The financial crisis and the supervisory monitoring of risks

The financial crisis that emerged in 2007 hit Europe hard and left its mark for years to come. Tasked to analyse the causes of the crisis, the High-Level Group chaired by Jacques de Larosière found[1] that certain macroeconomic conditions – ample liquidity and low interest rates – on the one hand, as well as fundamental failures in how banks and supervisors assessed risks on the other hand were among the main contributing factors. Lack of transparency in important segments of the financial markets further aggravated the situation. In their report, the High-Level Group made several suggestions how to achieve a stronger system for the supervision of banks.

The governments in the euro area subsequently agreed to fundamentally change the way banks in the euro area are supervised, transferring the mandate and responsibility for bank supervision from the national to the European level[2] and establishing the so-called Single Supervisory Mechanism (SSM).

One responsibility that has notably not been transferred to the European Central Bank (ECB) is that for investigations into money-laundering and terrorism-financing, which remained national competences[3], as they belong to the sphere of criminal law and security policy. There can be an interplay between those two areas of responsibility, as major violations of money-laundering provisions can effectively lead to the failure of banks. Since the ECB has taken charge of banking supervision, that has happened a couple of times; among related cases that were widely covered in the financial press were the liquidation of ABLV bank in Latvia, the liquidation of Versobank in Estonia, the case of Pilatus Bank in Malta, and the case of the Danske Bank's branch in Estonia.[4]

## II. The role of financial journalists

The financial crisis did not only spark a deep reflection among policy makers and supervisors, it also made people wonder why so little media attention had been paid to the risks prevalent in the banking sector during the run up to the financial crisis. As Manning[5] put it in 2013: "*One of the most notable features of the*

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*recent and continuing global banking crisis has been the failure of financial journalism, together with the global news agencies, to alert us to the signs of imminent catastrophe, thus confounding over-simplistic models of journalism as an efficient system of antennae monitoring the external environment*." Manning essentially argues that the relevant information about mounting risks was actually available in the public domain, but that it was not sufficiently picked up, leading to a collective failure: *"[...] most financial journalists and most international news agencies simply failed to report much of the emerging evidence of the growing possibility of collapse."*

In the same vein, Tambini[6], likewise reflecting about the role that financial journalists should play in the system of corporate governance and monitoring of risks, argues that the changes made to the supervisory regime should spark a parallel debate about the role of public and journalistic oversight: "*This could be an opportunity to revisit a broader debate about what role journalists should play in the overall framework of corporate governance: not only unearthing cases of fraud, but providing the balanced and sceptical news and comment that deflates bubbles and helps avoid market irrationality*."

An empirical study on the media coverage during the financial crisis, carried out by the Reuters Institute for the Study of Journalism at the University of Oxford, found that at the moment when the financial crisis unfolded, the overall coverage in the UK and several European countries increased in 2008 by 30% compared to the year before.[7] The authors of that study also give a reason for the increased media coverage: "*The crisis fitted into several categories of newsworthiness: the story was negative, involved elite institutions and well-known characters, and had a direct impact on people's lives*."

That type of sensation-seeking media coverage, however, is not exactly what we mean by a watchdog role: Optimally, dedicated journalists could provide a balanced and critical view on financial activities, to raise awareness for accumulating risks, and to warn against unsustainable developments.

Among the challenges that journalists nowadays face is the strong focus that financial market actors have on real-time information flows and market reactions, which in Thompson's view[8] explains to some extent the displacement of more critical, contextual 'big picture' analyses. Strauß[9], who conducted an empirical survey among 40 financial journalists in the United States, comes to a similar conclusion, observing a discrepancy between the journalists' self-perception and their actual role enactment: Strauß found that in today's high-frequency news era, most journalists mainly deal with standardised financial reporting, but – although they think of themselves as watchdogs – they devote little time to in-depth or more investigative stories.

## III. What role under current circumstances?

The fact that the de Larosière report mentions ample liquidity and low interest rates as major factors in the build-up of the financial crisis may be worrying to some, given that recent years were coined by a similar situation. However, the supervisory system for banks in form of micro-prudential supervision has since undoubtedly been reinforced, making another fundamental misjudgement in the assessment of the risks that banks take less likely. Moreover, the level of capital and liquidity that banks hold has since also been significantly increased, it is now more than double compared to the time of the previous crisis. As underlined by the President of the European Banking Federation, Ana Botín[10], the European banking system has therefore been able to withstand the severe economic shock caused by the coronavirus pandemic (even though a considerable part of the impact was surely cushioned by public support measures, ending up in form of public debt and deficits).

Looking forward, and putting those observations into the context of financial stability considerations, the European Commission recently came to a similar assessment[11], finding that the EU banking system has so far proved resilient and that capital levels and liquidity have remained strong.

Given that the supervisory system was significantly improved, that banks are overall better capitalised, and that they coped well with the economic effects of the pandemic, is there still a need for the kind of critical contextual "big picture analyses" that Thompson was asking for?

We think that there is still such a need, even if it is a challenging task. Take the pressing issues associated with climate change, which introduce new risks that have not traditionally been part of banks' internal risks assessments, as a concrete example. The ECB has in November 2021 comprehensively assessed the state of the climate-related risk management in the banking sector and found[12] that still none of the largest banks in the euro area is close to have its practices fully aligned with the ECB's expectations. The observed slow adaptation of risk management practices looks alarming, not least since virtually all banks that performed a thorough assessment expect climate-related risks to have a material impact on their risk profile in the near future.

Andrea Enria, Chair of the ECB's Supervisory Board, hence recently called upon[13] euro area banks to urgently step up efforts to measure and manage climate risk, close the current data gaps, and adopt available good practices. Frank Elderson, Vice-Chair of the Supervisory Board of the ECB, has been likewise outspoken about the situation; in a keynote speech[14] held in Frankfurt, he openly said that "*banks are trying to compensate for the poor quality of their disclosures by issuing a great volume of information around green topics*", meaning that one ends up with "*a lot of white noise but no real substance*" on what both markets and supervisors really want to know. In that speech, Elderson also mentioned that the ECB stands ready to use the full array of supervisory tools at its disposal, including the option to publicly list those banks which repeatedly fail to disclose their climate-related and environmental risks.

The ECB is hence very clear about the banks' shortcomings and the urgency to take action. Yet, though it threatens to take a "name-and-shame" approach at some point if banks repeatedly fail to disclose their climate-related risks, the information that the ECB usually shares with the public comes in aggregated form. The ECB's 2022 climate risk stress test report, for example, mentions that on average almost two-thirds of banks' income stems from greenhouse gas-intensive industries.

The aggregated information – the average value – may distract from the fact that some banks are much more exposed to greenhouse gas-intensive industries than others[15]. This could be a good example for a highly relevant topic where dedicated journalists could try to dig deeper, ask the right questions, look through the "white noise" that Elderson mentioned, and disentangle information that matters from greenwashing attempts and misleading marketing exercises.

## IV. Public scrutiny and the relevance of banks' press conferences

When the responsibility for the supervision of banks was transferred to the European level, the legislators catered for a robust accountability framework: the Chair of the ECB's supervisory arm regularly hence attends public hearings in the European Parliament's Committee on Economic and Monetary Affairs (ECON), in order to explain the actions that the ECB has taken as banking supervisor; the practical modalities of those hearings are set out in an Inter-institutional Agreement[16] that the Parliament concluded with the ECB.

However, the hearings in the European Parliament only provide a forum to question the efficiency and effectiveness of the ECB's performance as bank supervisor, but they are not meant to spark a public debate about the activities and situation of individual banks, even if the Members of the European Parliament very much care about that aspect. Adina Maricut-Akbik, who analysed those hearings in ECON, noted that "*there* *is a tension between the subject of questions raised most often - regarding the situation at specific banks - and the professional secrecy requirements of the SSM legal framework, which keep individual supervisory decisions confidential*"[17]. Professional secrecy obligations restrict the ECB from commenting in public hearings on activities of individual banks, which in turn also limits to what extent Members of the European Parliament can assume a watchdog role comparable to that of journalists.

Banks' press conferences offer another suitable forum for those who seek a watchdog role, providing them with the opportunity to pose "tough" questions that cannot easily be dodged. Some studies indicate that at senior management level, negative press is actually perceived to be the greatest threat to corporate reputation, giving journalists a leverage that may even exceed shareholder activism[18]. Anecdotal evidence also indicates that some banks have ceased organising press conferences exactly when their financial performance plunged, giving the impression that they tried to evade unpleasing questions[19].

## V. Press conferences by significant banks in the BU

To our knowledge, there is no overview available as to how many banks regularly hold press conferences, and the information that we found on the banks' individual websites on that matter was sometimes not very clear either. We therefore conducted a survey in spring 2022, sending a short questionnaire to 101 banks that are directly supervised by the ECB[20], with one follow-up email in case that we did not receive a reply. In total, we received 33 replies; that translates into a response rate of 33%, which, compared to other focussed economic surveys, is in the upper range of observed response rates[21]. We checked whether there is an evident coverage bias and found some disproportionally low and high response rates in geographical terms (see annex figure 1). The banks' corporate governance structure - based on a categorisation previously used by Véron[22] - made a slight difference as well: banks from the cooperative banking sector and nationalised banks have disproportionally often sent responses, while other banks responded less often (see annex figure 2). The size of banks had no strong effect, though (see annex figure 3). It is difficult to judge whether there was a certain non-response bias in case banks do not hold press conferences at all, but the overall response pattern suggests in any case that the results should be fairly representative.

On substance, we found that 55% of all banks hold press conferences regularly (meaning at least annually), another 27% hold press conferences occasionally, and only 18% of the banks replied that they would not hold press conferences at all. Traditional press conferences are hence still prevalent, but some comments received point to a reverse trend; one bank for example wrote: "*We have found that traditional in-person press conferences have become less popular by business media over the years*", and another "*We do not hold any classic press conferences anymore. We publish press releases and conduct individual background discussions on relevant topics or inquiries*". The preference for one-on-one interviews was also mentioned by another bank that wrote "*Since a few years we give journalists also the opportunity to have a one on one conversation with members of the board regarding a topic (e.g. explaining the strategy). Several journalists visit our headquarters on the same day but in different time schedules. This personal attention given is highly appreciated*". As regards access to the press conferences, a slight majority of banks (52%) indicated that access is restricted to holders of recognised press cards, but 48% replied that they allow a wider audience to participate (including, for example, bloggers).

In terms of banks' size, the survey indicates that larger banks are more likely to hold press conferences than smaller banks; in fact, most of the large banks hold press conferences regularly, but all of them do so at least occasionally (see annex figure 4).

In terms of corporate governance structures, we noticed that banks in public ownership are less likely to hold press conferences than those that are in widely dispersed or private ownership (see annex figure 5). In a wider context, that observation corresponds to findings by the OECD which reports that State-Owned Enterprises are often subject to weaker disclosure regimes than their listed private peers[23].

Our survey brought about one other notable observation: More than half of the banks that hold regular or occasional press conferences say that the information material used at the press conferences (hand-outs, slide shows etc.) is not always made publicly available. That in turn suggests that attending press conferences potentially gives access to information that cannot be found by alternative means, e.g. by an internet-based research.

## VI. Conclusion

To conclude, despite the progress that has been made since the financial crisis regarding the supervision of the largest banks in the euro area, one could still argue that dedicated journalism could play a meaningful watchdog role by questioning some substantive developments relevant for the banking industry. This would complement and even strengthen parliamentary scrutiny of the banking union, not least as the ECB, for reasons of professional secrecy, cannot publicly single out banks that take excessive risks or misrepresent their role in matters concerning all society, such as the management of climate change risks.

We find that press conferences provide a suitable forum to ask challenging questions, a forum that is offered by more than half of the significant banks in the euro area, and by virtually all of the largest players in the industry. The survey showed that attending press conferences can give access to information that cannot be found otherwise.



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## Annex

**Figure 1:** Response rates to the survey "press conferences of significant banks", by geography

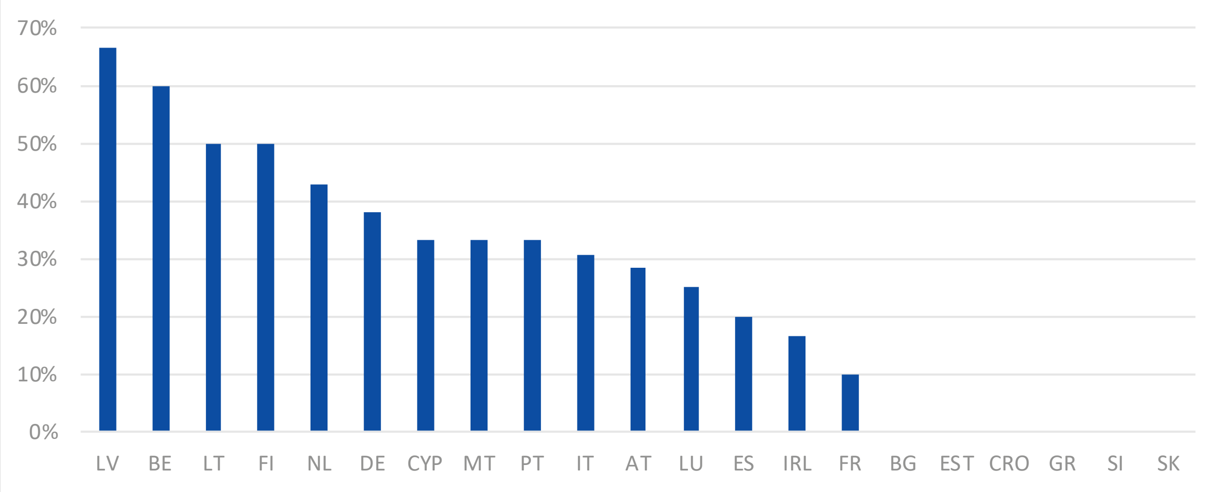



**Figure 2:** Response rates to the survey "press conferences of significant banks", by corporate governance type

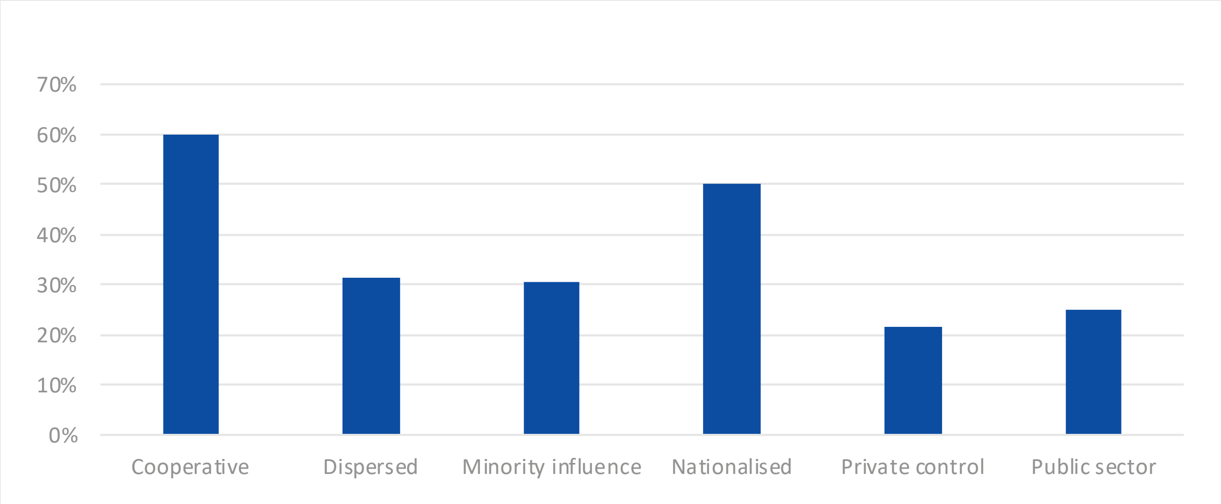



**Figure 3:** Response rates to the survey "press conferences of significant banks", by size classes (EUR bn)

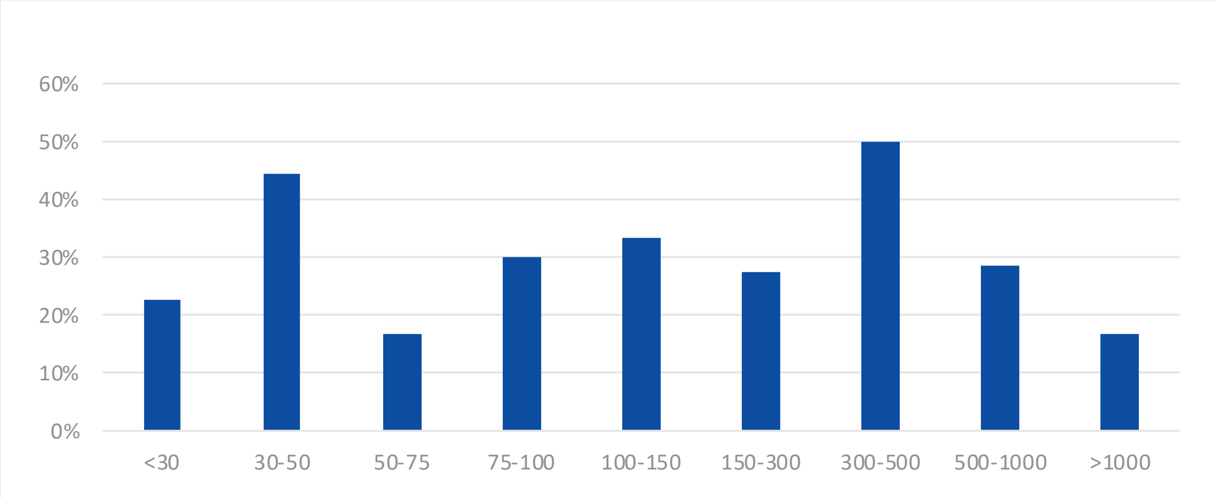


**Figure 4:** Frequency of press conferences, by size of bank

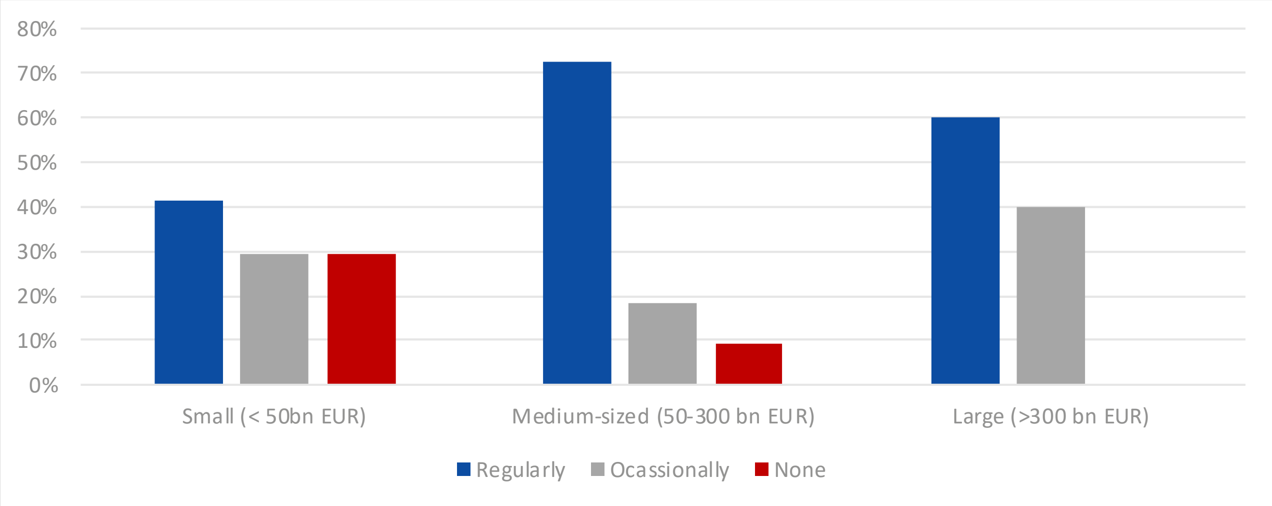
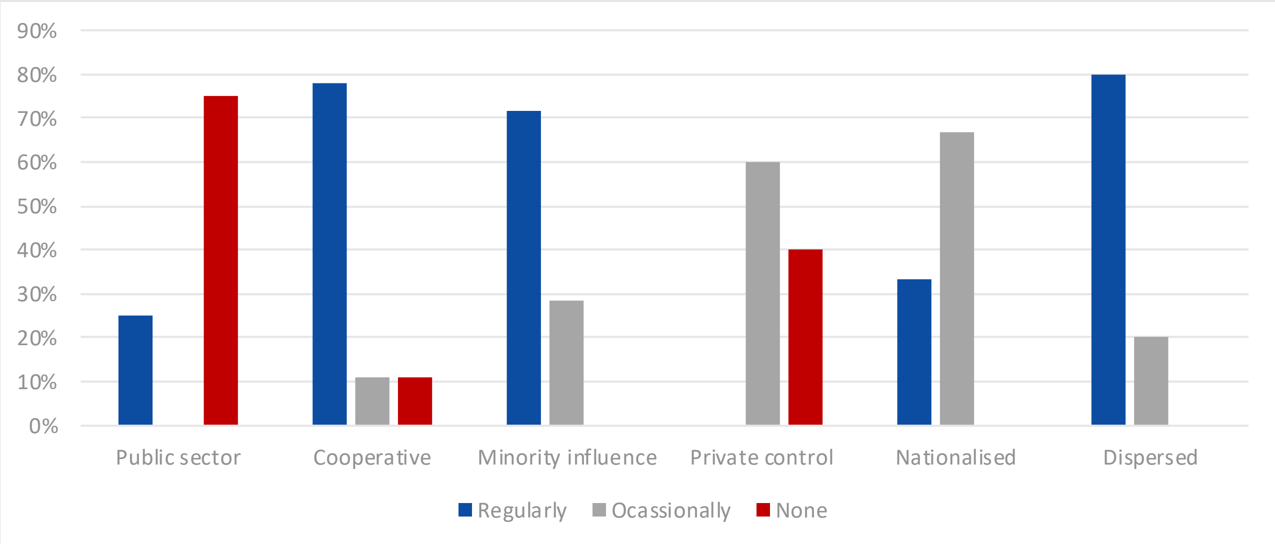



**Figure 5:** Frequency of press conferences, by corporate governance type



[1] See Report by the High-Level Group on Financial Supervision in the EU, chaired by Jacques de Larosière and published on 25 February 2009

[2] In November 2014, the ECB - or rather: it's newly created supervisory arm - took up the day-to-day supervisory activities for more than 100 of the largest banks that fall under the ECB's direct supervision; the smaller banks in the euro area (of which there are more than 6000) are still supervised by national authorities, but the ECB ensures the uniform application of rules, supervisory standards and methodologies, closely cooperating with national supervisors

[3] The delineation of respective competences is in fact a bit more complicated: fact-finding investigations and the criminal jurisdiction are national competences - however, the ECB is tasked to decide whether the findings of such investigations shall result in the withdrawal of banking licences. For more details on the delineation, see the ECB Newsletter article "The ECB and anti-money laundering: what we can and cannot do", published on 16 May 2018

[4] For a short summary of those cases, see the briefing by J. Deslandes, C. Dias and M. Magnus (2019): "*Anti-money laundering - reinforcing the supervisory and regulatory framework*", In-depth Analysis for the European Parliament, PE 614.496 - August 2019

[5] Paul Manning (2013): "*Financial journalism, news sources and the banking crisis*", Journalism, Vol. 14(2), pp.173-189

[6] Damian Tambini (2010): "*What are financial journalists for?*", Journalism studies, Vol. 11(2), pp.158-174

[7] Robert Picard, Meera Selva, and Diego Bironzo (2014): "*Media coverage of banking and financial news*", Reuters Institute for the Study of Journalism at the University of Oxford in association with PRIME Research, April 2014

[8] Peter Thompson (2013): "*Invested interests? Reflexivity, representation and reporting in financial markets*", Journalism, Vol. 14(2), pp.208-227

[9] Nadine Strauß (2019): "*Financial journalism in today's high-frequency news and information era*", Journalism, Vol. 20(2), pp.274-291

[10] See "*The banks are not complacent*", an interview with Ana Botín, President of the European Banking Federation and Chair of Santander Group, in the ECB Supervision Newsletter of 16 February 2022

[11] See European Commission "*European Financial Stability and Integration Review*", SWD(2022) 93 final/2, staff working document published on 7 April 2022

[12] See "*The state of climate and environmental risk management in the banking sector - Report on the supervisory review of banks' approaches to manage climate and environmental risks*", published by the ECB in November 2021

[13] See ECB press release of 8 July 2022 "*Banks must sharpen their focus on climate risk, ECB supervisory stress test shows*"

[14] See Keynote speech by Frank Elderson, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, 14th European Bank Institute Policy Webinar on the ECB's supervisory approach on climate-related and environmental risks, Frankfurt am Main, 14 March 2022

[15] See in this context also Winta Beyene, Manthos Delis, Steven Ongena (2022): "*Financial institutions' exposures to fossil fuel assets*", a study commissioned by the European Parliament's Committee on Economic and Monetary Affairs, PE 699.532 - June 2022

[16] See the Inter-institutional Agreement between the European Parliament and the European Central Bank on the practical modalities of the exercise of democratic accountability and oversight over the exercise of the tasks conferred on the ECB within the framework of the Single Supervisory Mechanism (2013/694/EU), OJ L 320, 30.11.2013, pp. 1–6

[17] Adina Maricut-Akbik (2018): "*Holding the Supervisor to Account: The European Parliament and the European Central Bank in Banking Supervision*", Bertelsmann Stiftung Policy Paper, 19 November 2018

[18] See Jennifer Joe, Henock Louis, Dahlia Robinson (2009): "*Managers' and investors' responses to media exposure of board* ineffectiveness", Journal of Financial and Quantitative Analysis, Vo. 44, No. 3, pp. 579-605

[19] See for example Heinz-Roger Dohms, Thomas Borgwerth (2020): "*Haspa-Drama: Größter deutscher Sparkasse implodiert die GuV*", Finanz-Szene Newsletter of 5 May 2020, and Heinz-Roger Dohms (2022): „*Kreissparkasse Köln offenbart Ertragsprobleme im Zinsgeschäft*", Finanz-Szene Newsletter of 15. February 2022

[20] The number of "significant banks" that are directly supervised by the ECB is larger, there are 111 banks on the list of supervised entities (cut-off date 1 April 2022); in some cases, however, we did not find a suitable contact person, which was notably the case for some of the banks that only recently relocated tom the euro are in the context of Brexit, setting up some holding companies

[21] See David Pielsticker, Martin Hiebl (2020): "*Survey response rates in family business research*", European Management Review, Vol. 17, No. 1, pp. 327-346

[22] Nicolas Véron (2017): "*The governance and ownership of significant euro-area banks*", Bruegel Policy Contribution, No. 2017/15

[23] OECD (2020): "*Transparency and Disclosure Practices of State-Owned Enterprises and their Owners*"