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Press Release

The Clearing House Welcomes Study by Oliver Wyman Showing Increased Stability of the U.S. Banking System

Research shows steps taken since 2008 have improved ability of banking system to withstand shocks

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New York, NY – March 26, 2015 – The Clearing House (TCH), the oldest payments company and banking association in the United States, today commended a new study by Oliver Wyman, Inc., entitled “Post-Crisis Changes in the Stability of the U.S. Banking System.” The study, which was commissioned by TCH, examined whether regulatory changes and changes to the banking system since the 2008 crisis have improved the financial stability of the U.S. banking system. The main conclusion is that financial stability has improved, particularly along a number of key dimensions by extending the reach of prudential regulation and supervision, and reducing the risk of insolvency, the risk of runs, and the risk of contagion.

“The study shows substantial gains in financial stability in the U.S. banking sector since 2008, with banks having significantly more equity, more resilience to withstand stressful events, and higher quality portfolios,” said Dr. Alexey Levkov, Senior Vice President, Head of Quantitative Analytics at TCH. “The system-wide reduction in risk reflects actions taken by the industry in response to the financial crisis as well as the implementation of regulatory initiatives introduced over the last several years.”

The study notes that recent improvements in stability that are partly attributable to the actions taken by banks, particularly larger banks, to reduce the riskiness of the assets on their balance sheets have also contributed to the greater stability of the financial system by reducing the risk of insolvency. Among Global Systemically Important Banks (GSIBs), the share of the safest assets (with 0% risk weight) on their balance sheets has increased from 12% in 2004 to 29% in 2014. Additionally, the study points to the expanding reach of prudential regulation, particularly by the conversion of some previously non-bank institutions into bank holding companies (BHCs) and the acquisition of other non-bank institutions by BHC parents, thus widening the scope of supervision by the Federal Reserve.

The study also cautions that the recent gains in stability of the U.S. banking system today cannot be taken for granted tomorrow. If it becomes economically unfeasible for banks to continue to deliver services within existing regulatory frameworks, these services will migrate to parts of the financial system with less regulatory cost and less oversight. Therefore, it is necessary for policymakers to continually ensure that the new, more robust banking system architecture is sustainable.