Thorsten Beck (Cass Business School, UK), Deyan Radev and Isabel Schnabel

"Bank Resolution Regimes and Systemic Risks"

Abstract. Using a novel and comprehensive database on bank resolution regimes in 22 member countries of the Financial Stability Board, we analyze how systemic risk at bank level changes in response to system-wide and bank-specific shocks, depending on the prevailing bank resolution regimes. We find that systemic risk increases more for banks in countries with more comprehensive bank resolution frameworks after negative system-wide shocks, such as Lehman Brothers' default, while it decreases more after positive system-wide shocks, such as Draghi's "Whatever it takes" speech. In contrast, systemic risk increases less in countries with more comprehensive bank resolution regimes in the case of bank-specific negative shocks, such as Deutsche Bank's loss announcement in 2016. These results suggest that bank resolution rules are effective in dealing with bank-specific shocks, while they may exacerbate the effect of system-wide shocks