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ABSTRACTS OF THE ARTICLES

US BANK FAILURES SPRING 2023 PART TWO: REAL RISKS, (MIS)DIAGNOSES, (MIS) RECOMMENDATIONS

Júlia Király – András Mikolasek

In March 2023, a banking panic hit the US market and affected Europe. The panic proved short-lived with no lasting real economic consequences, which would justify a complete overhaul of the current banking model. In the first part of our study, we set out the details of the three selected US banks' paths to failure. In the current second part, we analyse the three cases by digging deeper into the risks for banks. We show that the sophisticated risk indicators could not reliably predict such a panic and its consequences. Rather, it was the banks' flawed business models and corporate and risk management cultures that played a key role in the failure, and their inability to manage the risks arising from rapid growth and interconnected customer networks. Future supervisory investigations need to focus on this rather than mechanical indicator analysis.

JEL codes: E4, E5, G21, G28, G33

Keywords: bank crises, bank failures, bank panic, Silicon Valley Bank, Silvergate Bank, First Republic Bank

A SNAPSHOT OF SALES AND RISK RELATIONS AT HUNGARIAN BANKS IN 2022

József Koltai – Eleonóra Tarpataki

Banks' corporate lending strategy changes from time to time, but in any case, the implementation of that strategy requires cooperation between two functions, namely the business (corporate/project contact persons, sales) and the credit approval (risk management or risk) team. Smooth cooperation may foster optimised decision-making, and improve the efficiency of banks' processes, employee satisfaction and commitment, which, in turn, may reduce employee turnover. The benefits on the client's side are transparency, reliability and predictability, which may increase confidence in, and satisfaction with, the bank.

Therefore, it is worthwhile to review periodically how the two functions get along. We have taken such a 'snapshot' in our exploratory study of 2021/2022. In this study, we collected answers from 16 respondents working at banks in Hungary through an anonymous questionnaire and written in-depth interviews. The results show that the relations under scrutiny 'leave room for improvement'. Our survey also focused on how cooperation between the two functions could be made better and more efficient. Setting up transparent and well-regulated internal processes at banks and reinforcing risk-awareness in employees proved decisive in responding to the challenges of the future.

JEL codes: G21, G28, G29

Keywords: corporate lending, risk management, business function, cooperation

DEMAND SIDE LIMITATIONS OF FINANCING HOUSEHOLD ENERGY EFFICIENCY INVESTMENTS

A Regional approach

Anikó Dobi-Rózsa – Adrian Balaci

The building sector represents 40% of the total energy use in the European Union. Without exploiting the energy efficiency potential of the sector, neither the Paris Agreement nor the related commitments of the European Union can be achieved. This paper takes a comparative regional approach, differentiating between Northern, Western and Central-Eastern Europe and aims to study the drivers for and barriers to residential energy efficiency investments based on the various demand side indicators related to the housing stock and financial capacity of households. This study finds that financing challenges are more striking in Central-Eastern Europe where households are more cost sensitive and risk averse. Although they are strongly motivated by higher energy bills relative to their income, they are often prevented from making the right investment decision by a number of market and behavioral failures. Public policy, meant to facilitate commercial lending activity on this market, should consider aiming at reducing the real or perceived costs of borrowing via grants, interest rate subsidies and portfolio guarantees. It could encourage households with similar risk profiles to form loan borrowing communities to spread, and thus mitigate, the risk of financing. The innovative public policy suggestions, addressing the demand side, presented in this paper and the topic in general require more research.

JEL codes: D1, G21, G28, G51

Keywords: climate finance, energy efficiency finance, energy efficiency in buildings, energy efficiency policy, financial instruments

DIGITAL CITIZENSHIP, DIGITAL BANKING – DIGITALIZATION PROPOSALS BY THE HUNGARIAN BANKING ASSOCIATION

From basic banking services to mortgage loans, or how to apply for a mortgage loan in 15 minutes instead of 15 days

András Becsei – Péter Csányi – Attila Bógyi –
Endre Máriás – Márkó Gacsal – Levente Kovács

We present through the proposals of the Hungarian Banking Association (the 'Association') how further digitalisation of the individual steps of banking processes and the adoption of international good practices would improve customer experience, as well as the tools by which the banking sector could be made more competitive in international comparison. By following up on these proposals, the turnaround time of a standard mortgage loan application could be reduced from the current 15 days to only 15 minutes. Ideally, it would take such a short time for the binding bank offer and the draft loan agreement to arrive in the client's electronic mailbox. Redesigning processes would simplify the use of other banking products and services, too.

JEL classification: G21, G28, Q56

Keywords: banking system, digitalisation, lending, mortgage loans, competitiveness

THE ROLE OF THE CEE REGION'S BANKING SECTOR IN THE TIME OF THE RUSSO-UKRAINIAN WAR: MEASURING VOLATILITY SPILLOVERS

Milán Csaba Badics

In this paper, I investigate the volatility spillovers of the European banking network in 21-22. Applying the Diebold-Yilmaz framework to the daily stock return, which identified volatilities for 14 European banks, I analyse the impact of the first 100 days of the Russo-Ukrainian War on the banking sector. The empirical results suggest that the volatility-connectedness of the system reaches its maximum at a time of war. Similar to the earlier empirical literature, I find that, in calm periods, large banks play a critical role in volatility risk transmission. However, I conclude that, during the first 100 days of the Russo-Ukrainian War, the key participants in the financial network were institutions from the CEE region. My results suggest that, considering the banking network's macro and group-aggregated level volatility connectedness, an early-warning system to detect troubled financial institutions should be built.

JEL codes: C32, G01, G12, G15, G21

Keywords: volatility spillover, banking sector, Russo-Ukrainian war, CEE region