

PhD habil. Michał Moszyński, NCU Professor

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Department of Economics  
Faculty of Economic Sciences and Management  
Nicolaus Copernicus University in Toruń  
Gagarina 13A, 87-100 Toruń  
Poland

## **Review of doctoral thesis**

**of Mr. Bartholomä Rouven Julian Waltermann, M.Sc.**

***Increased Banking Supervisory Regulations in the European Union – the case of German Banking***

Written under supervision of

PhD. habil. Eugeniusz Gostomski, prof. em. of University of Gdańsk

and

PhD. Iwona Sobol, assistant supervisor

### **Introductory remarks**

The basis for the preparation of this review is a letter from Mr. Przemysław Borkowski, Ph.D., Prof. of University of Gdańsk, Chairman of the Scientific Discipline Council Economics and Finance, dated May 19, 2022, notifying of the resolution of the same Council, dated May 19, 2022, to appoint me as a reviewer of the doctoral dissertation of Bartholomä Waltermann, M.Sc., entitled “Increased Banking Supervisory Regulations in the European Union – the case of German Banking”, prepared under the direction of the supervisor, PhD Eugeniusz Gostomski, Prof. of University of Gdańsk, and the assistant supervisor, PhD Iwona Sobol. The doctoral dissertation was opened on 31.10.2019 in the field of social sciences in the discipline of economics and finance. The legal basis for the procedure is the Act of March 14 on Scientific Degrees and Academic Title and Degrees and Title in Art (Journal of Laws of 2017, item 1789, as amended) (*ustawa z dnia 14 marca o stopniach naukowych i tytule naukowym oraz o stopniach i tytule w zakresie sztuki (Dz.U z 2017 r. poz. 1789 z późniejszymi zmianami)*).

The review evaluates the most important aspects of the dissertation, organized in the following paragraphs with the formulation of the final conclusion.

## **1. The accuracy of the choice and originality of the research problem undertaken in the dissertation**

The dissertation submitted for evaluation deals with the current and interesting problem of increasing the scope and degree of regulation of the banking sector in the European Union, using the example of the banking sector in Germany.

The topic is important not only from a theoretical, but also from a practical point of view. After all, the financial sector is one of the key areas of the functioning of the economy and its condition has a powerful impact on it. In connection with the financial crisis that began in the US in 2007, there is a great wave of regulation of the sector, carried out at various levels – supranational as well as national. In Europe, the enormity of regulation is, of course, related to the functioning of the European Union and the eurozone in particular. Since part of the blame for the emergence of the crisis has been attributed to too weak regulation of the sector (following a trend of deregulation of different markets that began in the 1980s), regulators have taken increased activity to, as they declare, better monitor various risks, and through preventive measures increase the stability of the entire system and the financial security of economic agents. In addition to the supervisory structures of the European Central Bank, other supervisory institutions have been established to cooperate with national authorities. Banking, therefore, seems to be one of the more regulated industries, and the implementation of more and more new regulations is associated with enormous costs and administrative expenses, which ultimately burden the financial performance of banks. This raises the question of whether such an inflation of regulations exceeds a certain regulatory optimum determined by the costs and benefits of regulation, but also common sense. Critics of excessive regulation, especially in the trade press, speak in this context of the so-called regulatory rage (in German: “Regulierungswut”).

Against this background, I consider it right and advisable to take up the topic. Germany’s economy, as the largest in the entire Union, is of crucial importance, while the country’s banking sector shows some specific characteristics that are captured in the considerations.

## **2. Evaluation of the correctness and completeness of the research objectives and hypotheses**

The main objective formulated in the dissertation (p. 11) was defined: “to critically examine the newly created supervisory banking framework to be applied at the level of the European Union”. An additional goal was “to examine the regulatory achievements of bank supervisors and to visualize their effects using the German banking market as an example” (p. 12).

The author set the following four research hypotheses:

- I. Increased regulatory requirements in the aftermath of the financial crisis have contributed to greater financial market stability in the German banking industry.
- II. After the financial crisis, increased banking regulation has led to a major change in the balance sheet structure of German banks (both on the asset and liability side).
- III. The organizational structure (structural and process organization) of German banks has changed over time as a result of increased regulatory requirements.
- IV. The costs associated with banking regulation exceed the benefits and advantages they generate for the financial market and German financial institutions.

In my opinion, they are structured correctly, they are verifiable, and they are closely related to the main scientific objective. However, the second and third hypotheses seem to be quite obvious and intuitive.

## **3. Evaluation of the correctness of the dissertation structure**

The main text of the dissertation is 232 pages, taking into account the literature list and appendix – 272, while the bibliography contains 30 pages. I assess the structure of the dissertation as correct and subordinate to the research objective. It consists of eight chapters, an introduction, a conclusion and the necessary indexes and an appendix with a survey questionnaire. Chapter one deals with the theoretical aspects of banks and their role as financial intermediaries; in chapter two core business areas of banks are described in detail, both on the asset and liability side. Chapter three is devoted to a discussion of various risks in the banking field. Chapter four deals with the structures of the banking industry, with particular emphasis on the three-pillar architecture in the German area. Chapter five describes the causes and course of the global financial crisis, while chapter six covers the regulation and supervision of the banking industry in Europe and Germany. Chapter seven discusses the regulations undertaken in the EU after the

financial crisis, while the final chapter includes interviews with experts and empirical evidence of increased regulation of the banking sector.

The subtitle of the dissertation indicates that the focus will be on German banking, so the following chapters contain relevant sections on the specifics of Germany. Thus – chapter four discusses the banking sector in Germany, chapter five points to the course of the financial crisis in Germany and chapter six to the regulation of banks in Germany (two pages only). Chapter seven lacks such references, as the analysis is conducted at EU level. For the sake of completeness, however, there is somewhat lacking a section that addresses the discussion taking place in Germany in relation to the wave of regulation, discussing its potential consequences for the banking 'landscape' in question (in section 4.3.), before giving the floor to the experts in the final chapter.

#### **4. Assessment of the sophistication of the theoretical knowledge of economics and related sciences contained in the dissertation**

The author expertly guides the argument through the successive, interrelated chapters of the dissertation. The dissertation draws on the body of theoretical work on banking theory, especially in chapter one, where the focus is on the theory of financial intermediation, and in chapter two, where the issues of imperfect information and information asymmetry are discussed, as well as the problem of risk in light of various theoretical concepts. The achievements of organizational theory were also used in discussing the organizational structures of banks in chapter four. The author also aptly cites the need to use competition theory (p. 190) when analyzing the effects of regulation on banks. The author does not reach for such approaches as economic theory of (de)regulation, public choice theory, or interest groups, which could have explained the analyzed phenomena in more depth.

#### **5. Evaluation of research methods**

The author adapted methods appropriate to the objectives of the study and the verification of hypotheses. The methods used were: critical literature studies, estimates of the “production” of regulations and their structure (using bibliometric analyses), or the method of semi-structured interviews with experts in the German banking sector (kind of Delphi method). One could have been tempted to make some quantitative estimates, especially to verify the second hypothesis, as the author himself mentions on p. 224 (changes in the structure of assets and liabilities in

banks), which can probably be obtained from publications of selected types of banks or from statistics published by the Bundesbank (Zeitreihen-Datenbank). I suppose that these labor-intensive calculations would give similar results to those estimated by experts. The author asserts (p. 194) that there is a lack of relevant data, especially for 'public sector and cooperative banks in Germany', so he used qualitative methods. The interview method used was well described and explained (section 8.2.1.). I like the support of the experts' opinion in relation to hypothesis 1 with the visualisation in Figure 45. containing CDS rates for selected banks in the US and EU. It is a pity that more tools of this type could not have been prepared and shown. This would have provided a good and objective complement to the qualitative study. Such additional information could have been, for example, cases of the increase in banks' operating costs due to the need to meet the constantly new requirements imposed by regulators. We do not even know the order of magnitude of these sums and their impact on the income statement.

## **6. Evaluation of the formal side of the thesis**

The dissertation was prepared carefully on the visual side, the formatting and editing remains consistent. I have no reservations about this side of the dissertation. Of course, it is the role of the reviewer to point out some shortcomings, but they are few. For example, the author unnecessarily duplicates titles on figures 40–44.

Although the research period has been defined and closed at the end of 2020, it would sometimes be useful to state exactly which periods the author is referring to, as terms like “recently”, “currently” or “15 years ago” are imprecise.

The author interestingly presents more complex content in the form of charts and diagrams, such as structures of regulations (figs. 28, 29), core regulatory areas (fig. 38), regulatory overlap (fig. 39), which greatly helps the reader.

## **7. Evaluation of knowledge, selection, analysis and interpretation (The literary and empirical sources used in the dissertation)**

The author uses a rich and well-chosen literature on the subject, which includes key items. The author often refers to research results obtained by other scholars, which demonstrates his knowledge of the literature on the subject.

The argumentation carried out in the following chapters demonstrates a high level of familiarity with the issue, especially the considerations carried out in chapter seven, where a

dense network of regulations is discussed. I highly appreciate the parts summarizing the considerations in the following chapters, where the author refers critically to the discussed institutional solutions and points out their potential problems (as, for example, in section 7.5). However, one would expect the author to propose some general recommendations for regulatory policy in the conclusion, although he does so, but not explicitly, assessing the features of the policy and its effects (“regulatory framework is considered to be too extensive, bureaucratic, impractical and therefore ineffective and too expensive to implement. It is also largely static and therefore unable to react flexibly to changing conditions and new developments or trends” p. 230), but he does not make specific recommendations, limiting himself to very general ones (“a regulatory framework that is more forward-looking, more flexible in its response to change, and at the same time less administrative and less costly to implement” p. 231–232). This is a pity, as the author's knowledge of the subject matter and the very considerable effort put into the analysis entitles him to such utilitarian guidance.

## **8. Evaluation of the ability to correctly and convincingly present the results obtained**

The doctoral student is able to present arguments in support of his theses, and the argument is supported by views previously expressed in the literature.

In the conclusion, the author addresses the hypotheses raised. While the rejection of a hypothesis is not in doubt, in the social sciences one tends to speak not of the confirmation of a hypothesis, but of the absence of reasons for its rejection.

The conclusion summarizes the results obtained in the course of deliberations. Once again, it is a pity that the author did not allow for more general conclusions and recommendations, such as the consequences of regulation on the competitive position of European (German) banks relative to the rest of the world. Historically, regulatory asymmetries and regulatory arbitrage explain why those financial centers whose governments imposed the fewest restrictions on foreign currency banking became the main Eurocurrency centers. London is the leader in this respect, but it has been followed by Luxembourg, Bahrain, Hong Kong, and other countries that have competed for international banking business by lowering restrictions and taxes on foreign bank operations within their borders. In this regard, I am curious to hear the doctoral student's views (partly expressed on pages 152, 160, 189–190, 208–209) on the prospects for European banks on the global stage. The second interesting point is the evolution of regulatory trends, which seem to “wave”. We had a wave of deregulation of various markets in the 1980s and 1990s, and now the pendulum has swung the other way. In the context of

banking regulation, the so-called Goodhart's Law, by the prominent British economist Charles Goodhart, who was cited in this paper by the way, is well known. This law states that when a measure becomes a target, it ceases to be a good measure, but various versions of it are known. One of them, given in the classic textbook on Macroeconomics by D. Begg, S. Fischer, R. Dornbusch claims that regulating one channel of banking causes banks to always find another source of income, which means that the monetary authorities' intentions are not realized. This raises the question of whether one can see manifestations of Goodhart's law also in relation to the wave of regulation analyzed in this dissertation? Finally, I am curious about the doctoral student's opinion on the attempts of regulators to prevent the collapse of private enterprises (which are, after all, banks) at all costs. Isn't the essence of a dynamic market economy precisely the creative destruction and collapse of less efficient enterprises? If market participants become confident that the system is fully safe and stable, won't private entities stop monitoring the risks associated with banks' activities, and won't they succumb to moral hazard?

## **9. Indication of the strengths of the dissertation and its main shortcomings**

The dissertation shows a number of strengths, raised in earlier paragraphs. Let's collect them once again:

- interestingly selected and timely topic,
- clearly defined areas of analysis and cognitive objectives,
- knowledge of the specifics of the issues discussed,
- use of rich literature on the subject.

Assuming that in the evaluation of dissertations for a scientific degree, four layers are most often distinguished: theoretical, methodological, empirical and utilitarian, let me take this canon as a point of reference in reassuming a substantive opinion on the submitted dissertation. All the indicated layers can be found in it, although they were fulfilled to varying extent, with empirical and theoretical in the foreground.

## **10. General conclusion**

In conclusion, I state that the submitted dissertation meets the requirements for doctoral theses, in accordance with the Act of March 14 on Scientific Degrees and Academic Title and Degrees and Title in Art (Journal of Laws of 2017, item 1789, as amended), as the dissertation

demonstrated the candidate's general theoretical knowledge in the field of social sciences in the discipline of economics and finance and the ability to conduct scientific work independently, in addition, the scientific problem was solved in an original manner. Mr. Bartholomä Rouven Julian Waltermann correctly outlined the framework of his study, formulated the research objectives, selected appropriate methods, verified the hypotheses set and interpreted the results obtained. He has demonstrated scientific competence in terms of critical analysis of works and views formulated in the literature on the subject, as well as conducting sound scientific research. Accordingly, I apply for admission of the Doctoral Student to the public defense.