BlueBay
Asset Management

National champion banks

The phrase 'national champion banks' has become increasingly topical since the onset of the Covid-19 crisis. We explain what it means, why these institutions are so important to the economy and what's changed since 2008.

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What are national champion banks?

The national champions are the banks that represent a large and important share of the lending that occurs in the economy. They are highly regulated and typically well-capitalised institutions with prominent brands you might recognise.

How do they influence the economy?

National champion banks are incredibly important in providing the funding that keeps the real economy going. That's why regulators, central banks and policymakers are so focused on supporting these institutions – they are the lifeline that is needed to support the economy in this moment of crisis.

As an example, banks provide around 80% of the lending to corporates and individuals in Europe. They provide a vital lifeline to companies that need working capital to see them through the current economic shock. If these banks were to stop lending, then the economic fallout would be far more severe.

What's happening as a result of Covid-19?

The economic shock we are currently experiencing is of a magnitude which has never been seen before. The shock is equally being met with unprecedented policy responses from central banks and governments. As such, we expect the economic fallout to be contained to some extent, but it seems fair to assume that any sector or company that was teetering on the brink of default before the crisis will almost certainly not survive now.

Among banks specifically, we expect the dispersion between the stable, high-quality institutions and the less well-managed names to be exacerbated as a result of what has happened.

When investing, we prefer to stick to the institutions that we believe will survive the crisis and are most likely to benefit from government and policy support. These are the large national champion banks in each respective country. This approach reduces our exposure to credit and liquidity risk.

This time around, banks are not the problem, they are part of the solution and are being used as a conduit for government policy to help boost the economy

Are banks heroes or villains?

During the 2008 global financial crisis, banks were the villains. They were poorly managed and poorly regulated. This manifested into over-levered and very risky institutions, and ultimately ended in disaster.

Since then, regulators have spent the best part of a decade driving banks to have better liquidity, hold more capital and engage in less risky activities through greater capital charges being levied by regulators on 'risky' activities.

All these changes have meant that banks were in robust shape coming into the Covid-19 crisis. Whereas large parts of the economy have utilised the last few years of low interest rates and abundant liquidity to make acquisitions and increase borrowing levels, banks have been doing the opposite – they have been reducing their debts and increasing their capital buffers.

This time around, banks are not the problem, they are part of the solution and are being used as a conduit for government policy to help boost the economy. Banks are now being asked to make use of government guarantees and lend to corporates that desperately need liquidity.

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