



BANK OF ENGLAND

News release

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Following a collapse in equity and property prices in the early 1990s, Japan underwent a period of financial sector distress culminating in a full-blown systemic banking crisis in 1997. The long period of economic stagnation accompanying the period of financial sector distress is frequently referred to as Japan's 'lost decade'. **'Dealing with a banking crisis: what lessons can be learned from Japan's experience?'** examines Japan's policies in dealing with its banking crisis during the 1991–2004 period.

Making extensive use of the statements, memoirs and interviews of the Japanese policymakers of the time, the article draws a number of lessons. It argues, for instance, that forbearance – by regulators and by banks themselves – may have increased eventual losses at banks, underscoring the need to ensure that banks are adequately capitalised to withstand plausible stress scenarios. It also concludes that resolving uncertainty over banks' asset valuations and bank recapitalisations were crucial for restoring market confidence. The article also considers Japan's experience with credit support measures as well as the need for a macroprudential policy authority to choose the timing and the form of intervention appropriately by taking into account the impact of monetary policy.

The Prudential Regulation Authority (PRA) aims to ensure that insurers are prudentially sound in order to minimise risks to the stability of the financial system and allow policyholders to expect that claims will be met with a high degree of confidence. The PRA uses a forward-looking, judgement based approach — considering what could go wrong in the future. Business model analysis (BMA) helps the PRA in this approach by exploring how a firm plans to make money, and what risks it takes in so doing. **'The role of business model analysis in the supervision of insurers'** explains the potential use of BMA in the supervisory process by considering two case studies:

- The rise of price comparison websites, or 'aggregators', in the motor insurance market. Aggregators accounted for around 33% of all motor insurance sales in 2012, having only first appeared around a decade earlier. While this structural change has helped keep costs down for customers, it has also introduced risks that the PRA must consider as part of its supervision.
- The growing market for 'non-standard' annuities that can offer improved retirement incomes for those in poor health. These products accounted for around 30% of total annuity sales in 2012,

compared to 12% in 2008. However, they present a number of risks for insurance companies. For instance, those selling non-standard annuities are particularly exposed to improvements in the lifespans of those in less than average health, meaning that insurers could incur large losses if they underestimate future medical advances, say, or the number of smokers who later go on to quit.

This type of BMA helps the PRA to consider whether a firm's profits are in line with the risks it is taking and, where necessary, to respond pre-emptively on the basis of what could go wrong in the future.

Over the period since its foundation in 1694, the Bank has amassed an extensive collection of artworks, coins, medals, banknotes and myriad other objects, mainly acquired in the course of its business.

'Curiosities from the vaults: a Bank miscellany' presents a few items of intrigue from a new exhibition that will run in the Bank's museum from 31 March to 12 July 2014. These include a secret ballot box designed by the Bank's architect, Sir John Soane; a saddle bag that may have belonged to Lawrence of Arabia; and signed high value banknotes from distinguished visitors to the Bank – from Prince Frederick of Prussia in 1842 through to George Eliot, President Nelson Mandela and, in December 2012, Her Majesty the Queen. Taken together, it is hoped that this collection of curiosities provides an interesting snapshot of a unique public collection.

The Q1 edition also features articles on **'Nowcasting UK GDP growth'**, which presents Bank staff 'nowcast' estimates for the current quarter of GDP growth that have featured in the Inflation Report since May 2013; 'The Court of the Bank of England' by Sir David Lees and John Footman, which tracks the evolution in the role of Court since the Bank's foundation and over the past 20 years especially; and the regular **'Markets and Operations'** article. It also includes the primer on money and the article on money creation that were pre-released on 12 March.