



Finanzgruppe

Deutscher Sparkassen- und Giroverband

Keynote Speech

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Session „What is next for the Eurozone and
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– check against delivery –

Onorevoli ministri e parlamentari,
Signore e signori,
Dear Ladies and Gentlemen,

One of Europe's great founding fathers, the honorable Alcide de Gasperi, once said: "In Europe we go forward together in freedom."

A couple of years ago – or even last year –, if you were to hear this quote at an investment conference, you should have asked yourself if you were at the right event.

But these are not regular times – as we all know – and that is why we must speak about the future of Europe at events like today. Especially considering that Italy and Germany were two of the six founding members of what was to become the European Union.

These are indeed very crucial times for Europe. We must not fall for 'new' solutions, but instead revive the ideas that once led to our Union.

Our Union was built on common values and core principles. Instead of desperately looking for alternatives, we should refocus on these essential principles.

This year's elections in France, the Netherlands, Austria and in my very own home country have reminded us that a considerable share of the European electorate is fearing for their national identities. Regardless of whether these fears are legitimate or illegitimate, it would be unwise to ignore them.

Emmanuel Macron has recently been arguing ambitiously for a cautious broadening of the European Union without falling for past mistakes or new transfer mechanisms. One example is his proposal to transfer the ESM into a European Monetary Fund, which could be named an 'European Stability Fund' to avoid a mix-up with the ECB. Such an EMF could potentially be used as

a backstop to the Single Resolution Fund – as well as to national deposit insurance schemes.

Alcide de Gasperi would probably have agreed that we should not fall victim to complacency in the shape of a simple ‘more of the same’. Europe is facing questions that cannot be answered with more centralization, more harmonization or even more institution-building.

Let us instead strengthen the EU by returning to its original idea: the idea of ‘united in diversity’.

International Regulation / Basel 4

While focusing on the internal challenges of the European Union, we must not lose sight of the global political and regulatory environment.

A policy paper by the US Treasury (the ‘Mnuchin report’) states that regulatory standards out of Basel and other initiatives should be accepted and implemented only if they ‘meet the needs of the US financial system and the American people’.

One would probably expect an industry representative to favor deregulation whenever possible. Instead, I firmly believe Europe should not let itself be drawn into a race to the bottom.

Last week in Basel, Europe has agreed to what can only be called a ‘bad compromise’. Basel 4 will not only bring the oft-mentioned output floor for banks using internal models. It will also bring a complete overhaul of the Standardized Approach used by smaller and medium-sized banks, the purpose of which is only to create a newly calibrated benchmark for larger banks.

I am afraid that all this has happened simply because admitting a failure of Basel 4 was considered a taboo.

Banking Union / EDIS

Mario Draghi is often quoted as calling Banking Union a ‘game changer’. And indeed Banking Union has been a remarkable achievement for the EU: it is nothing short of the largest reform project since the introduction of a single currency. The ECB is now the single largest banking supervisor in the world.

Contrary to what is stated quite frequently, Banking Union is complete as it is, resting upon three pillars:

- (1) the Single Supervisory Mechanism,
- (2) the Single Resolution Mechanism, and
- (3) common protection of depositors in every EU country.

This last pillar ensures that deposits of up to 100,000 euro are protected in the very same manner in every EU country.

Therefore, EDIS is not the finalization of Banking Union, but would be an extension to it. An extension that would dilute the legitimate goal of depositor protection with the introduction of transfer mechanisms. In this regard, depositor protection is being used for a different political goal, which is dangerous. If the reason for this is a lack of resources at member state level, it should not be compensated by financial institutions.

Moral hazard is not just an academic concept, it is real. Therefore, a potent backstop to national deposit schemes would be much more adequate than a mutualization approach.

NPLs and Sovereign Exposures

The achievements regarding the reduction of non-performing loans so far have been highly remarkable, foremost in this very country. This is evident when you hear that the total volume of NPL is shrinking by as much as 10 per cent month-over-month and Banca d’Italia confirms these are the largest decreases they have seen since starting to record data in 1998.

While the ECB and others are rightfully addressing NPL as an obstacle to lending and growth, it must always be clear who is setting the rules and who is applying them in practice. We must not confuse regulation and supervision.

Therefore, it is up to the co-legislators in Brussels to decide upon an adequate treatment of NPL – and it is notably not up to the European Central Bank. And I agree with Roberto Gualtieri it should not hamper economic growth.

The same holds true for sovereign exposures. We cannot of course continue to treat these as if they were risk-free. A sensible answer could be to discourage extremely concentrated, overly home-biased sovereign portfolios and to encourage diversification across sovereigns. But it is very important that both approach and timing of any new regulatory treatment in this area are chosen very carefully.

Ladies and Gentlemen,

Europe is at a crossroads and neither Italy nor Germany are immune to 'Euroscetticismo'. Still, there is reason to be optimistic about Europe's future. We should not be looking so much for apparent new solutions, but consult the principles our founding fathers once had in mind.

This applies to setting our political course as much as it applies to practical issues of banking regulation.

– Grazie mille, thank you very much!