Finanzgruppe

Diversity is strength.
Positions of the Savings Banks Finance Group for Germany's EU Council Presidency in 2020

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Foreword

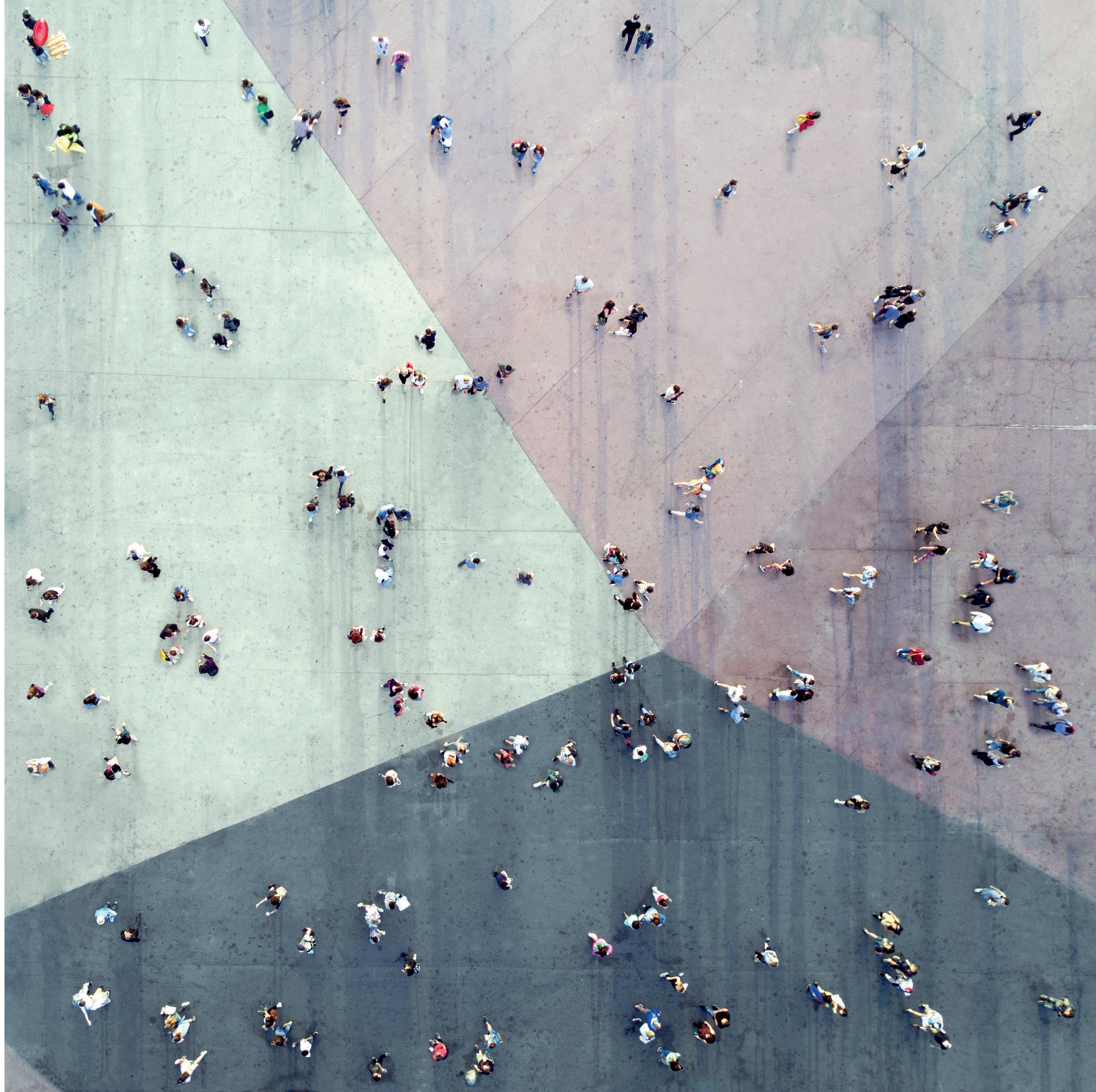
As of July 2020, Germany will assume an important leadership role in the European Union by taking over the Council Presidency for six months. Subsequently, Germany will be part of the Trio Presidency together with Portugal and Slovenia for another twelve months in 2021. This will be a great opportunity to shape Europe.

The coronavirus pandemic has created a challenging environment. But that has also brought opportunities. The Savings Banks Finance Group has demonstrated its work for stability in the economy and in society and will facilitate the fresh restart after the crisis. Strengthening decentralised structures and reducing their regulatory burden is the right approach.

Because sustainable development for Europe will call not only for ecological strength but also for considerable social and entrepreneurial power. Handling data and shaping digital markets and the infrastructure these require will remain a key challenge for Europe.

In Germany's banking sector, the decentralised banking networks of Sparkassen and co-operative banks have been particularly active throughout the crisis. Their advisory and financing services are primarily aimed at the vast majority of companies, most of which are small or medium-sized enterprises, and will help them through the crisis – just as they did during the crisis in 2008-2009. Despite all the efforts made to improve access to the capital market for businesses, credit financing must not face discrimination, nor must independent deposit protection schemes be undermined. Sparkassen and their partners in the Savings Banks Finance Group can then make their full contribution to our joint efforts for an economic recovery.

Helmut Schleweis
President of the German Savings Banks Association
President of the European Savings and Retail Banking Group



For a Europe that builds its future sustainably

The social and economic transformation in Europe towards greater sustainability has begun. By presenting the "European Green Deal", the EU Commission has translated many expectations into common objectives.

More financial resources will have to be mobilised for a sustainable economy. Economic reconstruction and the stimulus programmes to accompany it can be used to advance this ecological renewal significantly. However, it should not be forgotten that there are also economic and social aspects to sustainability, and the plans must take these into account on an equal footing. Any conflicting objectives that arise must be made transparent and resolved.

The environmental transition needs viable econonic foundations if social standard are to be upheld. This will be crucial for the cohesion of European societies.

In accomplishing this task, the institutions of the Savings Banks Finance Group are reliable partners for people and business enterprises because their business model is primarily focused on the real economy and rooted in the regions. Their business is not aimed at maximising profits, but at providing benefits for the region. In their business territories, for instance, Sparkassen assume responsibility for financial inclusion of people, just as they provide finance for small and medium-sized enterprises.

For this reason, the Savings Banks Finance Group advocates including criteria such as social responsibility and a long-term financing culture in a sustainability taxonomy. Business models involving social responsibility will be needed for a strong, sustainable Europe.

Germany's Council Presidency should ensure that …

- → social and societal aspects are equally important in the European definition of sustainability, as environmental and climate-related aspects are.
- → the requirements arising from disclosure and documentation obligations do not hamper economic recovery – in particular for recovery of small and medium-sized and regionally rooted enterprises – and that they do not place an undue burden on providers of sustainable investments.
- → the further detailing of the taxonomy leads to succinct, practicable classifications and sustainable economic activities can be assessed consistently.
- → financial market regulation does not lose sight of its primary objective – i.e. to ensure financial market stability in the interests of both citizens and enterprises – in order to serve an industrial policy strategy. "Green" investments are not per se less risky.
- → reporting obligations are not extended further. An increase in reporting obligations for non-financial information has just entered the statute book following the Corporate Social Responsibility Directive (CSR Directive).

For a Europe that ensures a stable economy and currency

One of Europe's key tenets is to create a favourable environment for long-term economic growth. Overcoming the coronavirus crisis will call for determined action and solidarity, also including the use of jointly financed economic stimulus programmes. However, solutions must be balanced and feasible.

Full mutualisation of sovereign debt by the issuance of corona bonds – if this is tantamount to introducing Eurobonds on a permanent basis – currently makes no sense and stands no chance of consensus either. To make European solidarity a reality, it would be conceivable to issue stabilisation bonds with a clearly defined duration, which could preferably be implemented via bilateral guarantee relationships between countries with high and low credit ratings. They might form the nucleus of a European reconstruction fund. The Franco-German proposal presented by President Macron and Chancellor Merkel in mid-May helped to pave the way for this. By contrast, the mutualisation of sovereign debt and a single European deposit guarantee scheme are not suitable instruments to counter the effects of the economic downturn.

It can be assumed that the number and the total volume of loans that are no longer serviced – known as non-performing loans (NPLs) – will increase and remain at a high level for some time. No one can seriously predict at present when these risks can be reduced, especially since there are still significant legacy risk positions in the European banking system, half of them concentrated in just a few countries.

Pushing for a mutualisation of deposit guarantee schemes in this situation would destabilise the financial systems of many EU Member States and promote risks of contagion between previously independent protection mechanisms. The institutional protection scheme of Germany's Sparkassen is a proven deposit protection system that mutually safeguards its members and guarantees their high credit rating. A compulsory transfer of funds to the EU level by merging national deposit guarantee schemes would make it impossible for the institutional protection scheme to operate independently, and it would jeopardise the survival of Sparkassen. However, Germany's economic structure, with its many small and medium-sized enterprises, depends on the presence of regionally and locally rooted credit institutions with an independent business policy.

In addition, the crisis has shown that the vast majority of business enterprises rely on credit-based funding – and not on the capital markets – for their own economic survival. We therefore firmly believe that the capital markets union will need to encourage both capital market finance and loan financing.

A stable environment for businesses would, moreover, be compromised by class actions envisaged under new EU legislation in the "New Deal for Consumers". By way of a self-mandate, without instructions from the parties concerned, institutions filing class actions would be able to claim damages – e.g. by assuming low-value "scattered damage". This would create a "claims industry" in the American way. This has nothing to do with compensating customers for identifiable damage.

Germany's Council Presidency should ensure that …

- → risks will not be mutualised. Legacy risk positions have by no means been sufficiently reduced. Moreover, the coronavirus crisis has led to a significant additional burden. The volume of non-performing loans will increase throughout Europe. In this environment, a centralisation of deposit guarantee schemes is fraught with too many risks for the stability of the banking system as a whole.
- → regionally and locally rooted banking groups that are organised along subsidiarity lines will be strengthened. They are crisis-resistant anchors for successful SME-based economies and vibrant cities and regions in Europe. This is another reason for rejecting a centralisation of funds for the protection of deposits at European level.
- → the most important source of finance for European businesses – the loans provided by banks and Sparkassen – is not jeopardised but strengthened by the European Union's single financial market.

For a Europe that matches business regulation to risk

It is vital now that institutions are able to make optimal use of their equity to finance the real economy and its reconstruction after the crisis. The principle of proportionality creates many opportunities here, in particular for small and medium-sized institutions. More than ever, proportionality will need to be the basis for regulating an efficient future European banking market. The path chosen with the EU Banking Package should unswervingly be pursued and regulation that strengthens small and medium-sized players should be enshrined on a permanent basis.

The finalisation of the Basel III package provides an opportunity to calibrate regulation more stringently to match the size of institutions. This is a way to make proportionality and business model differentiation guiding principles of supervisory and regulatory action in the European Union. The principle should be that equal things must be regulated equally, and unequal things must be regulated unequally. In addition, the effects of Basel III should now be analysed more carefully to ensure that credit institutions will be able to devote all their efforts to the economic stabilisation of Europe's national economies.

Even in the current regulatory environment, this is not automatic. Small, medium-sized and locally rooted credit institutions are coming under increasing pressure due to more and more new regulatory initiatives. Disproportionate regulation is stepping up the pressure on institutions to merge and has major structural implications for the banking sector, its employees and the economy and society in general.

Diversity and small-scale structures form the basis of an efficient and stable financial sector, and they must be preserved. The three-pillar structure in the German banking sector – with the Sparkassen, the Landesbanken and promotional banks, and the cooperative and private banks – has proven to be a successful model.

During the first weeks of the coronavirus crisis alone, Sparkassen eased the burden for their business clients and private customers by suspending redemption payments and granting new loans worth very substantial amounts.

Germany's Council Presidency should ensure that …

→ the Basel III package is adjusted to reflect the particularities of the European banking market and the European financing culture.

→ regulatory projects involving significant implementation efforts will be postponed.

→ account is taken of the stabilising effect of small and medium-sized banks and Sparkassen by adopting proportionate regulation.

→ increasing capital requirements will not have an even bigger adverse impact on real estate financing and strategic participation in associations.

→ support continues for low-risk loans to small and medium-sized enterprises (SMEs) and that the SME Supporting Factor is maintained when calculating the capital adequacy requirements for such loans.

→ the European Union fully takes into account the structural characteristics of Germany's publicly owned and independent Sparkassen.

For a Europe that strengthens access to securities as part of the capital markets union

One of the declared objectives of the capital markets union is to facilitate access to investments in securities for retail customers. This is absolutely necessary, especially with a view to retirment provisioning for the population at large. Because many people will have fewer funds available in the near future for private retirement plans, while persistently very low interest rates are hardly attractive from an investor's perspective.

Social opportunities are also related to access of people to the capital market. However, the obstacles to buying securities have increased to a level making customers turn their back on capital markets. However, this is exactly what can be observed since the introduction of the new EU requirements specified in MiFID II and the PRIIPs Regulation.

Too many uncoordinated information and documentation obligations lead to an overflow of information which does not actually create any added value for investors. Experienced investors in particular feel patronised and would gladly waive their entitlement to this information. And the mandatory recording of securities transactions by telephone also causes a great deal of annoyance because investors feel that the confidentiality of communication with their relationship manager is compromised.

The upcoming MiFID review will provide the opportunity to remedy these impediments which have above all been criticised by customers, so that in future customers are offered product information that helps them instead of confusing them, while at the same time reducing excessive bureaucracy.

Commission-based advice is an important source of information particularly for customers who can only make small investments or who want to start building up financial knowledge about capital markets. In addition, only commission-based advice enables all sections of the population to obtain advice no matter where they live – including in less lucrative (rural) locations. Fee-based advisory services, by contrast, are no alternative for the majority of (Sparkassen) customers because they presuppose considerable financial assets and are therefore socially unfair.

We reject plans for the introduction of a financial transaction tax (FTT). It runs counter to the objective of the capital markets union, which is to better integrate the capital markets within the European Union.

Germany's Council Presidency should ensure that …

- → information obligations will cease to apply for customers who do not lack information (professional customers and suitable counterparties such as banks).
- → the burden is eased for experienced retail customers (e.g. by potential waivers).
- → the obligation to make voice recordings of telephone transactions, perceived as invasive by customers, ceases to apply.
- → the requirements specified in MiFID II and in the PRIIPs Regulation are harmonised to prevent conflicting customer information.
- → commission-based advice is maintained for all sections of the population throughout the country.

For a Europe that creates digital sovereignty and diversity

The restrictions imposed to contain the coronavirus pandemic have triggered a digitalisation push in the economy and in society. This applies in particular to the use of digital payment methods. These markets of the future must now be shaped jointly with European service providers, keeping in mind the interests of consumers.

Digital regulatory law must ensure fair competition between global platform companies and European payment service providers. This legislation can build on the PSD2 provisions regarding non-discriminatory access to payment systems and, on this basis, permit access to infrastructure operated by global platform companies for processing payment transactions. As a starting point for a European discussion, Germany should introduce its national proposal for a solution (section 58a Payment Services Supervision Act – ZAG), which has already attracted a great deal of attention across Europe.

In addition, there is a need to ensure that card payment systems "Made in Europe" will be able to compete with international payment system operators and platform companies. This also applies to European debit card systems. Consumers have long been able to make card payments digitally. However, big investments will be required to enable consumers to benefit from these innovations.

Against this background, it is essential to make use of the upcoming amendment to the Regulation on interchange fees for card-based payment transactions (MIF Regulation) to leave room for manoeuvre for the banking sector. A further reduction of admissible merchant fees would compromise the viability of national and regional payment methods.

We believe that it makes sense to exchange data between market participants. It is essential in this context that the person concerned by the data needs to be able to decide actively that the data can be transferred from one data processor to another. In our view, this principle is applicable to both personal and non-personal data. However, this principle must not be limited, in our opinion, to pure financial service providers without a banking licence – to the detriment of the banking sector, in which PSD2 has already been implemented. Instead, it should apply across sectors for the benefit of all citizens.

In this respect, the obligation set out in PSD2 for all credit institutions to grant third-party service providers free-of-charge access to their infrastructure and customer data is not balanced. As is common practice in other economic sectors, infrastructure operators must be entitled to charge fees for the provision and further development of their infrastructure.

Germany's Council Presidency should ensure that …

→ the framework conditions are improved for innovative card payment systems "Made in Europe" – in particular debit cards.

→ the vision of a single pan-European payment method that also includes card payments is not nipped in the bud by a restrictive fee cap (MIF Regulation) because otherwise implementation cannot be cost-effective.

→ the objective is to give all service providers non-discriminatory access to payment systems and infrastructure for processing payment transactions across the entire European Union. This will ensure fair competition.

→ any future exchange of data is not one-sided, to the detriment of the banking sector, but is extended to include all sectors, for the benefit of citizens.

→ the possible uses and benefits of artificial intelligence are further explored. The aim is to create a single European legal framework that will permit the use of artificial intelligence in a safe, transparent, comprehensible, ethically correct and non-discriminatory manner.

→ the European institutions will substantively address the question of Europe and the euro in the digital currency world in order not to leave the field exclusively to players who evade public and democratic control.

→ issuing private digital currencies that would pose a risk to financial stability is not allowed.

dsgv.de

Contact

Georg J. Huber
Head of the Representation to the EU
Phone +32 274016-12
georg.huber@dsgv.de

Dr Friedrich Paulsen
Political Coordination / Parliamentary Contacts
Phone +49 30 20225-5233
friedrich.paulsen@dsgv.de

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Unit responsible for this publication
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Contact
Communications and Media
Phone +49 30 20225-5115

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