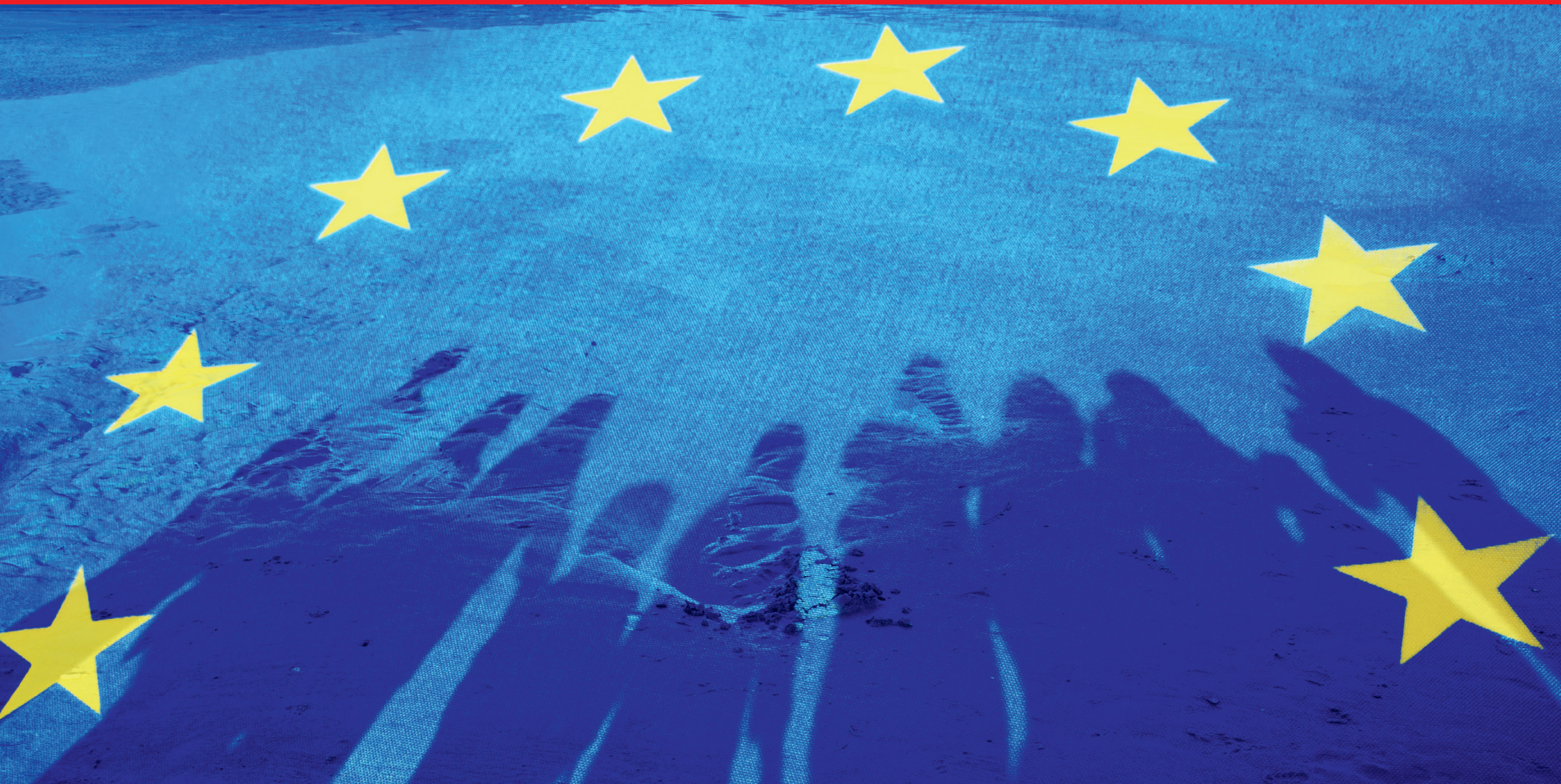
Finance Group

Europe is Our Future

Thoughts of the Savings Banks Finance Group
on the 2019 elections to the European Parliament



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Welcome

Dear readers,

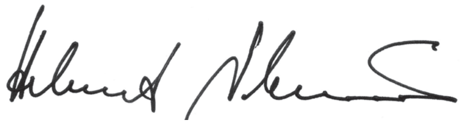
More than 500 million people in the European Union (EU) will be called to the polls between 23 and 26 May 2019 to elect the European Parliament. The European Union ensures peace, promotes exchange across national borders and advances economic prosperity. For this reason, the German Savings Banks Finance Group advocates European integration, as well as open markets throughout the world. We are willing and able to shape the future of Europe for the better.

The Savings Bank concept combines customer focus and local roots with a sustainable business model. All over Europe, there are Savings Banks or similar credit institutions which are "retail, regional, and responsible". Savings Banks in Europe embody the principle of "unity in diversity", which provides scope for both European and regional solutions. Because in the ongoing development of the Economic and Monetary Union, it will be crucial to include the people on the way to a United Europe.

Europe can demonstrate that credit institutions can be successful in a variety of legal forms. However, this will only be possible if decentralised and historically developed structures are respected, if regulation is geared towards the everyday lives of people and the needs of local businesses, and if the EU therefore abides by the principle of subsidiarity.

Across Europe, Savings Banks collaborate within the European Savings and Retail Banking Group (ESBG). The ESBG has published its thoughts on the European elections at www.wsbi-esbg.org. In its publication, the ESBG describes what regional banks and savings banks can do to support cohesion in Europe.

With this brochure, the German Savings Banks Finance Group would like to supplement ESBG's position and share some of the ideas that have been successful in Germany in order to make a contribution to the creation of a social, innovative and sustainable Europe.



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

Change and Stability

Europe can create a favourable environment to foster long-term economic growth. This will require better coordination of economic and financial policies, strict application of the convergence criteria, and the development of the European Stability Mechanism (ESM) into a European Monetary Fund.

However, to convince Europe's citizens as well, the European Union will have to show much more clearly that it is strong where European solutions are urgently needed – in fields such as the digitalisation of businesses and society, but also the transformation toward greater sustainability.

Digital diversity instead of digital dominance

The Internet economy is characterised by a small number of globally operating digital platforms. These BigTechs have now achieved a dominant position in their home markets, which enables them not only to easily enter a large number of new markets, but also to dominate these markets after a short period of time. There is a real risk that the entire Internet economy may be monopolised by these corporations.

To ensure that European business enterprises are not left behind because of the dominance of the Chinese and U.S. BigTechs, EU competition law should make it easier for enterprises to cooperate more closely in the digital field at national and European level. This is the only way for European enterprises to build networks of a size that is necessary to compete successfully with non-European BigTechs. Finally, equal access to platforms and interfaces needs to be granted to all economic players in the interest of vivid competition. Otherwise, there is a risk that all the markets that can only be accessed via one IT interface may be monopolised.

Any enterprise that provides technology-driven financial services is a FinTech – regardless of whether a service is made available by a start-up or an established credit institution. For this reason, the Savings Banks Finance Group is opposed to creating or deliberately tolerating regulatory gaps for FinTechs. The same services need to be regulated in the same manner – irrespective of who provides them and how they are provided.

Companies whose business is the mining and selling of customer data must not receive preferential treatment vis-à-vis businesses whose top priority is the protection of customer data. The Savings Banks Finance Group is also in favour of fair taxation for digital companies with cross-border operations. This is the only way to ensure that domestic enterprises will remain competitive.

Genuine change instead of more regulation

To safeguard the future, it will also be necessary to mobilise more financial resources for a sustainable economy. With their regionally rooted and primarily mission-focused business model, the institutions of the Savings Banks Finance Group are natural partners for this purpose. In their business strategy priorities, many Savings Banks, the Landesbanken and DekaBank are already focusing on sustainability.

However, all economic sectors are equally important for achieving genuine change. The financial sector can support this process. In doing so, it should not be unreasonably burdened with regulatory duties.

This is what matters to us:

Ensuring financial market stability

- Ensuring the stability of financial markets with regard to euro clearing: After a transitional period, new transactions should be handled within the EU's legal framework.
- We are opposed to carving out the supervisory function from the European Central Bank (ECB).

Ensuring fair digitalisation

- The same rules must apply to the same business: Applying different standards in financial market supervision to FinTechs (sandboxes) leads to distortion of competition.
- The Internet giants must not turn a deaf ear to requests. If they seal off their infrastructure, this will create competition-free zones. Credit institutions grant third parties free-of-charge access to their infrastructure (in compliance with PSD2). For this reason, they also need to be given access to the BigTechs' interfaces that are relevant for triggering digital financial services.
- In addition, cooperation in payment transactions/digital applications must be made easier.

Sustainable means more than "green"

- A classification system of sustainable investments ("taxonomy") should include a long-term perspective and social responsibility as criteria. Sustainability comprises more than ecological aspects.
- The EU financial sector can become a powerful actor in supporting sustainable economic activities. However, trying to achieve more sustainability by supporting specific financial products and by imposing additional documentation and disclosure obligations on financial market participants is not the right approach.

Relevant EU legislation

- FinTech Action Plan of the EU
- General Block Exemption Regulation
- Regulation on crowdfunding
- EU Commission's package of measures designed to promote sustainable finance
- Taxonomy regulation designed to assess the climate impact of an investment, proposal on benchmark categories for low-carbon emissions
- Proposed amendment to MiFID II (consultation on sustainable investment preferences when offering advice to investors)
- Regulation on disclosures relating to sustainable investments and sustainability risks

Respect and Diversity

The EU's credibility and stability are based on diversity, which needs to be politically endorsed and facilitated. Diversity is also the foundation of an efficient and stable financial sector. Competition that is visible to customers, along with trans-European business models and regional institutions, are indispensable components of a resilient financial system.

"Better regulation" means appropriate regulation

It would be wrong to rely exclusively on European big banks and mergers with the objective of creating a homogenous market. Local credit institutions stimulate the local markets. They are close to their customers and to the real economy. During the major financial crisis in 2008, Savings Banks were a key anchor of stability. Stable economic development needs both large European banks and small regional institutions. A glance at the United States demonstrates that the two are not mutually exclusive.

For small and medium-sized banks, regulation is a block of fixed costs that is threatening. It affects them much more than internationally operating big banks. The regulatory burden is one of the reasons for Savings Banks to merge. However, larger entities are detrimental to the institutions' regional presence and risk diversification within the financial system. This explains why it is important to foster diversity.

Respecting good solutions

We want to ensure that all the deposits in Europe enjoy a maximum level of protection, which is what the current schemes provide today. However, a collectivised deposit insurance scheme (EDIS) means that depositors would be liable with their guarantee funds for unpredictable risks throughout Europe. The stability of Germany's economy is largely dependent on the fact that depositors have confidence in the safety of their deposits. It made sense therefore to standardise the national deposit guarantee schemes for all EU countries back in 2015.

EDIS would undermine the Savings Banks' institutional protection scheme, which enables the institutions to protect each other and which guarantees their high credit rating. A compulsory transfer of these funds to the EU level would make it impossible for the institutional protection scheme to operate independently. People are more and more vehemently opposed to a Europe that is seen to interfere in decisions when better solutions can be found at national or regional level.

Preserving diversity

Preserving diversity also means preserving the attractiveness of the national girocard system, which consumers also appreciate because of its data security. In the field of payment transactions, too, consumers should have alternatives to credit cards and digital platforms.

As a general rule, regulation should not lead to changes in market structures that jeopardise the diversity of the financial sector in Europe. The diverse business models each have a role to play: international investment banking, private banks – and the groups of associated banks.

This is what matters to us:

Creating proportionality

- → In the European Union, proportionality and differentiation according to business models must become the guiding principles of supervisory and regulatory actions.
- → No competitive disadvantages: When Basel III is implemented, every effort will have to be made and every opportunity will have to be used to ease the burden and to take the particularities of the European banking market into account.

Preserving institutional protection schemes

- → The institutional protection schemes at national level must be preserved. To this end, the funds need to be kept in properly functioning independent schemes in the long run.
- → The institutional protection scheme of the Savings Banks Finance Group is the foundation of its operations, and the Group must therefore be allowed to continue to operate the scheme in the proven way.

Respecting structural characteristics

- → When fleshing out the capital markets union, equal importance needs to be attributed to capital-market-based financing models and credit financing models.
- → This is another reason why the European Union should fully take into account the structural characteristics of Germany's publicly owned and independent Savings Banks.
- → The participation of the representatives of municipalities in the supervisory bodies of the Savings Banks Finance Group has proven its worth and must continue to be possible in future. Closeness and knowledge of local particularities must not be equated with political interference or a conflict of interest.

Relevant EU legislation

- → Capital Requirements Directive (CRD)
- → Capital Requirements Regulation (CRR)
- → Plans to set up a European deposit insurance scheme (EDIS)
- → EBA guidelines on governance
- → EBA guidelines on outsourcing
- → Regulation on interchange fees (MIF Reg)

Responsibility and Self-responsibility

Europe should not be viewed as a comprehensive insurance policy. Self-responsibility, capacity building and subsidiarity therefore take precedence over collective responsibility.

Risk reduction has priority

The balance sheets of Europe's 150 largest banks contain risks which amount to more than 748 billion euros (as per 06/18 EBA Risk Dashboard). These are the risks arising from loans that are no longer serviced – which are referred to as non-performing loans (NPLs). Nearly half of the risks are concentrated within only three countries: Italy, Spain, and Greece.

Such legacy risk positions will have to be reduced by the Member States concerned before beginning a discussion on additional steps aimed at deepening the banking union. If deposit guarantee schemes are collectivised, for instance, without sufficiently reducing risks beforehand, this will lead to extensive transfer payments between the banking systems.

"Consumer protection" is becoming a burden for customers

The Savings Banks Finance Group welcomes the objective of creating more transparency for investors. However, numerous requirements overshoot this mark by far. The new requirements for securities transactions (MiFID II and PRIIPS) provide for much wider information obligations and voice recordings of telephone conversations. Not everyone wants their telephone calls with their account managers to be recorded and archived for a number of years – but customers are not entitled to "say no". Many of them therefore feel patronised and have lodged complaints.

European consumer protection is far removed from the concept of the "mature citizen". The piles of paper which the European Union has produced in the name of consumer protection are neither fit for purpose nor economically viable. One example is the additional pre-contractual information obligations in the form of up to ten pages of information on fees for each private account model, in addition to existing national provisions on price information and price agreements.

Self-mandating must not be permitted

The growing trend toward self-mandating among the European Supervisory Authorities (ESAs) must be contained. Self-mandating constitutes a transgression of their competences, runs counter to the intention of the European legislator and leads to impractical rules and excessive burdens. In addition, the extension of the ESAs' powers and responsibilities planned in the context of the ESA review should be pursued with moderation so as to avoid a duplication of administrative structures. Furthermore, the powers of ESAs must not be expanded at the expense of national authorities that are more familiar with the matters at issue.

Self-mandating can also be found in the planned "New Deal for Consumers". This new EU legislation intends to enable consumers to file collective actions. But institutions filing collective actions might claim damages – e.g. based on assumed "dispersed low-value damage" – without even having a mandate from the parties concerned. This would create a "claims industry" similar to the U.S. model. This has nothing to do with compensating customers for identifiable damage.

This is what matters to us:

Sustainably reducing risks

- Before continuing to work on a collectivised European deposit insurance scheme (EDIS), risks on the balance sheets of European banks need to be reduced sustainably.

Reviewing regulation

- Excessive and misguided regulation should be subjected to a critical review.
- In the context of the MiFID review, the obligation to make voice recordings should be scrutinised. In addition, customers should be allowed to waive the right to prior written information ("opt-out" right) to avoid a delay in the order processes.

Focusing supervisory competences

- Good supervision must be performed in close proximity to the markets concerned. The powers of the European Supervisory Authorities (ESAs) must not be expanded at the expense of BaFin.
- Any extension of fee-based funding for ESAs must be rejected. On no account should the level of the EU Commission's funding commitment be called into question.
- 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 a novelty. In other economic sectors, infrastructure operators are entitled, for instance, to levy network charges for the provision and development of their infrastructure.

Relevant EU legislation

- Package of measures of the European Commission for the reduction of non-performing loans
- Insolvency II
- MiFID II review
- ESA review
- "New Deal for Consumers" of the EU Commission
- Insurance Distribution Directive
- Payment Accounts Directive (PAD)
- Payment Services Directive 2 (PSD2)

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Contacts
Georg J. Huber
Head of 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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Deutscher Sparkassen- und Giroverband
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Unit responsible for this publication
Communication and Media

Contact
Communication and Media
Phone +49-30-20225-5115
Fax +49-30-20225-5131

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