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Recognising and ensuring the stabilising effect of smaller banks

The Corona pandemic caused severe economic damage affecting the financial health of many households, businesses and the self-employed. This has made comprehensive recovery necessary and triggered immediate and important policy and supervisory measures on EU and national level. Among them, the various government programmes, the easing and postponement of regulatory measures and of course the EU aid package “Next Generation EU”. As for the latter, the Savings Banks Finance Group welcomes the framework and conditions foreseen as they display a clear sign of European solidarity between Member States, leave room for subsidiarity and proportionality, encompass accountability as well as shared control – and they are limited in time and size.

Throughout the exceptional situation in which we find ourselves, the EU banking sector was able to prove that it is part of the solution. The saving banks played an essential role within the German financial infrastructure. They made a major contribution with new financing, extensive advisory services and forbearances, preventing the otherwise inevitable economic collapse of many companies and small businesses by providing them quickly with liquidity.

Once more, this proves the stabilising effect of small- and medium-sized banks to the economy in times of crisis. And it emphasises the need for regulation that recognizes the existence of smaller and locally rooted banks by applying the principle of proportionality. Decision makers should have the importance of the diverse EU banking sector in mind when responding to the current situation, but also when shaping the regulatory framework of tomorrow:

- It is vital now that institutions are able to make optimal use of their equity to finance the real economy. When looking at proportionality within the prudential framework, there were already important steps taken at EU-level during the previous legislative term. Regulators will have the chance to continue that road with the finalisation of the Basel III package allowing to calibrate regulation more stringently to match the size of institutions. At the same time, the effects of Basel III should be under strict scrutiny as they could contradict the efforts to the economic stabilisation of Europe’s national economies. Furthermore, the functioning of the existing regulatory framework during the crisis should be evaluated and where necessary, lessons should be drawn.
- Maintaining the diversity of the EU’s banking sector has to be a guiding principle for every step taken in further shaping the Banking Union, be it with regard to supervision, crisis management, or deposit protection. The European Deposit Insurance Scheme (EDIS) as proposed by the European Commission would certainly not be helpful in this regard, as it leads to further centralization and transfers, increases contagion risk and moral hazard. Going forward, the debate should rather focus on the stabilising effects of existing schemes, which already are harmonised according to EU rules.
- A diverse European banking sector would also help to progress in another area of vital importance: tackling environmental issues by financing the necessary transition in a sustainable way. Ecological strength needs to be well-balanced with social and entrepreneurial powers. Local banks can considerably contribute to this balance and thus support European resilience.
- Despite all the understandable efforts made to improve access to the capital markets for businesses, credit financing must not face discrimination. Loans are the most important source of finance for European businesses – and this holds particularly true in times of crisis, where the relationship between house banks and borrowers, the possibility of deferrals and payment moratoria prove essential. These flexible and rapid responses are not available in the capital markets, where we often see a high degree of uncertainty among investors leading to increased volatility.

For all the above, we will need to find the proper regulatory environment, by providing the right incentives, enabling innovation, striking the right balance and allowing for a well-functioning financial services sector. Thus, the German savings banks and their partners in the Savings Banks Finance Group can make their full contribution to our joint efforts for an economic recovery. ●