Helmut Schleweis

President, German Saving Banks Association (Deutscher Sparkassen- und Giroverband, DSGV)

The stabilising effects of smaller banks

Helmut Schleweis stated that the stabilising effect of smaller banks is crucial already in normal time, but even more so in times of post-COVID challenges.

In the past few years, the actual strategic options of the European financial sector have increasingly been affected by social and economic upheavals. The financial system is changing radically due to digital markets and competition from platforms, as well as a total erosion of interest rates, which means that money is almost a free commodity. There is also a challenge that will take generations to overcome, which is to ensure better protection for the natural resources that humanity depends on. All these trends will radically alter the way business is done.

However, the environment for shaping the future has changed drastically this year. The coronavirus pandemic has caused severe economic damage, affecting the financial health of many households, businesses and self-employed individuals. All players in the economy and financial system have therefore considered how their business model helps to manage the acute crisis, buffer systemic shocks, and facilitate a broad recovery so that current megatrends can be effectively managed.

Throughout the current situation, the EU banking sector has proved that it is part of the solution, and this is especially true for smaller, locally active banks such as the German savings banks. They have made a major contribution by providing new financing, extensive advisory services and forbearances. In the first 20 business days of the pandemic, savings banks conducted 1.4 million consultations with business clients to identify their immediate needs. This enabled savings banks to stabilise the situation where necessary. 390,000 businesses and private households now benefit from deferred loan payments – a total volume of €5 billion – that banks bear for customers. This directly eases the burden and is something that can only be done by principle banks –Hausbanken as they are called in Germany – that know customers personally and have supported them for a long time. Quickly and effectively, savings banks helped to prevent the otherwise inevitable collapse of many companies and small businesses by providing liquidity.

In the first seven months of this year alone, savings banks pledged €63.5 billion in new loan commitments to enterprises and the self-employed. These figures show that loan financing remains the most important source of funding for businesses. This applies particularly in times of crisis, when fast, predictable solutions are of the essence, while the response from capital markets is often particularly volatile. Germany's government also provided extensive loan assistance to enterprises. Most of these loans have been arranged by savings banks and reached businesses directly everywhere in Germany due to the decentralised structure of the Savings Banks Finance Group. Based on customer proximity and their own financial strengths, savings banks have prepared the ground for economic recovery.

Therefore, the stabilising effect of local banks should be acknowledged and kept in mind as a key benefit from this crisis.

Europe's immediate task is to create a favourable environment for long-term economic growth. The capital markets union (CMU) must encourage both capital market and loan financing. This offers a chance to rethink European financial regulation and create a proportionate framework. Strengthening decentralised structures and reducing the regulatory burden is the right approach. When addressing proportionality within prudential frameworks, the EU already took some important steps during the previous legislative term. Regulators now have the chance to continue on that road with the finalisation of the Basel III package, which is a chance to calibrate regulation more stringently to match the size of the institutions. Europe must closely follow how Basel III is implemented in other parts of the world and scrutinise the effects of Basel III to ensure they do not contradict efforts made to stabilise Europe's national economies. New regulatory measures must be applied carefully to allow credit institutions to make optimum use of their equity to finance the real economy. Regulatory projects involving significant implementation efforts for these institutions should be postponed.

Economic recovery in Europe calls for solidarity in many policy fields, including the use of jointly financed economic stimulus programmes. The Savings Banks Finance Group welcomes the framework and conditions foreseen in the Next Generation EU aid package as leaving room for subsidiarity and focussing on accountability as well as being limited in time and in size. The package also shows that solidarity among EU member states is possible.

Nevertheless, a word of warning is also necessary. The current situation must not be exploited to pursue open issues from the past arguing that 'the coronavirus makes it necessary'.

Solidarity among states can apply in extraordinary situations. Solidarity among depositors should not be forced. European solidarity does not need schemes like EDIS. On the contrary, pushing for a mutualisation of deposit guarantee schemes would destabilise the financial system in the EU. Legacy risk positions have not been

reduced sufficiently and the coronavirus crisis will lead to a significant additional burden. The volume of non-performing loans will increase throughout Europe and it is difficult to predict exactly how bad it will be. 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. Any risk of infection must be avoided - not only in the health sector.

Merging national deposit guarantee schemes would make it impossible for institutional protection schemes to operate and would jeopardise the existence of smaller banks and savings banks. But Europe's economy needs smaller institutions to get through the crisis and manage change continously. This is true for Germany's economic structure in particular, with its many small and medium-sized enterprises: SMEs depend on the presence of regionally, locally rooted institutions with an independent business policy. SMEs need SMBs – small and medium-sized banks. The debate should focus instead on the stabilising effects of existing schemes which are already harmonised according to EU rules.

Finally, economic recovery requires determined action to shape new business models for Europe as a whole.

Digital business models are on the upswing, but Europe is not yet participating enough in this success, mainly due to the highly fragmentated payment landscape. Payment solutions are developed around national ecosystems, with little or no acceptance across other European markets. This has left the floor to big techs and international payment service providers, and with the rise in digital payments as a consequence of the lockdown experience, the current dominant market players are well-placed to further strengthen their position across Europe. As a result, valuable data from European consumers benefit third parties without triggering a European economic recovery.

To address these challenges, the German savings banks, together with a group of European banks from Belgium, France, Germany, Spain and the Netherlands, have announced their participation in the European Payments Initiative. This aims to replace the fragmented domestic solutions of participating countries and create a seamless, competitive and unified payments solution, available to consumers and merchants across Europe. Europeans can do more than just tackle the crisis. We should set the agenda for a common European digital infrastructure and prepare the ground for more European independence. ■