Q&A session

Christian Sewing - Chier Executive Officer, Deutsche Bank
David Wright - President, EUROFI

David Wright, Eurofi

David Wright introduced Christian Sewing and thanked him for attending. David Wright asked Christian Sewing how he sees the banking landscape now in Germany and in the European Union, as there has been an immense pressure on banks to distribute loans and credits to impaired institutions in difficulty. NPLs are increasing.

Christian Sewing, Deutsche Bank AG

Christian Sewing considered that over the last seven or eight months since the pandemic emerged and then developed, banks have been part of the solution, different from the 2007 and 2008 financial crisis. Banks are glad to be sitting on the side where they can support the economy. Banks worked very well in all countries but particularly in Germany where they collaborated with the central banks and the government coming up with speedy, to-the-point decisions as to how they can actually set up the support programmes. Banks have shown that they are resilient, robust, efficient and able to support the economy and the society.

This can also be seen in the tonality. Tonality about banks and financial institutions is different now from what it was before, and in this regard, banks have done quite a good job. It is now very important that banks would keep this exact discipline and commitment, and that they should have the opportunity to further their robustness to do what they have done over the last six or seven months.

David Wright

David Wright asked Christian Sewing to explain how Deutsche Bank now examines banking regulations. There are many changes in the pipeline, such as further Basel IV changes, the Banking Union and the unfinished Capital Markets Union still to be driven forward.

Christian Sewing

Christian Sewing considered that banks should recognise that the changes made after the financial crisis were, broadly speaking, the right ones. Everyone is able to see how robust and resilient the whole sector is, not only in Germany but across Europe. Now, having actually gone through a real and significant crisis instead of stress tests on paper, banks have shown that they can continue to support the economy, and that they have robust liquidity and capital ratios. This moment needs to be used to hold on and say, 'Wait a minute; what does it actually mean?' In a real stress scenario banks have shown that they are resilient, and that should provide pause for thought about what it means for future changes.

Basel IV changes need to be suspended; banks need to be allowed to take the full data of the COVID pandemic and reassess what it means before a new prudential assessment or evaluation takes place, and before banks undertake changes, which may reduce their lending capacities. Banks always have to bear in mind whether others around the world are also implementing the same or similar changes that European banks are obliged to do. The European banking industry compared to the US is obviously at a competitive disadvantage, and if Europe is now rolling out Basel III or Basel IV and gold-plating it then that competitiveness will worsen.

David Wright

David Wright noted that Germany is famous for its small and medium-sized companies, and capital will be affected by some of these possible changes in the pipeline. He asked Christian Sewing if he shares the view that Freddie Mac and Fannie Mae give the US banks a tremendous competitive advantage.

Christian Sewing

Christian Sewing stated that the US is a different structure, and he will not judge other systems, but it certainly takes a little bit of pressure off the balance sheet. The Basel changes will come at a capital cost, but the real issue is that each bank will think even more about how much capacity it has to put new facilities into the economy. At the end of the day the clients will notice it because it is harder for banks to support them. After showing this resilience and robustness over the last seven or eight months it is important to allow banks to reassess what part of Basel III or Basel IV is actually needed and to let them implement it, if at all, on a level playing field.

David Wright

David Wright asked Christian Sewing if he is worried about the small and medium-sized dimension of this.

Christian Sewing

Christian Sewing confirmed that he is slightly worried, because at the end of the day that is another difference between the European and US banking industries. In the US 60% or 70% of the refinancing or liabilities is via capital markets. In Europe 70% to 80% of the refinancing or liabilities is via the banking sector. If there is less capacity, then the long-term capacity to support the industry and the economy is decreasing. Ultimately, the small and medium-sized enterprises, particularly in Germany, are the backbone of Europe's economy and Europe has to protect them.

David Wright

David Wright asked Christian Sewing if it would be beneficial for Deutsche Bank and the European financial market if, in two or three years, the European Union had moved decisively forward on the Banking Union and the Capital Markets Union.

Christian Sewing

Christian Sewing stated that the issue is not about Deutsche Bank, but it is about protecting the competitiveness of Europe versus the US and Asia. For the time being Europe has gigantic competition from the US banks in terms of profitability and size. In the second quarter, US banks obviously had pretty large numbers in terms of loan loss provision, but the profitability was nevertheless still far higher than the average of the European banking industry. Additionally, people are starting to forget that while putting more into credit reserves, because US banks have a different portfolio from European ones, US banks were still able to spend a great deal on technology, which actually widens the gap. The answer to that must be the Banking Union and Capital Markets Union in Europe. At some point in time Europe also needs to think about European consolidation in order to obtain the related benefit. That means cost efficiencies and scale in the system.

David Wright

David Wright asked Christian Sewing how he sees risks in the system, and what structural shifts or pressures are building up in the system that he worries about.

Christian Sewing

Christian Sewing considered that the immediate fallout of the pandemic is potentially not as bad for Europe and Germany as initially forecasted, but two years are needed to return to normality. The production level on average across industries will come back to normality or pre-COVID levels in 2022, which means there are huge potential opportunities, but also huge pressure for corporates to actually amend and adapt their business model. That needs to be done as soon as possible. Over time there will be winners and losers in each industry, and in this regard in 2021 and 2022 it will be easier to see which industries and segments are really suffering from this pandemic. Clearly there is everything regarding travel, and potentially everything regarding commercial real estate will have a tougher time, because at the end of the day the consumer is changing his or her habits, and this is not a six-month phenomenon. This will be potentially a long-term trend, and people and corporates need to adjust their models.

The biggest risk is not actually the imminent risk from COVID; everyone is forgetting that the structural setup, particularly of the European industry, is also changing a great deal. Europe had a golden decade between 2010 and 2020, and that was in particular from the rise in China and Europe's exports. That will decrease structurally, not only because of the geopolitical tensions but because the Chinese industry is changing its development, which means that European and German corporates need a new home market. There needs to be far more pressure and focus on starting to implement a bigger home market and that can only be in Europe. In this regard, the focus should not be on only the imminent results of COVID. Instead, the focus has to be on the long-term structure of Europe, and there needs to be a bigger home market.

David Wright

David Wright is of the view that the big EU recovery fund, very strongly supported by Chancellor Merkel, is the right way to go in order to protect, develop and sustain the internal market of Europe as trading patterns change, also due to the fact that the World Trade Organisation cannot resolve any disputes anymore.

Christian Sewing

Christian Sewing agreed. The Recovery Fund which has been created has various signals. First, it is a signal of solidarity, which is hugely important, because Germany cannot solve its problem on its own and cannot be a competitor to the US or China on its own. Germany needs a strong Europe, and solidarity is needed for that. In this regard, the fund was the right thing.

The second point is how the money is used. Hopefully, Europe has the right controls, because the money needs to be wisely invested in industries and trends where Europe can still be the winner. That is a huge task, because Europe has the capabilities, talents, passion, dedication, and excellence. Europe should not think there is no chance for it anymore, but now is the time to spend this money wisely and create a stronger home market. If that is achieved, then Europe has a strong possibility also to be a real competitor for the next 10 years.

David Wright

David Wright stated that that also requires a level of convergence at the political level. Europe is leading sustainable development and those trends are irreversible. Convergence is needed, and Europe needs to move quickly.

Christian Sewing

Christian Sewing agreed. Pre-COVID, he regularly stated that Europe needs leadership and timely decisions. Much has been learned in the last six months, including that Europe needs a leadership which is encouraged to take quick and decisive decisions. If that is delivered, then Europe has a good future.

David Wright

David Wright thanked Christian Sewing for his views and support of Eurofi. ■