JOSÉ MANUEL CAMPA

Chairperson, European Banking Authority (EBA)

Regulatory completion and effective implementation

Covid-19 has sent shock waves around the world and caused significant personal and economic loss. It has evoked memories of 2008 when, following the collapse of Lehman Brothers, the financial world was shaken to its foundations. The financial sector was then at the centre of the turbulence and that event started a decade long process of regulatory reform that fundamentally reshaped the framework for financial institutions. The Banking Union was the flagship reform in the EU. However, those reforms have not been completed.

On the positive side, the regulatory framework and status of banks today is unrecognisable from a decade ago. Capital requirements increased substantially and liquidity/funding restored to its role at the heart of banking regulation. The Bank Recovery and Resolution Directive came into force and gave us a modern framework for dealing with failing or failed banks. These reforms have certainly helped banks bringing their core support to the real economy in the current context.

However, the worst economic effects of the crisis are still ahead of us for the banking sector. Banks will continue lending to the economy but those that entered the crisis with lower capital levels, poor business models and riskier exposures will face challenges. So, what are the regulatory priorities in this period of relative calm?

First, it is imperative that the third pillar of the Banking Union, a common deposit insurance framework, is established. Nine years after the measure was announced it remains elusive, notwithstanding the improvements we have seen in risk metrics across the EU.

Next is the absence of a harmonised insolvency regime for banks. National insolvency regimes are not bank specific and generally not aligned with the provisions of the BRRD. As a result, the requirements deeming a bank as failed or likely to fail are inconsistent with the domestic regime for determining insolvency.

At the micro-prudential level, there are a range of issues that have the potential to act as impediments to the effective use of the single market. Cross-border banking activity needs to be fostered through increased competition, elimination of undue burdens and the increase introduction of technology that enhance cross-border activity.

Beyond enhancing the regulatory framework, banks need to continue to enhance their strategies to ensure the sustainability of their business model. The challenges from low profitability, excess capacity and digitalization have accelerated during the COVID-19 pandemic. Cost adjustment, restructuring (including exit) and enhancement of the value-added propositions towards customers should be at the core of their restructuring.