



Axel Weber

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Concluding remarks

David Wright

Good evening, everybody, and welcome to our concluding session in this first day of Eurofi Nicosia Digital. I have with me one of the most distinguished financiers of our generation, Axel Weber, a renowned economist and financial leader, and president of the Deutsche Bundesbank from 2004 to 2011, representing Germany all through the major institutions in the world. He then served as the chairman of UBS from 2012 to 2022, and he is currently the president of the Centre for Financial Studies at Goethe University in Frankfurt. He is the chair of the Trilateral Commission. We have just been talking about his work with fintechs with a number of new financial players, and he is going to use some of those new thoughts in his remarks. One of the great European leaders in finance, Axel, it is a real pleasure to have you with us. We are honoured. The floor is yours.

Axel Weber

Thank you, David, and let me congratulate you and Eurofi for moving so quickly from a real meeting to a virtual one. Having observed day one, it really worked well, so congratulations that you kept it all together. Really well done.

Thank you for having me, and, of course, like always, you have been too kind to me. One of the things that I found really interesting today is that there is a dilemma that comes up in all of the meetings. You saw it in the opening speech of the

finance minister from Cyprus, where he said Europe and the European economy need more investments, but also a smaller mountain of debt. That is a trade-off, and we have been talking about trade-offs throughout most of the day.

When you look at what was discussed on the payment and innovation part, these sessions were really very interesting, both on the retail and on the cross-border payment side. It really showed that payments is an area that has been getting faster, smarter and more digital. Interestingly, new players – in particular, fintechs – have been driving the technology edge of payments.

One thing that is interesting, which I observed in the work that I do with Visa on its advisory council, is that established players with global payment rails are working with a lot of these new financial companies by, basically, having them onboard on their payment rails. That is a win-win situation for both, if you just look at some of the examples like Circle and Coinbase, working with Visa on tokenising and moving tokens around the globe. This is something where incumbents and mature players can do a lot.

Policymakers are trying to keep up with innovation. That is pretty clear. We saw some people from the Bank for International Settlements (BIS) innovation hub and the European Central Bank (ECB). There are a lot of projects going on. The trade-off is that you have to keep up with innovation

without accidentally regulating it so that it has no future. This issue about sandbox approaches is really the right approach, but I do not see them being implemented everywhere.

When it comes to banking, we still talk – and I have probably done this for close to 20 years now – about moving forward on banking union. There is a deadlock. Not a lot has moved. Managing diversity across national banking systems is an important feature of Europe. It does not exist to the same degree anywhere else. Dealing with global differences in implementing Basel III came up in the last two panels. Again, that is an important issue. Having seen that around when I was at the Bundesbank and before the financial crisis, you could say – as a joke – that the European banking system is united in its diversity and divided over everything else.

We have not really moved forward on banking union, and I sometimes get the suspicion that some players enjoy being national champions and have a fear of becoming a European champion, because that is a more crowded and more competitive space, so retreating to a well-regulated and cosy domestic environment is, very often, preventing having to become competitive locally or globally. We never had that luxury when I was at UBS, because Switzerland is a small country, and a large bank out of a small country needed to be globally competitive. Banks need to move to a more competitive environment, and policymakers should push them

rather than trying to lure them into it.

Global coordination of regulation is another issue. I am pretty frustrated with the last round of negotiations. Whether you call it Basel III or Basel IV, it does not really matter. The pattern is the same. There is a discussion and an agreement on international coordinated regulation until some countries start doing their thing and become materially non-compliant with the rules they just agreed to in Basel. We have seen that with Basel II. We have seen it with Basel III now. It is an ongoing story. It is not a good story, and it really questions whether the direction of travel is any good at all.

What we see is, if we do not adopt common standards going forward, you get regulatory loopholes and risk a new financial crisis. The next financial crisis may be just around the corner, so I am very concerned about some of the direction of travel here that we heard about recently, in particular from some of the larger jurisdictions and in the area of non-bank financial intermediation.

When it comes to digital finance, I thought today we saw a pretty good set of discussions on artificial intelligence (AI) and crypto. For me, crypto is a misnomer. What really matters is stablecoins based on new technology. In digital finance, the question really is, 'Have we been moving fast enough?' As a fintech investor, I can tell you we have not moved fast enough. Regulators would probably tell you we have been moving faster than maybe is safe, but digital finance is something where we need to gear down and accelerate even more.

AI in finance has huge potential. It is a major efficiency drive. It will make banking completely different. I work with a couple of companies in that area. AI will have real productivity gains in other sectors, but, in banking, first and foremost, for now, it is a massive effectiveness boost, and banks will jump on that bandwagon. In crypto and tokenisation, there is lots of momentum and we heard today very good discussions on the

first lessons from the Markets in Crypto-Assets Regulation (MiCA).

All in all, in finance we are in a better place than we were when we met one or two years ago. We are not where we could be. I am a bit concerned about the discussion around the simplification of banking rules. The European phrase is that things have to become more competitive and less complex. A sarcastic way that I would portray it is that, while the US reduces regulatory requirements, Europe simplifies them. The US gets less capital required to run banks; European banks get fewer pages of regulation. That is not really, in my view, going to create a more competitive landscape in banking, and nor will it allow European banks to catch up with the dominant position that US banks have. So, while simplification is important and a necessary thing to do, it may not be sufficient. We may just really need to go back and examine how we can prevent a wide competitive gap become a permanent reality between US banks, which are also servicing European markets, and European banks, which get differently regulated in their home markets.

Across the day, what really stood out for me were three things that I fully endorse. Europe needs more investment and growth. I fully subscribe to that. Europe needs a system that is both stable and reliable in finance. Again, I agree with that. And, the future will be shaped by technology, AI and digital assets. I absolutely endorse that.

Let me make one remark on what Europe should do? I agree with everything that is in the Draghi report. I completely agree that we need a true capital markets union and a saving and investments union. We need pan-European exchanges and a pan-European financial and capital market infrastructure. We need to expand the institutional investor base – pension funds, etc. We need also to strengthen EU global banks and EU capital market champions.

The issue is that we have been trying that for more than 10 years and have not really moved

very far. For me, what is very important is that we should maybe try something new. If I look at the biggest problem that Europe has, we do not have a single European safe asset. There is some discussion about more permanently using a EU safe asset, say, by prolonging and extending the NextGenerationEU financing mechanism. From an ECB perspective, that is something that I understand it pushes, but, in my view, it is unlikely to happen anytime soon and at any reasonable scale. The same is true for building a multi-trillion-dollar Eurobond market or for building pan-European integrated equity or banking markets.

Maybe no longer shooting at such first best grande solutions, but looking at doing something that is a quick win, could be more interesting and rewarding. I would describe it as a synthetic approach to creating a European safe asset. For example, if you really supercharged tokenisation, you could put all of the European sovereign bonds into a synthetic Eurobond, which could be issued at scale, and make it internationally usable.

The second thing that we need to do is look at the strategic role of the euro and actively embrace an international role for the euro as a desirable feature of the euro, and thus move away from the language that the international role of the euro is whatever the market makes it. The market has not made the euro an international currency. The US dollar is four times more dominant in trade invoicing. Everyone uses the dollar because everyone uses the dollar. Unless Europe makes it a strategic objective to have the euro as an international currency, we will not get there.

Finally, waiting for European stock exchanges and European banks to merge is a process where you need patience. In my view, again a more pragmatic synthetic approach would be much better, because national champions will not become European champions that easily. While we do have national stock exchanges in every country, what we really need is a horizontal interoperability layer across

these stock exchanges. You do not have to force them to become pan-European, but you should force them to allow for market players to create a horizontal interoperability layer over and above these exchanges so that you can have centralised clearing and settlement within a pan-European infrastructure that is interoperable.

Of course, if you were to do that today, most of the companies that would do that will use decentralised finance technology. They will use smart contracts. They will use tokenisation. They will not build the new system based on the old infrastructure. The horizontal aggregation across European players will start with the new technology from the get-go. And it will be faster, cheaper and better for users.

In my view, we need to go back to the drawing board and really think about how we can accelerate Europe. I was very encouraged by the announcement of the E6 to put European stock exchanges under joint supervision by the European Securities and Markets Authority (ESMA). A next and even more important step would be to allow for that interoperability layer to happen, and to force exchanges to open their systems to companies that will provide this interoperability in clearing and settlement. That will fast-track us into a single European capital market that is not built on national players becoming European players, but, basically, European markets being facilitated by hooking up and interconnecting these national players. Over time, we will have a truly European layer evolve as a consequence.

We need to rethink the European journey. This is not about a different destination. It is about the need to take a diversion. If we want to be fast and catch up with the US in these difficult times, the only thing that will help us is to put the concept of first best on the back burner and make it the final choice in the end, and to now create something that is viable quickly. When you talk about the Draghi report, which is a great report, add a new user manual on how to get there fast. The things

that the report says are all great. What we need to do now is to really think about how we push that at speed and at scale, rather than waiting for organic developments to take place, because we know that we are in deadlock over so many things in many areas. I am trying to end on an optimistic note here. We know the destination, but with all the roadblocks we have to rethink how we get there fast rather than best. Let me end there.

David Wright

Thank you very much, Axel. There were some really interesting ideas here. Let us hope that we can debate some of them tomorrow. I am sure that they will percolate into our discussions. I thank you again on behalf of us all. That was extremely interesting. We are going to close down today. It has been a long day, from something like 9.00 to now, but very valuable. We thank you very much for your kind remarks about staging Eurofi.

We are closing off now. Axel, I hope you will be able to be with us tomorrow a little bit. Those were very interesting ideas about looking for second best, in a sense, technological, fintech-type solutions to drive progress. That is a fascinating idea. Thank you all very much, and we will see you tomorrow morning. I am just looking at my programme. The start is a very modest one at 8.30 in the morning, so see you then. Thank you again, Axel.

Axel Weber

Thank you, David.