EGMONT Royal Institute for International Relations

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The European Banking Union: Heading for success?

Seminar Report

On 11 March 2013, Egmont – Royal Institute for International Relations and Febelfin co-organised a seminar on the European Banking Union. The main goals of the seminar were to discuss current progress, future steps and remaining caveats of the Banking Union. Presentations were given by experts and practitioners from both the private and public sector.

FIRST SESSION: THE SINGLE SUPERVISORY MECHANISM: WILL THE EU REACH ITS OBJECTIVES?

The first session of the seminar dealt with the Single Supervisory Mechanism (SSM) as a precondition to complete the Economic and Monetary Union. By creating the SSM, final supervisory responsibility will be conferred to the European Central Bank (ECB). National supervisors will nonetheless continue to play a substantial role, as was discussed during the various presentations.

Peter De Keyzer, Chief Economist at BNP Paribas Fortis

Mr. De Keyzer opened his presentation by stating that sharing one currency does not imply the creation of a currency union. Europe’s incomplete response to the crisis has resulted in negative feedback loops between banks, public finances and the economy. Mr. De Keyzer argued that these “death loops” must be fixed by new European instruments that incorporate both the agenda of the creditor countries (solidarity and pooling risks) and the agenda of the debtor countries (fiscal rigour and structural reforms).

One of the major instruments to stop the “death loops” is the creation of the SSM, Mr. De Keyzer stated. He explained that entrusting the ECB with the task of supervising the banking sector entails several benefits, notably a strong reputation, credibility and political independence. There are, however, also potential risks, including reputational damage to the ECB’s monetary responsibilities, lacking accountability and enforcement of supervisory decisions. It will furthermore prove a significant challenge to align the interests of all supervisors involved in the SSM.

Mr. De Keyzer warned that a SSM without joint crisis resolution and deposit guarantees would endanger the success of the Banking Union. As a result, these “pillars of stability” need to be put in place. Sharing banking supervision simply is not sufficient to establish a Banking Union, he concluded.

Rudi Bonte, Special Representative for Banking Supervision at the National Bank of Belgium

Mr. Bonte explained that European integration of banking supervision has come a long way via the past development of supervisory structures and practices. Yet, the SSM will take the supervisory integration a major, qualitative step forward.

Several challenges in implementing the SSM, however, remain. The precise division of tasks between the European and national supervisors will have to be clearly defined. Another issue is the need for a harmonised regulatory framework, as divergent national rules make effective supervision more difficult. Mr. Bonte highlighted some other questions as well, such as the working relationship between the SSM and the European Banking Authority (EBA), and the arrangements for non-eurozone Member States joining the SSM. For all these issues, a pragmatic approach will be needed.

Mr. Bonte pleaded for a carefully planned move to European level supervision. Such planning includes a number of critical initial steps, such as creating the Supervisory Board, setting up joint supervisory teams to monitor banks, and ensuring adequate staffing at the ECB. Such a thorough preparation should allow the ECB to become a high quality supervisor, overcoming some of the problems experienced in the past.

Eddy Wymeersch, Professor Emeritus at Ghent University and former Chairman of the Committee of European Securities Regulators

Prof. Wymeersch started his presentation by discussing the scope of the ECB supervision. He explained that the ECB will only carry out a part of financial supervision in the SSM. Firstly, non-banking financial institutions (payment institutions,...) will still be supervised at the national level. Secondly, the SSM is in practice a “double-tiered system” of supervision: large banks fall under direct ECB supervision, but smaller banks are supervised nationally. For these latter banks, the ECB will hence only perform indirect supervision.

Prof. Wymeersch added that the supervisory regime in the SSM is rather complex for banks whose main office is located outside the SSM. He argued that the rules do not take sufficiently into account the legal flexibility available to banks, which allows these banks in practice to determine whether or not they fall under SSM supervision.

Finally, Prof. Wymeersch discussed the relation of the SSM with non-eurozone countries. He expected that some Central-Eastern States will join the SSM, while the UK, Sweden and the Czech Republic would remain outside the common European supervision. Nonetheless, a Memorandum of Understanding will need to be signed between the ECB and each of these countries, so as to allow for cooperation. Such supervisory cooperation between the supervisors in the EU will prove an essential piece in the success of the SSM.

SECOND SESSION: COMPLETING THE BANKING UNION: WHAT KIND OF CRISIS MANAGEMENT AND DEPOSIT INSURANCE FOR EUROPE?

The second session of the seminar focussed on the steps other than the SSM that are needed to put in place the Banking Union. These steps crucially involve decisions on the management of bank crises through bank restructuring and resolution, as well as on deposit insurance. There is not yet a consensus on the speed and content of these steps, as became clear during the session's presentations.

Benjamin Weigert, Secretary General of the German Council of Economic Experts

Dr. Weigert told participants that they should keep in mind that the Banking Union is not a tool for current crisis management. It, on the contrary, represents a long-term framework to overcome the shortcomings in the Single Market and the Economic and Monetary Union. In addition to the centralised banking supervision that is currently foreseen, Dr. Weigert argued that a consistent Banking Union requires common banking regulation, as well as a common authority for bank restructuring and resolution. It is crucial that both the supervisory authority and the bank restructuring authority are fully independent. In his view, and according to various commentators in Germany, an independent restructuring authority will require changes to the EU Treaties.

Dr. Weigert proposed a cautious, gradual transition to a full Banking Union. Before the final stage could be reached, the EU will need to deal with legacy issues in the banking sector on a national basis, and provide a solid legal framework (including the needed EU Treaty changes). A fiscal backstop to ensure sufficient fiscal firepower for the European restructuring authority could be organised through the ESM, but should also involve burden-sharing rules among the Member States. He believed that a common European deposit guarantee scheme should only be contemplated as a long-term reform. Finally, due to legacy issues, Dr. Weigert did not favour European risk mutualisation and direct bank recapitalisation before a full Banking Union is in place.

Olivier Guersent, Head of Cabinet of Michel Barnier, Commissioner for Internal Market and Services

In his presentation, Mr. Guersent argued that breaking the link between sovereign and banking problems requires European instruments for bank restructuring and resolution. Another crucial pillar in disentangling these problems will be the possibility of direct bank recapitalisation by the ESM once the SSM is established.

Mr. Guersent went on to outline how the European Commission aims to work towards putting in place a Banking Union. One of the most important steps before next summer will be the Commission proposal on a single resolution mechanism for the banking sector. A central authority and burden-sharing rules will be key components in the proposal. According to Mr. Guersent, the question of a fiscal backstop is complex and highly political. In his view, it can, however, be dealt with after setting up the single resolution mechanism.

The Commission works from a pragmatic standpoint. In contrast to the previous speaker, Mr. Guersent believed that creating a single resolution mechanism is feasible within the framework of the existing EU Treaties. European leaders would otherwise not have requested a legal proposal in such a short timeframe, he noted.

Dirk Cupei, Vice Chairman of the European Forum of Deposit Insurers

Mr. Cupei focused his presentation on European deposit insurance and its link with crisis management. For a number of reasons, he argued, deposit insurance and crisis resolution should be discussed separately.

A first important reason is the fact that deposit insurance is relevant for crises involving medium-sized banks, while resolution tools are to be used for large-scale crises. Secondly, deposit guarantees act independently from the supervisory authorities, while bank resolution is a tool that is clearly linked to supervision. Any European resolution authority should furthermore be a centralised institution, whereas the deposit insurance will still require national branches.

In terms of timing, Mr. Cupei argued that common deposit insurance will not be possible in the short-term. Common supervision will need to be operational before discussions on common deposit insurance could be initiated. Besides, additional harmonisation of the national deposit guarantee systems and their financing is needed. The discussion on bank resolution at the European level remains premature as well, Mr. Cupei argued, as the legislation and tools on the matter first need to be implemented by the Member States.

CONCLUDING REMARKS

Michel Vermaerke, CEO of Febelfin

Mr. Vermaerke closed the conference by drawing some key lessons from the discussions that had taken place. He stressed the fact that the Banking Union involves both legal arguments and economic input, demonstrating the need for a pragmatic solution.

Mr. Vermaerke went on to highlight the historic significance of the decision to create a Banking Union. The SSM is an important step on the road towards a Banking Union. Yet, an agreement on the SSM is only a first step in the move towards a Banking Union. Discussion on the other steps will be necessary. To this extent, the seminar provided substantial food for thought in the debate.

And, of course, Europe’s challenges lie not in the Banking Union alone, but in the creation of a fiscal and economic union, too. A fully functioning fiscal and economic union is a vital part of breaking the vicious spiral between banks and excessive government debt.

Mr. Vermaerke concluded with Belgian banking’s wish list for a future in a European Banking Union. He sincerely hoped for a clear and stable regulation, that takes into account cumulative impact assessments. This involves regulation that is coherent and consistent, but also harmonised as much as possible. When these wishes are met, a European Banking Union will have all elements to push it to stimulating banks into a durable and vital model at the service of man, society and the economy.

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