Franz Rudorfer
Managing Director
Austrian Federal Economic Chamber

Introductory Statement: Financial Convergence, Resilience and Supervision

In the aftermath of the financial crisis, a huge amount of new regulation has been introduced. Some call it an "onslaught". The goal was to make the financial system more resilient. So after a decade of bank regulation banks are definitely safer and better run as a result.

Both regulators and supervisors and also our industry believe that consequences had to be taken and lessons learned. But we also know that contradictory regulations were passed. Some regulations are working in opposing directions. The industry is struggling with overlapping requirements and national gold plating potentially jeopardizing the level playing field.

Nevertheless, the strengthening of the banking sector can be seen in much higher capital ratios (e.g. common equity tier 1 – CET1), and the large reduction of nonperforming loans (NPLs) is giving proof that the industry has become increasingly resilient.

The panelists, who are representing banks with very different business models, presented in the discussion how their banks managed this challenging environment. Those panelists were:

- Florian Hagenauer, Member of the Management Board of a successful regional bank, Oberbank.
- Hannes Mösenbacher, Chief Risk Officer of Raiffeisen Bank International (RBI), one of the most important banking groups in Central and Eastern Europe.
- Marco Valli, Head of Macro Research and Chief Euro Economist of one of the big European players, UniCredit Group.

The following aspects concerning volatility of markets, fluctuating exchange rates and current global geopolitical developments were discussed: Is the (current) regulation an appropriate tool to keep the system healthy? What about the risks that are outside the scope of Basel such as political risks? Furthermore, the panelists elaborated the Commission's proposals for a capital markets union, crowdfunding, sustainable investments, a European deposit insurance scheme (EDIS), the future of the Eurosystem and how financial players can stay resilient within this future framework.

Other foci of discussion were current and future challenges like digitalization (blockchain, fintechs), cybersecurity and cyber risks (the Allianz Risk Barometer 2018 ranks cybercrime second in the top 10 business risks); new competitors and level playing field aspects; the fine line of over-regulation and watering down regulations; whether economic growth and competitiveness are contradictory to regulation; future business models; sustainable finance, financial education and Brexit. Finally, the panelists gave brief core messages to European legislators and supervisors.

Marco Valli (Chief Euro Economist of Unicredit Group) pointed out that overall, the measures implemented so far to strengthen banks' balance sheets and liquidity positions should provide a good buffer in the event of a shock hitting the economy and financial markets. However, new regulation raises issues when it comes to creating or preserving a level playing field.

Cross-border banking groups in the EU should be preserved and supported, mainly for two reasons. First Marco Valli thinks banks with geographical diversification are generally safer as their assets tend to be more diversified. Hence, cross-country diversification, at least in the EU, should be encouraged. Second, the euro area lacks shock absorbers and the majority of adverse

shocks go unsmoothed due to poor risk-sharing mechanisms.

The impression is that European regulators are discouraging cross-border banking by allowing for national ring fencing of liquidity and loss absorbing capacity while penalizing the prudential treatment of intra-group cross-border exposure. The ultimate aim should be that the banking union is as a single jurisdiction from a prudential perspective. Although it is clear that this would take time, it is important to acknowledge that actions such as ring fencing of liquidity and capital, which might be regarded as optimal from a national perspective, are self-defeating at the aggregate level.

The establishment of a comprehensive EU strategy to address the problem of troubled loans can be fully supported. However, calendar provisioning might not create the right incentives for a proactive approach to managing NPLs. Instead, policymakers should focus on harmonizing the insolvency and pre-insolvency framework at the European level. Shortening the length of judicial procedures would provide secured creditors with more certainty on the recovery of collateral. By facilitating early restructuring or giving a second chance to entrepreneurs, employment and growth would be improved.

Florian Hagenauer (Member of the Management Board of Oberbank) gave a brief statement regarding key success factors for banks during the crisis from the perspective of Oberbank as a regional European player. The first key success factor is a clear and focused strategy as well as a resilient business model, which is consequently pursued. Furthermore, regulatory requirements need to be monitored and anticipated.

Secondly, strategy has to be customer-oriented. The third key success factor is organic growth. The customer base and business area especially in corporate and SME businesses in Austria, Germany, Czech Republic, Slovakia and Hungary need to be expanded.

Fourthly, a conservative approach to risk and a continuous improvement of the risk management framework and risk management tools are of utmost importance. The fifth factor is investment in people. Excellence in sales and development of a professional management team are equally important. Recruiting, training and preparing the next generation to take charge within a successful organization are big challenges.

The sixth precondition for success from an Oberbank perspective is an efficient operating model based on a strongly centralized back office and a centralized IT even across borders. The last success factor is not to chase after every trend emerging. To sum up, a sound business model and strategy are inevitably for successful banks during times of crisis.

Hannes Mösenbacher (Chief Risk Officer of RBI) emphasized first that RBI is the prototype of a European integrator as the group has been active in 14 Central and Eastern European countries for over 30 years. Today, RBI is making profit in all markets. But not only the bank has benefited, also the countries, companies and people themselves as RBI is a prudent investor with a long-term perspective and thus contributing to the resilience of the markets.

Talking about banking regulation, Hannes Mösenbacher stated that RBI as a bank is traditionally a regulated entity and used to "digest" new requirements. In addition, he highlights the constructive dialogue with the supervisory authorities. However, the complexity of the supervisory architecture is a challenge: RBI group is governed by around forty national and European regulatory and supervisory authorities, some of them belonging to the Single Supervisory Mechanism, some of them to the European Union, others to third countries. These authorities tend to have different views on the same topic. Therefore, for cross-border banking groups, he stressed that a single set of rules is the only way of how to implement the increasing regulatory pressure. Furthermore, it ensures a level playing field for both, only locally active banks and cross-border banks. Close alignment amongst authorities, e.g. the avoidance of double reporting, would also be key for banks to implement new requirements efficiently.

As regards competition with non-banks, Hannes Mösenbacher stressed the importance of a level playing field regarding regulatory requirements since traditional banks are becoming more and more like software companies. Finally, at European and national level, "gold plating" of global regulatory standards needs to be avoided to prevent competitive disadvantages for European banks.