Andreas Treichl

Chairman
Erste Group Bank AG

SSM: Strengthening the Euro Area through Joint Banking Supervision

The Single Supervisory Mechanism (SSM) should make the market more transparent and help us to better deal with systematic risks. We would need to have a look back in the history to understand the effectiveness of the SSM if a systemic risk arises again. Those of you who have been in business for more than ten years will recall that Austria at one point in time and for a pretty long period of time had over 40% of the yen loan volume of the European Union, although our total loan volume represents about 2% of the loan volume of the European Union. Such a situation occurred because there was a time when every grandmother in Burgenland bought her new refrigerator on a yen-loan basis. This went on for a long time. It was not a very intelligent form of lending , and we all knew this. But on the other hand it was hugely successful, and I'm sure that there are still quite a few people in this room, who were benefactors of that form of lending. Immediately after we stopped yen lending in Austria, we switched to Swiss franc lending. And only recently we did stop lending in Swiss francs. For many, many years, for more than decades, the regulators and the central bankers were actually accepting the systematic risk of retail FX lending. Maybe some of the central bankers even had their own Swiss franc loan to refurbish their apartment. And then suddenly we realized: We should not sell this product. What we really learnt was that you can do some forms of lending only if the liquidity situation of an economy and the liquidity situation of the banking system in a country are in order. If the liquidity situation of a country is in disorder, this is mirrored in the banking system. So, what worked in Austria for a pretty long time, did not work in Hungary, and did not work in other countries of Central, Eastern and Southeastern Europe (CESEE) because the financial situation of the banking system and the countries themselves could not support it. They needed funding from outside in order to fuel the economy. So, this was a systemic risk for Europe. But it's over now.

Was there any other real systemic risk in bank lending in Europe during the last 15 years that caused the current crisis? I think we'll agree that there was no corporate lending crisis in Europe; we did not have a corporate systemic risk in Europe. We did not have any SME-systemic risk in Europe. We have never actually had a true consumer lending-systemic risk crisis in Europe. What we had in many countries, whether it's Ireland or Spain, is a serious systemic mortgage lending crisis. What did this mortgage lending crisis stem from? Did it stem from irresponsible banks making irresponsible loans, or did it stem from irresponsible real-estate investors requesting irresponsible products from irresponsible banks? At the end, who cares? The crisis was there; who initiated it is not really important. But there is one huge difference between that crisis that we had in Europe and the crisis that we had in the U.S.A. The banking system had to cope with it because all mortgage loans were on our books. And that's a completely different situation compared to the U.S.A., where most of the mortgage products that created the crisis were not in the books of the banks. Instead they were in the hands of investors that were tricked into buying products that they did not understand. So, banks are absorbing the systemic risks in Europe on our balance sheets. That is one point that, in my view, currently the regulators do not have a lot of respect for. That huge differentiation of "is there a banking system that absorbs its own risk without passing it on to unknowledgeable, naïve investors" or, put it in very simple words "do we deal with the dirt that we produce ourselves or do we produce dirt and pass it on to other people?" We don't do that. The way we absorb the systemic risk in Europe is not taken into account. We do not differentiate between the banking systems that absorb their own risk and the banking systems that pass on their risk to the public. This is not reflected in the assessment of the risk situation of the banking system. That's what I criticize the most.

Other than that there is hardly anything to be criticized about the SSM. It is, of course, from our point of view, hugely bureaucratic, but we have to cope with it. It's our task and it is definitely a dramatic improvement of the risk situation in Europe as it leads to transparency and simplification – if we stop having national rules – and it ends up in having one common European regulatory view. Of course, we still have to be aware, particularly in our region, that there is a huge difference between the euro area countries and non-euro area countries, unless the non-euro area countries are opting in, which some of the most important countries of our region presently don't seem to be willing to do, although even the Czech Republic is now turning more for it. We would be very, very happy if all the countries in our region would actually opt for SSM.

However, the SSM is only one step. The next steps are the Single Resolution Mechanism (SRM) and the European depository insurance. That, of course, should lead to a fiscal union and not only a banking union. And that is the real test on whether we get into that direction or not.

If we look back at the time when we installed the euro, I was a big fan of it. I still am, although I am now completely convinced that it is the euro that causes many of the problems that we have, and it is the euro that has caused the actual renationalization of the financial markets in Europe. Are we going to be able to fight the renationalization of the financial markets in Europe with the SSM, or are we again making a step too soon, because we do not know if the politicians are going to follow? You don't really believe that. You don't really believe that we will take the necessary political steps in the near future that actually will support what the regulators do. And isn't that exactly the problem that we had with the euro? We installed it because we thought it was good, but we didn't take the necessary political action to make it work. Are we convinced that what we are doing now is going to push politicians to go for a deep financial and fiscal union in Europe? Because this is what this all is for, and this is in the end the only thing that will save the euro in the long term.

So, getting back to the SSM, there is nothing wrong with it if we could merge the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) and have one accounting standard across the globe. I'd be the happiest man in the world because it would make banks substantially more transparent and easier to understand. A common regulator is a wonderful thing because it will help create more transparency. But the real question is "how about the bail-in at that point in time?".

Now, if the Asset Quality Review (AQR) and the stress test are going to be a really serious exercise and they do to the banking system what they are supposed to do, are the EUR 55 billion enough? Where will we get the capital from in case if some of the banks need substantial capital, because there are no EUR 55 billion around? What if potentially this will require more, who will be the investor? The state, European pension funds or Chinese banks? So, that's going to be an interesting game very soon.