

## **Mario Draghi: Stronger together in Europe – the contribution of banking supervision**

Speech by Mr Mario Draghi, President of the European Central Bank, marking the inauguration of the ECB's new supervisory responsibilities, Frankfurt am Main, 20 November 2014.

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### *Summary*

*Speaking at the Inauguration of the European Central Bank's new supervisory responsibilities, Mario Draghi, the President of the European Central Bank, reflected on the creation of the Single Supervisory Mechanism, reminding the context that led the Council and the Parliament to entrust the ECB with supervisory tasks.*

*According to Mr Draghi, the setting-up of European banking supervision has been the largest step towards deeper integration since the creation of our Economic and Monetary Union.*

*The President restated that the ECB was and remains determined to protect the euro, while reminding that more work needs to be done to improve "our" union, not only in the banking sector but also in relation to capital markets and in the economic and fiscal realms. "Our responsibility towards the people of this continent is indeed to put in place a sustainable economic model that helps to increase employment and boost growth", he said.*

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Ladies and Gentlemen,

I am very pleased to welcome you to the inauguration of the Single Supervisory Mechanism.

Today, I would like to reflect on what made this joint achievement possible and how it can inspire us as we strive to make Europeans stronger together.

The crisis has caused many of our fellow citizens to question whether the European project can keep its promise of shared economic prosperity. And the response to the crisis indeed took time to take shape, as we did not initially have all the instruments to address its causes and consequences. This has forced us to fundamentally reflect on what is necessary to achieve a genuine economic and monetary union.

In particular, we needed to decisively and credibly address the weaknesses in the banking sector. This was not only key to restoring investors' confidence. It was also key to protecting citizens and businesses as taxpayers, depositors and borrowers.

We agreed that this challenge would be best addressed together through the establishment of a banking union. It entailed a Single Supervisory Mechanism, a Single Resolution Mechanism and a common rulebook, including for harmonised deposit guarantee schemes, which may evolve into a common European deposit guarantee.

This was a fundamentally political decision, taken by the European legislators – the Council and the European Parliament. And once the decision to establish the SSM had been made, the ECB assumed a key role in bringing about this change in only one year.

The setting-up of European banking supervision has been the largest step towards deeper integration since the creation of our Economic and Monetary Union. One that provides a determined response to the crisis, strengthens the euro and will protect us in the future. One that shows that, if we decide to act together, we can be stronger together in Europe.

## **The creation of the Single Supervisory Mechanism, a collective achievement**

Fragilities in the banking sector were a major risk that had to be directly confronted. In a context where the integrity of the euro area had been threatened, the Council and the Parliament entrusted the ECB with supervisory tasks.

We were and remain determined to protect the euro. We are thus proud to take on this new role and committed to fulfilling the high expectations.

It was nevertheless a major organisational challenge to get the SSM up and running in only one year, whilst also conducting the comprehensive assessment.

Together, we have successfully accomplished this task.

Let me pay tribute to all the ECB staff, old and new, who made banking supervision a European reality. Thanks to their hard work, the ECB has shown an impressive ability to adapt. And while we ensure a strict separation between monetary policy and banking supervision, both these areas of activity will be able to rely on the accumulated expertise in shared services areas and of course be inspired by the European spirit that guides our work. The SSM is also benefiting from the experience and resources of the national authorities. We have combined all these strengths. They make up our DNA.

We are however creating something new.

The SSM creates the institutional conditions for overcoming fragmentation in supervisory practices and allows us to define a single model. We are establishing common methodologies, a joint culture, a shared reputation. They will ensure that we have the right instruments and incentives to effectively carry out our supervisory tasks. They have already been successfully tested – as the comprehensive assessment shows.

Let us at the same time recognise that this is just the beginning.

The ECB will have to perform consistently well day after day, years after year, in the face of very challenging supervisory tasks.

Moreover, we need to further think about how we can improve our union, not only in the banking sector but also in relation to capital markets and in the economic and fiscal realms. Our responsibility towards the people of this continent is indeed to put in place a sustainable economic model that helps to increase employment and boost growth. I believe the experience of setting up the SSM and the banking union can inspire us in this respect. Let me explain what I mean.

## **Banking supervision: gaining from a European approach**

The SSM, and more broadly banking union, show that Europe can make a difference. We can draw lessons from this achievement, from both a policy and institutional perspective.

From a *policy standpoint*, adopting a European approach to tackle risks in the banking sector clearly helps protecting individuals and businesses.

- First, it protects them as taxpayers. During the crisis, the cost of restructuring failing banks was borne disproportionately by taxpayers. This was not only unfair, as it entailed in some instances large social and economic costs. It also created the wrong incentives for banks' shareholders and creditors. Fairer and more effective burden-sharing rules have now been put in place and resolution costs will be borne primarily by the banks themselves.
- Second, it protects them as depositors. Deposits under €100,000 will not be touched and those above that amount will benefit from preferential treatment compared to other unsecured creditors.

- Third, the banking union, and the SSM in particular, aims to protect borrowers by restoring trust in the soundness of the banking sector thereby increasing its capacity to lend to the real economy.

Fairer and more sustainable conditions have thus been created. And this achievement can serve as inspiration in other areas of economic policy.

There are also lessons to be learned from the *institutional perspective*.

The Single Supervisory Mechanism and the Single Resolution Mechanism are strong enforcement mechanisms. Both institutions follow a governance model which seems to work well, be it at euro area level or EU-wide. This approach involves three components: a political agreement at European level based on well-defined objectives, a European authority with strong enforcement powers and an integrated system reflecting Europe's diversity.

This is the approach of competition policy, monetary policy and single market policies. It is now the model of banking supervision and is set to be the model for banking resolution. In the future, we can learn from this experience as we progress towards economic union and capital markets integration.

This governance model is in fact a valuable, practical example of the EU's motto: "United in diversity". *Internally*, it makes us stronger together: for instance, the SSM reinforces the banking system of the euro area as a whole, thus reducing systemic risk to the benefits of all. *Externally*, it provides a basis for increasing our global influence in setting high regulatory standards.

Finally, European action needs to be fully legitimised. As part of our Inter-Institutional Agreement with the European Parliament and of our Memorandum of Understanding with the Council, we are committed to very high standards of accountability, which compare favourably at international level. But let us not forget that our legitimacy crucially depends on the ability to fulfil the mandate that was democratically assigned to us. This requires our constant attention and continuous effort.

## Conclusion

Let me conclude. While we celebrate today an important achievement, we need to be humble for the future and to ensure that we deliver on our tasks, old and new. The ECB has at the core of its mandate the protection of price stability. We now need to protect the economy in one additional way, by preventing excessive risks in the banking sector.

Protecting our fellow citizens as well as businesses from the dire effects of the crisis was the driving force behind the 'Four Presidents' report', which established a roadmap towards a genuine Economic and Monetary Union.

Dear Herman,

You were the *chef d'orchestre* of our quartet.

I believe it is no exaggeration to say that you have left your mark on history by masterfully conducting the discussions between European leaders which led to the creation of the banking union. This has been an inspiring first movement.

While we enjoy today's short *entr'acte*, we should also look ahead and prepare for the movements still to come, as we progress together towards a genuine Economic and Monetary Union.