# Yannis Stournaras: "European Banking Supervision: The first eighteen months"

Welcome address by Mr Yannis Stournaras, Governor of the Bank of Greece, at the presentation of the book by Dirk Schoenmaker and Nicolas Veron: "European Banking Supervision: The first eighteen months", Athens, 14 July 2016.

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We are really pleased and honored to have you here for the presentation of the study related to the first eighteen months of the European Banking Supervision. I strongly believe your work brings valuable insight in an era involving new policy regimes that have brought forward profound change to the European banking landscape.

I also feel the work presented here today is essential as it provides an excellent overview related to SSM's operations as well as the response to several challenges. Needless to say if we were having this discussion a couple of years ago it would have been hard to anticipate that a major organization of this size would be fully operational at such an early stage and truly competent in dealing with major issues in the euro-area.

It is equally important to understand that these challenges have not changed much over the past few years: asset quality deterioration, market segmentation and business model viability are still issues to be tackled by monetary policy and supervisory decision makers in our days.

It is worthwhile examining a persistent characteristic during these years, indicative of these considerations: shares of European banks have been trading at a discount to tangible book value, while those of the largest US banks trade at a premium to book value. A comparison of capital-adequacy ratios can no longer explain this difference in valuation multiples, as capital ratios for euro area banks have risen from about 8 percent in 2008 to about 14 percent today. On the contrary, they are indicative of a European banking sector undergoing a transformation that demands a comprehensive and radical adjustment of the core business model of operation.

I feel that, eight years after the financial crisis, we are still witnessing a transition phase. Banks are definitely stronger than one decade ago, capital adequacy ratios do demonstrate that, but they are still adjusting their business models to a post-crisis world. At the same time, they also have to address legacy issues with problems of non-performing exposures adding to the overall assessment of investment considerations.

The euro-area financial crisis, as originated in the end of the previous decade, provided the perhaps most serious challenge to the stability of the European Union; it is now well understood that a monetary union is not viable in the absence of a banking union. More recently, with the recovery in the euro area still fragile, new geopolitical tensions have led to an unprecedented refugee crisis and increased uncertainty. Finally, matters such as the consequences of Brexit, different approaches among member states regarding banking union, and the slow progress in establishing a single European deposit insurance scheme, have been hindering further progress in securing the financial system architecture needed to enhance stability.

SSM has been the catalyst for the Banking Union of the EU. It provides a framework for common rules and policies across the euro area banking sectors; it enhances single supervisory treatment over segmented national practices. But it also has to cope with increased uncertainty in two areas: the possibility of major changes in the future regulatory framework and the way that new regulation is going to be applied.