

Sabine Lautenschläger: Cross-border banking since the crisis – lessons for supervisors

Statement by Ms Sabine Lautenschläger, Member of the Executive Board of the European Central Bank, at the 10 Years Vienna Initiative - Anniversary Conference 2019, Vienna, 27 March 2019.

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The crisis has shown that the banking sector is deeply interconnected worldwide, and that a banking crisis can quickly spread from one country to another.

It also laid bare a number of weaknesses in the global regulatory framework. But after long and tough negotiations, we agreed on the Basel III framework, which addresses most of the weaknesses found in global regulation. It will help make global financial markets safer by ensuring that global banks and banks with cross-border activities have to comply with a common framework of minimum capital, liquidity and risk management standards.

The crisis clearly showed that supervision should not stop at national borders. And it also showed us that cooperation between home and host supervisors is key to understanding the risks banks are exposed to when doing business across borders.

In recent years, cooperation between supervisors has increased significantly, on the back of new global and European standards for home/host cooperation. Cooperation between supervisors has become natural; in fact, it has become essential. This cooperation has been institutionalised via supervisory colleges and crisis management groups.

Standards now apply when information is exchanged between host and home supervisors, and when joint fact findings and assessments are due. And various criteria now apply when supervisors from different countries have to agree on joint action regarding banks.

Of course, it is easier to cooperate in theory than in practice. And it is easier to cooperate in normal times than in times of crisis.

The Vienna Initiative was an important example of cooperation in crisis times. And with the Vienna Initiative 2.0 in particular, we have seen how important it is to provide structures and platforms for home/host cooperation. It is undeniable that, in times of crisis, the interests of home and host supervisors may diverge. But without cooperation, it would be very difficult to maintain financial stability.

Breaking this kind of prisoner's dilemma requires trust. But trust cannot be built over a few days of talks at the height of a crisis. Trust requires us to understand each other's priorities and constraints. And this takes time. In a way, this should be seen as an investment. As a supervisor, you should invest your time in building trust with other authorities. It will pay off.

In practice, the fact that this lesson has not been fully learned, means there are still obstacles to cross-border banking.

In Europe, we have gone one step further in ensuring that banks in the euro area are supervised according to one approach – an essential part of the response to the crisis was to create a single supervisor for the euro area.

The single rulebook forms the basis for this supervision. But this rulebook is not as single as supervisors would like. There are still some important areas in urgent need of harmonisation, not only to ensure a level playing field, but also to promote cross-border banking.

I will mention just a few:

- ♦ Fit and proper rules are not harmonised at all.
- ♦ Many crisis-related supervisory competences are not harmonised.
- ♦ There are still some options and national discretions open to Member States, which means banks can be treated differently for reasons other than the underlying risks.

We see that cross-border banking has recovered elsewhere but not in Europe. European banks still lag behind in this respect. In part, this is also due to ring fencing, which limits banks' ability to freely move liquidity and capital within groups in Europe.

I understand that taking the first step in eliminating ring-fencing is daunting. Host country supervisors fear being left to foot the bill of costly crises. For small economies, or large economies with a large number of foreign banks, this is a challenge. But it is a challenge we need to find a common solution to. And we need to find this solution before the next crisis hits.