

Joachim Wuermeling: Welcome speech - Deutsche Bundesbank reception on the occasion of Euro Finance Week

Welcome speech by Prof Joachim Wuermeling, Member of the Executive Board of the Deutsche Bundesbank, at the Deutsche Bundesbank reception on the occasion of the Euro Finance Week, Frankfurt am Main, 19 November 2019.

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1 Introduction

Ladies and gentlemen,

Welcome to the Deutsche Bundesbank's reception on the occasion of Euro Finance Week.

Gathered here this evening are not just high-ranking representatives from Germany's banking industry but also stakeholders from European and German banking regulators and supervisors.

Frankfurt, home to so many global players in the banking world as well as the ECB and the Bundesbank, sees itself as an integral part of the worldwide financial community. Bearing this in mind, there are three topics I would like to cover in my welcome address this evening:

First, the importance of the Basel standards for us; second, the global role of the German and continental financial centre; and third, the competition worldwide banks are facing from tech firms.

2 Importance of implementing Basel III

Ladies and gentlemen, the smaller the financial crisis gets in the rear-view mirror, the fainter the calls for tight regulation become. But let me make one thing quite clear: we need this Basel III framework, and we need it just as it was finalised back in late 2017.

You see, we all agree that everyone stands to benefit from a set of globally agreed minimum standards designed to promote stability.

And that is why I firmly believe that instead of discussing ways to undermine or weaken the standards in the EU, we need to work, at both a global and a European level, towards full implementation of the standards worldwide. I have no doubt that our guest of honour this evening – Pablo Hernández de Cos – sees things in exactly the same way.

All the more so as the positive effects of the reform package clearly outweigh any downsides it might have. After all, Basel III is a prime example of how global collaboration and cooperation really can work – that ability is priceless, especially in an era when unilateralism is on the rise and individual countries choose to “go it alone”. But the Basel regime offers more than just this admittedly somewhat idealistic aspect – it also has a tangible, real-world upside: with Basel III, we now have a global minimum standard that will apply across more than 100 countries worldwide – one that will bolster financial stability and minimise the additional regulatory work as a result of harmonisation.

This standard will help put credit institutions' capital base on a sound and sustainable footing and thus instil further confidence in the banking sector. This latter point, especially, should be of particular interest to credit institutions.

But let me make one thing perfectly clear: we know full well that regulation is always a burden. And that is why institutions are also within their rights to call for a stop.

The good news isn't new at all: the end is in sight. That means that the banking representatives here this evening will very soon have planning certainty for the remainder of the regulatory agenda.

And the supervisors among us should also turn our attention to new developments. In the Basel Committee on Banking Supervision, we have already started looking to new vistas – amongst other initiatives, we have been evaluating the efficiency of standards and taking a look at digital risks.

But let me say one more thing about Basel III: in this debate, it is important to have a clear view of the facts. The Basel III monitoring exercises and quantitative impact studies have given us a robust and granular overview.

And judging by the facts we now have, I must concede that the figures thrown around in the debate surrounding Basel III and the demands which these numbers were used to justify did take me aback at times.

You see, our impact studies found the increase in capital requirements to be measured, on average. The areas where requirements have risen show just how risk-sensitive the reforms are: we are seeing increases in the capital required in areas which are more at risk – equity interests, for instance.

And at the same time, there are credit institutions which take on less risk, so naturally their capital requirements will be lower going forward.

So in my view, everything suggests that seamless implementation of Basel III is the way forward – besides the global pledge given by Bundesbank President Jens Weidmann, let's not forget our duty to preserve financial stability.

European implementation of the Basel regime represents an opportunity to take factors unique to Europe and Germany on board. This is something for European and German legislators to decide.

The European Commission and the German Federal Government give BaFin and the Bundesbank an opportunity to inform their thinking, and we encourage them to stick to the standards.

I am a fervent supporter of Basel-compliant and risk-sensitive implementation of the reform package finalising Basel III. But at the same time, I firmly believe that the forthcoming revision of the CRR and CRD regimes should be used to further simplify the regulation of small and non-complex institutions adopted as part of the banking package as a way of boosting proportionality.

Basel III offers a number of ways to achieve this. We explored these opportunities in a joint non-paper prepared by the Bundesbank, BaFin, the Federal Ministry of Finance and the German Banking Industry Committee, and we intend to bring our thoughts to the table during deliberations in Brussels.

3 Global role of the German and continental financial centre

Ladies and gentlemen, one of the reasons that Federal Minister of Finance Olaf Scholz cited in his new push to complete the European banking union is the need to preserve Europe's "financial sovereignty". And he's got a point: we here in continental Europe cannot rely as much as we once did on the free movement of financial flows around the globe.

Post-Brexit, we will no longer have the global financial powerhouse of London within the EU's jurisdiction. The multilateral principles and rules guaranteeing a level playing field for trade and investment worldwide are increasingly being called into question, creating a sense of uncertainty,

particularly in trade relations.

Under these circumstances, we need to be able to finance the EU's real economy, including the necessary digital innovations and the transition towards a less carbon-intensive economy, under our own steam – for example, by forging a network of continental financial centres.

EU regulators, banking supervisors, and above all the banking industry, need to rise to this challenge; this includes completing the banking union, pressing ahead towards a capital markets union and implementing the Basel standards.

Financial flows on the continent should not be channelled via offshore financial centres, but remain within a continental, perhaps even more digital ecosystem. If we need more capital than we have, or we want to invest more capital than we need, it is up to us to put in place the necessary channels linking us to the global financial system.

New tasks might be in the offing for the Eurosystem infrastructure here – as you will know, some third parties have already called for efforts to be made on this front.

4 Global competition banks are facing from tech firms

Ladies and gentlemen, banking services revolve around processing data, so they lend themselves to a greater or lesser degree to full digitalisation – unlike industrial products, say, or personal services. It's hardly surprising, then, that digital firms – big and small – are also looking to enter the financial market. I could use my entire speech here this evening to list the digital initiatives that have taken place in just the past six months.

For us as banking supervisors worldwide, this is a huge challenge. It's a fundamental upheaval, and not just in terms of what we supervise. New market agents, new business models, new products and combinations with non-banking products are shifting financial services outside the traditional banking perimeter – and thus also beyond the reach of regulators and supervisors.

But if risk-relevant links in the financial value chain evade supervision, for credit institutions, it's a matter of a level playing field, but for us as supervisors it's a question of financial stability.

We are market-neutral, and prefer neither incumbents nor new providers. We will, however, do everything in our power to defend the prudential space – and by that, I mean the space in which the legislator has issued a mandate for sovereign supervision in the public interest. Digitally driven “unbundling” of financial and monetary functions by initiatives ranging from the cloud to Libra should not mean taking activities outside the existing perimeters of public oversight.

5 Conclusion

Ladies and gentlemen, following the severe financial crisis, we have succeeded in creating a new architecture for a resilient and at the same time high-performance financial system.

One part of that architecture is Basel III, and that's the way it should stay. That was the first point I made in my welcome address this evening. We should turn our attention more to other matters instead, such as our future role in financing the European economy – that was my second point – or how we address digital financial technology – which was my third and final point.

To this end, there needs to be close cooperation across the global banking supervision community and dialogue with credit institutions. At the Bundesbank, we are very interested in these two initiatives and hope that, by hosting this evening's event, we can help make progress on both fronts.

Thank you very much for your attention.