Klaas Knot: Banking on buffers - why we need resilience in times of uncertainty

Opening address by Mr Klaas Knot, President of De Nederlandsche Bank, at the 21st European SSM Round Table, hosted by De Nederlandsche Bank, Amsterdam, 27 May 2025.

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A very good morning to you all. Welcome to De Nederlandsche Bank. We are very happy to host this event here in our newly renovated building. I strongly support these kinds of exchanges of views between banks, academia and the public sector, and the IBF plays an important role in facilitating them.

This Round Table bears an interesting, and perhaps somewhat surprising, title: 'Tougher Times for Banks: Torn between Resilience, Competition and Stability'. Personally, I regard resilience, competition and stability all as good things, so I was wondering what you find so disturbing about this. But perhaps I should read the title as diplomatic language for 'Torn between competitors, difficult regulators, and a world that has gone insane.' You understand, being Dutch, I have a certain reputation to maintain.

But still, even if my interpretation is right, I should speak a word of caution here. Or in fact, reassurance. Because sometimes we tend to see trade-offs where in reality there aren't any.

Let's take regulation for example. Banking regulation often seems to resemble the swinging motion of a pendulum. After a financial crisis, lessons are learned and financial regulation is tightened. We saw this very prominently after the great financial crisis of 2008. And then after some years, the memories of the crisis fade in the rearview mirror, and calls go up for relaxing financial regulation. And this is what we currently see.

That seems to assume that there is a trade-off between banking regulation and all the good things of economic life: profitability, dynamism, economic growth. And I know that many in the banking sector view regulation as a constraint, something that limits profitability and imposes undue costs.

But, and that should not come as a surprise to you, I would argue against that. In fact, it's just the other way around. Banking regulation is not an obstacle to growth, it is an enabler of sustainable, long-term growth. Banks with strong capital positions and sound liquidity management are better positioned to extend and rollover credit, invest in new technologies and finance large-scale projects. They are better able to maintain lending during an economic downturn. And stronger banks can secure more favourable funding conditions, attract long-term customers and build partnerships that increase shareholder value.

That's not just theory. We have seen it in practice. During the Covid pandemic the banking sector was able to function as a shock absorber, rather than a shock amplifier. Thanks to stronger buffers, banks were able to absorb losses and continue extending credit when the economy took a hit as a result of the lockdowns. That was in large part thanks the comprehensive reform of banking regulation after the great financial crisis. Suppose we hadn't done this. We would probably have had a banking crisis on top of a global health crisis.

Even after the pandemic, we had a number of shocks that triggered financial market turmoil. Such as the Russian invasion of Ukraine, the ensuing energy crisis, double digit inflation, and recently, a trade war. During all of these episodes, although surely there was instability at the fringes, the core of the financial system, including the banking system, held up relatively well. I am convinced that this is the result of the hard work we did on strengthening the system in previous years.

Now, have lawmakers and regulators done a perfect job? No, of course not. That would have been highly remarkable. Over the past 15 years, a great deal of regulation has been introduced from various angles. At the global, EU and national level. Micro versus macro. New risks are identified while older ones seldomly disappear. Regulation always creates new imperfections, and there is indeed some overlap, for example in resolution versus recovery. And at times there is a lack of proportionality for smaller institutions. That is certainly something we can look into.

But for those arguing for simplification beyond this, please keep in mind that simple rules are less risk-sensitive and thus lead to stricter requirements. You want simpler rules? Sure, but those rules are then calibrated at a more prudent level. That is the logic behind the standardised approach. That is also the logic behind the leverage ratio.

Most importantly, we should be careful not to confuse simplification with deregulation. Deregulation means effectively lowering buffers by relaxing the rules. That would increase both vulnerability in the banking system and the likelihood of financial crises. That would be a big mistake.

We should be wary of undoing the hard work that has gone into strengthening the financial system over the past decade and a half. Especially now, in this time of unusually high uncertainty, both on the economic and political front.

So we need to maintain the overall level of resilience. And in fact, in some areas, our work to make the banking sector more resilient is not yet complete. For one thing, the final Basel III standards, that are meant to repair key weaknesses in banking regulation, still need to be implemented in many jurisdictions. In the meantime, the banking turmoil of two years ago was a reminder that bank failures are not a thing of the past.

Also, the non-bank financial sector has greatly expanded. Recent episodes of market turmoil have confirmed weaknesses in this sector when it comes to leverage and liquidity. So now we need to bring the NBFI sector to an equal level of resilience as the banking sector. At the Financial Stability Board, we have pushed hard for this, and we will continue to do so.

The title of this Round Table also mentions competition. John D. Rockefeller once said: 'Competition is a sin.' I might have felt the same way if I had been in his position. But from today's perspective, I would say: unfair competition is a sin. And as regulators, if there is one thing we can do to promote fair competition, it is to provide a level playing field. Banking rules work best when they work everywhere. If regulation is implemented unevenly across jurisdictions, a patchwork of regulations will arise that opens the door to regulatory arbitrage. Banks may be tempted to shift operations to regions with looser standards. An uneven playing field undermines confidence in the global banking system, disrupts competition, and ultimately increases systemic risk.

Since the financial system is a global system, we need global rules. And for this we need global cooperation. It is obvious that this is where the big challenge lies today. If we want to meet today's challenges to financial stability, we have to continue to work together as nations. And we need to stay committed to the institutions we have built to underpin that cooperation, such as the Basel Committee and the FSB.

Let me wrap up. There is no trade-off between financial stability and economic growth. Rather, financial stability is a necessary precondition for sustainable economic growth. And for that, we need a resilient banking sector, supported by strong buffers. This is a message I will be repeating over and over again in my final weeks as the president of DNB. By the end of June you will all be completely fed up with me. That's ok. As long as you remember the message. Because, somehow, we tend to forget.