Guido Ravoet, Chief Executive of the European Banking Federation:

European Banking Union: evolution, not revolution

We believe that bail-in rather than bail-out is the right approach

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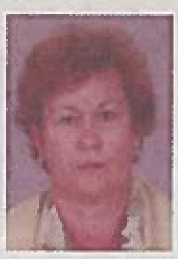

- Would the creation of a European Banking Union herald a revolution in the EU banking sector?

- It is a welcome evolution, as far as we are concerned, not a revolution. We believe that the more banks are supervised by a single European supervisor, the better. It is the only way to ensure a level playing field between banks. Of course, some fine-tuning of the project is still needed, but the overall approach is a very positive move. As the EBF, we are fully committed to help implement the changes the Banking Union will require, with the aim to overcome the current market fragmentation.

- Is Germany right to set preconditions for the enactment of a full-fledged European banking union?

- I will not comment on the position of a specific country, but a quick clarification. Germany is not against the Banking Union, it has a clear opinion as to how the resolution of banks should be envisaged, but that is only part of the Banking Union project. Germany is strongly encouraging decisions to be reached on that issue, so the Banking union project can go ahead.

- Has the focus been shifted from efforts to find real solutions to political power strifes?

- There is always a political game in any European decision, of course, but I believe that this time, we are facing a rather broad consensus. Everyone, whether policy-makers or banks themselves, is keen to rebuild stability and to ensure as much as possible that future crises are contained. The approach may vary, but the general aim remains the same.

- Who should have the say as to when banks need to be saved or shut down - the European Commission, Ecofin or perhaps national governments?

- We welcome the Single Resolution Authority to make the decision, with as much independence as possible. The main element in this respect is predictability and swiftness. There needs to be a consistent approach in decision-making and the Authority will provide that stability.

- How should bailouts and other interventions be funded in order to be as fair to all parties concerned as possible?

- We believe that bail-in rather than bail-out is the right approach. We support the idea of a resolution fund as agreed as part of the decision on the Bank Recovery and Resolution Directive (BRRD) on 11 December. BRRD has been long awaited as the missing link in the prudential and financial stability framework to be applied to all banks in all Member States by 2015. The Directive puts in place a clear mechanism and common toolkit for banks to plan for and act in stress situations, with an emphasis on early intervention and recovery. It also provides for a framework that would anticipate the worst case scenario of a systemically important bank failure. The Bank Recovery and Resolution framework will go a long way to further bolster confidence in banking supervision to minimize the fall-out from bank failures while providing the foundation for the next step in the Banking Union, namely the Single Resolution Mechanism. We think that both bail-in and resolution by banks will eliminate government bail-outs funded by taxpayers' money. There is however a critical transition period before all these measures are in place. The Commission's revised state aid rules should offer guidance.

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- Around 130 European lenders are set to undergo an asset quality review. There are speculations that these so-called stress tests have been designed in a way that favours big financial institutions at the expense of small lenders, which are practically doomed to fail.

- We see the Asset Quality review as an exercise which will help the European Central Bank take on its supervisory role on the basis of a healthy banking sector. There does not appear to be any bias towards large or small banks. The focus of the ECB evaluation is primarily on portfolios. The ECB will examine in detail the riskier portfolios of every bank that falls into the scope of the exercise. This is an important exercise in which transparency towards investors will be crucial. A thorough and robust process will be essential to ensure its success.

- How is the future banking union intended to boost economic growth within the EU, which is a major post-crisis concern?

- The Banking Union aims most of all at stabilizing the financial services sector, which in turn will help stabilize our economy and therefore help re-launch growth, but it is not directly linked. An important objective of the Banking Union is to break the link between Sovereigns and Banks. That will help reduce the current cost of credit for borrowers in weaker economies.

- There has been talk of a two-speed Europe. Are we about to see the same scenario unfold in the banking sector? Will the Banking Union include all EU Member States, or will it leave Eastern Europe out, may be even push the region towards self-imposed isolation?

- As I said, we favour the broadest possible inclusion of banks in the Banking Unions scheme. We think that it must be open and I certainly hope that most non-Eurozone countries will chose to participate, regardless of their geographical location. It is not a matter of two-speed Europe, it is a matter of integration, really, and part of the fight against the current growing fragmentation of our sector. All "new" Member States will - at a time of their choice - be able to join the Eurozone and thus the Single Supervisory Mechanism.

- Have efforts to prevent banks from facilitating money laundering yielded fruit? Have some measures proven more successful than others?

- I do not think that banks have ever knowingly facilitated money

Photo: EBF

Close-up

Since 2005, Guido Ravoet has been Chief Executive of the European Banking Federation (EBF), the only representative body of the whole European banking community at an EU level. EBF represents, through its membership (the 32 national banking associations of the EU and EFTA countries), more than 5000 banks: large and small, wholesale and retail. Thirteen other banking associations (from the non-EU Balkan states, Russia, Turkey, Ukraine etc.) are associated members. Guido Ravoet is also Chair of the European Parliamentary Financial Services Forum. He is further Secretary General of the Euribor-EBF Foundation, administrator of the Euribor and some other benchmarks. Furthermore, Ravoet is Chairman of the Market Committee of the STEP (Short Term Paper) Label, administrated by the Euribor-EBF Foundation. For 10 years before that, Guido Ravoet was at the helm of the Association of Belgian Banks and Febelfin (Belgian Finance Federation). He is a non-executive Director in several companies and associations. Guido Ravoet has a PhD in Law and a Postgraduate Degree in Business Economics.

laundering. On the contrary, they have been very actively involved in the fight against money laundering and other forms of fraud, and for many years. Banks have invested heavily in human, technological and financial resources to help the fight against money laundering. They have taken on the information and training of their staff, they have developed very sophisticated systems to check on identity and to cross-check information. They are generally submitted to very strict regulatory measures, notably the European Anti Money Laundering Directive, which is currently being revised (4th Anti Money Laundering Directive). This implies that banks have to know their customers and must be able to check on suspicious funds. All these measures, already in place for several years, have proven very efficient.

- EU citizens' main concern is whether there will be a common deposit protection scheme or not. Is this mechanism feasible in the foreseeable future?

- An agreement was reached this week (18 Dec.) by the European Commission, Parliament and Council on the long outstanding recast of the Deposit Guarantee Scheme.

Deposit insurance provides confidence to millions of customers that their money is safe with banks. It is a crucial pillar of financial stability and we are pleased that the agreement was reached, even if we are now facing new challenges in terms of payout and ex-ante financed funds, since banks in Europe have very different starting points in this process.

- The European Parliament voted on 10 December the final mortgage rules. Do the banks approve them?

- The European Banking Federation welcomes the adoption by the European Parliament of a directive on credit agreements relating to residential property. Mortgages are extremely important to European consumers and to our economy in general. While respecting the various national legal traditions and practices, the Directive will help align the responsible practices and legal incentives, in terms of mortgage and consumer credit, already implemented for some years in many EU Member States.

- EBF fears negative impact of Volcker Rule, why?

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- The EBF takes note of the release of the final Volcker rule by US legislators and especially that some of the elements contained in earlier drafts of the rule leading to extraterritorial effects for non-US banks and capital markets appear to have been relaxed, by allowing for proprietary trading also in foreign government bond subject to certain limits. The EBF however needs to analyse further the final rule to assess the overall impact on non-US banks and non-US capital markets as well as European banks with presence in the US. The EBF supports the IMF proposal that a global cost-benefit analysis needs to be done, taking into account extra-territorial implications to assess the added-value of structural reforms as an across-the-board measure.

- Just before Christmas, it is time for predictions - what is your forecast for EU banks stability in 2014?

- I am an optimist. I therefore have a rather positive forecast for the coming year. Of course, I will not say that things are "back to normal", as we still have a lot of work ahead and our economy will take a while to rebuild growth. But looking at the forecast prepared by our Economic and Monetary Affairs Committee, published last month, I believe that the euro area is gradually coming out of recession - even if our progress is still painfully slow. Global activity is indeed picking up, slowly but surely. I truly believe that we are on the right track. Shall we talk about it again in one year and see where we stand?