

ESBG Report

“Retail Banking in Europe – The Way Forward”

Core political messages and implications for EU market integration



ESBG’s report entitled “Retail Banking in Europe – The Way Forward” focuses on three central areas:

- The financial and economic crisis: general banking ethics and principles for corrective policy measures;
- Long-term market integration: economic parameters and sector specificities as they concern the wider vision of an integrated retail banking sector;
- Retail banking policy: detailed and concrete recommendations in specific areas of retail banking.

The full ESBG Report is available at www.esbg.eu under “publications and research - other research”

Taken together, ESBG’s members represent approximately one third of the EU retail banking market.

ESSENTIAL AND IMMEDIATE POLITICAL MESSAGES

Europe’s pluralistic banking landscape is an indispensable asset

One of the core characteristics of Europe’s retail banking sector is the strong presence of savings banks and regionally oriented and committed retail banks. Such banks are stable and responsible partners to citizens and enterprises in the European economies, and have continued being so during the crisis. The diversity in banking models and in banks’ priorities has protected Europe’s economy against the domination of uniform herd-like behaviour by credit institutions. A number of conclusions can be drawn:

- For the real economy, pluralism in the banking sector is risk diversification.
- Views are divided on whether the EU is currently experiencing a credit crunch – but without Europe’s pluralistic banking sector, there certainly would have been a catastrophic break down in bank lending.
- ESBG members observe that so far their own lending, especially to SMEs, has been robust.
- The pluralistic banking sector creates the conditions for recovery.





Europe needs to reconsider its banking values

The criteria for evaluating Europe's banks should be how they fulfil their role in the economy. Beauty contests according to preconceived ideas on size and short-term profitability are not what Europe needs. Indeed, there is not one European banking model: structural efficiency in different economic environments implies diversity in sizes, business models, ownership forms and organization. This means:

- There is more to Europe's retail banking sector than 'big is beautiful'.
- Banks' long run profitability is dictated by real economic growth – conscientious retail banking goes beyond short-term objectives.
- EU policy makers need to appreciate the new 'old' banking values: responsible and ethical banking are good for the future of Europe.

The EU needs to recognise core retail banking realities

Retail banks focus on the intermediation of borrowers and savers, and on providing infrastructure for payments and transactions. Retail banking addresses the needs of consumers, SMEs and municipalities. However, demand for retail banking products and services reaches beyond the need for a product and the willingness to pay a certain price. Instead of a simple provider, most customers want an accessible financial partner and services which address their situation adequately. This means:

- Retail banking builds on personal contact between banks and customers (relationship banking): retail banking takes place at the local level.
- Retail banking has strong national, regional and local components: banking practices rightly differ according to the market environment and demand factors.
- The local character of retail banking sets the rules for banks' business strategies, competition and market entry.
- The financial inclusion of Europe's regions, their people and their businesses builds on full coverage of branch networks.

Implications for EU regulatory responses to the crisis

Effective changes to the EU supervisory/regulatory system are undoubtedly necessary and much supported by ESBG. However it is important to note that:

- None of the policy measures directed at correcting shortcomings to the regulatory or supervisory framework may be allowed to harm those institutions which have proven resilient, reliable and sound.
- Endangering or giving a disadvantage to a substantial and valuable part of Europe's banking sector is in no way "acceptable collateral damage".

Implications for the EU integration debate in the retail banking area

Europe should not return to past mistakes and orient its values according to the dogma of high short-term profits and bank-size. Furthermore, successful market integration should not be equated with widespread cross-border retail banking and dominance of multinational banks. Equally, successful sector integration does not depend upon full harmonisation of all retail banking related aspects at the EU level, though harmonisation of targeted areas can prove beneficial. A market with 27 Member States cannot afford generalizations as a substitute for knowledge and understanding.

For retail financial sector integration this means:

- The benefits of diversity in Europe's retail banking sector discredit any vision which calls for a uniform banking sector.
- Any vision of dominance by a small number of huge players active in all markets is a political doctrine, not the result of a conscientious assessment of Europe's needs.
- The crisis shows that it is the duty and responsibility of policy makers to safeguard a pluralistic banking sector in which the principles of comprehensiveness, responsibility and sustainability are well represented.
- Any reality-based approach to sector integration builds on core retail banking characteristics: relationship banking, local demand and the importance of proximity banking.
- EU level action needs to bring added value and should build on the principles of subsidiarity and proportionality.

ESBG is convinced that if these messages are taken to heart Europe has every reason to be confident that the future financial system will be a better and safer one, to the profit of Europe's economies and citizens.

