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Mr. Mardones, Mr. Olavarrieta, Ladies and Gentlemen

I. Introduction

For the savings banks worldwide, for the members of the WSBI and ESBG globalisation is an opportunity for an increased cross-border interaction of people, markets and ideas, resulting in innovation and technological advancement. This was concluded at the last World Congress in Kuala Lumpur three years ago. In the Kuala Lumpur declaration, we said that our members are ready to function as the retail gateway to a global market for the private individuals and small and medium sized enterprises.

Access to global markets supposes access to financial services. The later begins with, what the Anglo-Saxons call “financial inclusion, which is also the theme of our Congress over the following 2 days. Financial inclusion means providing access to financial services to all strata of the society and providing financial services to enterprises in the regions.

Exactly those characteristics define the members of the World Savings Banks Institute and the European Savings Banks Group: providing financial instruments that help people build their own future. We consider ourselves as banking sector that serves the people worldwide. In spite of globalisation, in spite of the financial crisis, nothing has changed as regards this deep-seated principle.

Nobody could have guessed the dramatic changes on the international financial markets that resulted in what today is a global economic crisis.

But in reality, this crisis did not happen by chance. It is rooted in the important changes in the international financial markets over the last 20 years. The traditional role of banks - serving customers - has been severely questioned.

The traditional long-term commitment between banks and their customers has been beneficial for both banks and customers, whether private individuals or enterprises. This traditional banking business was based on a long-term and solid knowledge of the customer, the business environment and the macro-economic context.

II. The origins of the crisis

Over the last two decades, we have witnessed a worldwide evolution, in which banking has become synonymous with a frenetic search for quick returns, often based on virtual assumptions of profitability. Banking has become synonymous with increasingly complex financial products and unlimited supply of credit, where risk was not longer minimised but introduced in the balance sheets of financial institutions in great quantities in order to maximise short term shareholder profit.





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The unlimited and uncontrolled growth of increasingly complex financial products led to the belief that banking business could generate profits without any link to the real economy.

Let me take this opportunity to highlight the most important aberrations in the financial world in last recent years:

First: the maximisation of return on investment

Basically, it is right and necessary to seek for a solid return on investment. The problem however is, to narrow the business angle to the sole maximisation of return. The maximisation of return means the alignment of all basic banking functions exclusively to this one end. Inevitably areas, in which such a return cannot be reached, need to be restructured or shut down.

It has been possible to achieve high returns - 25% or more - only on **pure** financial products/markets and this only on a short-term basis. The price that needed to be paid was unprecedented instability on the global financial markets.

Second: focus on short-term success

In parallel to the harmful aim of maximisation of return on investment, the aim of banks was focused on short-term success.

Almost inevitably, business planning and also compensation systems have subsequently been aligned to short-term success. What mattered was what brings profit today – no matter what happens to the company in the future.

Since external capital was cheaper than own capital, refinancing was carried out with an unprecedented share of external capital. The financial sector was the key driver of this development, because banks needed the financial instruments of the new, innovative market for its own ambitious aims for return on investment.

Thirdly: separation of credit and risk

In the late eighties/early nineties, economic growth prospects were limited, especially in the industrialized countries. This gave a natural boundary to the growth of the financial industry.

In order to change this evolution, new financial products have been developed on Wall Street: Loans were removed as fast as possible from own books, securitised and placed on the international capital markets.

Thus, the own capital rules were no longer an obstacle. The sale of such assets has created an ongoing place for new loans and it was through the commissions and the sale of such products that one earned more than through traditional lending business!

Increasingly, internationally active banks perceived their role in initiating credit business and to sell, as soon as possible, the resulting risks on the capital markets.

Savings and cooperative banks, which did not follow the trend, were considered as outdated/old-fashioned and inefficient.





This development has triggered a significant disruption in the banking sector. In relation to customers, banks lost their essential role of assuming risk for a certain time. And among the institutions a two-class society was created: Those who knew exactly the constituents of the newly created securities, and those who, lacking knowledge of their customers or products based their knowledge on information provided by third parties (rating agencies).

It is crucial to mention that for the first time in the history of the banking industry, credit and risk were separated through securitization. Thus, the participants did not only put into question their fundamental role as deposit-taking banks, but also laid the foundation for the irresponsible lending policies, which finally lead to the crisis.

Fourth: Explosive growth of the financial market through credit derivatives

In subsequent years, a wide range of financial innovations were developed on the basis of securitization - mainly 'Credit Default Swaps' (CDS). This was the beginning of an unrestrained expansion of the financial system, which was no longer tied to the real economy.

Created only 20 years ago, the total value of credit default swaps attained the level of the annual global economic output in 2007.

Fifth: Changes in lending policies

Who is not personally liable, behaves more incautiously in business. Therefore, it was almost inevitable that in the United States, the home country of securitisation, lending standards eroded gradually.

This was particularly striking in the area of mortgage financing, with the lack of a long-time relationship with the customer, the construction of a speculative bubble; a policy of cheap money; lack of credit assessment; and a system, in which the lender did not, in the long term, bear the risk of (loan) defaults.

The crisis became global

All these mixed ingredients have set in motion a worldwide crisis. We have gone beyond the stage, when good banks could be distinguished from bad banks on the basis, whether and how far they are involved in dubious U.S. sub-prime loans or structured products. We are facing now a systemic crisis, which has hit the real economy.

Since the beginning of the crisis, we have experienced national rescue measures, which aimed at stabilizing financial institutions. Starting with big banks like Citibank or UBS in Switzerland, which needed recapitalisation due to their high losses, government rescue packages in Britain and other countries.

Other players have been eaten by the game of competition: like the investment bank Merrill Lynch, the third largest financial institution in the United States. A few years ago investment banks were considered as the banks of the modern world. Today, they practically do not exist anymore.

The entire financial system has changed over night. The once powerful investment banking business does not work anymore. And it is even doubtful if, in the foreseeable future, it will ever work properly again.



Conclusions from the crisis

We need to reform the global financial system. Our society needs bankers, who care for the clients' interests, because they look the customer in the eyes everyday. We don't need any more bankers, who consider customers as marginal.

But we need to build on the existing framework and certainly not abandon what has proven to work well. We need to take a comprehensive look, from a global perspective and stick to the better regulation and legislation approach.

For a long-term reform, I see three levels of actions needed:

Firstly, we will need stricter financial rules! No market, no market participant, no product should remain unregulated. This means that the sellers of structured products and market participants such as rating agencies and hedge funds should be closely regulated and monitored.

It is important that countries worldwide find identical rules that can be applied and respected on the global financial market. The G-20 summit in London showed positive signs in this direction. The European Savings Banks Group therefore welcomed the measures and timetables taken by the G20 states at their meeting on 2nd April 2009 in London. We welcome those conclusions, since the G 20 members committed themselves to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable growth and serve the needs of businesses and citizens.

Secondly, there will be strong need to control that regulation is respected in the financial industry.

In this context, the European Savings Banks Group also supports the European Commission's aim to regulate the financial markets. We therefore supported the establishment of a High-Level Group chaired by Jacques De Larosière, former IMF-Director, to deal with financial cross-border supervision.

However, it is important that there is no excessive bureaucracy in the organization of the European supervisory landscape. It is therefore important that guidelines and regulations are tailored and adapted at regional and national levels, and fit market realities, which, although in a globalised environment, still have their specificities as far as financial market structures, business culture and activities, are concerned.

Thirdly, we need a sustainable financial sector, in which the role of big banks specifically will be questioned

Politics need crises in order to force changes: It is obvious that regulation and supervision need to be enforced and that the banking sector should always be regulated and supervised more than other economic sectors because of the inherent risk associated with transforming short term deposits into long-term credits.

But in this current changing environment, I would like to underline the important risks associated to over-regulation. Forcing a regulatory and financial burden in particular on small and middle-sized financial institutions can only worsen the situation, therefore exactly on those banks, who played a stabilising role during the crisis: regional savings banks, cooperative banks, community banks, which never lost their contact to the people and the real economy.

We therefore need a well considered regulation and supervision, proportionate to the risks incurred by specific banking activities, for financial institutions of different sizes, different business scopes and different legal



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forms. This would already be an excellent defence against the domino-effects of a financial crisis, such as the one we are witnessing now.

Among these structural issues, it is in my view also important to limit the size of financial institutions. Many institutions are so large that they are able, in a crisis time, to threaten entire national economies.

Some are already so large that their respective country could barely rescue them. We have seen the issue of Iceland. We see how Switzerland, which struggles with UBS, who has lost almost 20 billion Swiss franc in the last year.

I think the crisis leads all decision makers to admit in a unequivocally way the undoubted benefits of our decentralized savings and cooperative banks' business model, which are represented by the European Savings Banks Group and the World Savings Banks Institute.

We represent institutions, which operate at national and regional level through a wide network of branches. As house banks, we have a special interest in long-term relationships with our customers. As socially committed banks we share a sense of responsibility and have different ways of reinvesting our profit in the local economy. We serve the general interest of the people, not only shareholders, primarily by providing access to financial services to individuals.

I much appreciate the increasing recognition of our banking model through the crisis because we all know that our stable model has been under constant attack all over the world in the last ten years. Unfortunately, also the IMF has sent the wrong signal in this respect.

Particularly in Africa, international organizations have applied pressure to force privatisation processes, no matter what the cost, to convert institutions into shareholder value-oriented organizations. In addition, damage was caused by a structural policy that focused on a purely capital market-oriented financial sector. We experienced the same scenario in Eastern Europe.

Even in Latin America similar pressure has been put on our institutions! The IMF will hopefully rethink its position!

And in Europe? Even there, there was a deliberate policy to create larger institutions in the financial economy. "Big is beautiful" was the maxim. The creation of "European champions" should permit larger cross-border activities, at the expense of regional and locally anchored financial institutions. Only the strict shareholder-value-based bank was in this ideology a real bank, and the maximization of short-term profit was the definition of efficient business.

V. Conclusions

There is today more thoughtfulness in Europe. If the future financial system is to be sustainable and solid, it cannot avoid the savings and socially committed retail banks' business model anymore.

I am pleased that our institutes all over the world are currently renewing their self-confidence: The structure of savings banks is of central importance to overcome the crisis and to offer potential development in our countries, regions and communities. They are important for the provision of financial products and services at fair prices to all strata of the society. This is true in industrialized countries as well as in developing and emerging countries.





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We have a reason for being confident to tackle the tasks in front of us. I would be delighted if this World Congress in Santiago de Chile, already makes a contribution.

Thank you for your attention!

