BANKA SLOVENIJE
EVROSISTEM

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What is the future for small commercial banks in Europe?

OPENING REMARKS

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Dear dr. Gstädtner, dr. Arhar, dr. Štiblar, distinguished speakers and participants! I am glad and honoured to give the introductory remarks at today's conference. I am also honoured that dr. Štiblar from Faculty of law invited the Bank of Slovenia to be part of this conference, which is organized jointly with European Banking Institute. European Banking Institute is, as introduced earlier also by dr. Gstädtner, an international centre for banking studies and is a joint venture of Europe's preeminent academic institutions. These have decided to share and coordinate their commitments and structure their research activities in order to provide the highest quality legal, economic and accounting studies in the field of banking regulation, banking supervision and banking resolution in Europe.

The topic of today's conference is the future for small commercial banks in Europe. To my opinion, this is a very up-to-date topic, especially for economies with similar banking systems as we have here in Slovenia. Namely, the balance sheet of Slovenian banking sector is around 38 bn EUR, which is small in European context even if compared with balance sheet of one single small bank in Italy or Germany for example. In this environment we have about 15 operating credit institutions, struggling to survive in tough competition. However, the size needs to be viewed in relative terms – all Slovenian banks are treated as small domestic lenders according SSM categorization, and still we have bigger and smaller banks from the perspective of national financial sector.

Let me remind you that after economic and financial crises in 2008 and onwards, the financial sector regulators and supervisors have began a new cycle in financial sector regulation, followed by enormous upgrades in supervisory and resolution practices. It is worthwhile mentioning CRR and CRDIV, BRRD, introduction of Single Supervisory Mechanism in Euro area, and European Banking Association and Single Resolution Mechanism on European Level to mention just some of these. On top of that, new International Financial Reporting Standard 9 came lately. This was of course established to safeguard financial sector from distresses similar to those in 2008 and later. However, these changes hit banks and cause additional costs, especially to smaller commercial and savings banks, which sometimes hardly cope with all the regulatory innovations, especially due to the fact, that regulation as we have it now is in a way biased in regulating big or bigger institutions. To be clear, the costs are well justified as they bring financial stability and most likely avoid future injections to banking sector from public sources.

However, academic books on financial markets suggest that financial market regulation follows some kind of a cycle – regulation, deregulation re-regulation etc. Last proposals on regulatory products suggest that we might be facing at least moderate deregulation in next few years.

The changes in the regulatory framework include important activities for completing the Banking Union where the main highlights are revisions to the CRR and CRD IV. An agreement between the Member States with regard to the proposed changes to the CRR and the CRD IV was reached at the Council of the European Union at the end of May. The trialogue (negotiations between the European Parliament, the Council and the European

Commission) to draft the final wording of the legislation is expected to be completed by March 2019.

One of the highlights of new regulatory environment is also greater proportionality in the area of reporting, disclosures and remuneration for small banks that are not classified as other systemically important institutions. Changes include less granular reporting requirements, less comprehensive and frequent disclosures, and exemption from certain rules with regard to variable remuneration, which should help to reduce the administrative burden on small and less-complex banks. The implementation of the new rules is not expected before 2020, while even longer transition periods are envisaged for individual changes that will have major consequences for banks. This will be explained in more detail by my colleague Ms. Iglič later on.

However, I need to stress that all the discussions about proportionality also come with higher demands in capital requirements and simpler resolution strategies. Namely, capital requirements for simpler/proportional approaches will inevitably be higher, ceteris paribus. And most likely, resolution strategy for smaller banks will always be liquidations if something goes wrong.

Let me conclude by emphasising that in different financial institutions play different important roles in national economy. This holds especially for banks. To my opinion, we cannot simply perform a comparative analysis and draw conclusions from international environment to determine what kind of banking sector is suitable for one specific economy, say Slovenia. If we did that, the analysis would most probably show that there are way too many banks in Slovenia and that banking sector will need to consolidate. Maybe this is true, but the question of consolidation, which would most probably lead to decreased number of especially smaller banks, is the question for banks' owners and to lesser extend for banks' supervisors.

I always rather say that regulators and supervisors need to support all the banks that have viable business models and can cope with prudential and other regulation (e.g. capital and liquidity requirements, anti-money-laundering rules etc.). I think that also small banks could notably serve the economy, so conferences like this one help enormously to think about the future of small banks.

So, having in mind the topics of today's conference – proportionality, the importance of small credit institutions and commercial banking for SMEs and natural persons, current and future challenges from digitalisation for small credit institutions, and sustainable finance – is perfectly suited in current point in time.

Having said that, I wish you fruitful discussions today and enjoyable stay in Slovenia. And of course, most welcome to evening reception in the Bank of Slovenia.