Banking integration in Europe and in Sweden

Open Forum at the Sveriges Riksbank

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Member of the Supervisory Board, ECB
# Outline

1. The long road towards banking integration in Europe
2. International linkages of the Swedish banking sector
3. Weakening the ‘sovereign-banking nexus’
4. A more transparent, unified and safer banking system
5. The Single Supervisory Mechanism
6. Initiatives undertaken by ECB Banking Supervision
7. Progress in strengthening banks’ resilience
8. Supervisory priorities for 2020
9. Important policy issues for the European banking system
# The long road towards banking integration in Europe

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>Treaty of Rome</td>
<td>2004</td>
<td>Committee of European Banking Supervisors</td>
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<td>1973</td>
<td>Directive on the freedom of establishment of credit institutions</td>
<td>2008</td>
<td>Global financial crisis</td>
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<tr>
<td>1977</td>
<td>First banking directive</td>
<td>2009</td>
<td>de Larosière report</td>
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<tr>
<td>1977</td>
<td>First banking directive</td>
<td>2009</td>
<td>Establishment of European micro- and macro-prudential authorities (EBA, EIOPA, ESMA, ESRB)</td>
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<tr>
<td>1983</td>
<td>EC white paper on financial integration</td>
<td>2011-12</td>
<td>Euro area sovereign debt crisis</td>
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<td>1986</td>
<td>Single European Act</td>
<td>2012</td>
<td>EC call for a Banking Union and proposal for the creation of a Single Supervisory Mechanism</td>
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<td>1989</td>
<td>Second banking directive – single passport for banks</td>
<td>2013</td>
<td>EC proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms</td>
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<tr>
<td>1992</td>
<td>Maastricht Treaty on the European Union</td>
<td>2014</td>
<td>Operational start of the SSM</td>
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<td>1995</td>
<td>Sweden joins the EU</td>
<td>2016</td>
<td>Operational start of the Single Resolution Board</td>
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<tr>
<td>1999</td>
<td>Establishment of the Monetary Union</td>
<td>2016</td>
<td>Operational start of the Single Resolution Board</td>
</tr>
<tr>
<td>2000</td>
<td>Lamfalussy Report - ‘level 3 committees’ on supervision, insurance, and securities</td>
<td>2016</td>
<td>Operational start of the Single Resolution Board</td>
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Source: own construction on the basis of Enoch, Everaert, Tressel and Zhou (2014)
Strong international linkages of the Swedish banking sector

Banking structure in Sweden (2019 data)

<table>
<thead>
<tr>
<th></th>
<th>Number of institutions</th>
<th>Total assets (in billions of SEK)</th>
<th>Percent of total assets</th>
<th>Percent of GDP*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign bank branches in Sweden</td>
<td>36</td>
<td>2163</td>
<td>14.7</td>
<td>44.7</td>
</tr>
<tr>
<td>Swedish bank branches abroad</td>
<td>67</td>
<td>1679</td>
<td>11.4</td>
<td>34.7</td>
</tr>
</tbody>
</table>

*note: calculated on the basis of 2018 GDP

Banks’ exposure to foreign exchange on the asset side
(2019 data for the three largest banks, in percent)

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<tbody>
<tr>
<td>Foreign currency loans as percent of total loans</td>
<td>34.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency assets as percent of total assets</td>
<td>37.4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Banks’ annual reports, FI, and Riksbank

Funding structure of Swedish banks
(2019 data for the three largest banks, in percent)

Source: Banks’ annual reports, FI and Riksbank
Weakening the sovereign-banking nexus

Sovereign and bank CDS spreads in the euro area (basis points)

Source: Thomson Reuters and ECB calculations
Banking union aims to have a more transparent, unified and safer banking system.
The Single Supervisory Mechanism

Aims of the SSM

- contribute to the safety and soundness of the banking system
- ensure consistent supervision
- increased financial integration and stability
ECB banking supervision - many initiatives to reach a higher common supervisory standard

The Supervisory Board discussed and decided on issues in

<table>
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<th>Meetings</th>
<th>135</th>
</tr>
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<tbody>
<tr>
<td>Supervisory decisions</td>
<td>10,154</td>
</tr>
</tbody>
</table>

The most common decisions were on

- 4,942 fit and proper assessments
- 594 internal models
- 830 own funds
- 675 SREP
- 475 significance
- 602 qualifying holdings

Key projects have included

- harmonisation of the Supervisory Review and Evaluation Process (SREP)
- dealing with options and discretions provided in European legislation in a consistent manner
- measures to reduce non-performing loans
- targeted review of bank’s internal models

Note: period ranging from November 2014 until end-January 2020
The ECB’s efforts to strengthen the resilience of the banking system are bearing fruit

**Non-performing loans**
- NPL ratio for significant banks down from 7.5% in Q4 2014 to 3.4% in Q3 2019

**Liquidity**
- Liquidity Coverage Ratio up from 128% in 2014 to 145.2% in Q3 2019

**Capital**
- CET1 ratio increased from 11.2% in Q4 2014 to 14.4% in Q3 2019
Supervisory priorities are continuing with balance sheet repair and strengthening future resilience

Priorities 2020

Continuing balance sheet repair

1. Follow-up on NPL guidance
2. Follow-up on IRB models
3. Trading risk & asset valuations

Strengthening future resilience

4. Credit underwriting criteria & exposure quality (e.g. real estate, leverage finance)
5. Capital & liquidity management, ICAAP & ILAAP and further integration into SREP
6. Business model sustainability (e.g. profitability, digitalisation)
7. IT/cyber risk
8. EU-wide (biennial) and/ or SSM-wide stress test exercises

Activities for 2020
Important policy issues for a more resilient and integrated banking sector in Europe

- Completion of the banking union
- Implementation of the Basel III framework
- Improving the crisis management framework for troubled and weak banks
- Improving fit and proper assessments
- Strengthening the AML framework
- Climate change and green finance
Thank you for your attention!