SPEECH OF MR CHRISTOPHER TUGENDHAT, MEMBER OF THE EUROPEAN ECONOMIC COMMISSION RESPONSIBLE FOR FINANCIAL INSTITUTIONS, AT THE LUNCHEON GIVEN BY THE BUILDING SOCIETIES ASSOCIATION AT THE CAFÉ ROYAL IN LONDON ON 6 APRIL 1978

I am delighted to speak at this lunch organised by the Building Societies' Association. By any standards the British Building Societies are among the most successful financial institutions in the European Community. The figures speak for themselves. The societies are involved in over 80% of all home ownership sales in the UK, which means that virtually all home owners come into contact with them at some time or another. At present they have 4.8m borrowers, and 15m people have savings invested with them. Altogether it is estimated that the societies hold some 40% of all the short term assets to be found in credit institutions in the UK.

With this record of success behind them it is natural that the building societies should be following closely the European Community's plans to develop a common market in financial services, and that they should want to play their full part in it.

They are confident that, given the chance, they, like British insurance companies and banks, could contribute to Britain's invisible exports by earning money in other countries of the European Community. Obviously, if this happened, similar organisations from those countries would have to be able to operate in Britain. The result would be a wider choice for British home buyers in search of a mortgage.

The key to creating these new opportunities for both the building societies and prospective house purchasers is the Banking Coordination Directive, adopted unanimously by the Council of Ministers last December. It covers all deposit taking and credit giving institutions, including those engaged in housing finance. I should perhaps say a word about this piece of legislation as it is fundamental to the Commission's approach to the whole field of financial services and establishes the framework within which future developments will take place.

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You will note that it is called a "coordination" directive, which is indicative of our philosophy. We do not want to harmonise, at the European level, every detail of the legislation which governs credit institutions in the Member States. In our view this is neither necessary nor sensible. Instead we have adopted the approach of laying down a few indispensable fundamentals - such as an agreed system of licensing of the sort which the UK is about to introduce - and, within this light framework, we look to the banking control authorities in each of the Member States, against the background of their own legislation and practice, to play a central rôle in opening up a European common market in financial services. It is with this in mind that the directive provides for an advisory committee of bank control authorities. Instead of imposing a detailed legislative structure on European banking we want banking authorities to coordinate and cooperate between themselves in removing obstacles to European-wide banking operations. Our ultimate aim is to bring about the common market in financial services which I mentioned earlier. Inevitably this is a long term enterprise in which there are obvious difficulties. But we should not allow these to remain an everlasting excuse for failing to make progress, however gradual, in freeing the movement of capital within the European Community.

That is our objective and the Banking Coordination Directive is an initial step. In an ideal world it should by itself open the way to building societies, along with other credit institutions, to operate in a wider market. In practice, however, many obstacles will still remain. As this audience will know all too well, the UK legislation will have to be changed to permit building societies to operate in the rest of Europe. The same applies to the housing finance institutions of the other Member States.

Then there is the problem of exchange control. Again, this is not unique to the United Kingdom, even if it is still more stringent here than in most of the rest of the Nine. Finally, there are a whole host of technical problems. Coming to a common understanding of what constitutes an institution for housing finance is one example. Another is the nature of the security of the real estate against which loans may be made. And so on. These are all aspects of housing finance which we are going to have to deal with before there is any real growth of mortgage finance on a European-wide basis.

What therefore should the next step be? We could of course wait for the individual governments of the Member States to take the necessary measures, in their own good time, to free institutions for housing finance to operate beyond their national boundaries. Experience tends to show, however, that this would not produce results fast and that the Member States need to act together on a coordinated basis. I feel that the most promising solution will probably be a further piece of Community legislation, which need not be unnecessarily long or complex, but which will deal specifically with the question of regulating cross-border lending for housing and will deal with some of the problems which I have outlined earlier on.

To this end, the department of the Commission responsible for financial institutions, DG XV, which comes under my responsibility, has written a discussion paper which I am happy to say has just been issued. We shall seek the views of the housing finance industry, including of course the British building societies, and in due course we shall discuss our thinking with government experts before getting down to detailed drafting. I hope I am not too optimistic in suggesting that we ought to be able to have a proposal ready to present to the Council of Ministers by early next year.

It is obvious from what I have just said that I do not envisage the creation of a European-wide housing finance market tomorrow. It will take time and there is therefore no danger of disruptive changes in the market. But the work is under way for long term and controlled change and I, as the Commissioner responsible for this area, want to be certain that one of the most influential and indeed illustrious housing finance movements in Europe is present, from the very beginning, at the centre of discussion. Frankly, bringing the UK Building Societies Movement fully into these discussions, though not impossible, will be much more difficult if they have been excluded, even if only on a temporary basis, by HMG, from the operation of the basic law in the field, the Banking Coordination Directive.

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In this connection, I should say something about the "deferred application clause" of the coordination directive. It is there to enable governments to exclude from the operation of the directive, for a maximum of eight years, any sectors of banking which pose particular problems. It has been suggested that the British building societies are such a sector. It will be clear from what I have said that housing finance is not without its problems, but they do not seem to me to be of so special a nature or so great a magnitude to justify deferring the application of the coordination directive to them. Nothing in the housing finance field is going to happen with such speed or in so uncontrolled a manner that the UK market in housing finance would be adversely affected by the inclusion of the building societies. Indeed, for the reasons I have already outlined, I consider it would be a very great pity if they were not able to play their full rôle from the outset.

You may wonder why, if there will be no change in the foreseeable future, I am making all this fuss. Being a European Commissioner has taught me the virtues of patience and far-sightedness: we must always keep the long term goal in sight. Ultimately one of the changes we shall see, as a result of the legislation I have been discussing, is that housing finance institutions from other European countries will set up shop in British High Streets. They will be fully entitled to do this and will offer the British consumer a wider choice, which is all to the good. British building societies ought in turn to be able to avail themselves of their Treaty rights in the rest of the internal market and I have no doubt that their traditional way of operating will make them highly competitive, creating extra benefits for the 15 million UK savers within a very short time.

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There may be a fear, which, though understandable, would, in my view, be misconceived, that extension by British building societies of their lending into the rest of Europe would draw off funds from the UK. The question is academic for the foreseeable future. But I doubt very much if it will turn out to be real at any stage. Building societies operating in the rest of Europe would soon build up savings and investment abroad and their operations would very quickly become self-financing. Indeed, I take the view that exchange control is not the central problem which it is sometimes made out to be. Other British credit institutions - the banks and the insurance companies have led the way in demonstrating how financial services can be exported at very great, indeed vital, profit to the United Kingdom. I believe building societies have a rôle to play as well.

I should like to see a small start made among European civil servants. At the moment European officials can obtain a housing loan from certain German companies which the German Government has allowed to operate among this group of customers. Why should not British building societies be able to participate in this business, at least with those officials who are British nationals? The numbers involved would be very small, but it would be a start and an earnest of good faith.

To sum up, then. I hope that the British building societies will be in from the start of the detailed discussion of legislation at the European level in housing finance. To this end, and to enable the building societies to participate fully, and without embarrassment or reserve, I very much hope that Her Majesty's Government will not decide to exclude them - even on a temporary basis - from the Banking Coordination Directive.