

Speech Given by Christopher Tugendhat, Vice-President of the Commission of the European Communities, to the Legal and Economic Committees of the European Federation of Building Societies, Brussels 12 May, 1981

Chairmen

Ladies and Gentlemen

It is a pleasure for me to meet you here in this for once sunny capital of Europe and to discuss with you some aspects of our plans for banking harmonisation. I should like to take the opportunity, first of all, of thanking you for the close interest which you take in our work. We are grateful for the constructive requests and ideas for further European integration in the credit sector which you regularly put to us. There is a very effective and long-standing working relationship between your Federation and the European Commission and I am anxious to see this continue. Our meeting today enables me to set out the Commission's approach to some of the issues of common concern to us. But I am well aware of the expertise which your Federation brings to bear and I can assure you that I and my colleagues from DG XV are as anxious to listen to your own views as well.

I note that the Committees gathered here combine expert knowledge in both legal and economic affairs. This is understandable, since in the field of banking and especially in the field of housing credit, legal and economic aspects are closely interwoven. We cannot hope to make substantial progress towards a common market in banking, unless we achieve at the same time more freedom for capital to cross national frontiers unhampered by exchange restrictions or other hindrances. Such freedom in turn presupposes stable exchange rates and hence the coordination of Community policies in such difficult areas as exchange rate levels, anti-inflationary measures and employment.

/I shall turn

I shall turn to these aspects in a moment. But let me first say a few words about the legal, or rather the institutional, approach to European integration. Let us imagine a situation in which complete freedom of operation existed throughout the Community for loans, deposits, the issuing of securities and investment. In these circumstances there would be a clear need, in the interest of the protection of savings and for the sake of orderly market conditions, for some kind of common regulatory framework. If I say framework, bankers tend to think immediately of a strait-jacket, or a Procustian bed, into which European bureaucrats are eager to fit all the wide range of banking structures in the Community.

Brussels is, I know, too often seen as setting out to standardise whatever it can, irrespective of the need for flexibility and private initiative. The Press sometimes scoffs at our work, because it is concerned at times with diplomas in midwifery or with the noise level of lawnmowers. But the fact that detailed work of this kind takes place does not mean that the Commission is a huge bureaucratic machine relentlessly pouring out new and irrelevant regulations. On the contrary, our resources relative to the size of our tasks are, if anything, meagre and our output has to be geared accordingly. Take, for instance, the problems which your legal committee has studied over the last years. Leaving aside matters arising in connection with consumer credit or migrant workers, they are the responsibility in the Commission of a single departmental head and an often overworked team of about three officials only. Nor is our task made any easier by the fact that, since the beginning of the year,

/we have had to

we have had to produce every working paper in seven official languages. The Community's financial constraints affect us in the Commission directly. We have to face a host of technical difficulties over secretarial work, the reproduction of documents, the transmission of information, etcetera. In a well run private-sector enterprise these problems could be rationalised and mitigated. But in a multinational public sector administration subject to fixed linguistic and other rules this is not so easy.

I mention these internal technical problems in order to show that administrative shortcomings add to the difficulties of substance inherent in harmonization of banking laws. We will therefore sometimes have to ask for your indulgence if our reactions to your requests are not always as swift as you would like them to be.

I have another reason for emphasising that our approach to problems is not overly bureaucratic. I should like to allay any fears which some of you might have about possible attempts to standardize the various types of mortgage credit institutions which at present operate in Europe. Let me assure you that there is no disposition whatever on our part to do this. We realise that a wide variety of institutional structures, exist. There is, for example, the "pooling" or collective system, centred on the German-speaking countries with their "Bausparkassen", the nearest equivalent of which is found in France in the shape of the "crédit mutuel différé". There is the deposit system as represented by the building societies in the United Kingdom, and in Ireland with which perhaps the private mortgage banks in Belgium can be compared. And there is the mortgage-bond system as operated by the

/mortgage banks proper

mortgage banks proper, with the pattern of matching of bonds and lending as it is encountered in a large number of countries. All these types of institution should in our view be allowed to prosper and should be granted equal access to the full European market place. There is no doubt that customers would be best served if frontiers were opened up to all types of credit institution, thereby enabling them to compete on the wider market afforded by the Community and to offer savers or borrowers generally in each country a more abundant choice of possibilities.

This in turn calls for a degree of harmonization, be it only in order to avoid distortions of competition. But there are different ways of achieving harmonization. When one looks at developments in the banking legislations of our Member States over the past decade or so, one can see that certain common trends are already present. There has been for example a tightening of the rules on banking supervision and in particular on deposit protection in several Member States after the banking crises of the early seventies. (Herstatt in 1974, secondary banks in Great Britain 1973/74 etc.). Or; looking at a longer term example, there has been a gradual evolution away from institutional specialization towards all-purpose banking in the credit industries of various European countries. In these and other cases one can see convergent tendencies in the Community, even on issues not covered by any directive.

/There is a reason

There is a reason for this. You all know the large number of committees meeting in Brussels which deal with various items of interest to credit institution, ranging from consumer protection to competition. Even in the limited field of banking coordination proper we have, as you all know, the Advisory Committee, the Groupe de Contact, the Working Party of government experts and last but not least the Committee of Community Credit Associations, the CCA. Of course the levels of these groups and the backgrounds of their members differs a good deal. But, what is important is that thanks to all these expert meetings a broad flow of expertise is regularly fed into our decision-making process. Moreover, the proposals made and discussions held in these various groups tend more and more to be a valuable input into not only the European, but also the national thought processes. If one studies, for instance, the recent banking laws adopted in Belgium and Denmark in 1975, in Germany in 1976, in the Netherlands in 1978 and in the United Kingdom in 1979, it is surprising how many implicit and even explicit references are made not only to our directives, but also to our plans and to problems still under discussion at Community level. This clearly indicates that our committees are helpful discussion fora for all those interested in banking regulation in Europe; and that more often than not they are melting pots for new ideas on banking supervision.

If I have been dwelling a little on this aspect, it is because I want to encourage your Federation to go on playing your very active role in the CCA and to continue to promote your constructive ideas about European integration in the mortgage credit sector.

/Even in the absence

Even in the absence of specific directives, such ideas can ripen and bear fruit in the minds of those who are responsible for banking policies in the Community.

I do not, of course, mean to imply that directives are no longer needed in our sector. On the contrary, the Commission's experience is that Community policies can best be built on rules enshrined in legal texts, be they articles of the Treaties, regulations or directives. Their binding force is the best guarantee that the progress we make cannot be called into question again at a later stage.

This is why, at the present time, we attach importance to what your Federation has aptly christened as the "umbrella directive" of 1977. Some Member States have not yet applied this Directive as they should have since December 1979. We have opened legal procedures against the governments in question, namely Belgium, Italy and Denmark. Some of your members here, the British and Irish Building Societies, are in a status of "deferred application" with regard to this Directive; I hope very much that their governments will end this deferment at the earliest possible date. Indeed, this Directive is a platform on which we plan to build several follow-up measures. We therefore lay great stress on its full and proper application.

One of the most significant follow-up measures to the Directive under way at the present time is our work on prudential ratios. Of course, these ratios will not be of immediate relevance to your members. The trial calculations of solvency data (e.g. own funds as compared to total liabilities, risk assets etc.) which will be made within the next few weeks, /and which

and which will take as reference date the 31st of March of this year, may not be of direct concern to the institutions represented here. Nevertheless, it would be helpful to have your views on this subject at an early stage.

We assume that one of your requests might be to give a more favourable risk rating to credit secured by mortgages. But leaving aside the more technical aspects, it would be useful for us to know whether you feel for example that the methods of measurement of solvency which we have adopted will have to be fundamentally different for your specialised institutions as compared to commercial banks.

Progress in this field is in a sense the hard core of both banking supervision and banking harmonization. The general principle underlying most of what we are planning in the banking field is the idea of "home country control", a principle which, I trust, is familiar to you. The way in which we would like to facilitate branching across national borders, for instance, is to give a maximum of supervisory powers to the country of origin of each institution concerned, with a view to reducing the supplementary burdens for branches which would result from additional controlling powers of their host countries. Such a system however, can only be achieved if the methods and standards for monitoring solvency are more or less the same in both the country of origin and the host country. I could add other cases in which we plan to harmonize using the same principle of home country control as a blueprint. Our recent draft on consolidated supervision, for instance, is another example of the

/implementation of this principle.

implementation of this principle. Here again, the outcome will very much depend on progress in the field of ratios.

I shall now turn to a subject which is perhaps of more direct interest to you. You are, I am sure, anxious to know whether a special directive on housing credit is in the Community's current programme and at what level of priority.

A moment ago I mentioned freedom of establishment as being a vital part of our plans for integration in the credit sector. It is of course inconceivable that a major component of the credit sector such as the one which you represent should remain excluded from the benefits involved. Our long-term aim therefore is far-reaching: we should like to see the complete opening up of frontiers for your business, including both savings and credit operations, from the home base of each institution. Since legal obstacles lie in the way of this, we clearly need special new liberalizing and coordinating measures.

The discussions which we had on the basis of the Commission's first working paper of 1978 have shown, I think, that we cannot go all the way in one step. This is why we have taken the view which we set out in our second discussion paper of 1979, that freedom of establishment might be a first stage, with complete freedom of operations coming at a later point in time. However, referring back to what I was saying earlier on about the diversity of the structures of your institutions, and our determination to preserve it, there is one immediate problem which arises. Imagine that a German Bausparkasse with all its peculiar techniques wants to set up in, say, Denmark or Italy. How

/could it

could it fit into the credit system of these countries?
How could it be supervised properly? There is an obvious
difficulty over the compatibility of different systems on which
we should greatly value your views.

I hope that, with your assistance, we shall be able to
find a solution to this problem. But then we shall have to
face yet another issue which has not been much discussed up
to now; and here I am turning from the legal component of our
work back to the equally important economic arguments which
I spoke about at the beginning.

Any special directive on housing credit would have to
apply to a wide variety of institutions active in the mortgage
credit sector. We would have to find - to use competition
terminology - the "relevant market" in order to define the scope
of our measures. Among the three basic types of mortgage credit
which I have mentioned before your federation covers predominantly
the "pooling" and the deposit systems. But we should need to
take account of the position of mortgage banks represented,
for instance, by your Danish members here, and of their bond
operations. For them, free establishment is perhaps less
interesting than free capital movements. We need therefore
to consider whether our measures should include provisions on
capital liberalization from the start;

to assess

to assess what are the chances of passing such provisions through the expert group and Council machineries at this stage; and to judge whether in present circumstances we can afford a new step towards capital liberalization.

I do not wish in this context to enter into an assessment of the Community's monetary perspectives or the future functioning of the EMS. But I would just mention that as regards the possible liberalization of capital movements there are two broad schools of thought. One of these schools could be called the optimistic one: its proponents assume that within the next two or three years we shall see a rapid further development of the EMS, leading, inter alia, to general capital liberalization. According to this view, our problems in the mortgage sector will be easy to settle in the medium term, because there will be a more and more favourable climate for capital freedom in all areas. Other people are more sceptical about the general prospects for capital liberalization. They argue however that, rather than be discouraged by this, we should, where there are promising opportunities, try to make small and specific dents in the wall of capital restrictions by putting forward proposals like the one which we sent to the Council in 1979 on free trade of certificates of investment trusts or indeed like the one which we are discussing here and which might in particular concern bond issues of mortgage banks.

Both these approaches lead to the conclusion that we should be able to make a move on these problems within the next two or three years. I cannot at present say what particular form this will take. But I can confirm in principle that we will endeavour to present to the Council a proposal for a special directive on housing credit during the lifetime of this Commission.

I gather that, besides your legal and economic Committees meeting jointly here this morning, you have

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a third expert group dealing with problems of marketing. This is an aspect which we too, in the Commission, should not lose sight of. Our plans may be technically all right. They may fit into the present economic context. But our chances of realising them will be slim if we seem to be approaching the problem merely in a technocratic way or as a routine matter. Our ideas will only "sell", to use a marketing expression, if we can prove their political and social utility. We should, therefore, think of the broader context of what we are trying to achieve.

For which groups would our plans be beneficial? Would they be particularly attractive for example for consumers, or for migrant works or urban development? I am raising these questions simply as illustrations: I would like to leave these problems with you and to ask you to study closely these wider aspects which beyond all the technicalities of coordination and monetary circumstances, will at the end of the day, determine the speed and success of our further work in your sector.

Here again, the very helpful and active role which your Federation is playing is needed and will, I am sure, be of great assistance to us. I and my collaborators in DG XV look forward to hearing your views and to working closely with you over the coming months to achieve the kind of progress in housing credit which we both want to see.