

Sabine Lautenschläger: Interview with Welt am Sonntag

15 September marks the tenth anniversary of the collapse of the US investment bank Lehman Brothers. You were then the chief banking supervisor at the Federal Financial Supervisory Authority (BaFin). Do you remember that day?

Yes, I can remember it vividly. I was in the BaFin that weekend and participated in the crisis calls with the international supervisors. I saw at first hand how things came to a head that weekend. In the night from Sunday to Monday, the US colleagues decided not to rescue Lehman. Three of us were holding the fort at the BaFin that night.

Were you immediately aware of the magnitude of what was happening?

We knew that the collapse of such a bank would not leave the financial world unscathed. Nonetheless, we all underestimated the severity of the fallout. Nobody foresaw a crisis of confidence that would bring whole markets to a standstill.

Would Lehman still be possible today?

I would never say that there will never be another crisis. But there's no doubt that institutions and supervisors are now better prepared. Banks hold much more capital and liquidity. Their risk management and corporate governance are better too, albeit not yet good enough at every institution.

One theory has it that the financial crisis would not have unfolded as it did if more women had been on the banks' boards. Is there some truth in that?

I don't know about that – but there is good reason to believe that mixed teams come up with better results. Unfortunately, women are still under-represented at board level.

Not in supervision though.

There have always been more women in supervision. But I would resist any attempt to attribute certain behaviours solely to gender. People at the top need to have qualities such as assertiveness and decisiveness – that goes for men and women. And that applies in supervision too.

For example?

As a supervisor I have to state unpleasant truths and take tough decisions; I have to fight my corner time and time again. And that leaves its mark. People are shaped by their profession.

How do you react to the criticism that supervision has become too strong – and is partly why European banks are so weak compared with their US peers.

Do you think that's true?

The profitable US banks are in any case leaving European banks further behind.

I find that idea quite amusing. Conversely, it means that the weaker the supervision, the stronger the banks. The truth is that strict supervision leads to strong banks. Institutions become more resilient when supervisors require them to hold adequate capital to cover their risks and insist on sufficient liquidity and better risk management.

The US institutions received comprehensive state aid during the crisis. And now the United States is even rolling back regulation. Both of these represent a disadvantage for domestic banks.

Up to now, the US authorities have generally only revoked rules that went beyond international standards. But you do have a point. It's important that large international institutions meet the same standards, particularly in trading. That is why we need to have the new Basel rules implemented in all major financial centres. Moreover, let's not forget that the United States managed to quickly return to a growth path. That has of course been of great benefit to the US banking system too. We were much slower in that regard, also in tackling structural problems.

One outcome of the financial crisis was the ECB's controversial asset purchase programme. The Governing Council has indeed decided to stop purchases, but only very slowly. Meanwhile German social security funds have been suffering enormously from the negative interest rates for a long time. Shouldn't you be moving more quickly?

Ending the asset purchase programme is a major first step. But I agree that the side-effects of an extraordinarily loose monetary policy increase over time and I have pointed that out repeatedly. But after pursuing such an expansionary monetary policy, it would be wrong to now move abruptly in the other direction. That wouldn't help either the economy or price stability.

But rather?

I am very much in favour of normalising monetary policy. That implies that we should gradually increase interest rates again. However, we can only do that if we are on a sustainable path towards price stability. Moreover, we should not forget that the social security funds would be in a much weaker financial position today if economic growth had been held back by very tight monetary policy and higher unemployment. And German savers too sometimes forget that they can only save if they have a job. The trick therefore is to move steadily towards the exit without disrupting growth.

Non-performing loans are another problem. There are in fact new rules for reducing them. Compared with the ECB's earlier plans, the compromise appears very half-hearted.

Objection. The rules are definitely not half-hearted. Uniform expectations have been specified for future non-performing loans (NPLs) and each bank will

receive clear and ambitious supervisory targets for the stock of existing NPLs. We need to bear in mind that the starting level of NPL stock differs across banks.

Nevertheless, a single currency area needs uniform rules.

That's exactly what there is now. We have found a yardstick for all loans which become non-performing. And not only for newly arranged loans, but also for existing loans which will cease to be serviced in the future. I considered that to be very important because it prevents institutions from deferring too many loan loss provisions.

You don't seem to be really satisfied with the outcome.

I think the concept is good. However, in some respects I would have liked to be somewhat more ambitious.

Have the plans failed because of Italy?

The agreement now reached is a decision taken by the ECB's Supervisory Board, in which 25 supervisors find a common position. The outcome is a very good package, all in all.

Institutions with long transition periods could be treated leniently.

Don't worry, we are tough. It's not our job as supervisor to prevent banks from leaving the market. In other words, we aren't here to ensure the survival of each bank. We are here to react promptly to risks. And also to recognise when a bank is indeed no longer viable and has to be resolved.

How can it be then that a bank such as Monte dei Paschi is still viable as far as the ECB is concerned?

I cannot talk about individual institutions. In principle of course, banks hit by a crisis should also be given a new chance to become viable through appropriate measures, such as a capital injection or a change in the business model.

Are national champions still important?

I would like to see more euro area champions.

Companies in Germany have good credit lines, but banks hardly earn anything from their lending activities.

Competition is indeed fierce. Too much competition can also bring disadvantages.

What can we do about that?

Supervisors have to work with the existing banking market. Consolidation is primarily a matter for the market. What's more, customers need to realise that they have to pay for good services.

Listening to you, that all sounds great. Is there anything that keeps you awake at night?

I always sleep very well. That's probably one of my strengths [laughs]. But to be serious, what I really do worry about is the threat of deregulation. Not only in the United States, but also in Europe.

Domestic banks haven't noticed this yet.

That may be, but I see a clear movement in that direction in current proposals to change European legislation. Attitudes towards strong supervision are no longer so positive. After the financial crisis, politicians reinforced the supervisory function and gave it tools to pre-empt looming risks. Prior to that, supervisors were often unable to react until the damage had been done. We need to watch out for the pendulum swinging back.

Where do you see signs of that?

There are some proposals for the Capital Requirements Directive that I am concerned about. It may become more difficult for supervisors to require more capital for certain risks. This would weaken the supervisory tools.

Danièle Nouy's term as Chair of ECB Banking Supervision finishes at the end of the year. Could you imagine taking her place?

I have a great passion for banking supervision, and it will be a turning point for me when I stop doing it. But I am convinced that job rotation is good, at all levels. It would be wrong to exclude the Chair and Vice-Chair from this. A fresh perspective is also important in banking supervision.

And for you personally?

My ECB Executive Board mandate will then still have three years to run. I will take on new tasks there in early 2019. I won't get bored.

For example, what about heading the Bundesbank, a position which is likely to change next year?

I'm not giving that any thought at present.

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EUROPEAN CENTRAL BANK
EUROSYSTEM

Interview with Sabine Lautenschläger, Member of the Executive Board of the ECB and Vice-Chair of the Supervisory Board of the ECB, conducted by Anja Ettel and Anne Kunz on 30 July 2018 and published on 5 August 2018

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All interested stakeholders are invited to respond to this consultation paper. In particular, responses are sought from financial and non-financial counterparties of OTC derivative transactions as well as central counterparties (CCPs) and clearing members.

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Joint statement by the European Commission and the Spanish Government

Following today's meeting Dimitris **Avramopoulos**, Commissioner for Migration, Home Affairs and Citizenship, Ms Carmen Calvo, Vice-President of the Spanish Government, Josep Borrell, Minister of Foreign Affairs, European Union and Cooperation, Mr Fernando Grande-Marlaska, Minister of Home Affairs, and Ms Magdalena Valerio, Minister for Labour, Migration and Social Security issued the following joint statement:

"The European Commission and the Government of Spain continue the open dialogue and cooperation on migration, in particular on the challenges linked to the increased migratory pressure along the Western Mediterranean route.

During today's meeting the European Commission and the Government of Spain discussed the current situation and the measures taken by Spain, including contingency plans to be adopted this summer.

The Commission stands side by side with Spain and fully supports the efforts of the Spanish Government to develop an effective response to the increased number of arrivals in the past months and to protect the external border of the European Union, in particular the coast of Andalusia. The Commission has awarded nearly €30 million in emergency assistance to Spain. This includes €25.6 million awarded on 2 July and further €3 million adopted yesterday.

The Commission and Spain underlined the importance of an enhanced partnership with Morocco and the need to intensify European support and cooperation with Morocco on migration. This includes a speedy delivery of the €55 million border management programme for Morocco and Tunisia approved under the EU Emergency Trust Fund for Africa.

At the same time, the European Commission and the Government of Spain considered it necessary to increase cooperation with all African countries of origin and transit in order to further develop their capacities to manage their borders and address the root causes of migration.

The migration challenge that Europe faces as a whole, requires a European –

not national – solution, as underlined by the EU leaders during the European Council meeting in June. The Commission will continue to show solidarity with Spain, which proved an exemplary European spirit when faced with migration challenges, and is ready to provide further financial or technical assistance.”