



Finanzgruppe

Deutscher Sparkassen- und Giroverband

Statement by

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Delivered on the occasion of the “100th Anniversary of the Norwegian Savings Banks Association” on the topic of

“With the future in our hands – Savings Banks in tomorrow’s economies”

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Dear **Mr Andenaes**,

Ladies and Gentlemen,

I'm very pleased to be here with you to celebrate the "100th Anniversary of the Savings Banks Association in Norway".

I would like to offer the warmest congratulations on behalf of the Savings Banks Finance Group in Germany, which is made up of

- 417 independent local savings banks,
- seven *Landesbank* groups and
- our associated companies: the securities firm DekaBank, the public primary insurance groups, regional building societies (the *Landesbausparkassen*), Deutsche Leasing and many others.
- All in all, 600 institutions with around 350,000 employees who support roughly 50 million customers.

The Sparebankforeningen I Norge is very active in Brussels and in the European Savings Banks Group.

Your relationship with the DSGV, the German Savings Banks Association, is characterised by close cooperation in a spirit of trust:

- Recently, we welcomed a delegation of your Association as our guests for talks with the DSGV.
- In the past few years, many executive board members of Norwegian savings banks have come to see us. Some of them may be here in the audience today.
- Today, I have come to visit you.

And I'm very pleased to be here.

I'm equally pleased to speak about the topic you have asked me to address:

“With the future in our hands – Savings Banks in tomorrow’s economies”.

It is my conviction that tomorrow's economies will face a dichotomy between globalisation and regionalism.

It will be equally important for savings banks

- to speak out in Europe and internationally, and
- to network more intensively amongst themselves.

What we need is more concerted action in the international arena, so that we can retain our identity as savings banks at home.

In this context, I would like to address three topics:

- First of all: The fundamental correlation between savings bank structures and economic structures.
- Secondly: The major economic trends of the future.
- Thirdly: The criteria for appropriate banking regulation of savings banks.

I. Savings bank structures

Ladies and Gentlemen,

Savings banks exist in all four corners of the world.

However, they differ in terms of their size, their legal structure and their market position:

- Some of them are organised as co-operatives – in France, for instance.
- Others are foundations, which in some countries – such as here in Norway – are owners of a stock corporation.
- And others yet again are public-sector banks, such as in Germany.

Nevertheless, all savings banks have two things in common:

First of all: the motivation behind their establishment.

Wherever savings banks have been established in the world, their mission is clearly defined.

In many cases, savings banks are focused on helping people provide for old age.

Today, as well as in earlier times, poorer groups of the population do not have access to banking services in many countries.

However, with the help of savings banks, they can invest their savings safely and profitably.

This shows that one of the characteristics of savings banks is that they are geared towards the public welfare.

Secondly: Savings banks are focused on local needs.

It is not a coincidence that the way in which savings banks are positioned differs in various countries.

Instead, the savings banks' positioning exactly reflects the regional and local requirements:

- In developing countries such as in Ghana, savings banks are organised as credit unions, which are active in the microfinance sector.

- In emerging economies such as the Philippines, customers expect more and more sophisticated services, such as corporate finance. For this reason, savings bank structures are being built up in these countries to be able to serve small and medium-sized enterprises which have outgrown the microfinance sector.

Both activities are being supported by our Savings Banks Foundation for International Co-operation.

- In industrialised countries like Germany or Norway, savings banks are highly developed providers of a comprehensive range of financial services.

Savings banks are particularly strong where they are needed as a financial partner by many small and medium-sized enterprises, or SMEs for short.

In Norway, SMEs account for 72 percent of the gross domestic product. In Germany, they account for 70 percent – both figures are far above the EU average, which is only about 58 percent.

- In addition, Germany has always had a federal structure, which is made up of very strong local governments, as well as regional governments and the federal government.

Germany's savings banks reflect this structure: they are incorporated under public law and have strong ties with local authorities.

Local governments have a democratic mandate for their respective territory.

Their governmental, fiscal and economic activities are limited to this territory.

This principle also applies to German savings banks: They concentrate on their traditional business territory. This leads to high market penetration, intense market knowledge and long-term business relationships within this territory.

As a result, savings banks have had a strong influence on Germany's economic structure for decades:

- Our group is the market leader in providing finance to German businesses, with a market share of about 43 percent.
- Among craft establishments and smaller SMEs, more than two-thirds obtain their loans from savings banks.
- More than 80 percent of our loans to enterprises are medium-term and long-term loans.

Savings banks are a reliable source of borrowed capital for Germany's businesses and thus ensure planning reliability while guaranteeing investment security.

For this reason, the use of debt in German corporate finance is much more common than equity financing in the capital market.

And this provides benefits: there is no need to change the ownership of enterprises to obtain corporate finance.

This is one reason why there are so many family-owned enterprises in Germany, most of which have been owned by the families for generations.

This is how many “hidden champions” were able to develop in Germany, that is to say small and medium-sized high-tech enterprises that have become world market leaders.

Ladies and Gentlemen,

Not only are there obvious links between savings banks and the economic structure, the reverse is also true: Where savings bank structures are absent, you won't find a strong SME segment.

The recent crisis has shown – more than earlier crises – how important a strong SME segment is for a country's economic stability.

Consequently, we have observed growing interest in savings banks in countries like Ireland, for instance.

Currently, there are concrete discussions in Ireland about the establishment of savings banks.

Our financing of small and medium-sized businesses is also of interest in the United Kingdom, where a few large banking giants have developed as a result of mergers, also involving savings banks.

In large parts of the country, it is therefore difficult for small and medium-sized enterprises to find reliable financing that will support them through all the phases of their development.

So, my first conclusion is that savings banks and the economic structure are interdependent.

Hence, savings banks make a major contribution to the long-term stability of a national economy.

This leads me to my second point:

II. “Savings banks in tomorrow’s economies”

Ladies and Gentlemen,

“Savings banks in tomorrow’s economies” – well, I think that what we are facing, in several respects, is the dawn of a new era, which will be characterised by very different trends.

I expect that this era will create persistent tension between global and regional perspectives.

In a way, we are anticipating this development with today's anniversary:

Savings banks operate regionally, but they exchange information across national borders.

In future, this will become even more important. I would like to describe four major trends for tomorrow's economies:

The first major trend for tomorrow's economies: increasing globalisation

- In the past, economic activities tended to be regional in character – performed by small units.
- Globalisation then led to the rise of large, internationally operating groups. Many believed that companies had to be as big as possible to be able to compete internationally.
- Today, we can see a change in globalisation: More and more highly innovative SMEs are successful in the world markets.

Companies with an annual turnover of less than 100 (one hundred) million euros account for nearly 30 (thirty) percent of Germany's export business, and this figure is rising – despite the crisis.

The success of German SMEs is linked to factors like speed, flexibility, quality and networking.

For a big corporate group in Asia, it is often more efficient to award a contract to a specialised SME than to develop an in-house solution.

And globalisation continues:

- The “Transatlantic Trade and Investment Partnership”, or TTIP for short, is currently being negotiated. As a result of this partnership, the European Union and the United States will move much closer together economically.
- In addition, TISA – the “Trade in Services Agreement” – is currently being negotiated by 21 members of the World Trade Organisation, including Norway.

Such agreements continue to open up access to markets, and it will now be the task of savings banks to ensure that our SME customers will also benefit from this development.

The savings banks in Germany have adopted a double-track approach in this context. They rely on the structures available in their group:

- They rely on the *Landesbanken*, many of which have gained decades of experience in major international markets.
- And they rely on the companies associated with the Finance Group. Deutsche Leasing, for instance, has many branch offices abroad, the most important one in Shanghai.

On the other hand, they also rely on foreign partners:

- Recently, the 25 largest savings banks in Germany and the *Landesbank Helaba* signed a co-operation agreement with the Bank of New York Mellon.
- In addition, we co-operate with many foreign savings banks organisations.

In my opinion, close co-operation among the savings banks of various countries will be an important key to meeting the needs of

customers, in particular those of small and medium-sized enterprises.

It is important therefore that, in line with their customers' rising requirements, savings banks strengthen their networking across national borders.

This also applies to the second major trend for tomorrow's economies:

The second major trend for tomorrow's economies: the digitisation of all walks of life

- In the past, personal communication was predominant.
- The Internet has globalised communications. Restrictions in terms of time or space no longer exist.
- In Web 2.0, the Internet is becoming mobile, social and regional. Increasingly, technology is being used to interconnect people in their immediate neighbourhoods.

For this reason, the digital world is also the world of savings banks: Whenever customers use the Internet, they are only a click away from their customer relationship manager, who knows them personally.

This distinguishes us from our strongest competitors, such as pure online banks, which no longer give their customers advice; instead, they leave their customers alone with bits and bytes in empty halls full of equipment.

This also distinguishes savings banks from non-banks, which increasingly also offer financial services via the Internet.

Such companies are often seen as the stars by investors because investors believe that these companies can earn a particularly large amount of money.

Users often end up paying a high price for their services: their privacy.

Customers feed these companies personal details of their lives – things they would not even disclose to their best friends or their neighbours.

We have noticed that, after numerous data scandals, our customers' distrust of such service providers is growing.

And as algorithms get better and consumers become more transparent, this distrust will continue to grow.

For this reason, I am convinced that the next big civil movement in Europe will be a data privacy movement.

I see this as an opportunity for savings banks: Savings banks will offset themselves from their competitors if they guarantee not only the safety of their customers' deposits,

But if they also guarantee the safety of their customers' data and privacy.

For this reason, savings banks should set to work across national borders to make this a core brand value.

Together, we should insist on the protection of our customers' data privacy vis-à-vis policymakers in Brussels.

The third major trend for tomorrow's economies: distributed energy generation

- For technological reasons, energy used to be generated by a small number of large-scale production units. Think, for example, of nuclear power.
- After the nuclear disaster of Fukushima, Germany set the stage for a turnaround in energy policy:

This means phasing out nuclear power, while at the same time promoting renewable energy sources.

As a result, however, energy generation will become more regional than ever before: In future, there will be more local energy generation, so that energy will be readily available and transporting energy nationwide via new ultra-high voltage lines can largely be avoided.

In future, today's big "electricity highways" will be replaced by an efficient and intelligent grid of small "energy roads", with many entrances and exits.

These grids will measure our local energy demand precisely and accurately supply energy.

- Norway plays an important role in the turnaround of Germany's energy policy:

Generating energy from renewables is subject to fluctuations.

For this reason, a high-voltage cable will be laid between Germany and Norway, so that Norwegian energy – generated mainly from hydro power – will be available for Germany as a “green battery”, whenever balancing capacity is needed.

Germany's savings banks are betting on the success of the turnaround in Germany's energy policy, not only because they are geared towards sustainable operations.

Because of their financial relations with municipal utilities, businesses and home owners, they are predestined for this role.

More than other enterprises, qualified SMEs will benefit significantly from the turnaround in energy policy – through the construction of generation plants, the expansion of the grid, and the energy-related modernisation of buildings.

The funding required to finance the turnaround in Germany's energy policy will be enormous – estimates range from approximately 250 billion euros to nearly 400 billion euros.

Our savings banks know that the acceptance of many projects will increase significantly if citizens are allowed to participate in the planning, implementation and financing of the projects.

Our customers are showing great interest in investment products such as green savings bonds (to finance global warming management, solar plants or wind turbines). They are particularly interested in bonds designed to raise funds for local energy generation projects.

As a result, energy projects turn into grass roots projects. And the savings banks in Germany are pioneers in this decentralised citizens' movement.

The fourth major trend for tomorrow's economies: back to the region

- In a small-scale context, each customer knew the conditions under which products were made. The producers personally stood for the quality of their products: Bread was made by the baker, and chairs were made by the carpenter.
- In the process of industrialisation, the producers' direct responsibility for their products disintegrated. The brand took over the function of the "quality pledge".

- Today, the origin of products is once again becoming more important for consumers:
 - They want business models that strike a balance between social responsibility and returns on investment.
 - They long for regional identity. Regional producers and service providers will benefit from this trend.

And they are the customers of savings banks.

And what's more: The savings banks' business model itself will benefit from the trend towards regionalisation.

Customers want more than just a return on their investment. They want to be sure that their money is being put to good use.

Savings banks turn local deposits into loans to enterprises and loans to households for home purchases.

In addition, they stand for regional identity, public welfare and social responsibility.

The Savings Banks Finance Group in Germany is the first banking group in Germany's financial sector which also provides

qualitative and quantitative information on this matter in its recently launched “Report to Society”.

We know that the savings banks’ values – i.e. responsibility, sustainability and a strong sense of community – are highly rated in society and in the political arena.

However, the key problem is that this is not adequately appreciated in banking regulation.

For this reason, it is also recommendable for savings banks to co-operate closely at European level with regard to the third part of my statement:

III. European banking regulation

Ladies and Gentlemen,

Savings banks have a strong position in the market. However, a savings bank can only be as good as the regulatory environment allows it to be.

I share the view of the American musician Frank Zappa, who once said:

“The most important thing in art is the frame.”

And the framework is not always satisfactory, especially for savings banks.

Since the financial crisis, we have seen a veritable tsunami of regulatory measures in Europe. Many of these measures also affect the savings banks in Norway, although your country is not a member of the European Union.

In the final analysis, we are on the brink of a regulatory overkill, which affects small and medium-sized banks more than other banks.

However, savings banks are particularly stable:

- Savings banks are small institutions. In Germany, their average balance sheet total amounts to 2.5 billion euros. Even when they encounter problems, they do not pose any threat to the banking system.
- Savings banks are stable because of their diversification: they have a particularly broad loan portfolio, which includes virtually all the economic sectors and all kinds of enterprises, in all of Germany's regions.
- Each savings bank is regionally focused, and hence, it knows its customers very well. This leads to low loan default rates.

To create a financial architecture in Europe which is oriented towards stability, we therefore demand two things:

First of all: proportionality in regulation

In the upcoming Supervisory Review and Evaluation Process (SREP) of the European Banking Authority (EBA), we demand

- reasonable transitional periods,
- longer review cycles and

- fewer criteria for small banks.

European savings banks from several countries recently convinced the members of the European Parliament to advocate fair burden sharing with regard to the future European Resolution Fund.

This is important, because, as things stand currently, medium-sized banks will be mainly expected to pay, and hence be held liable for the risks mainly of big banks which are considered “too big to fail”.

However, the financial markets can only be stabilised if every bank does its own homework, but not if some have to foot the bill for others!

Secondly: Diversity of business models and maintaining our strengths

Germany’s savings banks had to struggle hard to maintain their joint liability scheme, which is more than just the Group’s own deposit guarantee scheme.

Under the scheme, the continued existence of each and every savings bank is safeguarded by the community of all the savings banks. For our customers, this provides the greatest possible security for their deposits.

Their deposits are fully protected above and beyond the statutory guarantee of 100,000 (one hundred thousand) euros applicable in the European Union.

I have been told that the European Commission has called upon the Norwegian savings banks to reduce their current protection level from 250,000 euros to 100,000 euros.

That is a curious interpretation of consumer protection!

The best consumer protection is provided by a stable financial market, based on a diversity of business models – and not by levelling down standards to the smallest common denominator!

Conclusion

Ladies and Gentlemen,

In conclusion, I would like to point out that there is a wide variety of savings banks worldwide.

However, all of them are geared toward the public welfare and meeting specific local requirements.

I am sure that they will play an important role in tomorrow's economies.

They are well equipped to cope with the challenges posed by the key trends I have outlined, i.e. globalisation, digitisation, distributed energy generation and regionalisation.

However, they need a regulatory environment which leaves room for banking business serving the real economy, and which preserves the diversity of the savings banks.

All of these points warrant the development of closer links among savings banks, across national borders.

This is why I am here today:

The Norwegian Savings Banks Association is now 100 years old.

The savings banks and their association in Norway can look back over this period of time with pride and self-confidence.

Germany's savings banks are reaching out to the savings banks in Norway:

In view of our shared fundamental values, we would like to cooperate more closely with you, the savings banks of Norway, in the future.

Let us work together to develop concepts to guide the savings banks, with their diversity of structures and traditions, through the choppy waters we expect in the decades to come.

Thank you very much!