Frankfurt E B C

Europe's Renaissance

10th Frankfurt European Banking Congress · 2000

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Petra Roth

Dear Mr. President,
the President of the European Commission Mr. Prodi,
Mr. Breuer,
Mr. Fahrholz,
Mr. Kohlhaussen,
Dear Excellencies,
Ladies and Gentlemen,

It's a great honour for me to welcome you to Frankfurt on the occasion of the 10th European Banking Congress. Ten years Frankfurt European Banking Congress, that is a nice little anniversary. When we established this Congress in 1991, we did not imagine what a big success this event would become. Today, some 800 participants from many different countries prove the increasing international interest in the congress and in the topics discussed here.

Europe's Renaissance is the topic of this year's conference. My understanding of this is: Europe's Renaissance has to be a maxim for everyone's orientation in building a new Europe. For fifty years Europe has been growing together and for many, this process is too slow. But the European integration is really a grand project. Never before in man's history have a number of different nations - each with their own language, cultural heritage, social and political identities and so on - out of their own free will given up important parts of their sovereignty and brought them together in an international association. The European Union is a historical first!

Europe needs a political renaissance. All the European countries have to remember that despite their diversities, Europe in a way also is an entity of its own and that, ultimately, it has to bridge the political gap to ensure its future. Challenges are great. The population pressure, the economic, social and political impacts of a global capitalism, the many territorial conflicts endangering world peace and the development of the global climate are some of the challenges reaching beyond the power of medium sized nations like the European states. If the European nations want to safeguard their interests and contribute to the solutions of the global challenges, they have to develop the

European Union into a closer association which gives them the capacity to focus European interests and act as a unit. If they don't do this, the European countries will fall back to a position of being marginal powers in world policy, and others, the really big and powerful nations like the United States of America, China, India or Japan will set the rules of world development.

In order to develop further, it is not enough for the European Union to increase the number of its members. Much more important is to reorganize its internal structures, especially the representation of voting powers within the European Council and the decision making process itself as well as the relationship between the European Parliament and the European Council. The European Union is clearly suffering from a deficit of democratic legitimation and democratic control. Especially young people don't understand this system because it can only be understood through its historical context.

The enlargement of the European Union is no substitute for the necessary internal reforms. In German, I would say: »Klasse statt Masse!«.

I think the weak euro at present has much to do with this situation. I don't wish to dramatize the weakness of the euro, but I believe that it is not only the strength of the U.S. dollar which hits the euro/dollar exchange rate. I believe that there are two other factors: On the one hand it is also the deficit of the efficiency of the European decision making system and on the other hand, the lack of sufficient/enough deregulation of the economic system of the European member states themselves which are laying the ground for a weak euro.

Up to now the internal value of the euro is still stable. Euroland's economy is less dependent on external factors than its member states were before the introduction. But despite this I'm afraid that with time the weak external value of the euro will have a negative influence on the internal stability.

The European Central Bank cannot solve this problem alone. It needs a backup from structural reforms of the European Union's political system as well as the economic systems of its member states.

Ladies and Gentlemen,

Because of the increasing competition within the global financial market and of the framework set up by the European Monetary Union, the financial sector has to adapt. Restructuring of banking institutions and exchanges, mergers and acquisitions, e-banking, new financial products, new competitors and new ideas about how to do financial business and other technology-driven innovations rule the headlines every day.

Especially we here in Frankfurt, where finance is a key sector of the local economy, are witnessing these radical changes very directly. And sometimes we are concerned about this development. For example, the case of the iX-merger would have been a project of fundamental influence on the future of the financial center Frankfurt.

The organizers of the Frankfurt European Banking Congress have created a very promising programme. The panels are once again composed of distinguished personalities from business and politics. Thank you very much for your cooperation in actively organizing and shaping this conference.

Also I would like to express my gratitude to all those who have made this conference possible, especially to Dr. Breuer, this year's chairman of the organizers: Commerzbank, Deutsche Bank, Dresdner Bank as well as the Economic Development Corporation of the City of Frankfurt.

Last but not least I want to thank you, the participants, for being here. I wish you a successful congress and interesting contacts, and I hope you will have a pleasant stay in our city.

Europe's Renaissance Conference Introduction

Rolf-E. Breuer

Thank you, Lord Mayor, for your friendly greetings.

Let me welcome you, also on behalf of my two colleagues, Bernd Fahrholz and Martin Kohlhausen, to this year's European Banking Congress. This marks the tenth time that the European Banking Congress will provide a platform for representatives of the financial community, governments and international institutions to discuss highly topical issues.

The range of topics dealt with at the various conferences has been broad, however, Europe's future, European Monetary Union as well as banking and the financial markets have always been the central issues. For today, we have chosen the topic: Europe's Renaissance.

According to the Encyclopaedia Britannica the Renaissance witnessed, among other things, the discovery and exploration of new continents, the growth of commerce and the invention or application of such potentially powerful innovations as paper and printing. The Renaissance was the culmination of a series of social, political and intellectual transformations, set in motion in the decades before.

The parallels to our times are striking. In 1991, when we held the first European Banking Congress,

- we were – metaphorically speaking – on the way to discovering and exploring the eastern part of the European continent after the fall of the iron curtain, and vice versa;
- commerce enjoyed a positive outlook in the run-up to the European single market;
- the idea of a common European currency to further enhance economic integration and improve business conditions was – only three months before Maastricht – just about to materialise, and
- the innovations in the field of IT foreshadowed their powerful potential.

These events have indeed triggered a transformation process reaching from east to west, from business to politics, leaving no part of society untouched. The nineties were the decade of a radical upheaval changing previously fortified structures at a speed unheard of in the post world war II era.

And it is just about at the beginning of the new century that we can start to reap the fruits of these – sometimes painful – adjustments to the new constellations:

- The prospect of EU enlargement has already increased political stability and economic prosperity across the continent. The EU accession countries have successfully pursued economic and political reform as has recently been acknowledged by the Commission's progress report. Meanwhile, these economies can be seen as "converging" rather than "emerging" markets.
- The European economy has become dynamic. It is enjoying the strongest growth since the early nineties, and prospects for the coming years are encouraging. Member states have embarked on several reform projects, notably in the areas of taxation and pension systems.
- EMU started on time, with more members than originally envisaged. The new monetary regime is working well. Price stability, a concern of many in the run-up to EMU, has been preserved despite the new oil-price jump. With Frankfurt hosting the ECB and becoming the city of the euro, a vision has turned into reality.
- The IT revolution is in full swing. The new economy, while arriving in Europe somewhat later than in the US, is now thriving. Our own business has changed dramatically in the course of these developments. Have we done enough to meet the challenges? We will discuss these issues in more depth at our second panel "E-banking without banks?".

However, to allow Europe's Renaissance to last in both political and economic terms, efforts have to continue, and in some fields even be reinforced.

1. EU enlargement is halfway down the road. But still, the EU, as presently constructed, is not capable of accommodating the reunification of Europe. Tinkering with reforms is an absolutely inadequate solution. The summit in Nice has to produce more than just another typical European formal compromise if the doubling of membership from 15 to 30 or so is not to destroy the whole building.

   And it is not only the institutional issue that is at stake. Policy areas have to be reviewed and reformed. Only a trimming of EU activities will free resources for those areas that merit the collective action of an enlarged EU. Policy co-operation has to be intensified in fields such as justice, home affairs, foreign and security policy. A battery of declaratory intentions is not suitable to re-establish credibility and do away with the disaffection among the population towards the EU. Europe's Renaissance has to take place not only in politics and on the markets but in the minds of the people as well. And we should not forget the Danish vote which was a reminder that European integration is not just a self-fulfilling prophecy.
2. With regard to economics, Europe is on the right track but the pace is too slow. The willingness to implement economic reforms somehow even seems to be vanishing throughout the EU, partly because of the fear of losing parliamentary elections. So much of Europe's current good performance is cyclical in nature. But surfing on the business cycle is simply not enough.

Member states have to pick up the tone of Lisbon where they promised to pave the way for more momentum in the old and the new economy by improving the structural framework for business. The process of economic benchmarking initiated in Lisbon provides a convincing guideline for the changes needed in every single EU country.

However, the real benchmark is not within the EU but is often represented by the US economy. By incorporating – not copying – successful elements of the US economic model into the European ones we should succeed in creating a lasting upswing comparable to that enjoyed by the US in the 1990s.

3. And what about the currency environment? The handling of the euro has not been a flawless success. While monetary policy is basically in line with requirements, the ECB's communication to the public and the financial markets, in short: the euro's investor relations, needs to be improved. We will hear about this point in our third session. However, communication is not enough. Europe has, above all, to ensure that it is a promising location for world-wide investments.

Moreover: developments of the past months, such as the different policy responses to the oil price hike in different European countries, have once again pointed to the fragile construction of EMU itself with a common monetary policy but non-aligned national economic and fiscal policies. Still, EMU members are not fully aware of the necessity of taking a common approach to economic policy challenges in a growing number of fields. However, this seems to be not so much a question of a better or additional mechanism of co-operation but a willingness to regard early co-ordination among partners as a matter of course.

4. Further improvements in European financial market conditions could strengthen the euro's backbone. Deregulation and liberalisation have boosted financial market performance in the EU. But when financial markets go global and European and financial institutions begin operating across borders, a national view for banking supervision and market regulation goes out of date as well. That is why, finally, the role of the regulatory framework in fostering or hampering financial market integration in the EU is under evaluation. Our fourth panel will provide the opportunity to hear first hand about the recommendations for improvement.

Europe's Renaissance will not come about if we lean back and rest on our laurels, instead, we must forge ahead. If we run up against a wall we should recall the words of Hannibal the Conqueror who said that »we shall either find a way, or we will make one«.

Europe Balanced?

Romano Prodi

Ladies and Gentlemen,

I agree with the topic chosen by the organisers of this conference because a renaissance of Europe is something we can and should achieve.

I said so earlier this year when presenting the Commission's work programme for my first year in office before the European Parliament. A few months on, I am glad to say that the process of renewing Europe has begun. Peace, power and prosperity are, in my view, what the renaissance of Europe should be about. With the enlargement process we have the historically unique opportunity of uniting our continent in peace and stability. We can use our enlargement process to spread democracy, peace and stability throughout our continent.

Not only in the new Member States, where democratic values have already taken root, but also in the countries beyond our new borders. A Europe that works constructively with its neighbours will be a Europe that gains real influence in world affairs. Moreover, we can take full advantage of the increased cultural diversity that enlargement will bring.

Europe has the unique ability to bring together creative people from diverse cultures. This gives us tremendous potential for innovation. And innovation is the key to competitiveness, growth and prosperity.

The debate about Europe's renaissance is one in which current Member States, but the candidate countries too, have a vital stake and need to be fully involved. That is why I am delighted to be able to discuss today about Europe's future with Joschka Fischer and with Viktor Orban. The candidate countries are making tremendous efforts to modernise and reform their societies and economies. Their contribution to Europe's renaissance will be invaluable, and their efforts must be matched by those of the existing Member States.

So let me share with you some of my own thoughts on a "blueprint" for Europe's future.

First, the question of balance. This is a key theme of our conference, and rightly so.

I believe the new Europe we are shaping must maintain a just balance between economic reform and social cohesion, between the interests of all our Member States - old and new, large and small. The Commission, in my view, is best positioned to act as the mediator between those competing interests and as the guarantor of that balance.

Second, the question of decisionmaking and of equipping our institutions to support Europe's renewal. I am very grateful to Joschka Fischer for having relaunched the debate about Europe's future this spring, and for his further thoughts expressed last Tuesday before the Belgian parliament.

Let me stop here for a second to make clear one point. I believe that nation states will remain the cornerstone of our Union. Integration is about bringing nations together; it is not about abolishing their nationhood.

The EU has to reform its institutions. None of our plans can succeed unless the enlarged Union is capable of efficient decisionmaking. That is why the Inter-Governmental Conference is so important. That is why it is vital we adopt a new Treaty soon – at Nice if possible. But it must be a Treaty that genuinely enables our decisionmaking process to deliver timely, efficient answers to the challenges ahead and makes that process sustainable. It is my firm belief that the existing institutions are the right ones for the job, provided they are properly adjusted.

The Community method based on the institutional triangle of Council, Parliament and Commission has proved its worth over half a century. It needs adjustment – not scrapping. It provides a system of checks and balances in which the smooth running of each institution creates a unique synergy serving the common interest. The alternative is the intergovernmental model with its conflicting, fragmented decision-making system.

A system where power is dispersed among secretariats, high representatives and other loosely accountable entities. A model where key proposals or decisions are constantly held hostage to domestic political tensions and national electoral cycles. Intergovernmentalism, I believe, is a recipe for indecision or, at best, progress based on the lowest common denominator. Europe's failure to deal with conflict in the Balkans or to address the recent surge in oil prices clearly illustrate the failings of the intergovernmental model.

Europe's Renaissance cannot be built on such a model. But it can be built on a model where the Commission, under the Council's mandate, speaks with one voice in international negotiations on behalf of a powerful Union and delivers results that match our economic power.

A model where the Commission, again under the Council's mandate or guidelines, can provide the desperately needed single voice of the Union's economic policy, flanking the European Central Bank's independent role in monetary policy. A model capable developing a common foreign and security policy backed up by an effective European defence capability.

No Member State alone can have any meaningful impact on a global scale. Only a strong united Europe can be a global player. That is why we have to make the EU not a superstate but a superpower. Only a united Europe that speaks with one voice in world affairs and that can enforce its foreign policy decisions can become a genuine superpower.

So we are faced with a choice:

Either we create unity in our diversity, giving our peoples a shared sense of direction and the benefits of their joint strength, Or we allow national interests to cancel one another out, blocking our decision-making procedures and reducing Europe's power to less than the sum total of the power of its component states.

My vision of Europe's political Renaissance is the former, not the latter. But political Renaissance will be based on, and also support, economic renaissance. The Euro zone economy is performing well and we have a bright economic outlook. Evidence is there and speaks for itself.

The European economy has not been in such a good shape for at least a decade and its prospects are even better. Macroeconomic stability and micro economic reform – the twin pillars of the European economic strategy for more than a decade – are yielding the promised results, including in terms of employment creation and unemployment reduction.

Since the introduction of the Euro, convergence in the Euro area has made astounding progress. The internal market and the Euro are combining with technological progress to increase competition and promote structural change. In financial markets we are well on the way to a single Euro capital market which is deeper, more liquid, and more efficient than national markets have been.

Issuance of Euro-denominated fixed-income securities since January 1999 has exceeded all expectations. And the Euro has rapidly become an attractive alternative to the U.S. dollar for issuance, with international bond issuance split more or less evenly between the two currencies. The Euro is the most important driving force behind the restructuring that is sweeping our economies. The present weakness of the exchange rate of the Euro is a largely cyclical phenomenon, which will be redressed sooner rather than later.

Our current prosperity must be maintained and enhanced. At Lisbon, in March, the European Council drew up a bold but achievable agenda for further unleashing our economic potential. A genuine strategy for turning Europe into the world's leading knowledge-based economy and society within ten years. That means embracing with enthusiasm the new technologies, promoting e-commerce and slashing the cost of Internet access. It means educating our young people for the digital age, getting our schools and universities on line. It means training and retraining our workforce, giving them new skills for the new economy, filling thousands of IT job vacancies. It means cutting red tape for entrepreneurs, and giving bright young business people ready access to venture capital.

Implementing the Lisbon agenda with courage and absolute determination will generate lasting prosperity The favourable economic outlook gives us every chance of success – provided we have the political will to push ahead with the necessary reforms.

And that must include reforms in our economic decisionmaking. Because we still do not have a fully credible economic policy for the Euro-zone.

I want to say just three things about this.

First, the current arrangements do not fully satisfy the needs for co-ordination among fiscal authorities in the Euro-zone. They provide for an important discipline on a country-by-country basis, but do not really permit the definition of a policy stance for the EU.

Second, the ECB needs an informed and credible interlocutor on those economic policies that remain decentralised. The credibility of monetary policy needs to be reinforced by a credible fiscal framework.

On both these points I see the role of the Commission as pivotal in bringing about the necessary cooperation across national economic policies and in dialogue with the monetary authority.

Finally the Euro zone should speak with one voice. If EMU member states were a single constituency at the IMF, we would have the largest quota of all, ahead of the US. This would make the EU a decisive global player in financial affairs too. We should consider how to achieve progress in this domain.

Ladies and gentlemen, there is much work to be done but I am convinced we can and will achieve a renaissance of Europe. The Commission is ready to play its full part in those efforts.

Europe Balanced?

Viktor Orbán

Lord Mayor,
Distinguished Guests,
Ladies and Gentlemen,

I am very pleased to be here with you today to discuss matters of common concern to all Europeans. It is an honour as well as a challenge. You all do know more about Hungary's economy than I do.

I can not, by any means, be invited here to tell you of our economy's achievements, of the stability of our currency, of our low and decreasing inflation and unemployment rates, of the European quality of our economic institutions, of our de facto integration to the European economy, or the like.

So I was wondering when I received your invitation: what am I supposed to do here?

I will touch upon the following key issues:

- First, I would like to tell you shortly about my belief that it would be boasting of a Hungarian prime minister to address the issue of Europe Balanced without first ensuring Hungary's being balanced.
- Second, I shall venture to share with you my thoughts on the meaning of a European Balance, and
- third, I will outline my ideas on how to achieve this 'Europe Balanced', i.e., a Europe United and therefore Balanced.

First, as an old Hungarian saying has it, one should start sweeping in front of one's own house, only then can one criticise the cleanliness in front of others houses.

Can you imagine how we Hungarians felt in 1990, when we first could really start to travel all over Europe? We felt exactly the way the two snails did, in a Hungarian joke: Two snails, John and Mike, crawl on one side of a highway. John says: I think we should crawl across to the other side. Mike replies: Nonsense. You have to be born over there.

Well, I can tell you, we made it to the other side. The period of transition, the era which is generally called post-Communism ended some time ago in Hungary. Our political and legal institutions have been rebuilt to the pre-communism, democratic tradition. We have been successful in providing for our national security as Allies within the framework of the North Atlantic Alliance. And our economy…!

Hungary's economy is characterised by dynamic growth and improving financial balance, economic efficiency and increasing prosperity, a sharp decline in inflation and unemployment. All simultaneously.

From the perspective of economic capacity and productivity, this year has further enhanced positive trends. The structure of the Hungarian economy has been modernised. It is adequate to that of developed countries: the share of machine industry exceeds 50 per cent, and over 80 per cent of Hungarian exports are realised on markets of developed countries.

We have a growth rate above 4% for the fourth consecutive year. Industrial boom continues uninterrupted, which goes accompanied with increasing domestic demand. A solid 5-6 per cent growth can be achieved without impairing external balance. The government is resolved to steadily continue the economic policy that has already proved to be successful.

But you know all of these.

I must say that we could witness a truly economic miracle similar to those we have seen in the Far-East. Therefore, some businessmen called Hungary the Pannon Tiger, a new dynamically growing economy.

As far as my country is concerned, we can say that we have done our part in the „sweeping", Hungary is balanced.

This allows me to go to my second point, that is, the meaning of a 'Europe balanced.'

Ladies and Gentlemen,

When we talk about the issue of balance, I see in front of my eyes, the statue of Iustitia, with her eyes shut, and a balance in her hands. Traditional symbolism associates balance with justice, truth, and judgement. Do you and I do too? Or do we simply think of — the balance of finance that our countries are dependent on.

A talent for history is said to be born, as our chief inheritance, with all of us. In a certain sense, all men are historians, (Carlyle) but the Hungarians are definitely. But I would not like to go back very far in history. It would be important however to see what we inherited in 1990. The historical changes the First and especially the Second World War brought in the European continent had a magnitude comparable to the fall of the Roman Empire 1500 years before. But was the outcome a "Europe balanced"?

It was not. I do not have to say this, history itself gave the answer in 1990 and since, with the "departure" of the European countries from the Soviet bloc and with the falling apart of some other countries that had been artificially created. The Cold War logic for Europe was exactly that there can be no balance in Europe, yet life has to go on. The EC and then the EU were brought to life to manage these circumstances.

One would only think that once the circumstances change, we take the opportunity to adapt the institutions as well. After 1990, the European segments of the former Soviet empire did not simply depart from the empire, but they launched major efforts, to reconstruct their national democratic institutions and market economies.

As a result, what we can see by 2000 is that a whole new belt of prosperity and rapid growth has developed from the Baltic Sea to the Adriatic. This is on the rim of the "institutional Europe", so to say, as has been all rapidly re-attaching and growing economic belts of Europe. That is what gives me trust and hope for a new, balanced Europe to come about on the continent.

But that is a vision. In the reality, when we talk about EU enlargment, we discuss money. And very few note what our honourable host, Deutsche Bank does, that the costs of enlargement are discussed far too often, and the expectable benefits are considered far too little.

And this is exactly my third point: The question of re-establishing the balance. In other words, would EU enlargement help, or would it only make things worse?

The shape of Europe today is the survival and the continuation of the cold war logic. Hungary and her neighbouring countries happened to fall on the wrong side of the Iron Curtain. The artificial division no longer makes sense.

I can only speak for the Hungarians, but in our national memory, we know that we belonged to Europe throughout our history, both in the economic as well as in the political and institutional sense of the word. We have added our talent and energies for the betterment of the continent throughout the centuries. We feel that for Europe's competitiveness to match the challenges of the world today, it will have to become a unity again.

We feel about our belonging to Europe as most Germans felt about the division of their own country. And we feel about our being out of it as Germans felt about their separation from the other half of their own homeland. Hungarians see their membership in the EU as a kind of a reunification.

Yet I have the impression that talking about the enlargement of the European Union is like walking on a tightrope. You face the danger of falling off on either side, saying too little is as dangerous as saying too much.

I shall here risk the latter. The situation in Europe today is far too lopsided. Economically the western part of Europe has free access to our markets and full opportunity to draw the yield of profitable investments made there. Yet politically and institutionally our region remains excluded. One does not need to be a rocket (political) scientist to understand that this imbalance between the economic and the political cannot be maintained for too long without hurting one or the other.

Ladies and Gentlemen,

The Europe of today is truncated, and it shall remain so until it incorporates those countries which traditionally belonged to it through culture and history. As long as Europe is not complete, we cannot say that all the wounds the cold war made are healed. There is still too much rhetoric, too little reality.

We Hungarians feel that the big chance of the Europe of today is to recreate the unity of Europe – balanced.

The future, I believe, is not something we enter, the future is something we create. A Hungarian author, Sándor Márai, who is becoming widely acclaimed across Europe, said that for creation you need feeling, passion, commitment. This may sound odd in an environment of bankers from all over Europe, but believe me, this sounds equally strange in an environment of politicians.

Ladies and Gentlemen,

It is said that wisdom consists of ten parts: one part speaking, nine parts listening.
Thank you for your attention and patience.

E-Banking without Banks? Opening Remarks

Bernd Fahrholz

Ladies and Gentlemen,

As far as I am concerned, the most important part of this panel´s topic is the question mark. Will there ever be banking without banks? Of course not. Perhaps Mr. Gates was on the look-out for a new stomping ground when he made this prophecy. Will there be an important and growing role for the Internet in banking? Well, probably.

It is beyond question: The financial services sector is profoundly affected by the rapid advance of information and communications technology. Many of the processes on banking and financial markets can be standardized and automated. Moreover, banking products are highly homogeneous. Savings accounts, deposits and loans scarcely differ from one bank to the other, even if the statements of account sport different colors. At the end of the day, distribution services and quality of advice characterize banks and determine their position in the market. Thus credit institutions profit from comparative advantages in gaining, processing and applying information.

But, more and more, new media are enhancing market transparency. The Internet provides information on money and capital markets for everybody, at any time and at low cost. The World Wide Web revolutionizes the traditional customer-bank-relationship, building a platform for "virtual" banks. The Internet offers direct access to a host of financial commodities, setting up a new distribution channel as a supplement to conventional "bricks-and-mortar" branches. Additionally, new technologies facilitate direct connection between potential buyers and suppliers of financial services. As a result, banks are tending to lose their classic role as an intermediary between demanders of capital and investors. This does not mean banks will not be needed in the future, but it does imply a change in business practice. Credit institutions will concentrate on providing their customers smooth access to capital markets.

Life is an ongoing evolution process. There is no exception for business or even banks. The challenge is to react to changes resulting from information and communications technology in the banking sector. As, without any doubt, these changes create stiffer competition.

For decades the need for establishment of a branch network represented a strong barrier to market entry. Especially for small institutions the cost of an adequate network had been prohibitively high. Now IT-innovations create the possibility to offer financial services to a large number of clients without a single branch. The upshot of this is that the number of competitors in the banking sector is mushrooming: Banks, near-banks and even non-banks are jostling into the banking market.

In this sense Bill Gates is right, of course, when he says "Banking is essential, banks are not." We can understand this as a comment on the fact that banks will no longer enjoy a monopoly in financial services. In the same sense he could say: "Computers and software are essential, Microsoft is not."

Whereas traditional universal banks supplied services from all segments of the value-added chain including each step from product development to distribution, many of the new competitors choose to specialize. They pick cherries, concentrating on those fields which they deem the most attractive and profitable. We speak of this process as "the deconstruction of the value-added chain." A striking example in this context is the success of online-brokers. Nobody had even thought of them at the beginning of the nineties but today they achieve remarkable market shares and intensify competitive pressure on established banks.

Ladies and Gentlemen,

Today I am very pleased to present to you a panel of individuals who should indeed be able to push the envelope on this topic. There is **Dr. Paul Achleitner**, since the beginning of this year on the **board of management of Allianz**. The mere announcement of Dr. Achleitner´s move from Goldman, Sachs & Co sparked a 7% increase in Allianz´ share price. Allowing this to speak for itself, I´d like to welcome Dr. Achleitner.

It is also a great pleasure to welcome **Dr. Ángel Corcóstegui Guraya**, **Vice Chairman and Chief Executive Officer of Banco Santander Central Hispano**. Dr. Corcóstegui Guraya had initially studied civil engineering before deciding to pursue a business career. It seems to have been a good choice as today he is one of the key people at Spain´s number 1 bank.

Our third panelist is **James Richardson**. Mr. Richardson was named **Senior Vice President of the Enterprise Line of Business at Cisco Systems** in April 2000. The company´s vision is that "the Internet will transform the way people work, live, play, and learn." Thus I am convinced that Mr. Richardson can provide some very interesting insights into the e-world. Mr. Richardson, we are glad that you could join us.

Our panel is completed by **Dr. Werner Seifert**, **Chief Executive Officer of Deutsche Börse AG**. With Xetra he introduced an electronic trading platform of internationally high reputation. The Manager Magazin characterized him as – I quote – "a manager who doesn´t avoid conflicts." This should guarantee a lively discussion. Welcome, Dr. Seifert.

E-Banking without Banks?

Paul Achleitner

Ladies and Gentlemen,

Today's subject "E-Banking without Banks?" seems to imply, that our panel is supposed to discuss the possibility of a doomed financial services industry – or at least a future financial services industry without the currently incumbent players. The organizers of this panel have done us the favor to add a question mark at the end of the phrase, presumably to give us the opportunity to disagree.

It is also obvious that the question was posed early in the year when everything had to be "e" in order to attract attention. A time when most executives felt the need to prove that they have understood the new trend by either committing substantial additional funds to invest in „e"-projects or by reclassifying traditional IT-investments into „e"-investments.

Don't get me wrong, I do not want to belittle the importance of the internet – there is no question about the influence that this technology has on our business and our society at large. It is already leading to a significant reconfiguration of the value chain of many businesses as well as to a massive shift in relative influence towards consumers and clients. But in my view it is more like the telephone – a fundamental shift in behavioral patterns, but one that does not per se create a sustainable competitive advantage because ultimately everybody uses the telephone.

The question of course is who can win either by early adoption or by wide application. Interestingly enough two rather bipolar mainstream views seem to have developed on the influence of new technologies on the financial services industry. The "guerilla" school of thought assumes that new, aggressive and technology-savvy competitors emerge – or have already emerged – and that they are snapping away the lucrative pieces of business from the too-slow-to-respond established players.

The "empire strikes back" school of thought argues that only some very limited pieces of business can be captured by these new entrants and that the incumbent institutions have the necessary financial means, the brand and the client relationships to easily embrace all challenges. As usual the right answer will be in the middle – there will be some (I submit to you fewer than most think) new entrants as well as some leaders and laggarts among the incumbent providers. But they will all be using the net aggressively.

As all banking therefore will be „e“-banking, allow me to change our topic into „banking without banks?“ Will banking in the future be done without banks, because technology facilitates such a development?

In order to address that question one would have to agree next on what one means by “banking.” Are we talking about retail/individual banking or about wholesale/investment banking? Are we looking at production or distribution of financial products?

On a macro level one can argue there are five different categories of financial needs of the retail and wholesale market:

- Saving and investments
- Credit facilities and financing instruments
- Risk transfer (insurance and hedging)
- Transaction processing
- And complementary to the preceding four: Information and advice.

Given this range of product categories, the customers' behavior and their willingness to pay for the respective services either separately or bundled are the key drivers of banking evolution.

There can be no doubt that many financial services are becoming commoditized. Take for example payment services or updates of the current financial status in the retail banking area. These have to be provided on a 24 by 7 basis from any point in the world. At the same time it is not something customers are willing to pay a special premium for.

A similar but more dramatic situation exists on the B2B side – the institutional business. I assume Werner Seifert will tell us more about ECNs, computerized trading flows and the way „new entrants“ remove exchanges and banks from their privileged position „in the flow“ which used to be so lucrative.

Even the „content“ elements such as research – while still important and highly expensive to produce – have become a sine qua non which clients expect for free. Maybe, just maybe because they do not really take these recommendations seriously anymore – relying more on their own buy-side view than on the sell-side analyst, whom they suspect to have been influenced by their own investment banking colleages. Without being the real cause, obviously the easy access to information via the net accelerates that trend.

Customers behave differently. Let us take the retail market as an example. Individual customers are to a different degree able and willing to manage their financial situation on their own.

The self-directed customers need little guidance in order to purchase the optimal set of financial instruments. Seeking and choosing the right products and providers, these customers are looking for the commoditized raw elements of financial services in order to package them on their own.

Not surprisingly, these customers are highly price sensitive. Offering products to this market segments requires cutting-edge technology and high volumes in order to make a profit. Who provides these services – a traditional bank or a search engine – is of limited importance.

In contrast to this, the purchasing pattern of the advice seeking customers relies on some form of help from a financial professional. The customers don't want to spend a large amount of effort on buying the "right" financial products.

Given the steadily increasing range of new products and services, the need to obtain professional financial advice is rather increasing instead of decreasing. The need for tailored (!) financial advice is a key driver of growth and profitability for the service providers. And advice will for the foreseeable future be delivered by people.

As the pure telephone banks were only able to capture a rather tiny market share, the same applies to pure internet providers. Most customers are looking for some form of human touch. The actual distribution networks can come in the stationary form of branches or investment centers as well as in the mobile form of an agent or financial planner network.

The majority of customers are looking for advice and human touch for some very simple reasons: they don't have the time to make use of all the "raw" financial news or even the prepared research opinions. Alternatively, their individual financial situation is simply too complex to be understood by a non-financial expert or fit the standard algorithms of a search engine.

And finally, many people are simply not interested in dealing with these matters at all. So advice needs to be specific and more or less tailor made – and technology can help to achieve that. It allows the advisor to become more efficient and it allows the client to do simple transaction tasks with easy-to-use on-line applications on their own.

The most value-enhancing strategy therefore becomes a multi-channel distribution which includes web-enabled tools for the advisors and the possibility to use different communication media for the customers. The born-on-the-web new entrants have understood this trend and are starting to develop a network of physical presence.

The incumbent banks have become more comfortable with their branches – as long as they can be downsized and web-supported. As a recent convert I cannot resist the temptation to point out that the mobile sales-forces with multi-channel support probably capture the highest valuation rankings in the market.

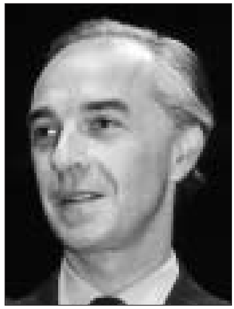
The critical part here, however, is branding. Besides competent people and systems you need a brand in which people trust. The net world is following what one might call "the economics of attention", i.e. given the massive overflow of information, people need a selective filter – and well established brands can be just that. This is the chance for many incumbent banks but also others that have such brands.

To summarize:

We might have banking without banks but certainly not without bankers!

Or in new economy speak: we are moving from "bricks and mortar" to "clicks and mortals."

E-Banking without Banks?



Ángel Corcóstegui

■ First of all, I would like to say that it is an honour to be here and to share this panel with such distinguished speakers. I am extremely grateful for this opportunity to express my opinion on a matter which I consider today to be of paramount interest in the financial and banking world.

■ In this panel, the question has been raised of "E-banking without banks?" which is the object of an intense debate in the financial arena. And this is so because the Net has effectively opened up financial activity to new entrants, as it has abolished the barrier of major investments in fixed assets – bricks and mortar – and the barrier to customer access. The debate centres on whether these new, lower-cost competitors will dislodge the incumbent banks from e-finance. In a nutshell, who the financial winners in the Net will be.

■ However, before analysing who is best suited to conquer the Net, I think a short reflection on the very future of e-finance is appropriate in order to weigh up just what magnitude of business we are talking about and whether in the future it will represent a significant or merely a marginal percentage of financial activity.

■ My opinion is that e-finance has enormous growth potential and that banking activity via the Net is destined to play an outstanding role in the years to come. I will now briefly outline my reasons for this conclusion:

1. First of all, by its very nature, financial activity offers the necessary conditions for its implementation in the Net and accordingly, facilitates its development. Hence, financial products and services are easily digitalised, intermediation has an enormous impact on all business areas and information is a key factor, with the result that banking meets all the crucial requirements to develop activity via the Net.
2. Secondly, its attractiveness to customers. E-finance offers them greater ease of access – Internet is within their reach at home, at work, on their mobile telephones – better prices, direct operations, quicker responses and lack of errors – in other words, better quality of service.
3. The third reason lies in the advantages which e-banking offers to the suppliers of financial services themselves, since it is more cost-efficient, opens up new business opportunities (B2B, B2C), and above all, greater customer access-point potential, something

with which no other channel can compete. In Europe, branch networks offer banks 160,000 customer access-points and ATMs, 400,000, whilst the Net, via PC, digital TV or mobile telephone, provides more than 300 million access points.

4. The fourth reason is the gradual reduction of risks and doubts surrounding e-finance, thanks to the progress being made within the regulatory framework of the Net and the steady improvement in its security conditions (electronic signatures, exclusive cards for the Net).

5. And finally, the very development of the Net, both in relation to its capacity and its technological support, as well as its ever-increasing popularisation.

■ As a result, e-finance is destined to develop progressively and in the future will account for a significant part of financial business. In fact, certain estimates (JP Morgan) indicate that by the year 2003, 15% of sales of financial products and services in Europe will be made on-line, implying a business of 442,000 million euros. Who will the winners be in this segment of activity? Who will be in the best position to attract the e-finance business? Will the incumbents be capable of successfully taking on the challenge of the Net, or will they be dislodged by the new entrants?

■ The incumbents already have significant initial advantages to successfully compete in the Net: customers, brand names, reputation, experience, resources and furthermore, strategy:

1. In the first place, banks have customers, and what is more, they know them very well.
   - Banks already have a large customer base, which is a highly valuable initial advantage, because the attracting of customers is very expensive. This large customer base guarantees banks an Internet traffic which others will have to create.
   - And also, banks have a vast amount of customer background information at their disposal; they know their customers well and can detect their needs and demands on-line. Banks have the advantage of being able to make attractive value proposals via the Net.
   - Moreover, banks offer the possibility of a multi-channel relationship and a full and integrated range of financial products, both of which are highly valued by customers. Today, the banking sector's multi-channel distribution is the widest in the financial market, consisting of a complete and integrated network (with segmentation strategies).
2. Banks have brand names – reliable, long-established names which are easily recognised.
   - A brand name is necessary to compete in the Net. Building up such a name makes heavy investment demands on new e-finance entrants.
   - Furthermore, a brand with the attributes of solvency, guarantee and reliability demanded by financial customers and for which banks are renowned as a result of their centuries-long experience in finance.

3. Banks have experience.
   - In order to confront e-finance, banks have the initial advantage of centuries of experience in the financial field. Experience which is highly valuable in activities such as the handling of collections and payments on the Net, one of the areas in which e-finance has most growth potential. This experience is highly valued by potential technology partners and is vital for developing alliances with them.
4. Banks have resources.
   - The incumbents are the entities with the most resources to take on the leadership challenge in the Net. E-finance demands technology and capacity, which involve large investments. Thus, for example, according to estimates, banks will devote more than 15,000 million euros to e-banking-related investments in the year 2000 (KPMG estimates published in The Banker).
5. And finally, banks have strategy for e-finance.
   - Not only have the incumbents proved that they are not dinosaurs, but also that they possess the speed and flexibility necessary to adapt to major changes. They are now fully aware of the revolution which the Net represents in the business of finance and are developing strategies in order to compete. Indeed, all the major entities have already defined these strategies. In some banks, they are restricted to promoting the potential of e-banking as a distribution channel; in others, to developing exclusive brands for e-finance. Some banks have opted for alliances with technology partners in order to directly participate in specific business lines on the Net, whilst others have established an overall integrated strategy which co-ordinates all the aforementioned possibilities.

■ These initial advantages guarantee the potential of banks in e-finance. The vast and essential base and the strength in the business of finance which banks already clearly have constitute a good starting-point. But they do not guarantee success. Only those who do things right will also triumph on the Net.

■ And in order to do things right on the Net, banks will have to act. Rethink their traditional business models and also invest in new models. Even to carry on with their usual business, banks will have to confront changes. If suppliers and customers are becoming increasingly more Net-operational, then the online relationship becomes a must for banks. Furthermore, the fact that the Net has fragmented the value chain, establishing new benchmarks in each link (information, advice, generation, products, distribution), forces banks to implement business changes in order to be competitive both within and outside the Net.

■ Among other things, this requires the hiring of professionals with the necessary talent to succeed in the Net, the establishment of alliances (especially in the area of technology), a greater demand for efficiency, and adjustment to a new “time to market”, objectives in which the Internet will be the key tool.

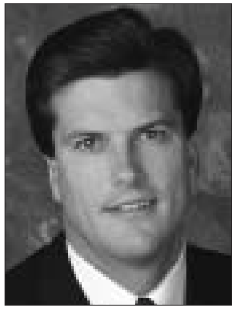
■ However, new e-financial services intermediaries are already becoming established on the Net – competitors with few, or even no, bricks and mortar, with the advantage of lower operational costs than the incumbents. These new competitors – of which there are already many examples, such as Patagon, ConSors, E*TRADE, Charles Schwab, Comdirect, etcetera, – also have a place on the Net if they develop an attractive business model which attracts customers and is profitable. I wish to stress the importance of the need for these new financial service-providers to be economically and financially viable.

- Among these new e-intermediaries, there will undoubtedly be specialists, since the Net offers a great business opportunity in the most "commoditisable" products. Businesses such as brokerage, credit cards, the marketing of mutual funds run a great risk of "leakage" in the Net and the competition among online intermediaries will be fierce. But there will also be new name brands which will triumph and become real financial sites on the Net.
- In order to succeed, these new e-intermediaries need clear strategies – resources to finance investments in brand, technology and in some cases, a few "bricks and mortar", since it has been revealed that even on the Net, some customers prefer a minimum physical presence. Thus, "bricks and mortar" could count when attracting customers – at least when making the initial contact – even though such customers may eventually develop their operations online. And like banks, the new e-intermediaries which succeed in their strategy will also have well known financial sites on the Net.
- Both models are valid and are compatible. There are no initial winners: the only sure thing in the Net is the need to "do battle."
- Therefore, we incumbents cannot afford to be over-confident, should not lower our guard. We must react. And that is what we have done in Banco Santander Central Hispano: the Bank is fully adapting itself to the Net, developing corporate intranets, "internetising" its processes and including online operations in its multi-channel offer. And in addition, we have placed a global e-financial services intermediary (Patagon) in this new "only web" financial site which is already operating in Spain, in Latin America, the U.S.A. and soon in other European markets.

E-banking will have a growing impact on financial activity and the victors in this business will have names. It will not be just a question of being an "incumbent" or a "new entrant", but of getting things right. Knowing how to develop a strategy capable of attracting customers and making them profitable.

Ladies and Gentlemen, thank you very much.

E-Banking without Banks?



James Richardson

A number of industry pundits in the mid 1990's started questioning the role of banks in a world where intermediaries could be bypassed by the new online technologies. Some years later the evidence is that of course banks still have the major role to play with brand being key. The trick is for banks to focus on the biggest opportunities that new technology brings, whether internal (e-enablement) or external.

The biggest threat in E-Banking seems to be coming from non-banking "old world" competitors such as insurance companies using online banking as a way to enter the market. As retail banks across Europe shift their focus from the old product silos of retail finance to the more lucrative wealth management business, this change in the competitive landscape will accelerate. Those standalone banks that need to spend heavily to build brand, recruit customers and lack the broad product spectrum of their established competitors are facing strong challenges.

Cisco Systems is not only the leading networked business model but also an established E-enabling partner with the leading global financial institutions. In summary, we believe that banks need to keep exploring how to improve their use of the new economy by:

- Developing products faster online and with third parties by virtualising their supply chain;
- Focusing their business on the customer, with all parts of the bank knowing about the total relationship, i.e. all products and services integrated, not several standalone product offerings;
- Managing risk during a period of rising consumer debt and increasing transactional exposure (market volatility), with internal processes optimised through the use of online solutions such as real time asset and liability management;
- Developing short-term projects to deliver medium term strategies, not long-term projects to deliver ever-changing strategies!

Cisco background

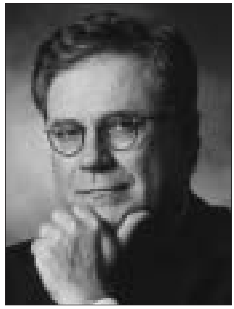
Cisco Systems is the worldwide leader in networking for the Internet. Cisco's networking solutions connect people, computing devices and computer networks, allowing people to access or transfer information without regard to differences in time, place or type of computer system.

Every day, Cisco and its customers are proving that networking and the Internet can fundamentally and profitably change the way companies do business. Cisco describes this change in the »Global Networked Business« model. A Global Networked Business is an enterprise, of any size, that strategically uses information and communications to build a network of strong, interactive relationships with all its key constituencies.

The Global Networked Business model leverages the network for competitive advantage by opening up the corporate information infrastructure to all key constituencies. The Global Networked Business model employs a self-help model of information access that is more efficient and responsive than the traditional model of a few information gatekeepers dispensing data as they see fit. Cisco itself is a leading example of a Global Networked Business. By using networked applications over the Internet and its own internal network, Cisco is seeing financial benefits of nearly $1.4 billion a year, while improving customer/partner satisfaction and gaining a competitive advantage in areas such as customer support, product ordering and delivery times. Cisco is today the world's largest Internet commerce site, with 90% of our orders transacted over the web.

Cisco is one of America's greatest corporate success stories. Since shipping its first product in 1986, the company has grown into a global market leader that holds No. 1 or No. 2 market share in virtually every market segment in which it participates. Since becoming a public company in 1990, Cisco's annual revenues have increased from $69 million in that year to $18.9 billion in fiscal 2000. As measured by market capitalization, Cisco is among the largest in the world.

E-Banking without Banks?



Werner G. Seifert

Ladies and Gentlemen,

Let me admit how big my relief is that I do not have to talk about eTrading without exchanges. I can take a somewhat voyeuristic view on the challenges that others face. And in doing so I ask you the question: When were you last in a branch of your bank? Could you imagine the person behind the counter welcoming you with the words: " You are the most capable person alive to manage your money. This stuff isn't rocket science; we all just need to learn together. Being smart about your money can be a lot of fun... really! You can make a fortune doing it. " I can't envisage a traditional bank teller welcoming you that way. This was fool.com - this is the initial page of their website and this is how they welcome visitors. Something is going on.

To put this into perspective, let me for a minute remind us of the traditional banking business roles. You basically can summarise them under three headings: the advisory business (private banking, IPO advisory, other corporate financial advice); the risk-taking and transformation business (IPO underwriting, loans, trading on an own account); and finally transaction processing.

Now what has happened over the course of the last year? E-Commerce has had a fundamental impact on information costs, global reach, the structure of existing and new business models and the relative purchasing power of buyers and sellers. We see the unbundling of existing business models. We see how businesses use an immediate global reach, we see the reduction of information costs to almost zero and we see the creation of new, focused business models. And this translates into three strategic imperatives: first, more price and market transparency; second, more efficiency and higher productivity; and third, greater effectiveness through more focused business models.

Now how can you link the three strategic imperatives to the three core functions of a bank?

In terms of the advisory business, it's transparency. If you look at the risk-taking and transformation business, it's effectiveness which is called for. And if you look at the transaction processing, it's efficiency which will decide the game.

Let's start with the advisory business. Do you remember the time when, on the bookshelf in your office, you had Handbuch der Großunternehmer, Moody's Hand

Copy, statistical yearbooks, Verbändeführer- all those useful books. Today you dig out this information from OnVista or fool.com, you use Quicken. So what basically happened? First is there is no more value-added in mere information gathering. Navigating a more complete data world becomes key and the real value-added is in selection, judgement, and trade-off decisions.

Second, the risk–taking part of the business: In risk management, new business models support faster and more efficient risk transformation directly from the originator to the end investor, by-passing traditional intermediaries. Net IPO is one example, the loans which you can get from CapitalOne are another example, and Knight Trading is a prototype of an online market maker. So we have to package risk in a different way. We have to use more standardised instruments. We have to do the placement directly from the originator to the end-investor. And finally, don´t hope any longer for a premium or a multiple for intermediation and distribution activities.

The third core role, the transaction processing: we see eCash, Paybox Systems, eTrade, Instinet, Euroclear. And the lesson learned here is: fully electronic processing reduces friction costs. Lower transaction costs directly translate into higher productivity, and lower costs also trigger more volume growth, for instance in supporting thinner margin arbitrage.

So what is the conclusion of all this? Quo vadis banking? It will become more personalised and more adaptive. To survive and compete in the new online world banks have to change and adapt to new business models. There will be no more premium intermediation or distribution. Second, there is a megatrend towards personalisation and privacy. Also a traditional role for private banks. And finally, any financial business and e-business must be built on trust and branding which gives nimble incumbents a strong starting position in the coming race. E-Banking without Banks? E-trading without exchanges? This is a question we all have to address. Thank you.

E-Banking without Banks? Closing Remarks

Bernd Fahrholz

Ladies and Gentlemen,

Let me summarize some of the central points of this panel´s topic “E-Banking without Banks”. E-Banking is one of many revolutionary offshoots of information and communications technology during the past decade. But what are the key implications for banks?

First of all, with the decrease in transaction costs barriers to market entry have fallen significantly. With E-Banking, it is no longer necessary to build up a costly network of branches to reach out to new customers. Therefore, one of the biggest competitive advantages of traditional banks is being eroded. They face more competition from pure Internet-based financial institutions and direct banking. Moreover, the Internet is a huge source of information. Customers are able to compare services and prices among different banks from their computer screen at home.

Hence, secondly, the information gap between bank and customer has shrunk in many a respect. The fact that customers are only “a mouse-click away” from switching allegiance to another bank has squeezed margins.

Third, electronic disintermediation of the financial commodity market means that the distinction between banks, fund managers and insurers will become blurred.

This is just a small extract from a long list of the effects of E-Banking on banks. But it already shows that the pressure for change is enormous. And, on the Internet, change spreads like wildfire.

From what I have said so far, it would appear that E-Banking has nothing but drawbacks for the traditional universal banks. Of course, E-Banking challenges us. It enforces a withdrawal from the traditional universal concept of banking. We have to remember our core competences and focus on them. In my opinion, most of the big financial institutions are well prepared to meet the challenge of the Internet. They have already developed an “Internet strategy” and implemented the latest technology and Internet-related services. And in contrast to “virtual banks,” they already have large customer bases and brands in which their customers trust.

The Internet brings many new opportunities for traditional banks. It generates new ways of cutting costs and of marketing financial products more efficiently. Furthermore, it facilitates the distribution of standardized products beyond national borders. To exploit these opportunities, banks must adapt to changes in retail and wholesale banking, triggered by new customer preferences and altered corporate financing behavior.

Financial services in retail banking, available on the Internet for some time now, are still standardized and virtually the same for all customers. To stand out from the pack, banks must compete with the quality and depth of their service. Therefore, it is necessary to expand the range of services to more specialized tasks. The interaction between bank and customer on the Internet needs to become more intimate. Of course, this "one-to-one-banking" is not going to replace branches. But it is a good way to supplement the personal advice.

Companies, nowadays, have to face increased competition and a transformed environment where more and more business is conducted electronically. Consequently, their demands on financial services have changed. Responding to these demands, banks are developing electronic market places, establishing Internet portals and offering security services for E-Commerce. I am absolutely convinced that financial institutions are able to excel themselves in these fields. They have built up a vast pool of knowledge and act as trustworthy partners and advisors. For that reason, E-Banking will be unthinkable without banks in the future.

Euro Second to (N)one
Key Note Address

Willem F. Duisenberg

First of all, I should like to thank the organisers of this European Banking Congress for inviting me to speak before such a distinguished audience. I intend to deal with the two major topics of today's discussion, namely European integration and international financial market developments, by addressing the role of the euro as an international currency.

The title of this session, "the euro second to one" or "second to none", is certainly appealing, although it might be more apt for a beauty contest than for a cool-headed assessment of the role of the euro. It is true that, in the past, some economists advocated a Darwinian-style competition among privately issued currencies, resulting in the survival of the fittest.

However, developments so far have confirmed that the use of currencies, both domestically and internationally, remains very closely associated with state sovereignty. This holds true for the euro, which has been described by some as "a currency without a state". I shall return to this aspect later in my presentation. Given this link to sovereignty, the use of a currency is very much influenced by public policies, even in the current market-friendly environment created by increasing globalisation. It is true that public policies are subject to constant scrutiny by the financial markets, which introduces an element of competition among these policies. I personally see this market discipline as a sound incentive to pursue the right policies. As such, one could consider the international use of the euro as one yardstick among others against which to measure the appropriateness and credibility of public policies conducted in the euro area.

I should like to concentrate on these policy aspects in the first part of my presentation. Then, although statistical evidence remains scarce at this early stage of the euro's development, I should like to review briefly the international use of the euro by the private and official sectors.

Does the international role of the euro matter?

The first question I should like to address concerns the ECB's policy stance with regard to the international use of the euro. This is a legitimate question, especially as some countries have tended to promote the internationalisation of their currency in the past.

Such a promotion policy was motivated by several factors, including increased income from seigniorage, easier financing of balance of payments deficits and enhanced opportunities for the development of domestic financial markets. Nevertheless, these potential advantages should not be overrated. The additional seigniorage revenue generated by the international use of a currency remains limited. For the most widely used international currency, the US dollar, seigniorage originating from the use of the dollar by non-residents is estimated at around 1% of GDP. As for balance of payments financing, the international use of a currency may alleviate the external constraint for some time, but it cannot free an economy from market discipline. Finally, the development of the domestic capital market can be seen as a precondition as much as the outcome of the international use of a currency.

There are also historical examples of countries that resisted the internationalisation of their currency, particularly in view of increased uncertainties in the conduct of macroeconomic policies in general and monetary policy in particular. For its part, the ECB has adopted a neutral stance. It considers that the use of the euro as an international currency is and should remain the outcome of economic and financial developments and policies inside and outside the euro area. The ECB holds the view that it would be neither feasible nor desirable to directly promote or hinder the internationalisation of the euro.

This should not be interpreted as implying that the international dimension of the euro is irrelevant to the ECB. Indeed, there is at least one reason to monitor the international use of the euro, namely to take into account potential spillover effects on monetary policy. In particular, one can imagine that the internationalisation of the euro may have an influence on monetary policy transmission mechanisms. International developments in the use of the euro can enhance the breadth, depth and efficiency of euro area financial markets and lead to a reduction in transmission lags. It is also possible to imagine that monetary aggregates may become more difficult to interpret when part of the money stock is held outside the euro area.

However, the impact of the internationalisation of the euro on monetary policy should not be overemphasised. First, economic theory and historical experience suggest that the international use of a currency tends to change only very gradually over time. Second, the ECB's monetary policy strategy is sufficiently robust to take into account and accommodate potential implications of the international role of the euro.

Apart from its monetary policy implications, the international use of the euro may also provide a yardstick with which to assess the appropriateness and credibility of public policies conducted in the euro area. Of course, the euro can in part rely on the track record of its 11 legacy currencies. At the same time, the euro is a new currency used in the second largest economic area of the world. This size factor, particularly as far as the euro area capital markets are concerned, may influence cross-border uses of the euro, both by residents and non-residents. The internationalisation of the euro will be affected by the soundness and credibility of the economic policies pursued in the euro area.

This leads me to touch upon the notion of the euro being "a currency without a state", which I mentioned in my introduction. In this respect, one has to recognise the uniqueness of the overall policy framework in the euro area. It combines monetary policy conducted at the Community level with other macroeconomic and structural policies that remain national competencies. I do not see this unique policy framework as a factor which potentially hampers the acceptance and use of the euro domestically and internationally. Such a framework is consistent with the current level of institutional and political integration in the Community. Even if it may arguably be improved, it has already shown its effectiveness, based on some basic principles. I should like to recall just three of those principles that are of relevance to my presentation today. First, a clear assignment of policy responsibilities, both in terms of well-defined objectives and appropriate means to fulfil them, is required on grounds of efficacy, transparency and accountability. With regard to monetary policy, this is ensured through the ECB's independence in defining and implementing the euro area's monetary policy and related functions. Second, there is a need for the co-ordination of fiscal and structural policies that are conducted at the national level. In this respect, and without prejudice to their sovereignty, the Member States are increasingly taking into account a euro area-wide perspective when preparing their national policies. Third, this co-ordination should be based on best practices through the selection of those elements of national policies that are commonly regarded as being most efficient. This approach is broadly similar to the one used to design the ECB's monetary policy framework, drawing on the track record of the national central banks.

Evidence of the international use of the euro by the private sector

Turning to less policy-related and more factual considerations, I should now like to recall briefly some developments in the international role of the euro since its introduction at the start of 1999. I shall begin with private sector use and shall then turn to the public sector. At the outset, let me make two preliminary points. The first is that my overview will only be partial, as statistical information is not available for all international uses of the euro. The second is that the flamboyant rhetoric used in some quarters to present the euro as the competitor of the US dollar may have generated false expectations that the international role of the euro would develop dramatically from the date of its creation. As emphasised from the beginning by the ECB, these expectations were unjustified. History teaches us that the internationalisation of a currency is a gradual process.

Starting with the overview of private uses, I would consider that the role of the euro in financing and investment operations by non-residents is one of the most interesting aspects. Moreover, it is of direct relevance to today's audience, which consists of many prominent participants in the international financial markets.

The most complete data are available for the financing side. Statistics on international debt securities show that net issuance by non-residents denominated in euro doubled between 1998 and 1999. It was particularly strong in comparison with other currencies. Figures for the first half of 2000 indicate continued strong activity in euro-denominated securities issuance, although there was a moderate decline from the peak reached in 1999. This compares with fairly low issuance of Japanese yen-denominated paper. Interestingly, euro-denominated debt securities issuance had a variety of origins, with approximately 75% of borrowing originating from non-euro area advanced economies such as the United States, the United Kingdom, Sweden and Japan. The remaining 25% of issuance stemmed from emerging market economies. Moreover, both private and public sector issuers were active.

Developments have been more subdued in the banking sector, where euro-denominated liabilities in total cross-border liabilities witnessed a moderate increase, with a share of around 20%. Here again, the euro comes second to the US dollar, in which more than 50% of outstanding cross-border bank liabilities are denominated. The yen ranks third with a share somewhat below 10%.

Turning to the assets side, we come to the use of the euro as an investment currency. Unfortunately, statistical evidence is generally limited here. An analysis conducted by the ECB indicates that there was some growth in the use of the euro as an international investment currency over the course of 1999. In the banking sector, the volume of international assets denominated in euro increased only slightly, roughly in line with developments on the liabilities side.

One might try to examine the link between the role of the euro in international financial markets and recent trends in the euro area's balance of payments. Of course, there is no one-to-one correspondence between the two concepts. Nevertheless, one can observe a correlation, or co-movement, between the international role of the euro in financial markets and the euro area financial account. In particular, the euro area capital outflows in 1999 are consistent with indications that the euro was used more as a financing than as an investment currency. Likewise, smaller net capital outflows in the first half of 2000 would also appear consistent with a more balanced use of the euro as a financing and an investment currency. These findings are still preliminary, but they confirm the relevance of developments reflecting the international use of the euro.

Let me now touch upon some other international private uses of the euro. Examples are the role of the euro as a payment currency in the exchange of goods and services, as an invoicing currency in international trade, as a vehicle currency in foreign exchange markets and as a quotation currency in international commodities markets. Despite the scarcity of reliable statistical evidence, a few observations can be made. First, the US dollar continues to play a leading role in these areas. Second, rapid changes cannot be expected, as these functions of an international currency are driven by scale and network effects and therefore tend to develop only slowly over time. Third, the euro has a prominent role in those transactions that directly involve euro area residents. For example, the euro tends to be used for invoicing or payments linked to trade flows to or from the euro area.

Rounding off this overview of the international use of the euro by the private sector, I should also mention foreign currency cash holdings in a number of Central and Eastern European countries, in which the Deutsche Mark takes the lion's share. These cash holdings will be converted into euro as the banknotes and coins are introduced in a year's time. The stability of the euro indeed makes it an attractive medium of exchange and store of value for the general public in countries that have a history of unstable prices. Nevertheless, as confidence grows in the domestic monetary policies conducted in these countries, this specific international role of the euro should not develop further.

Evidence on the international use of the euro by the public sector

Not only the private sector, but also the public sector may use the euro as an international currency. This encompasses the use of the euro for official reserve holdings and as a reference currency for exchange rate arrangements. Statistics related to official reserves were published in the most recent International Monetary Fund's Annual Report, and indicated that the share of the euro was around 13% at the end of 1999. This is comparable with the weight of the legacy currencies one year earlier. The fact that stability is prevailing is consistent with the notion that central banks tend to be conservative in managing their reserve holdings.

Remaining in the sphere of international official reserves, the International Monetary Fund has recently decided on a new valuation method for the special drawing rights (SDRs), which comes into force on 1 January 2001. The SDR basket traditionally comprised five currencies of individual countries, including the Deutsche Mark and the French franc. The weight of each currency in the basket was determined on the basis of trade and financial data of these countries. In order to reflect the new economic area resulting from the introduction of the euro, the SDR basket will henceforth include the euro, instead of the Deutsche Mark and the French franc. Its weight will be based on the importance of the euro area as a single economic entity. Similarly, the EURIBOR will be substituted for the German and French national interest rates in the determination of the SDR's interest rate. These modifications underscore how the official international financial community is gradually adjusting to the new reality of the euro.

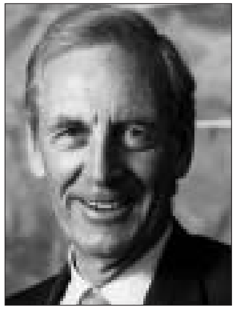
As a last point, let me deal with the use of the euro as a reference currency for exchange rate regimes adopted by third countries. Today, over 50 countries are managing exchange rate arrangements that include a reference to the euro. This involves a variety of regimes, ranging from very tight pegs (i.e. currency boards) to managed floating policies. Geographically, these countries are located on the European and African continents. This is a difference with the US dollar, which is also used by a few countries outside the Western Hemisphere. The intensive trade and financial links with the euro area are the main factor behind the choice of the euro in the definition of exchange rate policies. For some countries, the European Union accession process provides an additional impetus to select an exchange rate arrangement based on the euro. I should highlight that the choice of a euro-based exchange rate arrangement is a unilateral decision, and does not involve any commitment on the part of the ECB. However, this use of the euro as a reference currency may be seen as a sign of confidence in the stability-oriented macroeconomic policies of the euro area.

Conclusions

Summarising almost two years of experience with the euro, one might consider that it has started playing an international role in line with the economic and financial size of the euro area in a rather smooth manner.

As I have highlighted today, developments in the international use of the euro are, of course, only gradual. Nevertheless, looking ahead, one can expect the international role of the euro to develop further. An established track record of the Eurosystem with reference to its primary objective of price stability and continuing integration of financial markets in the euro area will undoubtedly contribute to the further internationalisation of the euro.

Regulating European Financial Markets



Martin Kohlhaussen

Ladies and Gentlemen,

The euro is the most recent step towards Europe's economic integration. Undoubtedly, it's an especially important one. However, the currency shouldn't cause us to ignore the real economy. A functioning single market is also crucial for the wealth and cohesion of the 15 EU members. Now, almost eight years after the single market was officially declared to be complete, however, we notice that in many areas it is still not complete.

And even where the principles of harmonisation, mutual recognition and cooperation have already been largely implemented, major tasks remain to be tackled. This holds true for the financial markets in particular. They are changing more quickly than ever, making the search for adequate regulation of the financial markets a constant task. For this reason, we have a panel devoted to the topic at this year's European Banking Congress as well.

It gives me great pleasure to introduce the panellists:

- Baron Alexandre Lamfalussy, professor at the Université catholique de Louvain and former president of the European Monetary Institute (EMI). A few days ago, he presented the initial report of a group of experts designed to show how the integration of the EU's securities markets can be completed.
- Secondly, I welcome Sir Howard Davies, chairman of the Financial Services Authority in London (FSA). As far as the single market is concerned – rather than the currency – the perspective from across the Channel is not really an »outsider's view«. But we all know that we can always expect a fruitful discussion if we're confronted with the London view of things.
- Thirdly, we are joined by the president of the Bundesbank. Mr. Welteke can enrich our panel by presenting the view of a monetary authority which is not – or not yet – directly responsible for financial-market supervision, but whose expertise can make an important contribution to a sound discussion on financial-market regulation.

Before the statements and questions lead us into the details, let me briefly outline the dimensions of the topic. I think that six of them are especially important:

- First, we have to distinguish between current supervision and prudential regulation.
- Second, we should ask whether the authorities have to converge – or should the regulations do so? Do we need mergers of institutions or a convergence of rules?
- Third, we need to discuss whether supervision calls for cross-sector institutions, or whether cooperation between separate authorities is enough.
- Another question in this connection is whether financial-market supervision is a task for central banks, or are special supervisory authorities needed?
- Fifth, how can we realise adequate solutions on a cross-border basis as well? The home market for many market participants has long been the European Union. What does this mean, for instance, for the familiar »country-of-origin« principle and the single »European passport« for financial companies? Do we need European supervisory authorities, or is bilateral cooperation sufficient between national supervisors, based on memoranda of understanding?

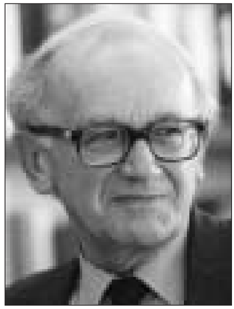
At this point, I want to point out that we shouldn't restrict the focus of our topic »Regulating European Financial Markets« to Western Europe. Rather, we should also include Central and Eastern Europe in our discussion.

- A sixth and final dimension is of a fundamental nature. In seeking optimal solutions, we have to distinguish between the three main goals of financial-market supervision. The systemic risk is closely bound up with the question of the lender of last resort. A second point is the area of prudential control – above all, indirect investor protection through the supervision of market participants. And then there is consumer protection by monitoring the conduct of business.

As you can see, a broad field lies ahead of us. We are fortunate to have acknowledged experts for all these questions with us today.

Regulating European Financial Markets

Baron Alexandre Lamfalussy



May I start by summing up our Committee's proposal for a four-stage regulatory approach at the European level:

Level 1 – Broad framework principles should be enacted in accordance with traditional EU legislative procedures: acting on the Commission's proposal, there is co-decision by the European Council and the European Parliament.

Level 2 – The operational definition of these principles and, most important, adjustment of these definitions to market developments, should be delegated to a new Securities Committee, supported by a Committee of EU Regulators – in line with the EU's existing procedures – with input from market practitioners.

Level 3 – Member states have the responsibility to implement Community law. But in order to avoid inconsistent implementation a framework of strengthened co-operation and networking between national regulators is needed. Peer Review has a role to play.

Level 4 – The European Commission has to considerably strengthen its work on infringements of Community law and ensure that there is open and fair competition in European financial markets.

I would like to make four additional points:

First, that – if there is political will – this approach could become operational from the beginning of 2002. Second, that it should be fully accountable to the European Parliament. Third - and this is an integral part of our proposal - that a continuous (half-yearly) monitoring process will be necessary to evaluate how it is working. A full review should be made around 2004, or earlier if the monitoring reveals that it is failing to deliver the necessary progress.

Fourth, our Committee believes that, at this stage, there are good reasons for not considering the establishment of a single regulatory agency. For one thing, the basic harmonised rules necessary for the appropriate functioning of an integrated market are not yet in place. At the same time, speedy action is needed to correct the identified shortcomings of the present regulatory framework and speed requires acting within the confines of the present Treaty. Finally, some time will be needed to judge whether our approach delivers results. If it does not, then it might be appropriate to consider a Treaty change, including the creation of a Single European Regulatory Authority for Financial Services generally in the Community.

Why have we come so quickly and unanimously to these initial, but rather pointed conclusions? Why do we insist so much on speed?

We started with the basic assumption that a competitive, liquid and well integrated financial market could yield substantial benefits to the European economy: by improving the allocation of capital, by steering the very substantial financial savings of European households towards financing investment in Europe and, not the least, by making the European economy a more attractive location for inward investment. This assumption is supported by recent academic research which suggests that financial market integration leads to an increase of what economists call „total factor productivity" – i.e. the productivity of both capital and labour. This will enable the economy to grow faster and create more jobs. Note that over the past ten years the U.S., whose financial markets are much more efficiently integrated than those of Europe, has seen a quick increase in productivity and substantial job creation.

We also observed a sharply accelerating change of pace in European financial markets such as:

- the growing interest of European citizens to invest an increasing part of their financial savings in equities;
- the rapid emergence of highly complex new financial products and operating techniques;
- the interest of exchanges and new trading systems in serving retail investors directly – and their technical ability to do so;
- changing structures: search for alliances or outright merges between national exchanges – including partners from third countries;
- pressure on clearing and settlement systems to consolidate;
- more recently, a sharp increase in the volatility of equity prices.

All these developments – and others yet to come – create considerable challenges for regulators to keep pace with market developments.

Finally we have come to the conclusion that the current system of European regulation is simply unable to respond to these major challenges. There are of course a number of obstacles which hinder financial integration, yet have nothing or little to do with regulation. Differences in the Member States' legal systems – for instance, bankruptcy regimes – are a good example. But the current regulatory system bears a major responsibility for slowing down the emergence of a genuinely single financial market in Europe. This system is:

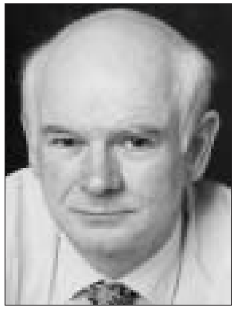
- too slow;
- too rigid;

- containing too much ambiguity and is therefore resulting in inconsistent implementation;
- over-reliant on primary legislation for determining detailed rules.

Our report contains a series of examples illustrating the damage inflicted on the process of integration by the inappropriate regulatory framework. Hence our conclusion that urgent action is needed which can be carried out only within the confines of the present Treaty.

We hope this initial report will trigger a wide public debate, and would welcome all views. Our final report will be released in mid-February 2001 in time for the European Council in Stockholm next March.

Regulating European Financial Markets



Howard Davies

Alexandre Lamfalussy and his team deserve congratulations for having produced a penetrating and stimulating report in very short order. Securities regulation is very complex, perhaps even more complex than introducing a single currency, which was Alexandre's last achievement.

In general, we share his analysis of the problems which are standing in the way of the full development of Europe's financial markets, and we support the general lines of the conclusions, too. We agree, in particular, on the need for more speed and energy in the legislative process, which only a firm political commitment can deliver. And the four tiered cake which the Wise Men have baked seems to us to include many of the necessary ingredients. So our comments should be seen as suggestions for further improvement, not as in any way critical of the basic structure proposed.

At the top level, we support the idea that securities regulation in Europe should hang off a number of framework directives which can be amplified and amended from time to time at a lower level. That is not dissimilar to the approach taken in the UK when the legislation setting up the Financial Services Authority was put through Parliament recently. But the cornerstone of our legislation, which we would like to see replicated in some form at European level, is a set of statutory objectives which define what a regulator is there to do. In our case, we are told that our aims should be to maintain confidence in the UK's financial markets; to protect consumers, bearing in mind consumers own responsibility for their decisions; to promote public understanding of the financial system; and to work to reduce financial crime. Furthermore, we are given a set of principles of good regulation, which condition the way we go about our task. They include the need to be cost effective, for regulation to be proportionate, and for us to ensure that we do not unnecessarily impede competition or stand in the way of innovation. Another helpful principle, which would be valuable at European level too, is that regulators must pay attention to their impact on the international competitiveness of their markets. It would be an 'own goal' to set up a system of European regulation which drove mobile business offshore.

We think it important to establish some equivalent of these principles at European level. If not, there is a danger that regulation strays into unnecessary areas, which could constrain the development of Europe's financial markets, rather than encouraging them. There are some echoes in the report of a view that regulation should spread further into OTC markets, for example. We are nervous about that, and would want to see a clear cost-benefit analysis before accepting that more regulation of OTC markets is justifiable.

It will also be necessary, I think, to ensure an appropriate degree of accountability to the European Parliament in the articulation of framework directives. Without that, it will be difficult to provide the flexibility needed to update and amend the rules within those directives, as market changes dictate.

As for the institutions which should carry out the intentions in these directives, we agree that a network solution is the only realistic option at present. The report explained well why a single European securities regulator is not feasible, and will not be feasible without more extensive harmonisation of legal and judicial systems across the Union. There is little point in a single regulator which cannot enforce its rules. In our view, too, the network solution might well be the right one for the longer term, though we accept that its effectiveness should be reviewed from time to time. There are signs that the enforcement of European regulations is increasingly moving that way in other areas. That is true, for example, in the case of telecommunications regulation. And the Commission has proposed that some competition regulation should be re-delegated to member states.

The principle of subsidiarity is a powerful one. And we should not forget that there is a positive value in some aspects of regulatory competition, as long as we are not talking about a regulatory "race to the bottom". Fortunately, that is unlikely, since there is no evidence that securities market activity gravitates to the least regulated centre. The key is to get the balance of safety and flexibility right, a balance which needs continuous attention.

So the legislative framework, and the institutional network proposed in the Wise Men's report look appropriate to us. But I do not – and I am sure the Wise Men do not – underestimate the difficulties of making this system work effectively. A lot more detail needs to be filled in, and the implementation will be considerable.

In particular, it is crucial that we sort out quickly the membership of the proposed Securities and Regulators' Committees. In the latter case, there is an absolute need for the members in different member states to have parallel competencies. At the moment, the Forum of the European Securities Commissions (FESCO), on which the new Committee will in a sense be modelled, has worked reasonably well. But the new Committee would be far more effective with a proper legal underpinning, and if all the member regulators share similar powers and responsibilities.

It will be important, too, for the Commission to raise its game. It will need to work faster, and will need a broader range of skills in financial market issues than it currently has.

And comitology procedures will be tested in this new framework. If the directives themselves are couched in more general terms, then the scope of comitology will be broader than it typically is now. In other words comitology will extend to areas which are not purely technical. Again, imaginative forms of accountability to the European

Parliament will be needed. The new approach to pre-legislative scrutiny adopted for the UK's new Regulation Act could be used in some form.

The Committee of Regulators will itself need to be given considerable impetus. The imposition of a review deadline in 2004 is bound to act as a helpful discipline. But if the Committee is to secure a pass mark in that examination, it will need strong commitment from its members, at a senior level. It will need a proper secretariat. And it will need underpinning by practical mechanisms of co-operation. We should not forget that one of the successes of FESCO has been FESCOPOL, a network through which we can share information on real cases, and deliver more effective enforcement. And there will be a need for some mechanism to check that implementation and enforcement is happening in an even way across the Union. The Wise Men's report suggests a peer review process. Here, I have to say I am sceptical, based on some past experience of peer review. I prefer to think of a quality assurance function at the centre, perhaps with Commission involvement. Without teeth, peer review is no more than spinning wheels.

And I would like to see more emphasis placed on creating a role for those in whose interests all this regulatory activity takes place. The report wisely recommends practitioner input to the regulatory process. That can work well, and indeed we now have a statutory Practitioner Panel to advise the FSA. But it is important to recall that financial markets do not exist for the benefit of intermediaries. Their end users are investors and companies and individuals who need to raise capital. So we have found it important to balance practitioner input to our deliberations with input from consumers of financial services themselves. I hope that, in their final report, the Wise Men can incorporate more of this user dimension into their thinking. And I hope that they can also, for the same reason, develop further the reference to the need for appropriate and user-friendly mediation procedures in the event of disputes.

Regulating European Financial Markets

Ernst Welteke

I

Ladies and Gentlemen,

Regarding »What are the essential features of an efficient regulation of the financial markets in Europe?« That is a question which cannot be answered in a single sentence. Nevertheless, it is possible to specify elements which form an indispensable part of a modern regulatory framework. These include:

1. Rules for the markets and the participants - rules which are in line with market conditions and, at the same time, underpin the stability of the financial system.
2. Organisational forms of financial market supervision which should mirror market structures, but not run ahead of them.
3. Supervisory practices which - especially in Europe - have to be harmonised even more closely in order to improve and safeguard the »level playing field«.
4. A sufficient quantity of highly qualified experts in the field of supervision.

The current debate is mostly focused on institutional issues: in other words, are decentralised or centralised, sector-specific or cross-sector prudential structures appropriate? An assessment of potential structural options should, I believe, initially be undertaken with a view to the specific conditions that exist in the various sectors of the financial market.

Globalisation, technological progress and international competition are the trends that are shaping all the financial markets - and, of course, the stock markets in Europe. The stock markets are engaged in fierce competition with each other. Issuers and investors want a liquid market that is efficient, secure and as cost-effective as possible in terms of both trading and settlement. Alliances or even mergers are strategic options for strengthening competitive positions.

These changes are taking place in a setting where there is comparatively little harmonisation in the regulatory environment provided by securities and stock exchange law.

Relatively new competitors have recently been entering the field in the shape of electronic communication networks (ECNs). These are electronic trading platforms but are not licensed stock exchanges. In terms of turnover, these ECNs do not play a major role at present but, even so, there arises the problem of competition between licensed and regulated stock exchanges and the scarcely regulated ECNs. In my view, it is very important for a »level playing field« to be created in this area.

Given this dynamic setting, analysing the present system of securities and stock exchange supervision in Europe is both prudent and necessary. The group of financial experts under the direction of Baron Alexandre Lamfalussy has presented an interim report which is to be discussed in the near future by the ECOFIN Council.

Without wishing to pre-empt that discussion, a gradual approach appears to me to be a solution that is both prudent and feasible. That is also what is stated in the report by Baron Lamfalussy. As a matter of priority, the regulatory gaps should be filled in and the process of harmonisation in the stock exchange and securities sector should be accelerated. One example is the »European Passport« for issuers. The Forum of the European Securities Commissions (FESCO) will be presenting a proposal on this shortly.

At present, the creation of uniform regulations, combined with an intensification of cross-border cooperation in committees represents a better course of action than a »Big Bang«. Centralised stock exchange and securities supervision would scarcely be able to function without a European regulatory framework. Effective stock exchange supervision depends on being particularly close to the markets. National bodies possess such market proximity in a more or less natural way.

II

The appropriateness of the present supervisory structures in Europe is being studied by banking supervisors, too. The report commissioned by the ECOFIN Council, known as the Henk Brouwer Report, has confirmed that the existing structure of European banking supervision is - without any reservations - doing its job properly. Even so, the report states that practical cooperation among those involved in banking supervision still has to be further optimised.

Among other things, that finding reflects a development that attracts little attention from the general public: Banking supervisors have been continuously adapting themselves to the trend towards cross-border activities. They have been pursuing their own internationalisation strategy. The present system of banking supervision in Europe essentially rests on three pillars:

- Harmonisation of the regulations,
- National regulatory competence, and
- Bilateral and multilateral cooperation.

Bilateral cooperation is based on memoranda of understanding between the supervisory bodies. Added to this, at the multilateral level there is the Banking Supervision Committee (BSC) at the ECB. This committee is filled by senior representatives of the supervisory authorities and central banks of all 15 EU member states, and facilitates the exchange of information and cooperation both among the national supervisors themselves and with the ESCB.

One main area of the BSC's work consists of macro-prudential studies on the stability of the EU banking systems. This includes, for example, the study on »Asset Price Inflation and Banking Stability«, which has been published. The committee thereby makes a major contribution to crisis prevention. In the converging European financial market, systemic crises are becoming an increasingly important issue. Central banks, in particular, have a special interest in safeguarding the stability of the financial system.

The prevention of crises has to be the paramount consideration. Nevertheless, we also have to be prepared for the worst. What has to be done in the event of cross-border crises? Who has to be informed? Where can we meet? Naturally, responsibility initially rests at the national level. I believe, however, that the BSC, in which central bankers and regulators are already represented, is a suitable platform for multilateral crisis management.

Proximity to the ECB is proving to be an advantage, since the ECB can provide the required infrastructure. Central banks can play a major role in crisis management - something also shown by the example of the New York Fed in the case of LTCM. Another area of current relevance in the work of the BSC – as well as of other supervisory bodies within the EU – is the convergence of supervisory practices. Great progress has been achieved in harmonising banking supervisory law. Even so, there still exist noticeable differences in practice.

Furthermore, mention should also be made of the (informal) Groupe de Contact , in which banking supervisors from the entire European economic area exchange information and views. This forum also prepares comparative studies on developments and practices in banking supervision.

In drawing up European banking law regulations, the European Commission is assisted by the Banking Advisory Committee in Brussels. A further task is ensuring the implementation and application of directives that have already been adopted. The ministries of finance, banking supervisory authorities and central banks are represented on the Banking Advisory Committee.

These bodies that already exist are doing a good job. They could be pacemakers for the ongoing harmonisation of prudential regulations and, above all, of supervisory practices which still diverge too widely in some cases.

A centralised European banking regulatory body is not necessary for that purpose, nor would such a body be able to cope with the requirements of the present financial market structures. Why?

- The national supervisors are more intimately acquainted with the economic and legal framework in which their own banking systems operate. Even with a centralised solution, they would have to continue to perform their present duties in order to prevent losses of efficiency in the regulatory process.

- Despite the tendency to convergence, the national banking systems will continue to differ from each other for the foreseeable future.

In other words, the integration of the European banking systems is not yet far enough advanced for policymakers to respond with institutional reforms at present. Regulators should follow the market structures as they develop. They should not attempt to steer the market structures in a particular direction.

Europe is not yet sufficiently integrated politically for it to be possible to ensure the effectiveness and efficiency of a centralised European supervisory body. It is difficult to imagine centralised banking supervision in Europe without having first achieved a political union in major areas such as taxes or legal and fiscal policy. Sovereign interventions on the part of a centralised authority involving, say, the closure of a bank or a decision on the use of national taxpayers' money, for example, are unlikely to meet with much approval. At the moment, it is not possible to tell whether policymakers are prepared to take such comparatively far-reaching steps.

As I see it, the objective should not be a »Big Bang« - that is to say, the setting-up of a centralised regulatory body - but rather the creation of better coordinated regulations and supervisory practices. That requires even closer cooperation among the supervisors - and the optimum degree of harmonisation would have to be defined. For the sake of preventing disruptions to competition and accommodating the differing banking systems, completely identical regulations are not desirable at present.

III

I wish to talk now briefly about insurance supervision. In this area, too, the differences in the regulations in Europe are probably still too great for a Europe-wide centralisation of insurance supervision to appear an appropriate solution.

But the debate is even going beyond that - in the direction of a European »one-stop« financial supervisory authority. Given the problems in the individual financial sectors that I have just outlined, I do not believe that this would be a suitable organisational model for Europe in the foreseeable future.

First of all, financial conglomerates in the individual member states of the EU do not have the same importance. Political problems and resistance to far-reaching losses of sovereignty in financial market supervision are an added factor. Moreover, »one-stop« financial supervision is not a familiar regulatory model in Europe. It would therefore probably be difficult to implement.

Besides, there is not yet any procedure in place in Europe for consolidating the risks of credit institutions, investment firms and insurance companies, although that would be a prerequisite for developing uniform quantitative regulations. Ultimately, the principle of »same business, same rules« can be implemented in a consistent manner only by means of harmonised regulations. New institutions are no substitute for solving the associated problems.

IV

Therefore, my conclusion is that it is necessary to close the remaining regulatory gaps, to harmonise the existing regulations and supervisory practices, and to intensify cross-border and cross-sector cooperation among the supervisors. I believe that new institutions in Europe are not practicable at the moment. The existing bodies should be strengthened instead.

Ensuring an appropriate system of regulation for the European financial system remains an ongoing task. More than ever, this calls for a flexible response from policy-makers and regulators.

Political Perspectives for Europe

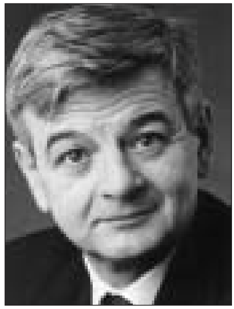
Rolf-E. Breuer

Ladies and Gentlemen, let me extend a warm welcome to the Minister for Foreign Affairs of the Federal Republic of Germany, Mr. Joschka Fischer.

Let me frankly tell you that we were disappointed to not have you here this morning on the panel together with the Hungarian Prime Minister and the President of the European Commission. But we understood that pressing obligations of your office took you to other duties and obligations, and of course we appreciate that. Although we were sorry, it has its good, Ladies and Gentlemen, because usually at that time of the afternoon, with the "happy hour" coming closer, the audience dwindles away, but not today. So it is a model for the next conference as well.

We dealt this morning, Mr. Minister, with Europe's Renaissance, and especially with Europe balanced and heard quite interesting views. Of course, your »personal« speech in Berlin the other day played a certain role. I said in your absence - we had only a chance to talk about you, but not with you - we now have the chance maybe for another personal speech - in Frankfurt. And, Ladies and Gentlemen, Minister Fischer has agreed to accept questions after his speech, so feel free to prepare yourselves for a round of Questions & Answers afterwards. Mr. Minister, the floor is yours.

Political Perspectives for Europe



Joschka Fischer, MP

Distinguished Guests, Ladies and Gentlemen,

first of all I have to apologise that I could not attend this morning. But the Bundestag had a debate about the foreign policy, so I had to be there. And second, I have to apologise for my English. I was told only two hours ago that I had to speak in English this afternoon. So I will try my very best.

Europe! Where shall I start? Maybe it is best to start with 1989. I will not talk now about a "super-state" or anything like that. There are British guests in the room, so I shall be polite this afternoon. When we are talking about Europe, we are talking about enlargement, about deepening, about reforming institutions, we are talking about the future of our continent. All these issues are closely related to European history. Look back on the 20th century and you will see two completely different paradigms. The first half of the 20th century can be named the period of the self-destruction of Europe. This process was mostly driven by Germany, especially under the Nazi dictatorship, and it was also a self-destruction of Germany.

After 1945 there were two main decisions which changed our history completely. First of all, the decision of the United States after the second world war to stay in Europe, to remain committed to Europe. And second, under the umbrella of this decision, the vision of two wise men, Robert Schuman and Jean Monnet. They were thinking about a new principle, an alternative to the principle which had organised European political affairs since the end of the Thirty-Years-War, since the peace treaty of Westphalia in 1648, the principle of balance of power. The emerging nation states formed the political system in Europe but it was very fragile. It was a balance by wars. But since the French revolution when the masses entered the stage of history, and together with the much more powerful instruments and means of the industrial revolution, this was no longer a working principle. With the first world war, the process of self-destruction began, and Schuman and Monnet knew very well, that we needed a new principle or else Europe would not have a future. This was the birth of the principle of integration, the integration of the basic interests of the European nations.

Today we are talking about the final stages of European integration. Before 1945 integration was implemented only in Western Europe. Europe and Germany were divided. When the wall came down, the Central Europeans, Poland, Hungary, the Czek republic and the other Central European countries, were back, knocking on the door of the European Union. Poland was many times defeated but they never surrendered. Never. They always fought for freedom and for their European destiny. The Second World War began by the attack of Nazi Germany on Poland. The United Kingdom and France declared war on Germany because Germany attacked Poland. At the end of the war - and Poland fought bravely - they were on the wrong side of a divided Europe. But they never surrendered. Not against the Nazis, not against the Communist dictatorship. And now they are knocking on Europe's door.

It will be a real new founding of the European Union which lies ahead of us. We are not only talking about enlargement. This would be a false perspective. We are talking about jointly creating a united Europe. This difference is very important to understand and you are bankers, you know very well about the importance of these countries, even today, but even more in the future, for the creation of wealth and growth in Europe.

The unification of Europe is not only driven by economics, but also by political pressures. In the 21st century, the old-fashioned European nation states, even the biggest ones, Germany, France, Italy, the United Kingdom, would be too small to act on a global level. Only Europe will have the size to act globally. But much more important is that we will have a lasting peace only on the basis of European integration. And it will not work to have two principles simultaneously on our Continent. We could witness that after the break-up of Yugoslavia in 1991/1992. It would not work to have integration only in Western Europe and in Central and Eastern Europe the old-fashioned Europe based on national interests, on a balance of power, on the worst kind nationalism and all these other nightmares. It would not always be as terrible as we saw it in the Balkans but it would be a betrayal of the spirit of a united Europe and this would have a very negative impact also on Western Europe.

The big question today is: is there an alternative to enlargement? I say "No", for the reasons I just gave you. But enlargement means that the European Union will grow to 25, 27, maybe 30 member states. But then the crucial question is: how will it work? A European Union with 15 member states, believe me, is very complicated, but it works, based on the integration of sovereign member states. But a European Union with 25 or more member states would lead to a complete blockade of the decision-making process of the EU. And nobody, not the member states of today nor the candidates can have an interest in a weak European Union. Therefore, if enlargement is a need then it has to be accompanied by further integration.

This here is a Banking Congress. We are facing now the first real step of integration with the euro. It is the first time that from the hard core of sovereignty of the traditional national state in Europe one part was transferred to a European institution, to the European Central Bank. The twelve members of the euro have transferred an essential part of their sovereignty to a European institution.

From my point of view, the euro will be a success. Yesterday I had dinner in Marseille. And it was always the same trouble looking for French money to pay the bill. In just over a year we will have the same currency everywhere in Europe. This will be a tremendous experience, a sort of cultural revolution in the everyday life of the people. So from my point of view, this will be not only an economic but also a political success. Nevertheless, I see here a political weakness, because currency is not only an economic, but also a political issue. Who is guaranteeing for the money? This is the key question. For the dollar it is the United States, for the yen, Japan, for the old Deutschmark, the Bundesbank and the Federal Republic of Germany. But for the euro? Is it the Euro 12, or the meeting of Finance Ministers? The central banks? I am convinced that the development of the euro will put tremendous pressure on the further political integration of the European Union, especially on the Euro 12.

The third reason why this process will speed up political integration is the pressure from outside, from foreign and security policy. I was in Asia two weeks ago. Asia is a very dynamic continent, but it lacks cooperative security structures, an idea of a security cooperation. And Asia is not only East Asia. There is South East Asia, South Asia, Central Asia and the Middle East. All of these are crisis regions. When we are talking about the question of a nuclear arms race in the next decade there will always be a focus on the different regions in Asia. So I think, also the capability for the European nations to act for their security, to act for peace in the 21st century together with our allies will put tremendous pressure on further political integration.

Germany knows very well, like most of our European partners, that it will be very important to keep the United States engaged in European affairs. Without the United States - and we have experienced that several times in the 20th century - we are facing a lot of very dangerous situations here in Europe. Therefore, we should do all we can to renovate and strengthen the transatlantic partnership. But there is a dialectical understanding. A weak Europe will weaken the transatlantic partnership, and a strong Europe will strengthen it. Because with a weak Europe, the United States will focus their interests on other regions of the world. So these are the reasons, the driving forces which will push forward the political unification process of Europe.

Now which Europe? A super-state? I think this discussion of a super-state is hard to understand here on the Continent. I know the British debate. But let me give some answers to the threat of a super-state. From my point of view, a weak Europe makes no sense. It may be essential to say, okay, we don't want Europe, we don't want to take part in Europe, but if there is a Europe we need a Europe which has the capability to act, politically, economically, otherwise it would make no sense. We do not need a European United Nations. This will not work. Because this would be a very weak organisation. Therefore, we are not talking about a super-state, we are talking about political integration, that is based on strong member states. There will be never a United States of Europe comparable with the United States of America. Never a Continental nation state, that is impossible. Because the reality of Europe is the reality of its different peoples, of our different cultures, histories, languages. There will be never a homogeneous European people. And there will be never a European citizen without the British citizen, German citizen, Hungarian citizen, whatever.

Europe will be based on strong member states. And therefore, from my point of view, this political integration will lead to a Europe, which will be based on a partition of sovereignty between Europe and the member states. And this is not a super-state. I think we must decide in the next years what should be done in Europe, in Brussels, in Strasbourg, what should be decided there – and this implies that the instruments the power, the part of the sovereignty which is needed by the European institutions will really have to be transferred to these European institutions - , and what is or should be done at home. This is a very important question. At the same time we have to strengthen European democracy.

This partition of sovereignty will lead to a slimmer, more transparent European Union. With a real European government and a real European Parliament with full sovereignty for that part of the decisions which are European decisions and a two-chamber-parliament, that is directly elected and where the nation state should be represented. I think these are the steps we have to do in this decade. Otherwise we will fall back.

The second issue will be, that we have to clarify what will be decided on the European and on the national levels. And this means a constitutional debate. Without a constitution or without the development of the treaties towards a constitution or whatever you may call it, you cannot organise these issues. From my point of view, this seems to be quite clear. How will you integrate 25 member states without the parliamentarian structure? You cannot integrate them in the Council as we have it today. How will you balance the interests of 25 or 30 member states? Not in the indirect way we are used to in today´s European Council. This would be impossible. You cannot work with 25 or 30 vetoes. Otherwise you will get compromises which will not be accepted or which will be very minimalistic. So from that point of view, if you see that there is a historical need for enlargement within the next say five years and if you see the political pressure of the common currency, if you see the pressure from outside, in security, defence, in foreign policy, then we have to go ahead and finalize European integration.

Once again, the EU will not be a super-state. And it will not be a federal state, as we are used to know it here in the Federal Republic of Germany. There will be elements of the European Union today, and there will be federal elements - by the way, the euro is the first federal step, the real first federal institution which was created within the EU. The future EU will be a very unique political body, but it must be created. Otherwise we will have a real setback.

I am very optimistic now about the next intergovernmental conference in Nice. France has done a very good job, congratulations to them. We have to deal first with the so-called left-overs of Amsterdam. In Amsterdam the heads of state and governments were not able to solve these problems. But I think this time we can solve them.

The first issue is the size of the Commission and the number of the Commissioners. We together with France proposed that there should be a certain limit on the size of the Commission and a rotation principle, not only for the smaller member states but also for the bigger ones.

Second, vote weighing. There is a need for it. The integration principle has always been based on the smaller member states carrying a stronger weight than the bigger ones. This is one part of the principle. But it is also true that bigger states cannot be blocked in their interests. With predominantly small new members entering the European Union there would be - everybody agreed to that - an unbalancing of this principle and we therefore need re-weighing.

Third, majority vote. I think there will also be substantial progress on that issue.

Fourth, and this seemed almost impossible one year ago, enhanced cooperation. When member states want to go further than others they should be able to do it without a blocking veto against them.

Based on a good compromise in Nice the European Union will be ready for enlargement in January 2003. So Nice will be the first concrete step towards enlargement. After Nice we can open ours doors. I do hope that the accession states will be ready then. And by the way when we are talking about finalising in 2005 we shall need about eighteen months to two years for the ratification process of the Treaty with new members. So, in realistic terms, I think we will see that 2004/2005 will be the date. So Nice is very important. But after Nice we have to go ahead with the political integration along the lines I described to you.

This is where we stand in European affairs. I hope that we will not run into serious crises in the next years. If the present dynamic is not used then the European Union will, in my view, face a real crisis. Crisis will not mean catastrophe. In fact, quite often a crisis may be very important - in private businesses as in politics. I would be very happy, if the heads of state and government would have the wisdom to decide and find the proper decisions.

The morning after Nice you will know very well that things have changed in Europe. The morning after Nice there will be only one question. Whether Europe is strengthened by the decision of the heads of states and governments or not. If yes, it will also strengthen the euro. If no, it will weaken the euro. And here we clearly see that Europe is not just an idea, but a reality. You see it in the common currency, you see the similar reaction of all our people to the explosion of the oil prices. You could see it when the truckers were striking in France. So our government is prepared and determined to go ahead with this European project within the next decade. Thank you very much.

Political Perspectives for Europe
Closing Remarks

Rolf-E. Breuer

Thank you very much, indeed, Mr. Minister for this brilliant run-down of where do we stand, where are we heading for, what is to be decided, when, in which direction and what are the options. I think that was a wonderful closing point for a full day of discussions about Europe.

That brings us all to the end of a very busy day. Eight hours of discussion and questions and answers and a lot of food for thought. Homework has been distributed to politics, to central banks, to regulators, to business, not the least. So we can go for a happy hour and see each other again next year at the European Banking Congress 2001. Thank you.