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Keynote speech of the gala dinner

Speakers

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Allow me to recite a few lines of Purple Rain from Prince, who passed away this morning. I know I know. I know times are changing. It’s time we all reach out For something new that means you too.

Ladies and gentlemen, Banking is built on trust. Business is built on trust. And politics is built on trust as well. Yet we live in an age of low confidence in bankers, businessmen and yes, in politicians. We managed to leave the crisis behind, but public trust still needs to be restored. And the question is not who is to blame; the question is how to deal with it, step by step, issue by issue, improving and strengthening as we go along.

European Banking Union. Its aim: reducing the sovereign bank nexus and avoiding taxpayer bailouts of failing banks. So we introduced tough common rules with enhanced supervision and resolution at a single European level. Some say the crisis in the euro area response was too slow. In fact, we’ve set-up new institutions at unprecedented speed. The Single Supervisory Mechanism in 2014. And as from this year the Single Resolution Board is fully responsible for the orderly resolution of failing banks. These institutions have been built on the single rule book, the backbone of financial sector regulation in the EU. The new bail-in rules form a key element. As from the 1st of January they should prevent situations in which failing banks need to be saved with taxpayers’ money. The next step: further harmonisation and risk reduction. Risk reduction is conditional to more risk sharing. Why? Think of it as an apartment complex. When you buy one of the apartments, you will have to share the cost of a leaking roof with your fellow owners. So before you step in you will check if the roof is well maintained. And don’t forget to check whether the owners association has a financial buffer, so the risk you will share with the other owners is reasonable.

The Banking Union works in the same way. Risk sharing and risk reducing are two sides of the same coin. You know the proposal of the Commission for EDIS or European Deposit Insurance Scheme. A European scheme adds an extra buffer. This should increase the confidence of depositors and prevent bank runs.

I support the aim of the proposal; it’s the final building block of the banking union. But EDIS means further risk sharing at the European level, while the bank’s risks in different countries still differ because of national policy and legislation. So both on substance and politically we need to connect risk sharing to risk reduction. Fortunately, the EDIS proposal has been accompanied by a communication on additional risk reducing measures. Such as the prudential treatment of sovereign exposures.

This topic is high on the agenda of the Economic and Financial Affairs Council here in Amsterdam. Currently, due to the 0% risk weight of sovereign exposures, banks do not have to hold any capital for EU government bonds on their balance sheet. And there are no limits to their holdings.

But government bonds are not risk free. Certainly not in case of high concentrations of sovereign bonds on bank balance sheets, which brings us to the core issue at the heart of the banking union, breaking the sovereign banking nexus. Some critics say that a more prudent treatment might hamper the ability of some Member States to issue bonds. An appropriate transition path to a new regime could however alleviate this concern. We should aim for diversification in sovereign bond portfolio's. Also the common backstop to the SRF will play an additional safeguard role.

Another important risk reduction measure: the harmonisation of the options and discretions in the single rule book. The SSM is responsible for the bulk of the options and discretions. A lot of work has been done already. The SSM has my full support to swiftly reduce the remaining options and discretions.

A number of options and discretions can however only be addressed by the legislator. For example, member states have considerable freedom in the use of the fund of their national deposit guarantee scheme, which should be harmonised when such a DGS could benefit from a European deposit insurance scheme.

Harmonisation of options and discretions is high on my agenda. European legislation should be amended where appropriate with a view to further enhancing financial stability and the level playing field. The Banking Union is not finished yet. Quantative easing provides the opportunity to make these necessary changes in a smooth manner.

Financial innovation. Earlier this year I visited Dutch innovative start-ups in financial services and debated in Parliament about the subject of financial innovation. It was one of the main topics at the World Economic Forum in Davos. FinTech has the potential to change the whole financial system. Technological innovation could lead to a more stable and efficient financial sector and contribute to growth.

It will also bring more diversification and stronger competition for banks and force banks to rethink their business models. And consumers will benefit as they will get more choice and probably better products. SME's will benefit as they will get more alternative low cost ways to finance themselves.

FinTech and new entrants into the financial sector provide great opportunities, but policymakers should create the right environment. An environment that supports competition and innovation, benefits and when necessary protects consumers and enhances financial stability. Current regulation is designed for the traditional financial sector.

Therefore, I encourage regulators to share their thoughts on how we can adapt the regulation to make it applicable to these new innovative entrants in the financial sector. This does however not mean regulation needs to be less strict; innovation will entail new risks which we need to address. Proportionality is key.

Culture, ethics and transparency

Since the financial crisis culture, ethics and transparency are high on the agenda. We need bankers who feel responsible for their public task. It is a pre-condition for true change inside your building and true confidence outside your building. But change is never easy.

Banking rules in the Netherlands are even tighter than in many other European countries. Bonuses for bankers are not allowed to exceed twenty per cent of their income. We don't allow kickbacks for financial services. We have strict supervision rules, we demand up-to-date certificates from financial advisers, and we've introduced a banker's oath. The Panama Papers however show that cultural change, ethics and transparency is far from done.

My message: in order to change behaviour and build trust, rules and safeguarding compliance is not enough. The financial sector needs to show initiative in this area. Banks should take the lead in this field, instead of being lead. Not because they have to, but because they want to.

Let me end on a positive note. Tonight, I have focussed on banks, old and new. However, the financial sector is of course much more diverse. This is a good thing, because diversification supports a healthy financing of our economies. Euronext, for example, is a shining example of the pan European capital market. It's crucial for financing companies and this is what the Capital Markets Union is all about.

Ladies and gentlemen, times are changing. Sustainable businesses are doing very well. The movement in favour of sustainable banking is growing. This offers new opportunities for entrepreneurs and their bankers. And new opportunities for all of us to rebuild trust, step by step, issue by issue, improving and strengthening as we go along.