

The Future of Banking in Europe

Discussion paper

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We kunnen allerlei scenario's bedenken voor de wijze waarop de financiële sector zich de komende jaren zal ontwikkelen, maar één ding lijkt wel zeker: de toekomst van banken en bankieren in Nederland en in Europa is heel onzeker. In hun huidige rol zullen de betekenis en de omvang van de banken in Nederland en in Europa afnemen. Dat zal dan gepaard gaan met een enorme afbraak van geïnstalleerde capaciteit. Dat kunnen we laten gebeuren, maar we kunnen er ook op anticiperen.

Dit is een zoektocht naar nieuw emplooi, nieuwe relevantie, nieuwe maatschappelijke valorisatie voor die geïnstalleerde capaciteit, expertise en institutionaliteit. Te denken valt aan matchmaking en advisering tussen marktpartijen onderling en met diverse overheidsinstellingen, huishoudens enz.

Deze zoektocht willen we in vijf dimensies uiteenleggen. Deze dimensies zijn bruikbaar voor het gesprek over de positie van de Nederlandse banken.

1. Hoe ziet de nieuwe wereld eruit? Geopolitiek en geo-economie; Europa!
2. Reset, reallocation and European relational finance
3. De eeuwige swing of the pendulum? Van markt naar staat en terug, of ..?
4. De ontsporing van de beurs als allocatiemechaniek – nu terug naar relational finance?
5. Dutch banks as forerunners in European relational finance?

Dimension 1 – A different world - the geopolitical and geo-economical perspective

1. The Covid-crisis is a global geo-economic crisis that has brought to light the global interdependence of economic, health-, technological, social, and cultural systems. At the same time, the crisis reveals existing trends and further accelerates them. It is very uncertain how this global crisis will come to unfold, as it goes along with the crisis of multilateralism and the eclipse of a rules based international order. In its September 2020 report *Responsible Capitalism: an opportunity for Europe* the French Institut Montaigne succinctly states: *“China, the United States and Russia have played a key role in undermining the multilateral system, and thus in escalating the crisis it finds itself in today. It is difficult to grasp the disorganization of the international community in the face of Covid-19, without realizing what is behind the crisis of multilateralism: a world without rules, one in which interconnectivity provides the ideal arena for coercion, but without "real powers" actually needing to resort to war.”*¹

2. One mayor unknown is the geography of power relationships in the post-Covid world. It is very likely that China will consolidate and even strengthen its new position on the world's stage. The China-US rivalry will further intensify, now with Biden confronting Xi Jinping.

¹ For the complete report see:

<https://www.institutmontaigne.org/ressources/pdfs/publications/responsible-capitalism-opportunity-europe-report.pdf>

For US and China, this geopolitical power struggle is about global hegemony. For all other parties, including Europe, the struggle is to preserve some degree of sovereignty and to reestablish a level of strategic autonomy in some key domains, between and next to the two main protagonists.

Europe was already having a hard time coming to terms with the fact that - for the first time in decades - it has to stand on its own two feet and run its own affairs. Now, the old continent faces the pressure of both superstate China and supermarket USA threatening to do away with the already limited room to organize its economy and society in a way of its own choosing. To make matters look even bleaker, we have to fear that at least part of the continent will emerge weakened from the crisis, further reducing its room for maneuver and its options for acting.

3. The geo-politicization of the world is not just a matter for presidents or foreign ministers, and geo-politics is not only about foreign policy. Geo-politicization means putting everything in a new frame. The value and meaning of everything is redefined, in function of a framework in which power, conflict and hegemony/sovereignty are central. Geo-politicization means that all possible assets are being *weaponized*, from vaccines to iron ore, from currency to wheat. In turn, and conversely, geopolitical power or dominance is exercised to gain economic benefits. In fact, as geo-economic and geopolitical motives and effects have become inextricably intertwined, any effective foreign policy demands the strict alignment of national policies – and vice versa².

4. This new geopolitical frame partly replaces the previous frame without completely making the previous frame disappear; it is partly next to it but also “above” it. That previous frame is the liberal world order, i.e. a world market (flat and without boundaries) on which trade and competition take place within a rules-based order that is bi- and multilaterally enforced. In the new, geopolitical frame, borders are back in full force, and only little remains of the rules-based order. Geo-economic competition and geopolitical struggles merge into one global cold war. The value of everything is redetermined in function of its significance in this geo-economic and geopolitical frame. In this frame, there is no longer any separation between policy areas or between external and domestic policy, etc.

5. In the previous period, i.e. over the past fifty years, the international economy has been globalized and financialized. Those processes (flows, movements) are - also geographically - deposited in a global financial infrastructure.

Several questions stand out:

How does this global financial infrastructure influence the ongoing geo-economic-political power struggle?

And conversely, how will this geo-economic-political power struggle affect and change the existing global financial infrastructure?

In other words, how will geo-economic-political power and the global financial infrastructure co-evolve in the next five or ten years? ...

... and what does that mean for the agenda of Europe?

- of the Netherlands?

- and of the Dutch financial sector / banks?

² For an illustration of what is implied in integrated foreign/national policymaking, see Frans-Paul van der Putten, Clingendael report 2019, *European seaports and Chinese strategic influence - The relevance of the Maritime Silk Road for the Netherlands*.

Dimension 2 – Reset, reallocation and European relational finance

1. There is no escape from the Great Reset of capitalism, given the major social and environmental risks involved in the operation of the current system.

At the same time, looking at the struggle for hegemony between China and the US and with it the need to preserve some degree of sovereignty (first session), it seems sensible for Europe to make a virtue of that necessity and to engage in its own reset of capitalism, and do it in the European way.

2. Here, we want to focus on the one decisive moment in the operation of the capitalist system, that is the allocation of financial resources. By shifting the emphasis from reset to reallocation, the financial sector is also coming into the picture more emphatically.

In fact, it is all about allocation and reallocation. Change becomes concrete when and because resources are invested in other things than before.

The Covid moment is also important here, on the one hand because the crisis has revealed shortcomings in European capabilities in all kinds of areas, and on the other because post-Covid huge sums of savings are looking for investment opportunities.

Immediately then, the institutions and persons who take the decisions about the allocation of resources appear on the screen; who are they, how does the decision-making proceed, who are involved, which criteria and objectives play a role in the considerations? This is about the assets of pension funds, insurance companies, but also the assets of the super rich and the ordinary rich. And within this comprehensive theme, we want to highlight the possible role of banks, assuming that they will largely lose their traditional role.

3. Think: European finance, European assets for European companies, European innovation and development financed with European assets. And then European, in the double sense of a territory, the continent, and also in the sense of its own worldview, its own way of organizing and governing an economy and a society of its own choosing.

This means discussing the future of finance in Europe, taking into account, on the one hand, the new geopolitical relations in the world (Europe has to take care for its own affairs) and, on the other hand, the great challenges of a social and ecological nature and the necessity, consequently, of a transition towards a responsible capitalism.

4. Europe is challenged to become more strategically autonomous. Geopolitical tensions will come to dominate financial markets, as they already do with global trade. One of the most important courses of action over the long term concerns the capital structure of European companies (a key factor for regaining a degree of sovereignty), all the more determining as it conditions the level of investment in research and development. Thus we strive for a European capitalism which mobilizes the capital and savings of Europeans and directs them towards responsible European companies to rediscover an identity which has been blurred by globalization and which reflects its specific demographic, economic, cultural and social characteristics.

5. The coming post lockdown economic surge presents a window of opportunity to steer the reallocated resources toward sectors that will genuinely benefit the national and European economy in the long term. This requires that policymakers formulate targeted economic-support strategies, a favorable regulatory and legal environment, and a financial system that provides the necessary equity financing.

6. A major wave of bankruptcy is expected when government support is phased out. Banks must therefore take into account hefty write-offs on the balance sheet. There are concerns

about the leverage ratios of European (system) banks. Although the buffers have increased, the question is whether they will be high enough when the hard blows come. After the worst of the crisis, there is also a rapid need for new investments to boost the economy again. SMEs in particular will have to be rebuilt. The government will want to contribute actively. How can cooperation between governments and banks be optimized?

7. How to promote that European capital is used for European companies and that European companies are financed by European capital? And second, that this is brought about in a relational way, i.e. outside established and anonymous capital markets?

We suppose that this can only be the result of a voluntary cooperation between European financiers and entrepreneurs, based both on a rational calculation and an awareness of a shared interest and common purpose in the long term. This is not done with a decree from a national or European government, it is something that European financiers and entrepreneurs must decide for themselves. Of course, it is important to consider how the authorities can promote, facilitate and make these arrangements attractive.

In the end, this will require trust and concerted action by all stakeholders, private and public, including debtors, creditors, central banks, fiscal authorities and many other governmental agencies, as well as labour unions and civil society organizations.

8. The present moment also presents a mayor opportunity to become less exposed to regulatory and market volatility in both the US and China. In the same vein, Brexit and the new distance to the City means 1. that access for European corporations will become more difficult, 2. that the need for and the scope for deepening the continental capital markets (in particular Frankfurt and Paris) will be increased, and 3. that - alternatively - the scope for and the need for other forms of financing (relational finance, with a matchmaking and advisory role for banks, for example) is also increasing.

Dimensie 3 - Van staat naar markt - en terug?

1. In het afgelopen jaar heeft de Covid pandemie de kaarten opnieuw geschud. Allereerst zijn regeringen in actie gekomen. *The corona pandemic has once again made the state a dominant economic player.* De enorme pandemie steunprogramma's, nu ook weer van Biden, worden alom toegejuicht. Zie bijvoorbeeld Mazzucato: *"It will put government back at the heart of day-to-day economic management . Do it right, and there are huge benefits available. You're not just flooding the system with liquidity, but reaching the real economy and creating a stronger industrial base. That's the kind of thing we want to see — expanding capacity and preventing inflation."*

Schuld is goed als ze gebruikt wordt om overheidsinvesteringen en fundamentele hervormingen te financieren die groei en welzijn zullen vergroten. Het debat moet dus gaan over de kwaliteit van de uitgaven - *sponsor innovation, mandate domestic sourcing in critical supply chains, and discourage the financial speculation that goes by the name "investment" but bears little resemblance to the work of building productive capacity in the real economy.*

2. Twee kanttekeningen. De eerste is dat teveel staatsbemoediging hier onwenselijk is; hier komen we later op terug.

De tweede kanttekening: de claim op herwonnen protagonisme van de staat moet gerelativeerd worden omdat zij dit maar moeilijk kan waarmaken, nog los van de politiek-electorale conjunctuur. Zie de moeizame relatie met de machtige GAFAM monopolies, casus Australië en Facebook. En zie de dubbele binding met de financiële markten; enerzijds zijn de statelijke overheden gewone kredietnemers geworden op de kapitaalmarkten, en net als

iedereen afhankelijk van de grillen daar. Anderzijds moeten ze – en de centrale banken, zoals de Fed en de ECB – die markten gaande houden met lage rente en QE.

Anekdotische illustratie. Het was de eerste dag van de lockdown, dinsdag 17 maart 2020. De Franse minister van Economie Bruno Le Maire geeft een persconferentie over het pakket maatregelen, een concrete vertaling van de presidentiële "koste wat het kost". Direct werd de vraag gesteld: loopt Frankrijk, met een staatschuld van 100% van zijn BBP, niet het risico dat de markten in paniek raken en de rente zal stijgen? Het snelle antwoord van de minister: "Ik kijk elke dag naar het rentevershil met Duitsland".

3. De overheid moet zijn ding doen, en moet zijn ding kunnen doen zonder daarbij gestuurd te worden door de grootgokkers van het beurs-casino. De EU moet controle herwinnen over de financiering van investeringen en ze moet de financialisering van de economie terugdringen; natuurlijk. Maar daar moet wel een limiet aan gesteld worden, immers weinig is meer te vrezen dan de almachtige staat. *This very expensive government, eventually coupled with a renewed politicization of government policy, should be a mayor cause for concern.* Niet alleen de staat maar ook en vooral de maatschappelijke actoren – in dit geval: de kredietverleners, de kredietnemers en de bancaire bemiddelaars – moeten hun ding doen, en hun ding kunnen doen, en ze moeten daarin gefaciliteerd worden door de overheden (i.p.v. crowded out door de staat).

Dimensie 4 - De ontsporing van de beurs als allocatiemechaniek; wat betekent het voor Europa, Nederland, de financiële sector, de banken?

1. Groei, investeringen en innovatie zijn de afgelopen jaren steeds verder geconcentreerd in de technologiesector, inmiddels een sector met monopolistische kenmerken – zie: GAFAM. De meest succesvolle strategieën van ondernemingen en investeerders sporen steeds minder met wat het land, de bevolking, het algemeen goed vereist. Door de financialisering van de economie gaat een steeds groter deel van de investeringen en het talent naar ondernemingen die excelleren in speculatieve transacties maar weinig bijdragen aan het algemeen goed. Deze ontwikkeling is nog eens versterkt door de enorme hoeveelheden geld die overheden / centrale banken op de financiële markten hebben gedeponneerd. In het afgelopen jaar is zowel het balanstotaal van de U.S. Federal Reserve als de marktwaarde van GAFAM verdubbeld. Meer in het algemeen heeft het monetair en fiscaal overheidsbeleid geleid tot een enorme opwaardering van allerlei assets: aandelen, onroerend goed, commodities, staatsobligaties. *Boosting the supply of dollars chasing assets has resulted in an asset explosion.* In de afgelopen twaalf jaar hebben kunstmatig lage rentetarieven, QE, de schuldenhousse bij bedrijven en de hausse in de terugkoop van aandelen de waarde van financiële activa opgeblazen. Deze explosie heeft vermogensbezitters beloond met enorme rijkdommen en heeft jonge volwassenen, armen en loontrekkers gestraft. Die merken niets van het vermogenseffect van activa (*asset wealth effect*), maar worden wel geconfronteerd met stijgende kosten van levensonderhoud als gevolg van de waardeestijging (*asset appreciation*).

2. Zoals gezegd is het overheidsbeleid hier mede debet aan. Zie Michael Hartnett, CIO van Bank of America, februari 2021: *"As in pretty much every one of past 12 years, policy stimulus in 2020/21 continues to flow directly to Wall Street not Main Street, inciting historic wealth inequality via asset bubbles."*

De overheid kan niet anders dan de beurs overeind houden: *Though the stock market is not the economy, it does condition the behaviour of governments and central banks. Why the Fed continues to "confuse" markets with the economy? The answer is simple: since the value of financial assets in the US economy is at a record 620%+ of GDP, for the Fed capital markets*

are the functional equivalent of the economy since a market crash would destroy the highly financialized US economy, and thus can never be allowed.

3. Dat beleid heeft wel degelijk ook het beoogde effect, in de zin dat het bijdraagt aan de economische groei en aan de verhoging van de inflatie (in het geval van de ECB: groei jaarlijks met 0,5 punt en de inflatie met 0,4 punt). Zo werden tussen 2013 en 2019 in het eurogebied 11 miljoen banen gecreëerd, waarvan er 2 à 3 miljoen worden toegeschreven aan het monetair beleid.

Maar het probleem is dus dat de overheid met dit optreden weliswaar een *collapse* voorkomt (of althans uitstelt) maar tegelijkertijd de kwaal verergert. *Markets perceive low rates for ever as a reason to keep buying financial assets rather than invest in the real economy. [...] To put money back into the real economy we have to end the distortions fueling the financial asset economy. But that would cause a market crash – which central banks can never allow or be seen to allow.*

De vraag is dan dus: hoe kunnen overheden de echte economie effectief stimuleren, en niet vooral de financiële economie in de kaart spelen? Hoe kan het beleid ontkoppeld worden van het boom & bust casino, en een einde gemaakt worden aan die fatale spiraal die alleen rampzalig kan eindigen? Van Main Street naar Wall Street – en nu terug?

4. Daarnaast is er de kwestie – ook met groot geopolitiek gewicht – van de Angelsaksische dominantie van dollar en pond, en van Wall Street en de City. De dollar ligt voor een groot deel ten grondslag aan de bijna ongelimiteerde Amerikaanse overheidsverschuldiging. De internationale rol van de euro is veel kleiner; bijv als reservevaluta slechts 20% van de deviezenreserves, de dollar drie keer zoveel. Daarom is het zaak / de uitdaging om Europese economische en monetaire soevereiniteit beter tot zijn recht te laten komen. En wat is in dit kader de draagwijdte van de Brexit?

5. Er zijn dus verschillende uitdagingen: Europeaniseren van de kapitaalmarkten; een financieringsunie om de overvloedige spaargelden te investeren in Europa, en een continentaal financieel systeem na de Brexit. Maar ook de nieuwe kans: het kanaliseren van overheidssteun niet via de kapitaalmarkten maar rechtstreeks en met een matchmakende en adviserende rol van banken / experts. En *what about* de banken, pensioenfondse en verzekeraars; stappen ze uit de oude dynamiek, kunnen ze dat wel? Een voorbeeld nemen aan Zweedse pensioenfondsen die hun middelen beleggen – niet via de kapitaalmarkten, maar – in een beperkt aantal bedrijven in het kader van langjarige relaties met gedeeld purpose en risico?

Dimension 5 - Dutch banks as forerunners in European relational finance?

1. Of course we need a workable European financial field, with its own legal infrastructure, uniform laws and regulations on matters such as corporate law, bankruptcy law and so on. We need a government that facilitates European finance with legislation and regulations, possibly also with tax advantages for equity investing (instead of disadvantaging equity compared to debt financing). And we need public investments that act as a flywheel for private investments; so complementarity instead of crowding out effect. Besides, the government can also be a third party in PPP constructions for public investments.

Financial and economic actors have their specific role and responsibility. Government has to strike the right balance between steering and planning, on the one hand, and mobilization of the engagement and the facilitation of social actors, following the principle of subsidiarity, on the other hand.

2. Sustainability: SDGs, impact investing, green finance

The business community can no longer ignore the Sustainable Development Goals and the Paris Agreement. It is clear that the financing needs for the SDGs are great. But funding cannot be provided by the government alone. Nor does it go through the capital markets, as the (short-term) return on investment is often too low. So there seems to be a great need for patient capital, long-term commitments. Can banks play a significant role in this financing requirement, and thus in the greening of the European economy?

3. In this new context, one may envision a new role for banks as experts and intermediaries, making the market transparent, supporting, matchmaking, expertise and advice on opportunities and risk calculation - a natural addition to their traditional role as third-party asset managers. Dutch banks as pioneers in this new European finance field?

4. Deeper engagement should emerge from the continuous interaction using a mix of human and digital experiences through conversational interfaces for advice and guidance. Regional offices therefore become consulting and collaboration environments. The status of *trusted advisor* will distinguish banks from all other contact points offering integrated financial services.

5. Covid has given the final push towards online services. Dutch banks have been able to design successful mobile applications and online service environments. There are concerns about the phasing out of cash, the disappearance of the offices and branches from the region and the lack of “real” knowledge of the customers. How do banks find the balance between good customer care and efficient service - even when the “physical economy” reopens post-lockdown?

6.. Parallel to this, a serious discussion is developing about privacy, data ownership and reliability of tech platforms. There are calls to make important infrastructure and processes public property. Traditionally, banks are intermediaries; private parties with a public function. Is it time for the banks to act as reliable “data brokers” or privacy watchdogs?

7. And what about the role of non banks in finance, i.e. a sector that has recently grown very strongly and of which the legislator is not sure how to deal with it; re hedge funds, index funds, the short term private equity funds, and the shadow banks; which are all footloose (and mostly American). While banks are increasingly trapped by compliance requirements, regulations and requirements regarding capital, risk, money laundering control. Insist on level playing field, or separation with different roles and responsibilities? Besides, new innovative entrants have a hard time to meet the sky-high requirements.

8. At the same time, there is the coming disruption in the financial services market from the big tech platforms. With the announcement of the digital currency Libra, Facebook seemed to be making a first attempt. As yet without success. But it seems like a matter of time before another tech giant will give it a try.