Banking regulation

With Prof. Dr. Christian Johner

Transcript

00:00:05 Speaker 1

Medical Device Insights, a podcast by the Johner Institute for medical device manufacturers, authorities and notified bodies.

00:00:20 Speaker 1

1 of the big topics at the World Medical Device Summit was the topic of regulation.

00:00:25 Speaker 1

So, how do we manage to design better regulation,

00:00:30 Speaker 1

in which not all of them are shut down and in which we can still achieve the goals of regulation, such as patient safety and the competitiveness of manufacturers.

00:00:42 Speaker 1

And in order to learn how to do good regulation, we invited Dr. Sebastian Fritz Morgenthal, someone who does not come from our field, but from the banking sector.

00:00:54 Speaker 1

And he had reported on how this banking sector is regulated and that was very, very exciting.

00:01:00 Speaker 1

and because I think everyone should know and know what happens in other industries, I invited him to-day, Doctor Sebastian Fritz Morgenthal.

00:01:08 Speaker 1

Sebastian, could you introduce yourself very briefly.

00:01:10 Speaker 2

Yes, I can.

00:01:12 Speaker 2

Well, the name was already mentioned, Sebastian Fritz Morgenthal.

00:01:15 Speaker 2

I am a physicist and have a doctorate in gravity and physics at Goethe University in Frankfurt.

00:01:22 Speaker 2

However, that was a few years ago, in 1997, when I went to Deutsche Bank.

00:01:27 Speaker 2

in risk management, where he deals with scorecards and failure forecasting.

00:01:34 Speaker 2

Principle, how can I say something about future behavior from data and from the behavior of customers.

00:01:40 Speaker 2

There was then a major regulatory initiative, called Basel 2, in which model-based calculations on credit quality, model-based calculations on operational risks were to find their way into the regulation of banks.

00:01:57 Speaker 2

I have dealt with this a lot.

00:01:59 Speaker 2

I was also at some Landesbanken, West D.

00:02:01 Speaker 2

B., they no longer exist at the Haarsser Nordbank, which has since been privatized and is now called Hamburg Commercial Bank.

00:02:06 Speaker 2

These were each crisis mandates and then I went into consulting a little over 10 years ago, was currently at Bain and Company at various consulting firms and am the internal risk manager there, i.e. I manage the risks

00:02:22 Speaker 2

of our own company.

00:02:23 Speaker 2

The interesting thing is, of course, a consultancy, which is at least a strategy consultancy, is not regulated.

00:02:28 Speaker 2

That means, I now also know the other side, how is risk management without regulation.

00:02:32 Speaker 2

It has a few advantages, you are flexible, but that also has a few disadvantages.

00:02:35 Speaker 2

In principle, you don't have any leverage in your hand if the management doesn't want to implement certain things, because you can't say you can't threaten the regulator.

00:02:45 Speaker 2

That is, if you like, an essential difference.

00:02:47 Speaker 1

Great, David, you have already mentioned a lot of keywords,

00:02:52 Speaker 1

So, I would like to mention these keywords risk management and regulation in particular, and I think that leads us directly into the middle of the topic.

00:03:00 Speaker 1

Namely, the question of what risks are there in the banking environment?

00:03:04 Speaker 1

So, maybe we even have to expand the question of which risks for which people or for which organizations have to be managed and then we will also look afterwards, is there a regulatory framework for this?

00:03:16 Speaker 2

So in the banking world, a distinction is made between so-called financial risks and non-financial risks.

00:03:21 Speaker 2

Financial risks are those that you basically take out of business operations in order to generate a return.

00:03:28 Speaker 2

These are credit risks.

00:03:29 Speaker 2

So, for example, you give a loan to a customer, to a counterparty and this counterparty may have a payment default or a default.

00:03:36 Speaker 2

This is credit risk.

00:03:38 Speaker 2

Or you invest in a certain product, yes, in a stock or

00:03:44 Speaker 2

into another contract and it changes in value, that's market risk.

00:03:47 Speaker 2

And then there are, if you like, the main financial risks.

00:03:52 Speaker 2

But there are also non-financial risks that arise practically from the company.

00:03:56 Speaker 2

So I'm making a mistake, I have a so-called fat finger, so yes, instead of 100 contracts I buy 10000 contracts or vice versa, sell so many.

00:04:05 Speaker 2

These are so-called fat finger events.

00:04:06 Speaker 2

But of course there is also the whole criminal spectrum, these are not financial risks either.

00:04:12 Speaker 2

Someone uses the bank or its infrastructure to launder money.

00:04:16 Speaker 2

Someone internally or externally tries to conduct fraudulent transactions through the bank or through the bank's infrastructure.

00:04:22 Speaker 2

These are the material or non-financial risks.

00:04:25 Speaker 2

Then there are some other so-called liquidity risks.

00:04:28 Speaker 2

So of course a bank always has to be equipped, must always have money in the cash register and that is common knowledge.

00:04:36 Speaker 2

If, for example, I now give money to a bank as a saver and if all savers were to stand in the bank on one day and wanted to withdraw their money, then the bank would be illiquid.

00:04:44 Speaker 2

She couldn't pay it out at all.

00:04:45 Speaker 2

It's by no means the way you know it earlier and earlier from the Western companies, that there is a big safe and the savings are all in there.

00:04:53 Speaker 2

No, no, my savings, they're just in the neighbor's property.

00:04:57 Speaker 2

Yes, in principle, the bank itself does not have this money, does not hold it at all, but only holds a certain amount.

00:05:04 Speaker 2

and there is also a regulatory requirement.

00:05:07 Speaker 2

In principle, it has to hold so much that it is able to pay out for 30 days under normal circumstances, i.e. in principle it can cover a need of 30 days.

00:05:17 Speaker 2

That's a typical regulatory requirement, but as I said, it doesn't have to hold all deposits, that wouldn't make sense anymore.

00:05:23 Speaker 1

O.

00:05:24 Speaker 1

K., now we have already learned a lot, namely this taxonomy, you differentiated between financial and non-financial risks, you gave another 2 subexamples for each.

00:05:34 Speaker 1

The question of which people and organizations it affects is, I believe, also answered.

00:05:40 Speaker 1

But make sure again very briefly, I have now heard, here are the depositors themselves, i.e. their financial assets, but also the bank, which has to be protected there, for example from criminal activities.

00:05:53 Speaker 1

Have I correctly stated that these are the two major persons or organizations to be protected?

00:05:59 Speaker 2

You could say that.

00:06:00 Speaker 2

So of course that's exactly the kind of point that plays a big role in supervision, that a supervisor first of all wants to protect the depositors, of course, and that's above all the private circles, the people who give their money.

00:06:11 Speaker 2

That's actually a kind of consumer protection.

00:06:14 Speaker 2

That is one task, but there is another task that the supervisory authority also wants to ensure financial stability.

00:06:21 Speaker 2

So money is, if you like, you can almost say a social contract and it's based on trust.

00:06:28 Speaker 2

So, I just think that if someone gives me 50 euros, that I can use the 50 euros again somewhere else, that I can buy it in the supermarket.

00:06:35 Speaker 2

If I no longer had the trust, then I would no longer use the money.

00:06:38 Speaker 2

In this respect, a financial supervisory authority also has an interest in it or is also working to ensure that this trust is maintained.

00:06:44 Speaker 2

And trust would be disturbed if a bank suddenly stopped functioning.

00:06:48 Speaker 2

If the bank says we are now closed or if the ATMs no longer work or if online banking no longer works.

00:06:55 Speaker 2

In this respect, the banking supervisory authority also has a responsibility there.

00:06:58 Speaker 2

and a task to maintain this trust for an individual bank, but also for the entire banking system.

00:07:03 Speaker 1

So we also have a certain analogy in the medical device sector, but also consumer protection, which in this case would be patient protection.

00:07:10 Speaker 1

But what may sometimes be a bit neglected, then keeping the system running, would of course not be the financial system, but the health system.

00:07:20 Speaker 1

And if you now look at the,

00:07:22 Speaker 1

the one goal, namely patient safety, is optimized in such a way that no more medical devices can be placed on the market.

00:07:28 Speaker 1

Yes, then of course you don't have a problem with unsafe medical devices, but then it counteracts the other goal, namely health care.

00:07:36 Speaker 1

Who wants to go back to the banks?

00:07:38 Speaker 1

You've already reported a bit, have you already reported, what regulatory requirements there are.

00:07:43 Speaker 1

So you joined in very briefly, but could you go one step further?

00:07:46 Speaker 1

So, what requirement does the legislator now have on these banks and

00:07:51 Speaker 1

How specific are these requirements?

00:07:53 Speaker 1

Well, I've already heard between the numbers that it goes down to concrete metrics.

00:07:57 Speaker 1

For example, I said, 30 days.

00:07:59 Speaker 1

Can you give us a brief overview?

00:08:01 Speaker 2

So, there is, so to speak, there is, if you will, the balance sheet side.

00:08:04 Speaker 2

a bank has to cover a certain, certain part of its liabilities side with equity.

00:08:10 Speaker 2

That is, the money that the owners give to the bank and retained profits.

00:08:15 Speaker 2

So, if I make profits and don't distribute them, but practically hold them back, that's a reserve.

00:08:20 Speaker 2

with which a bank can compensate for fluctuations in losses.

00:08:23 Speaker 2

That means that if you look at the balance sheet, if you have a losing year now, then of course I can use the equity from the balance sheet.

00:08:30 Speaker 2

And if the equity capital was not sufficient to cover the losses, then the bank would be over-indebted.

00:08:35 Speaker 2

In this respect, this is an essential requirement, there is also this ominous 8%, falling a bit like from the sky.

00:08:41 Speaker 2

That is, it has emerged from Basel 1 that a bank has 8% of its

00:08:47 Speaker 2

assets of its risk-weighted assets must be backed by equity and in the meantime these are also higher values, has something changed a bit, has also changed a little bit in quality, but these are technical materials, that is, it, this is one part and you have to say that the risks are measured for each individual transaction.

00:09:03 Speaker 2

So each individual transaction is given a risk weighting and the bank must then maintain or exceed this equity capital in total for all these transactions, i.e. it must maintain more than that.

00:09:15 Speaker 2

That is the part of equity and then there is the part of liquidity, which I mentioned earlier.

00:09:20 Speaker 2

A bank must be able to service its payout flows for the next 30 days, i.e. all liabilities that the bank has to service in the next 30 days, regardless of what happens on the other side.

00:09:34 Speaker 2

That‘s one part and the other part is that it refers to a year.

00:09:38 Speaker 2

This is the so-called that a bank must be able to meet all the requirements that will be met next year,

00:09:44 Speaker 2

is already called having funded, i.e. in principle already having the own funds ready to service the year.

00:09:52 Speaker 2

That means you have a short-term horizon and a more medium-term horizon that the bank has to map.

00:09:59 Speaker 2

That, if you like, is the idea behind these, behind these ratios.

00:10:03 Speaker 2

So we have seen, liquidity and capital.

00:10:06 Speaker 2

Now one should say something that is very important in the supervisory point of view.

00:10:11 Speaker 2

a bank has to do that too, it has to be able to do it under certain scenarios.

00:10:15 Speaker 2

This means that the supervisors specify so-called stress scenarios, say O.

00:10:20 Speaker 2

K., now somehow the one who now raises the E.

00:10:23 Speaker 2

Z.

00:10:23 Speaker 2

B.

00:10:24 Speaker 2

the bank can still raise its interest rate by 200 basis points, the bank still has enough capital, the bank still has enough liquidity.

00:10:32 Speaker 2

This means that a bank must meet these ratios not only in my normal state, but also in certain stress scenarios.

00:10:38 Speaker 2

or you play off the financial crises or somehow say that unemployment will rise by 5% Yes, if unemployment rises, then it has knock-on effects, then companies fail, then there are credit risks, then there is value adjustment, write-downs and what effects does this have on the balance sheet structure and the liquidity situation of the respective bank.

00:10:55 Speaker 2

So these are very important supervisory control variables in the sense of K.P.I.s or K.R.I.s, so-called key risk indicators.

00:11:04 Speaker 2

This is how banking supervision works, if you will, with its measurable part.

00:11:08 Speaker 1

OK, that's super exciting.

00:11:10 Speaker 1

I'm currently trying again to get the link a little bit for our medical device listeners.

00:11:15 Speaker 1

So, there are similarities and differences, and especially with the differences, we should perhaps think again about what we can learn from the banks.

00:11:23 Speaker 1

One commonality I've heard is this product-specific one.

00:11:28 Speaker 1

Consideration, that is also in a way a risk-based consideration at the product level.

00:11:33 Speaker 1

We also know this with medical devices, this is also what the manufacturer has to look at and where the manufacturer differentiates at least a little bit in his specifications about the risk classes.

00:11:43 Speaker 1

What we don't have in the medical device sector were such things as security of supply, we had already talked briefly about ensuring before.

00:11:52 Speaker 1

There are no requirements for manufacturers to really

00:11:56 Speaker 1

to have to make an active contribution there.

00:11:59 Speaker 1

So there is apparently hope for the entrepreneurial interest in getting the products into the market, but some failure scenarios and I have already experienced that myself, where large manufacturers suddenly speak of the F.

00:12:10 Speaker 1

D.

00:12:10 Speaker 1

A.

00:12:11 Speaker 1

were blocked because of major production problems, that had not been modeled.

00:12:16 Speaker 1

So there seems to be a gap in this system in a way and

00:12:22 Speaker 1

Again, this stems from exactly what we said before, namely that we have such a one-sided objective, namely only on patient safety and on the eye of patient care, but are a bit blind.

00:12:33 Speaker 1

And a second difference you just gave us is the specificity about these metrics.

00:12:39 Speaker 1

Yes, so we don't have a requirement for medical devices in the law now.

00:12:44 Speaker 1

Yes, in standards it looks a bit different, there are no metrics in the law.

00:12:47 Speaker 1

are usually also mentioned, which must be adhered to.

00:12:50 Speaker 1

So I think these are things where you can learn again, where you can learn again.

00:12:54 Speaker 1

If we now, you've already given the bullet point for the next question, I have one thing, yes, what is required by law and a completely different thing, what is actually demanded.

00:13:03 Speaker 1

So how is the enforcement, how is the review, how is it going in the banking sector and also maybe a related question.

00:13:12 Speaker 1

So how do you do that, maybe software is also used?

00:13:16 Speaker 2

Yes, it is so, it is the case that the banks have to report on this regularly.

00:13:20 Speaker 2

There are certain risks, and they even have to report on a daily basis.

00:13:24 Speaker 2

So the market risk, it has to be reported daily, always in the day on the following day T, so to speak.

00:13:28 Speaker 2

plus 1.

00:13:30 Speaker 2

Yes, is there a report on what the market risk situation was yesterday, the so-called Value at Risk.

00:13:35 Speaker 2

And then there are other report formats, which are then just monthly, because they are fewer, so a monthly report form is sufficient.

00:13:43 Speaker 2

and there is no, there is a real regulatory requirement.

00:13:46 Speaker 2

This means that the E.Z.B.

00:13:48 Speaker 2

receives this information from all these banks and can also, let's say, derive statistical statements from it.

00:13:54 Speaker 2

If you now somehow hear a news item on the radio that the Bundesbank has determined that home loans have fallen by 30% in the last quarter, now because of the interest rate situation, then the Bundesbank knows that, among other things, from these regular reports, because in principle it knows exactly that the banks are doing it, that they report very precisely on it,

00:14:12 Speaker 2

how it is its business development and what the risks are in the business development.

00:14:17 Speaker 2

Of course, about the fact that software is used for this, interestingly enough, I'll call it an oligopoly or in Germany it's even a duopoly, there are essentially 2 providers.

00:14:25 Speaker 2

So the third one is the banks themselves, some banks still have their own solutions, but actually there are 2 big providers who create exactly this interface, so in principle the information that is in the banking systems and you always have to assume with banks that they are something as far as infrastructure is concerned,

00:14:42 Speaker 2

are always very fragmented, because it has developed over years and introduce a new system, but I can't abolish the old one, because I still have customers on it and and and dependencies.

00:14:51 Speaker 2

And the highlight of these software providers is practically from this hodgepodge an incredible number of different delivery systems, to issue the standardized report and to publish it reasonably reliably.

00:15:03 Speaker 2

And as I said, there are 2 providers, one that maps the larger banks and one that maps the smaller banks.

00:15:08 Speaker 2

And then there are always those who want to get in.

00:15:10 Speaker 2

So, interestingly, for example, there were suppliers from the USA who tried to land here in this market, in the European market, especially in the German market, no chance.

00:15:19 Speaker 2

no chance, didn't get in, just don't have it, do they have this specification, what are special requirements, so to speak, they haven't been able to implement it or at least haven't been able to implement it in such a way that it's successful.

00:15:31 Speaker 2

That's one remark, the other is, I've always wondered why S.A.P.

00:15:35 Speaker 2

that doesn't offer.

00:15:35 Speaker 2

S.A.P.

00:15:36 Speaker 2

is quite a well-known name in banking.

00:15:39 Speaker 2

Why doesn't SAP offer this regulatory module?

00:15:42 Speaker 2

I was told that it was not worth it for them.

00:15:44 Speaker 2

In principle, this is so complex that SAP cannot make it profitable for them with the way they produce software.

00:15:52 Speaker 2

So they don't offer it.

00:15:53 Speaker 2

This is a very special market.

00:15:55 Speaker 2

market, it has to be said.

00:15:56 Speaker 1

Wow, that's extremely interesting.

00:15:58 Speaker 1

So, you have now brought in many points again, which I would like to summarize very briefly.

00:16:02 Speaker 1

So, the first point, also with the difference to the medical device world, there is this overall monitoring.

00:16:09 Speaker 1

Yes, we don't.

00:16:10 Speaker 1

For the time being, no one in Brussels cares at all about whether we now have enough products on the market or what happens to the products.

00:16:17 Speaker 1

These are figures that we have now delivered, also at the World Medical Device Summit, where they were taken aback.

00:16:23 Speaker 1

And the second thing I found extremely surprising was the frequency, namely daily.

00:16:28 Speaker 1

So, I think the medical device manufacturers can be happy about that, who only classify you every year and sometimes only every 2 years or in other directions, only if they think they have to report something at all.

00:16:37 Speaker 1

And the third astonishing thing was that it is already completely mapped by software.

00:16:43 Speaker 1

We have now taken this method of surveillance one step further.

00:16:48 Speaker 1

So, you‘ve already reported, so we have data that is now migrating to these.

00:16:52 Speaker 1

to the E.

00:16:53 Speaker 1

Z.

00:16:54 Speaker 1

B.

00:16:54 Speaker 1

for example, how do things go on now, i.e. how is it really enforced, so now, I'll say in extreme cases, until a bank is closed.

00:17:02 Speaker 1

So the background to the question is that we are quite weak in terms of personnel in the medical device sector in the authorities.

00:17:09 Speaker 1

So there are federal states that have one or 2 people and they should do it.

00:17:12 Speaker 1

Of course, this is completely hopeless, but just if you now what I wanted to monitor the Amazon online market, ten times that would probably not be

00:17:20 Speaker 1

?

00:17:21 Speaker 1

Can you give us an insight into how this enforcement, in what knitting it is really done in the banking environment?

00:17:29 Speaker 2

So, it's like this for the time being, the E.

00:17:32 Speaker 2

Z.

00:17:32 Speaker 2

B.

00:17:32 Speaker 2

in the banks there will be a four-digit number of people, Bafin has a four-digit number of employees and the Bundesbank, which also has a four-digit number of employees who deal with banking supervision.

00:17:41 Speaker 2

So, you can just assume that there are many, many people,

00:17:45 Speaker 2

which alone monitor the German banking market.

00:17:47 Speaker 2

Now, of course, you have to say that we also have more than 2000 different banks.

00:17:52 Speaker 2

Yes, but it's true, you can just assume that every bank has at least one person who is responsible for it and of course a big bank like Deutsche Bank, Commerzbank, there are a lot of people who deal with this bank every day, but they don't always necessarily have success.

00:18:06 Speaker 2

So, in principle, how does such a situation find or how does it come when a bank gets into a critical situation.

00:18:12 Speaker 2

First of all, I have to say that every bank

00:18:15 Speaker 2

So at least the larger banks have to make a so-called will.

00:18:19 Speaker 2

This is called the Recovery and Resolution Plan.

00:18:21 Speaker 2

Recovery plan, that's what you always describe, you can always describe it quite well with an airplane.

00:18:26 Speaker 2

In principle, you have to say, how far can I bend the wings until they break off.

00:18:30 Speaker 2

Yes, so the bank needs a plan.

00:18:32 Speaker 2

Yes, at what point would they, would, so to speak, would theirs, would break through their capital ratios and what would they do then?

00:18:39 Speaker 2

So, how, what can it control itself to avoid crashing?

00:18:43 Speaker 2

this is the so-called Recovery Plan.

00:18:45 Speaker 2

It then says it closes deals or it issues a bond to get new capital in or brings in investors, whatever, yes, or sells shares.

00:18:54 Speaker 2

That would be, so to speak, what do I know, yes, Deutsche Bank is selling its art collection and thus, yes, it is supposed to be relatively valuable.

00:19:01 Speaker 2

That's why it breaks as an example.

00:19:02 Speaker 2

As far as I know, this is actually part of the recovery plan.

00:19:05 Speaker 2

I don't think I'm even giving away a secret.

00:19:07 Speaker 2

But even if that's actually the case with every bank, every bank that has an art collection, it would be taken into account.

00:19:13 Speaker 2

Yes, so in principle I can work with reserves and I can manage my business in such a way that nothing happens.

00:19:18 Speaker 2

Yes, if I can get deposits, for example, then I set the deposit interest rate high, then people all come to me because I offer three and a half and the others only offer 3.1.

00:19:24 Speaker 2

Yes, run an ad before the news, bang, people come to me, it's relatively fast.

00:19:29 Speaker 2

Yes, that would be Recovery Plan.

00:19:31 Speaker 2

But now there is also the Resolution Plan and that means that if the bank can no longer do it itself,

00:19:36 Speaker 2

then another authority gets involved.

00:19:38 Speaker 2

So there is not only banking supervision at E.

00:19:40 Speaker 2

Z.

00:19:40 Speaker 2

B., but there is also the Single Resolution Board, which is an authority that sits in Brussels.

00:19:44 Speaker 2

I don‘t know how many people work there at the moment, it was put on at the beginning, about 250 or so, that‘s certainly more now.

00:19:51 Speaker 2

And in principle, they then implement this will, i.e. a plan in which the bank is dismantled, dismantled into individual parts and then wound up in a way that is practically gentle on the market.

00:20:03 Speaker 2

And market-friendly can mean,

00:20:05 Speaker 2

I sell a part to competitors, I close a part, I put it into its own structure, I possibly put capital in, state funds to continue to operate it.

00:20:15 Speaker 2

We see that, for example.

00:20:16 Speaker 2

So let‘s take an example, Hypo Real Estate, which practically went bankrupt in 2008.

00:20:21 Speaker 2

Then a financial market stabilization company was founded.

00:20:27 Speaker 2

Yes,

00:20:28 Speaker 2

And they then handled it for years and I think they still exist and are slowly winding it up.

00:20:32 Speaker 2

Or the first winding-up agency is already indicated by the name, which is, if you like, the executor of the will, who is the West L.

00:20:39 Speaker 2

B.

00:20:39 Speaker 2

Yes, in principle, the bank will be wound up for years, yes, of course, with funds from taxpayers‘ funds.

00:20:46 Speaker 2

The important thing is that you actually want to do this without tax money.

00:20:49 Speaker 2

So that was that, is the lesson from the financial crisis, that you do this from the banks themselves and of course the banks have to be positioned for this, i.e. when their resolution plan shows.

00:20:58 Speaker 2

that they cannot do this with state funds, then the condition is that they themselves practically provide these funds.

00:21:04 Speaker 2

And now I'll give a relatively recent example.

00:21:06 Speaker 2

Credit Suisse was in this situation and they have now not implemented their resolution plan.

00:21:13 Speaker 2

They have only partially applied it.

00:21:15 Speaker 2

So in the resolution plan, they knew which elements, for example, their equity structure they could convert.

00:21:21 Speaker 2

They had so-called Coco bonds, where bonds could practically be converted and they simply wrote them off.

00:21:26 Speaker 2

In other words, the investors

00:21:27 Speaker 2

were expropriated and then the rest of the bank, which was then better capitalized, yes, because practically these Coco bonds were converted to reduce the balance sheet, yes, and with that the quotas improved, they were sold to the U.B.S.

00:21:40 Speaker 2

and as a result, the taxpayer has only gone in with relatively little risk.

00:21:46 Speaker 2

So this whole transaction was secured by the taxpayer, the Swiss taxpayer, with 9 billion francs, I think.

00:21:50 Speaker 2

That sounds like a lot.

00:21:52 Speaker 2

if you know that the balance of credits is 630 or over 600 billion francs, it's 9 billion, not so much.

00:21:58 Speaker 2

Yes, then you just know, OK, one and a half percent is the state in it.

00:22:02 Speaker 2

Yes, that's not, that's not nothing, but it's not that much either, so it's actually a pretty good situation.

00:22:09 Speaker 2

In other words, these resolution plans ensure that I can safely transfer a bank to the market with no or relatively little use of taxpayer funds.

00:22:20 Speaker 2

Yes, that's one of those

00:22:21 Speaker 2

The essential aspect of supervision is really, if you like, very, very strongly tied to action, not only to the fact that someone reports regularly and says that everything is fine, but that I also have instructions for action, what do I do when I am in a crisis situation and how do I ensure that there is no panic, Because what would happen?

00:22:41 Speaker 2

I mean, let's take this very practically, imagine you're shopping on Saturday and let's say you're now a customer of Commerzbank, now you see, now you see there's a queue in front of Deutsche Bank

00:22:50 Speaker 2

And then you walk by and you hear people whispering and saying, „Yes, we don't know, Deutsche Bank is not stable." Would leave you cold, because you're at Commerzbank and think, hm, if they get into trouble, then maybe my bank will get into trouble too.

00:23:01 Speaker 2

And that's exactly the feeling you want to avoid.

00:23:04 Speaker 2

Yes, it would be like saying, yes, now I'm doing the transmission myself as a layperson, if you say, hm, this vaccine from the manufacturer, it doesn't work at all.

00:23:13 Speaker 2

But if one doesn't work, the other one works.

00:23:15 Speaker 2

Yes, or this blood pressure monitor, which gives totally wrong values.

00:23:20 Speaker 2

If you have that, it may be a systematic problem, everyone gives wrong values, these are exactly the questions that then arise and that you naturally want to avoid.

00:23:28 Speaker 1

Mhm, so super interesting, a lot of things are really going towards the preservation of this system and what you said, we have an extremely high number of people who take care of it.

00:23:41 Speaker 1

So you have now spoken of several four-digit numbers, so I was in Brussels, more true, we have 4 people who take care of it, so that's hardly an understatement.

00:23:50 Speaker 1

I think there are 20 that we have there.

00:23:51 Speaker 1

So that's absolutely ridiculous and incomparable, in every respect.

00:23:56 Speaker 1

So you don't have to be surprised that you get different results.

00:24:00 Speaker 1

As I just said, you have just argued a lot about this system stability.

00:24:06 Speaker 1

At the end, we may have the enforcement, change the view a bit, perhaps to a misconduct of an individual bank, and I don't mean that

00:24:15 Speaker 1

that you have gambled away, for example.

00:24:17 Speaker 1

Yes, and then these plans are applied, so to speak, but we have fraudulent behavior, for example.

00:24:23 Speaker 1

Or you, so we had there, so German banks have already tried out quite a lot of things that can be done in this direction.

00:24:30 Speaker 1

Or they have built a product that simply complies with the regulatory requirements again.

00:24:36 Speaker 1

What does enforcement look like?

00:24:39 Speaker 1

So how do you discover this and how do you proceed then?

00:24:41 Speaker 1

So what options do you have

00:24:44 Speaker 1

yes, in this case Bafin or the enforcement agencies.

00:24:48 Speaker 2

So, I'll give you a negative example for now, where you can see that it didn't work.

00:24:51 Speaker 2

Wirecard, that wasn't that long ago.

00:24:53 Speaker 2

At Wirecard, the problem was that only part of the business was practically in Wirecard Bank and the banking supervisory authority was practically only concerned with Wirecard Bank.

00:25:02 Speaker 2

But it was inconspicuous.

00:25:04 Speaker 2

Yes, and the frauds, if you will, happened in the holding company.

00:25:09 Speaker 2

so one of the main lessons that has been learned from this in banking supervision is that you always have to look at the entire construct, not just the obviously regulated area, if you will.

00:25:19 Speaker 2

Yes, that means it's also a typical requirement that a supervisor then says, O.

00:25:23 Speaker 2

K., we do not accept that you move your risks more or less outside our, so to speak, our sphere of influence.

00:25:32 Speaker 2

That was such an important point, how do I go along, how do I deal with holding structures and it was in this

00:25:37 Speaker 2

special case mean that banks are still being wound up.

00:25:41 Speaker 2

Or an even more recent example, some of the Russian foreign banks, they were then practically transferred, were taken into state custody and are now being wound up piece by piece.

00:25:53 Speaker 2

So it's a classic, because you just say, O.

00:25:55 Speaker 2

K., they are now under too much sanctions, they can no longer do their business.

00:25:59 Speaker 2

But of course we also have depositors who have deposited their money there, they have to be protected somehow,

00:26:05 Speaker 2

I can only achieve this best, also under incentive mechanisms, by putting it under state care and there it is then practically processed over the term, ideally a little faster, down to 0.

00:26:17 Speaker 2

That's what a supervisor does and if you leave Europe now, U.

00:26:21 Speaker 2

S.

00:26:21 Speaker 2

A., there is the so-called F.

00:26:24 Speaker 2

D.

00:26:24 Speaker 2

I.

00:26:25 Speaker 2

C. Basically, if you call like the deposit insurance of the Americans, Federal Deposit Insurance Company, I think the Corporation, Federal Deposit Insurance Corporation,

00:26:34 Speaker 2

They do it regularly.

00:26:35 Speaker 2

So it feels like every weekend, they arrive at some small regional bank, yes, close the branches, yes, and then possibly even transfer them to another bank.

00:26:46 Speaker 2

This is typically what they do to ensure that, as I have already said, the depositors are indemnified or, ideally, are indemnified as far as possible.

00:26:55 Speaker 2

But on the other hand, it is also important, of course, the borrowers, yes, all the debtors, still continue to pay their debts, because if that were not the case,

00:27:03 Speaker 2

then I would speculate on it as a debtor.

00:27:05 Speaker 2

I'm going to go to a bad bank and hope that in half a year it will fall over and then I, I don't have to pay my loan anymore.

00:27:11 Speaker 2

That would be, that would also be a perverse incentive.

00:27:13 Speaker 2

So of course, a banking supervisor must also have a great interest in ensuring that such incentives do not arise.

00:27:19 Speaker 2

But that happens.

00:27:20 Speaker 2

I hope I've answered the question, but that actually happens regularly.

00:27:24 Speaker 1

So the ones that, if you summarize or abstract the answer, is it, they are much more radical,

00:27:30 Speaker 1

i.e. to close a company.

00:27:32 Speaker 1

So I can't remember the last time this happened in Europe or Germany.

00:27:38 Speaker 1

In other words, until a certificate is revoked.

00:27:40 Speaker 1

So I think a lot has to happen to us.

00:27:43 Speaker 1

And the second thing is the speed you just said about how to react to it.

00:27:47 Speaker 1

So you mentioned, for example, then the Wirecard thing and now they reacted immediately and said: ‚O.K., from now on we'll always look at the overall construction as an inclusive holding company and that's speeds,

00:27:59 Speaker 1

which I am not aware of from the medical device sector.

00:28:03 Speaker 1

Is there a question I forgot to ask or something we should definitely talk about?

00:28:08 Speaker 2

So, I think what's important in a, in, in such regulatory issues is that you, well, I once had a boss who always said, well, the military are always good at winning the last war.

00:28:21 Speaker 2

Yes, and he is the next one, but he is different.

00:28:24 Speaker 2

Yes, he was Swiss and was there somehow

00:28:27 Speaker 2

I was quite involved in the Swiss military, so to speak, and always brought these analogies, which were always a bit foreign to me as a former conscientious objector, but logically you also learn.

00:28:39 Speaker 2

I found it interesting that I have to adjust to it and that's why these scenarios come, I bring in these scenarios again, that these scenarios try to predict the future, just as the resolution plans try to give instructions for action that I unwind.

00:28:56 Speaker 2

And I once even wrote a screenplay as a consultant for a bank, a script.

00:29:00 Speaker 2

What would such a winding-up weekend, as we call it, look like?

00:29:05 Speaker 2

It is perfectly clear to us that the real film will be different afterwards.

00:29:08 Speaker 2

So you always do this preparation, it's like the example of Credit Suisse and that's a very important point.

00:29:13 Speaker 2

I do all this preparation knowing full well that I am only preparing for scenarios, but then reality may materialize in a completely different way.

00:29:21 Speaker 2

So I have to be able to use my preparations

00:29:24 Speaker 2

then take out elements that I then apply in the special situation, because, let's say, I didn't think about this special scenario beforehand.

00:29:33 Speaker 2

I think that's an essential point that you have to think about, that you have to think about in supervision, and you also have to think about the fact that, of course, requirements are always changing.

00:29:42 Speaker 2

So yes, we said yes, yes at certain times, I'll give you the example,

00:29:49 Speaker 2

When I started, it was essential that if someone had a telephone connection, they were more creditworthy.

00:29:54 Speaker 2

Logically, this is no longer relevant today.

00:29:57 Speaker 2

Yes, I mean, you just notice of course, there are technological changes and with it also behaviors change and thus and of course signatures also change.

00:30:05 Speaker 2

This is also important.

00:30:06 Speaker 2

So in the medical sector, when people get older, then of course different clinical pictures come into play than in a society in which the average life expectancy is lower.

00:30:15 Speaker 2

So these are all aspects that you have to take into account

00:30:18 Speaker 2

and there is medical progress, which logically must also be taken into account.

00:30:23 Speaker 1

So, what you have just described wonderfully is 2 aspects, namely one thing, we need this modeling.

00:30:29 Speaker 1

Well, you mentioned scenarios, both from the manufacturer's side and from the legislator and supervisory side.

00:30:36 Speaker 1

So at least the latter, that falls completely.

00:30:38 Speaker 1

This is what M.

00:30:39 Speaker 1

D.

00:30:39 Speaker 1

R.

00:30:39 Speaker 1

You certainly didn't model what the consequences would be and you could actually calculate all that or higher mathematics.

00:30:46 Speaker 1

And the second thing you said is not static constructs or things that you model, but they have to remain state of the art, because a lot changes.

00:30:57 Speaker 1

You have just mentioned, on the one hand the patient populations, that concerns the technologies, that concerns medical progress.

00:31:03 Speaker 1

So, the conclusion of all this in the banking sector is that in many places we are a few steps ahead in terms of regulation, in terms of the adaptability of regulation, also in terms of monitoring regulation.

00:31:16 Speaker 1

and so I am super, super grateful to you for giving us this insight, which is really completely new to most people in the medical device world and has opened doors for us that we would otherwise never have been able to see what is behind it.

00:31:32 Speaker 1

Sebastian, thank you very, very much for these great insights.

00:31:35 Speaker 2

With pleasure.