

# POSITION PAPER



## **ESBG high level messages on Capital Market Union**

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

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The European Savings and Retail Banking Group (ESBG) welcomed the efforts of the European Commission to create an integrated capital market in the European Union (EU) with the launch of an action plan of over 30 measures and actions started in 2015 and finished in 2019. As the new Commission should set up the new priorities for the next five years, we believe that fostering a Capital Market Union (CMU) in the EU should remain a key pillar in order to trigger growth and jobs.

In 2019, European investment levels are still low especially in some Member States and European capital markets are less competitive compared to the global level. The European Commission should find the best way to foster CMU, considering also what will happen after Brexit as for certain markets EU stakeholders will be still dependent on UK players. In order to finance the real economy, a right balance has to be found when deciding on the most appropriate policy mix. We, therefore, would like to provide the Commission with our recommendations.

### **1. Fostering both capital markets and banking markets**

ESBG is convinced that it would not be in the interest of the European economy (considering that is strongly based on SME structures) to favour funding from capital markets over traditional bank lending. In our opinion, a success of the CMU is not conceivable without a properly functioning lending market. SMEs rely significantly on bank loans for funding (70% of outstanding SME external funding in Europe comes from banks<sup>1</sup>), and evidence shows that bank lending remains the favourite sources of SME financing for 51% of SMEs<sup>2</sup>. CMU should be seen as a supplementary vehicle, not a primary path to support SME financing. The CMU should build on a strong and efficient banking system. Banks and capital markets work together and do not stand side by side. The stability of the financial markets in Europe can be strengthened by the CMU, paying particular attention to the great importance of credit financing, by adequately reducing risks and treating them according to the principle of individual responsibility and in particular subsidiarity. Maintaining the diversity of the European banking landscape also contributes to financial market stability. It must therefore be a high priority to preserve this plurality of the European financial sector. Proportionality and differentiation according to business models must not be called into question by the further development of the Capital Market Union.

ESBG believes that a policy of complementarity remains the best way forward to create a stronger and more competitive European Union. It is equally important to promote the lending capacity of European credit institutions. This is where savings and retail banks in Europe can help. Backed by their long-standing experience in the regions, their wide network and proximity to the local companies enables them to build an irreplaceable knowledge and trustworthy relationships. It also puts savings and retail banks in an ideally placed position to help empower the economy and boost sustainable, inclusive and smart growth by granting loans to SMEs.

### **2. Access to capital markets for all investors**

ESBG believes that a new European Commission plan for a 'CMU 2.0' should be used to identify and remove burdens presented by bureaucracy with the objectives of ensuring capital markets stability as well as providing capital markets access to all investors. Since the CMU aims at unlocking capital around

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<sup>1</sup> <https://www.eib.org/en/about/economic-research/eibis.htm>

<sup>2</sup> <https://www.ecb.europa.eu/stats/accesstofinancesofenterprises/pdf/ecb.accesstofinancesmallmediumsizedenterprises201806.en.pdf?f39a5afa92e40c051dfb5dde764306ba>



Europe, increase in the participation of retail investors in EU capital markets is necessary. Therefore, in our opinion, the next CMU plan should be focused on:

- Restoring investor trust and raising confidence in capital markets.
- Increasing financial education. Well-informed investors will make responsible investment decisions from the range of available capital markets products that are more adequately suited for their needs.
- Raising access to securities. Broad sections of the population should have access to securities. For this reason, the further development of the CMU should first lead to a revision of financial market legislation, in particular MiFID II and PRIIPs. The regulations should then be examined to see whether they actually bring added value for customers. This added value should then be compared with the possible negative effects for customers and the expected cost burden for the institutions (cost-benefit analysis).



## About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 20 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 1,000 banks, which together employ 780,000 people driven to innovate at 56,000 outlets. ESBG members have total assets of €6.2 trillion, provide €500 billion in SME loans, and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking.

Learn more about ESBG at [www.wsbi-esbg.org](http://www.wsbi-esbg.org).



European Savings and Retail Banking Group – aisbl

Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99

Info@wsbi-esbg.org ■ www.wsbi-esbg.org