Good Morning

Last week, the largest bank in the Netherlands, ING, was attacked by hackers. This was not the first time, but the severity of the attack was unprecedented. I had just finished my speech for you in which I looked back on a period of five years as an independent financial commentator, after Alex Beleggersbank was sold to competitor BinckBank, just before the outbreak of the financial crisis. I wondered how much more misery could be poured on European banks and their bankers. Is the financial community in Europe affected by the 10 Egyptian plagues? You would almost think so. For is it not true that the bankers, like the Pharaoh, after each new plague thought, now it's over, now the dust has settled? And then proceeded as if nothing had changed, without learning from their mistakes.

Let me sum up a few of those ‘plagues’

Oversized banks

The Eurozone has ludicrously large banks. Assets are a equivalent to 300% of GDP. Banks were "too big to fail" and took governments and their taxpaying citizens as a hostage. Moreover, the banks were "too big to manage 'and as far as I'm concerned ' also 'too big to understand'. Annual reports have the size of telephone directories.

And then we expect that financial uneducated savers are able to recognize an insolvent bank?
Get real!

The depositors would not have to do that because for that purpose we have supervisors. But the stress tests by the European Banking Authority are a joke. The Cypriot banks passed with flying colors, Dexia too by the way. And in Holland retail bank SNS was, due to heavy losses, expropriated, but passed its test.

Worse is that the national supervisors cheer the enormous growth of their national banks, because it reinforced théir position. When BNP Paribas was interested in ABN AMRO, our central bank was not amused. It would mean shifting of power to France. So the Dutch State had to buy the bank. Jealousy and competition between regulators, I beg you, that's not a great idea.

Leverage to the extreme

European banks are also highly leveraged. The leverage of the 15 largest banks is about 30 times their equity. The regulators looked at it and did nothing. Well, they validated the risk management models which lowered the risk weighted assets. And on the right side of the balance sheet, obvious debt suddenly transformed into equity. For an industry that thrives on trust and then with so little real equity: it’s asking for trouble.

Trading for their own account

In Europe, the business model is based on the principle of universal banking. Europe needed no Glass Steagall legislation.
Risky capital market activities were placed in separate subsidiaries, 'ring fencing' avant la lettre.

When in the U.S. the Glass Steagall act was lifted in 1999 and the Universal Banking concept was accepted, the at the time very profitable Investment Banks, dominated. And unfortunately the AngloSakson way of thinking founds its way into Europe.

Banks traded more and more for their own accounts, particularly they traded with each other, thereby inflating their balance sheets. The banks got interconnected and the bankruptcy of an individual bank was almost impossible .

Inside the European Boardrooms the balance of power shifted and the two very different cultures clashed. Just take one look at the famous blog of Mr. Luyendijk on the website of the Guardian and one realises the big difference between retail bankers en investment bankers.

Customers came in second place

Banks became addicted to leverage and they found no problem addicting their customers. In the Netherlands, mortgages above 100% of the value of collateral were no exception. The cost of products were not transparent and therefore excessive. And frequently the banks distribute products with kickback fees attached. Sometimes the bank traded with her own money following an investment strategy it didn't advise to its customers.

Banks used the retail savings partly as funding for their proprietary trading instead of extending credit to the real economy.
This was almost risk free because in the traditional European banking model, insured deposits by the government are relatively large in relation to total deposits.

Libor-abuse

Until the LIBOR scandal, the financial world could still pretend that the problems were at the periphery. But LIBOR is one of the most important reference rates in our economy, it affects mortgages payments, loan and saving rates of millions of households and firms, large and small. And the deliberately submitting of false rates was for no other motive other than greed. And it occurred in more than 20 large banks, including our very respectable RABO bank. Faire pricing should be the core of banking and we, the customers, lost confidence in the essence of banking, namely trust.

The bonus issue

I'm not against good salaries and certainly not against variable remuneration, on the contrary, I think that variable rewards are good for innovation, competition and necessary to reduce the cost of the banks in difficult times. Only the latter we didn't see it happen. It is quite the opposite.

Bad performance is rewarded. An example: James Crosby of HBOS, saved by the government, receives an extraordinary high pension.

In times when banks are saved with taxpayers' money, it’s almost unbelievable that in 2012 especially the rewards at the top have risen. Barclay’s Bob Diamond took home £17m in pay, shares and perks.

Why not show some restraint. It would also be a smart thing to do. Now Brussels has had its say, agreeing a ban on salaries of bankers and asset managers. Politicians have imposed a 1:1 bonus to salary ratio, which can be raised to 2:1 with the backing of a supermajority of shareholders.

It is therefore quite astonishing that the Board of ING in its annual report over 2012 writes that salaries of the top layers are not competitive, read: considered too low.

Offshore tax evasion

And then, amidst all that financial turmoil, a list with individuals and companies has leaked with hidden accounts on the Virgin Islands for either tax avoidance but almost certain tax evasion. And again, the financial world is accommodating. And just at a time when the regular taxpayers are asked to contribute to the rescue of banks, ordinary citizens see there elites stowing away their money. You understand what citizens then say: Ok, grab them, including the banks. I don’t blame them.

Speed Demons

On stock markets, ordinary investors also experience the 'too big to understand ‘. Most individual investors remember the flash crass of 2010. I know that this will be on the agenda for today. And though I don’t agree with most of the arguments against High Frequency Trading, for me High Frequency Traders offer liquidity and the reduction of transaction costs, I’m still very concerned that in this discussion emotions will dominate. Market makers and liquidity providers are not parasites without any economic added value and have to be destroyed by spraying a Financial Transaction Tax.

Hackers and the Occupy movement

And last week we saw the severe hacker attack. My immediate thought was: Plague No 9. The attacks are obviously criminal and banks can do little against it, but the attacks dó prove that banks are no longer untouchable. The 'Occupy' movement was in that respect quite innocent. It was an early warning.

One thing is absolutely clear to me. People are angry and afraid.
And I understand it. They don't trust the banks anymore, nor their governments. It comes as no surprise to me, that the value of a bitcoin exploded.

In my blogs and through media appearances I try as much as possible to refine the image, but the genie is out of the bottle.

The anonymity of the banks, the feeling that even savings under 100.000 euro are no longer guaranteed, that governments can introduce overnight a levy on liquid wealth, the lack of customer attention, the absence of a real choice, all those things make people angry.

But anger can be a negative, a destructive thing if it is not channelled into change, said Briton's chancellor of the exchequer, George Osborne, in a important speech on the "Reform of Banking".

One cóuld say “let the banks work for their customers, not the other way around”. But that’s much too simple. Not only the banks and their supervisors are to blame, customers also have to take responsibility: théy accepted their indebtedness, indeed sometimes they bought products without a thorough study, because they thought that a nice risk free profit was to be made.

I suppose the buzzword for the coming years is "reset the banking system". Let me elaborate on four concrete measures that will have to implemented.

1. Get rid of the zombie banks

If you want to restore confidence in banks, make sure that the zombie banks will die, preferably peacefully. So therefore, yes if necessary, with the help of the taxpayer. The U.S. have shown us that it does not always have to cost money.

In all fairness you can't ask savers and bondholders to hold them accountable in case of rescues if stress tests are meaningless.
So "yes", the 'Dijsselbloem doctrine' is the right way forward and "yes", his timing was bad.

2. More equity

Banks need a lot more equity capital. I have great sympathy for the Swiss. They talk of percentages of 20%, including bail-in capital.
It will almost automatically keep banks smaller, it will decrease fat payments and mitigate risks. For the moment equity-issues are out of the question, thanks to Mr Euro Dijsselbloem. As an investor, I'm not interested in bank equity right now. First show me the dead bodies of the zombie-banks.

So additional equity will have to come from retained earnings. So supervisors and politicians should be careful not to erode the earning capacity of banks too much, only because of a sense of guilt or punishment.

3. Separate retail and trading activities

Yes, I'm a supporter of Mr. Liikamen and his commission. Liikamen proposes to return to the old fashioned principle of European Universal Banking. Yes, proprietary trading is allowed, but only to accommodate customers. And retail banks are allowed to take part in underwritings in order to facilitate the flow of savings to the capital market.

The Liikamen report offers three advantages and I quote Liikamen.

Firstly, the separation of activities is the most direct instrument for tackling banks' complexity and interconnectedness.
As banks will become simpler in structure, a recovery resolution will also be easier. As intra-group financing between the retail bank and the trading entity will be strictly limited, there will be fewer channels of contagion. Limits on trading activities will also reduce the counterparty risks of retail banks.

Secondly, simpler structures make it easier for the management and Board to understand and manage banking institutions, and for outsiders to monitor and supervise. This enhances the effectiveness of both market discipline and financial supervision.

Thirdly, separating retail banking and trading entities also reduces the mixing of the two different management cultures. Returning to a culture where the relationship to the customer is highly valued and the focus is on the long-term viability of the business is of great importance.

4. And then my last point: more competition

As co-founder of Big Banks challenger Alex, it's clear to me that more banks and thus more competition is the way forward. Give customers a choice when banks make bad products and or lousy service. Market discipline has always worked. Regulators should stop to raise barriers and protect the dinosaur.

This conference is about equity markets. The banking-turmoil could have positive benefits for capital markets and stock exchanges.

Traditionally, European banks have dominated the corporate lending business instead of the capital market.

Less intermediation of banks and the opening up of capital markets could be ‘the Holy Grail’. According to ECB figures, the share of banks in credit intermediation in Europe lies consistently in the area of 70% of debt financing to households and enterprises. For other major economies like for example the US this number is around 20%.

Remarks from Dijsselbloem, but also from Mr. Rehn all point into the same direction: funding costs of banks will increase. Given the need for banks to make a profit, and restrictions in lending, loan costs will rise too. Tapping the capital market is an opportunity.

So the response to the crisis is not just about how to fix the banks. It also needs to be about how to lure more European corporates to the capital market.

Egypt was hit by 10 plagues. Up to now, 9 plagues have battered the banking system. The tenth plague was the death of the First Borne.

Without a real 'reset' of the banking system, without a banking system that will work for the whole society, a banking system that is able to quiet down the real anger of customers, I’m afraid that tenth plague may occur.

Not a happy prospect, so it’s time for action!

Thank you very much for your attention.