Keynote by Dr Thomas Wieser on the occasion of the XVth European congress of the EuBV in Prague on 25 October 2007

Professor Dr Töpfer,
Minister,
Ladies and Gentlemen,

It is a great pleasure to be able to welcome you here on behalf of the European Federation of Building Societies to this congress in Prague. And this welcome is not only extended to the colleagues from the building societies in the various European countries but also to the large numbers of experts, specialists and delegates from associations and institutions all over the world, practitioners in the field of home finance. I would like to thank you for your interest and your readiness to come here.

Standing in front of you as the third speaker (and let me reassure you also as the last speaker scheduled for the present opening session of our congress) I find myself in a position that is far from enviable.

We have just heard an absolutely brilliant presentation by Professor Dr Töpfer: A tall act to follow which cannot be topped at this juncture. Professor, I would like to express my special respect and heartfelt gratitude for this.

Since Minister Šimáček was aware of his challenge, he was wise enough to fall back onto an abridged version of his speech which presented the costs for home loan and savings contracts in the Czech Republic in a way that, at first glance, looks rather disconcerting. However, provided I understood him correctly, he qualified this statement by expressing his appreciation — together with the Czech government on the whole — of the overall development which investments in home loan and savings contracts with building societies have taken in the Czech Republic. A trend that seems to be set to continue even a bit longer — although maybe not at the same high levels as is presently the case but I am sure this will definitely reach a sustainable pace sooner or later.

There have already been comments on the choice of Prague as the location for this congress and from the point of view of the building societies I would like to endorse this point a little more. For anyone involved in the field of building societies and private home loans, coming here is already interesting and exciting *per se*. This is due to the extraordinary amount of change which this country has seen over the past one and a half decades.

The sober figures presented by the Ministry of Finance stand for a truly fantastic success story in the field of home loan and savings contracts in this country. Here, six banks have been instrumental in ensuring that the basic principles which Professor Töpfer has just explained to us in such a wonderful way gained their due recognition, in-depth review and meaning. So perhaps allow me to revisit this matter briefly. In order to be fully correct, the definition of the term "ownership", its import and its function as the basis for our legal systems has to be updated in order to accommodate one aspect that stems from the latest development seen in the U.S. but also in large parts of Europe. The concept of ownership is precious and important indeed. But those who provide finance for the acquisition of property, particularly real property, ought to respect this by refraining from the search for options that facilitate access to home ownership in a way that is sometimes even downright abusive and which, at the end of the day, creates a situation where the title of ownership loses its value because people themselves have to invest virtually nothing for this. When I can simply order property without having to cut down on anything. After all, at the end of the day I will not really be able to relate to my new property/I will lose every sense of proportion if it becomes a matter of not only borrowing in order to buy a new car from the car dealer's let alone the washing machine. But if instead it also becomes a matter of buying my home from the real estate agent or intermediary on the basis of a financing package involving a loan that goes well beyond the purchase price which is already presented and handed over to me together with the keys to my new home.

I know that this situation cannot be remedied by a purely ideologically motivated explanation. If you can say "I would like to have a house" and already the next day your wish comes true, then this temptation is simply too powerful. However if we wish to take the concept of ownership and its true significance seriously – the way in which has been described to us in such accurate and succinct terms — if we wish to preserve it, then we need to think long and hard about what we do in order to protect the value of property.

From the point of view of the European Federation of Building Societies, as far as the trend in the area of investments in home loan and savings contracts not only in the Czech Republic but also in Europe and particularly in the Central and Eastern European states are concerned, I am delighted to say: Compared to the state maybe one-and-half or two decades ago, when investments in home loan and savings contracts in the form of a closed, contractual, collective system based on mutual help only existed in Germany and Austria, the situation has already changed profoundly.

I need to be careful in terms of figures. After all, Professor Töpfer pointed out that the world population has grown to 6.7 billion inhabitants. So seen against this backdrop, 46 million holders of a building society contract in the whole of Europe seem a rather trifling figure. But maybe, Professor, your chair can address this situation in China. Because this is where there is indeed no shortage of an approachable audience. Having said this, a large part of the population in the European countries has already found access to this type of saving and finance: A system which first and foremost (and this is also the motto of our congress) conveys safety. Safety for investors who can rest assured that — already by virtue of special legal provisions — the institution to which they have entrusted their deposits will not be allowed to enter into intriguing exposures which, under certain circumstances, may indeed deliver a rather interesting performance; nor is there a risk that building societies get carried away by the bright lights and sparkling displays which see a constant emergence of further, sophisticated financial instruments.

There are a number of things that are strictly off-limits for building societies. Not because of some form of moral highground but for the benefit of those who have entrusted them with their savings. On the other hand, however, they are not only entitled but rather more dutybound to deploy their money for a very specific type of housing finance. And here again, the safety aspect not only works for the bank borrowing the funds (and, by default, at the same time for the depositor) but above all it also benefits the borrower. Building societies offer either fixed interest rate loans or caps for floating rate loans. At any rate, the corresponding terms allow the borrower to be clear right from the outset as to the maximum amount they will have to pay in terms of monthly arrears, the maximum amount of monthly outgoings that will still be feasible for them. These are calculable exposures. One precondition for the effectiveness of this system is the necessarily consistent accumulation of savings deposits at a rate that is both sustainable and feasible.

Here an idea comes in which is almost as brilliant as the idea of building societies itself. It is a notion which has been developed and implemented in a whole range of European countries and that involves a relatively moderate degree of public incentives. I am saying relatively moderate incentives because in relation to their impact — which is very, very, high — these incentives appear moderate indeed. These public incentives seek to promote consumer saving, trigger, challenge, invite depositors again and again to refrain from consumption for a given period of time thus allowing their funds to act as a refinancing tool for long-term home loans.

The most frequent fallacy, the most frequent misunderstanding in connection with this system of government involvement reads as follows: Why should people who save for a few years in order to pay for a holiday or buy a car receive a bonus on building society deposits or some form of state support? The answer is fairly simple although not always easy to understand. Said incentives are supposed to motivate depositors to cut their consumer spending for a certain period of time thereby making their funds available for the purposes of funding building society loans. Thus, such a system offers huge safety for this form of private home finance. Because, provided everything works according to plan under the scheme outlined above, building societies do not have to turn to money and capital markets and can thus avoid all the corresponding imponderable volatilities.

Building societies match the government incentives for investments in home loan and savings contracts by offering individuals access to a secure source of finance at limited costs.

In all countries in which investments in home loan and savings contracts are informed by the principles that have been outlined above, this system offers a special degree of social balance. All support schemes have been conceived in a way that it is impossible to benefit from them *ad infinitum.* In other words: you cannot invest millions and millions with government assistance. Instead, there are certain caps which apply per person and per year. Nor is it possible to use the benefits of home loan and savings contracts *ad infinitum* on the financing side. Here, too, there are certain caps which more or less reflect the development of the average price trend for a home or a condominium.

This scheme finds itself in competition with other forms of housing finance as well as with all the various products offered by universal banks. But there are also various specialists amongst its competitors, including those special forms which, among others, are the focus of several working group sessions during this congress. Investments in home loan and savings contracts need to face this challenge and have to keep pace with these competing other offers. I come from a small country marked by a special peculiarity: Strangely enough, in recent years and at the same time when the European single currency was introduced, a large number of potential clients for private home finance started borrowing in foreign currencies. This is due to the fact that such investments appear to offer lower interest rates at least in the initial stages. One of the afternoon working group sessions at this congress will also address this matter. This is at least as dangerous as what we have heard from the United States. Having said this, I do understand that this may not have the same worldwide significance because 300,000 Austrians who drew upon this option do not necessarily pose a threat to the global economy.

At least at this juncture I should say one or two words about the European Federation of Building Societies and its role. Compared to the other European banking associations, the age of our organisation is rather astounding. This year is almost an anniversary. Brought into being in 1962 i.e. very, very briefly after people first began to stipulate various principles and ideas in the form of historic treaties, at the level of building societies the decision was made that one should at least try to think in European dimensions. We are surely not the most significant federation among the seven European banking associations which try to provide their input or apply themselves in Brussels. Having said this, we are definitely the smallest and therefore the one which is easiest to grasp at a glance. We have an excellent office with high-profile staff in Brussels that receives considerable support from the two Berlin-based German building society associations and above all the Association of Private Bausparkassen through its managing director and president, our colleague Mr Zehnder who has successfully been offering his expertise, his network and especially his international contacts for many years now in conducting the affairs of the Federation.

Based on the foregoing, suffice it to mention but one aspect: Even if you don't believe it, in this huge machinery of the gigantic European apparatus in its various well-known locations it is possible to think about ways in which regulation should be increased or cut, it is possible to think about ways in which individual institutions should adopt self-regulation. In other words, even as a representative of a relatively small part of the banking industry (although the banking sector, on the whole, is obviously of huge importance) you have and find an opportunity (provided you pursue this goal consistently enough) to introduce the aspect of building societies into all sorts of emerging ideas. This has proven successful on various occasions. And we should not wane in our efforts. We should continue to consistently bank on this option in the future, i.e. we should refrain from any attempts at unilateral influence on politicians or civil servants. Instead, it is our role to draw attention to alternative views when the time is right. We ought to explain the respective broader context and draw attention to a number of basic facts some of which we have already heard during today's first address. Our plight is valuable, meaningful, it has stood the test of time repeatedly and it will also continue to do so in the future. Regulatory action in Brussels also has an impact on large parts of the banking industry. I am referring to a regime that will come into force on a European-wide basis over the next couple of days. Under the buzzword Basel II — and I am sure you will all be familiar with this term — the attempt was made to subject banking, the banking industry, to new minimum requirements, regulations, qualifications and definitions.

Although this project is commendable indeed since it seeks to create a level playing field for the single market among European countries in an attempt to gradually overcome competitive distortion that may result from National differences, one must also be clear about the fact that such a comprehensive approach which seeks to establish a new regime for the banking industry will also give rise to a scenario where certain ancient, alleged banking wisdoms will come into effect. One of these wisdoms is that it is the safest method to entrust a person with your money if this person already has enough money, anyway. Mostly, however, those who will be most in need of money are people — although they are prepared to also make their contribution towards this — who anyway have little money in the first place. Anything that goes under the buzzwords of personal ratings, score or credit worthiness perpetrates a trend where proving a sufficient degree of creditworthiness is not only incumbent upon corporations, i.e. the business arena, but where obviously also private individuals applying for a loan have to prove the same credentials.

In such a world, the mutualist, contractually agreed saving schemes with a building society introduce an old element which has been tested and tried and which can and should address this balance.
This is not an attempt to absolutely annul the wisdom of Basel II. But it is an attempt to assure that Basel II will at least not be put into practice without any allowances whatsoever and in a way which, partly, may even be unsparing. In other words, I am referring to the circumstance that the community of those who are investing in home loan and savings contracts and those who are borrowing on such a basis, i.e. a community which is comprised of the finite client base of a building society, people shall be entitled to a loan on the basis of a contractual agreement and by virtue of their own performance, i.e. through saving and depositing their funds. — This is a rather conspicuous peculiarity in the banking industry. After all, saving up for a specific purpose is generally frowned upon. Yet, in the case of the schemes offered by building societies, this offers a crucial advantage: Once certain contractually agreed preconditions have been met, prospective borrowers no longer have to go to the bank more or less cap in hand. Under clearly specified preconditions one has a legal claim to an earmarked loan over a certain period of time and this legal claim has to be honoured. After everything that has been said by Professor Töpfer, any further discussion of the fundamentals of home loan and savings contracts in Europe, i.e. any further explanation of the material preconditions would be redundant. I am convinced that investments in home loans and savings contracts have a bright future in Europe.

Far from shrinking, the action arena for building societies is large and even tends to get bigger. If you have been worrying for years on end and asked yourself whether the housing demand will still be sufficiently large in order to motivate people to finance their own home through building societies then today the answer is quite clear for the majority of European countries. Turning away from other legal forms of residency, there is an uninterrupted and huge trend towards owner occupied flats, and there is a vast demand for a complete overhaul of the existing portfolio of residential real estate in Europe (including property built as recently as 15 or 20 years ago). The goal is home improvement, partly by better forms of building and living with a clear focus on energy saving.

Also in the field of residential property, the use of residential space and the procurement of residential space we need to do our utmost in order to make a considerable and sustainable contribution towards the fight against climate change. So we have quite a lot of homework to do. There are a lot of challenges which have been highlighted here and this thing about the Nobel Prize is an additional incentive we shall keep in mind, Professor Töpfer. Whether we will be able to make it immediately is something that nobody knows. But according to your description we have excellent auspices.

I hope that all of you — provided you are active in the field of building societies – will be able to make a contribution towards winning the Nobel Prize ASAP. And that beyond this you will also be doing successful business. I hope all those who have come here in order to quench their interest in building societies will be able to enjoy two interesting, exciting days and a pleasant stay in this beautiful, wonderful city.

And before I end, let me express on behalf of all of us a very special thanks to the Czech building societies which are first and foremost represented by our vice president, the current delegate to the working group of the Czech building societies. Without your goodwill, without your initiative, our congress here in Prague would never have been possible. With all the best wishes from the local Ministry of Finance we wish you a golden future in the Golden City. All the best to you!