

The Role of Retail Finance for Financial Markets Efficiency and Stability

Gertrude Tumpel-Gugerell

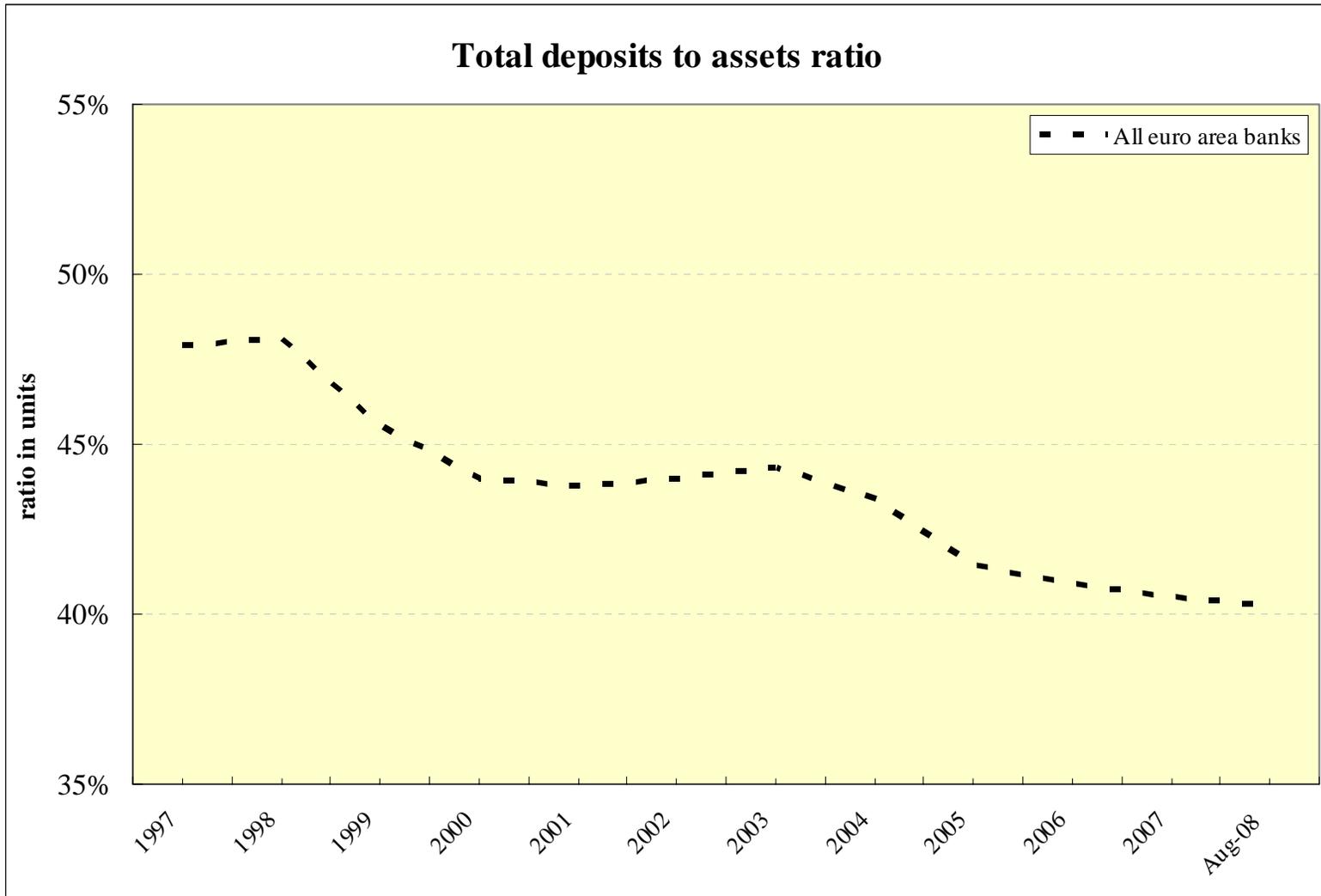
**Member of the Executive Board
European Central Bank**

11th Conference of the ECB-CFS Research Network
Prague, 20-21 October 2008

Changes in banks' business model

- 1. More dependence of banks on market sources of funding rather than deposits**
- 2. More diversification in the sources of revenues via non-interest income**

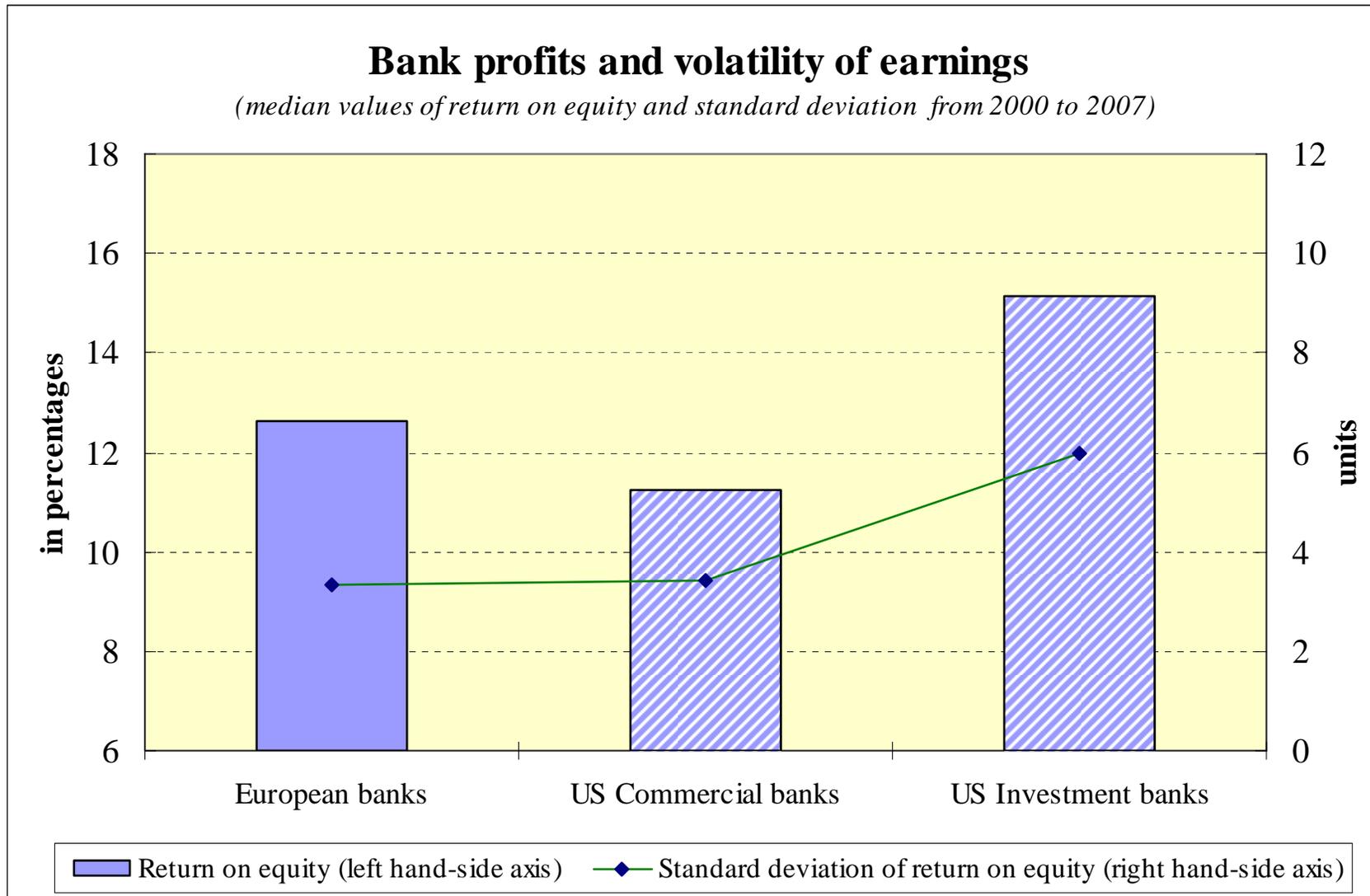
Chart A. Less dependence of banks' funding on deposits



Source: ECB.

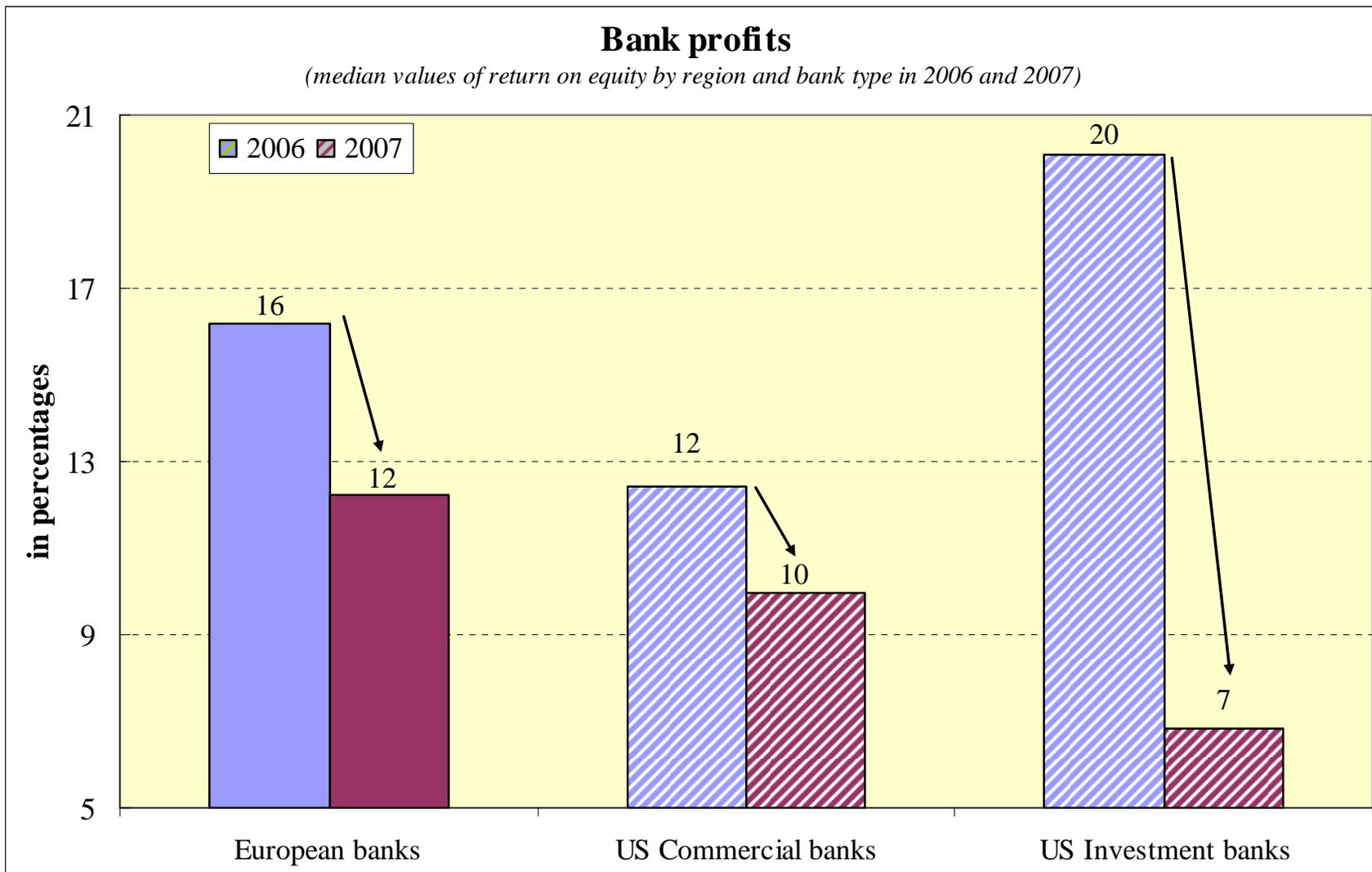
Note: The deposit-to-asset ratio was calculated dividing the total deposits (bank and non-bank) by the total assets.

Chart B. Profits of investment banks are higher but also more volatile



Source: BvD Bankscope. Note: Largest 50 European and largest 50 USA banks measured by total assets.

Chart C. Profits of investment banks declined most from 2006 to 2007

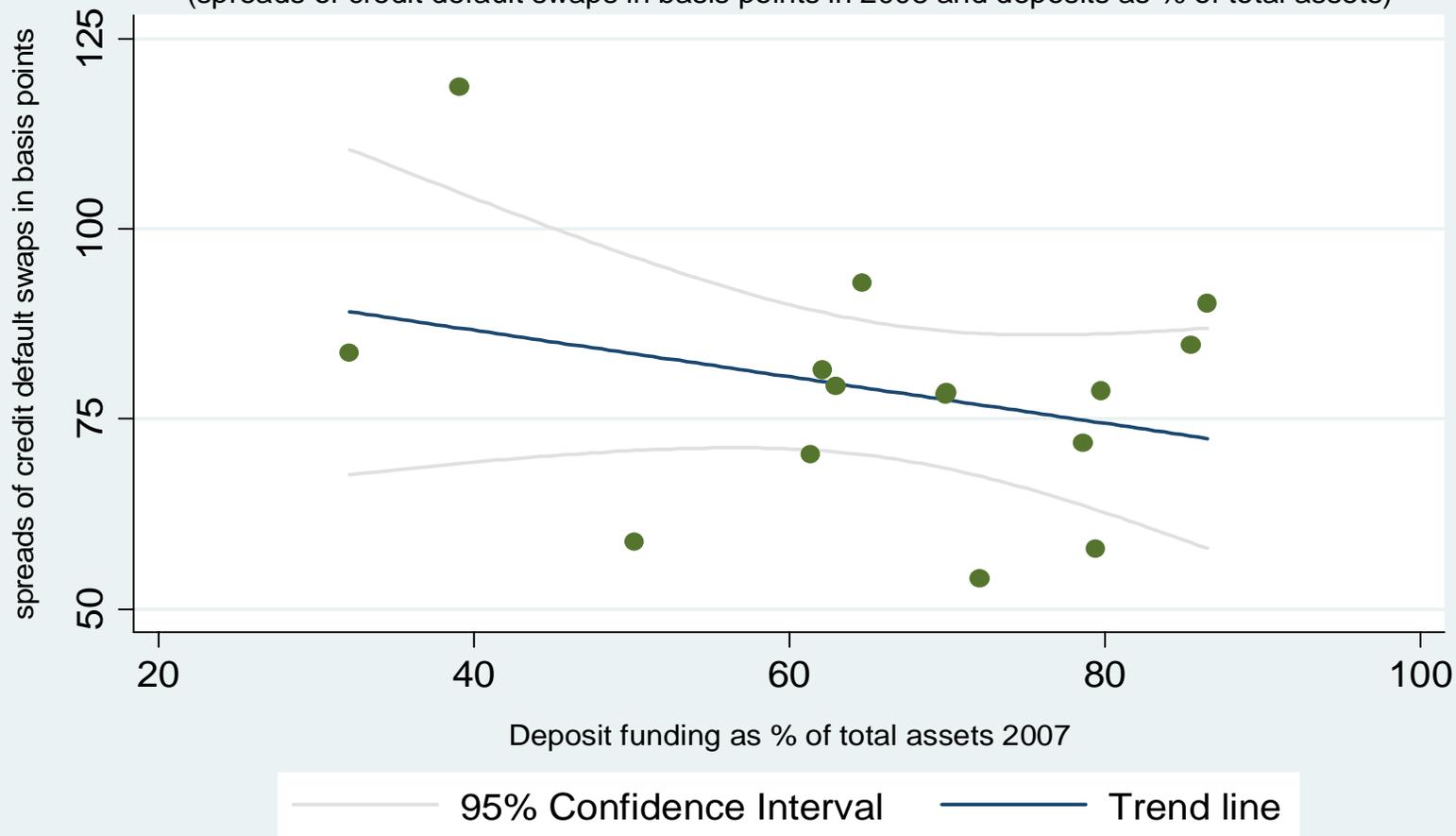


Source: BvD Bankscope. Note: Largest 50 European and largest 50 USA banks measured by total assets.

Chart D. banks funded to a larger extent by deposits are perceived as less risky by financial markets

Banks' risk and deposit funding in the euro area

(spreads of credit default swaps in basis points in 2008 and deposits as % of total assets)



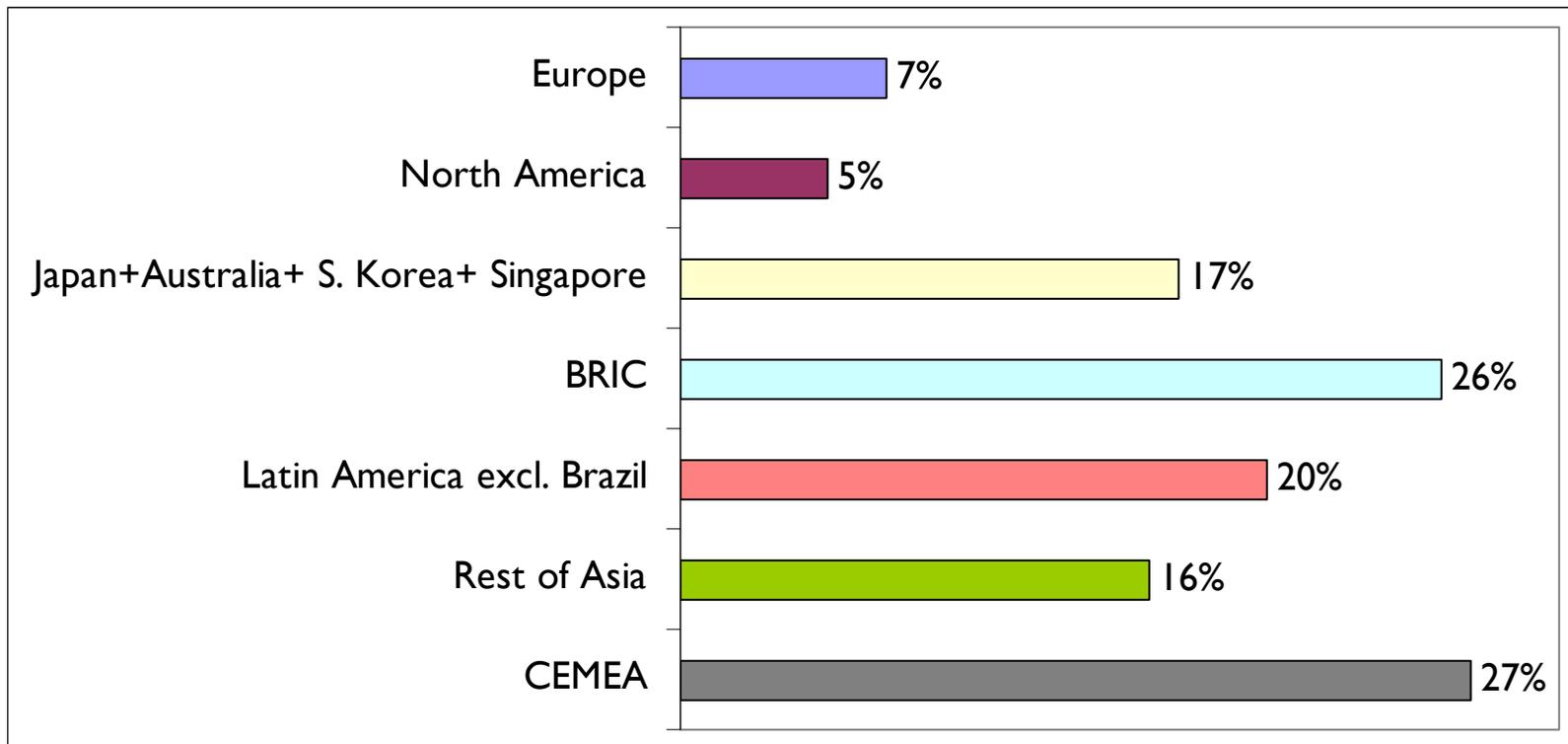
Source: BvD Bankscope and Bloomberg data for 17 of the largest euro area banks measured by total assets in 2007.

Efficiency of retail payments and SEPA

- 1. SEPA important for retail banking**
- 2. Retail payment activity spurs growth**
- 3. Need for overcoming the “final hurdles”**

Chart E. Importance of SEPA for retail banking

Average growth rates of total worldwide non-cash transactions, 2001-2006



Sources: ECB Blue Book; BIS Red Book; IMF; Capgemini analysis.

Retail payment activity spurs growth

SEPA objectives:

- **Integrated and efficient financial markets**
- **Fosters competition and innovation**

Economic benefits:

- **Reduction in transactions costs**
- **New business opportunities**

Overcoming the “final hurdles”

- ✓ **SEPA Credit Transfer - 28 January 2008**
- ✓ **SEPA Direct Debit – 1 November 2009**
- ✓ **Consolidated infrastructure**
- ✓ **E-payments and mobile payments**
- **Stakeholder involvement**
- **Communication**
- **End-date**
- **Governance**
- **Additional European card scheme(s)**

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