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Conducted by **Catherine Distler (PROMETHEE) and Olivier de Conihout (Unisys)**

Strategic conversation with

Rembert von Lowis
Group Chief Finance Officer, Dexia

Leveraging technical expertise across borders

Since its creation, Dexia has differentiated its strategic positioning from other European banks. Can you explain Dexia's primary ambition and what strategy it intends to implement to fulfil this?

Rembert von Lowis: Dexia was born out of the 1996 alliance of two banks, one French – *Crédit Local de France* – and the other, Belgian – *Crédit Communal de Belgique* – but was not formally united as 'Dexia' until 1999. Interestingly, as the latter bank had a subsidiary in Luxembourg, *Banque Internationale à Luxembourg* (BIL), from the very beginning, Dexia was strongly present in three different European countries and, therefore, never had a single national 'domestic market,' a feature that strongly distinguishes us from other European banks.

Dexia positions itself as a truly international bank and its status stipulates that a given number of Directors are neither French nor Belgian. This embodies our vision of being a truly international bank whose main competitive advantage does not result from significant cost synergies between branches but rather from achieving a critical mass of activities on which to build a global growth strategy.

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Speaking to this, Dexia has pursued an ambitious acquisition strategy from the outset. Three deals stand out: first, our acquisition of *Crediop in 1996/1998*, an Italian bank specialised in project finance for the local public sector; second, our purchase in 2000 of *Financial Security Assurance*, an American firm that provides financial guaranty insurance on municipal bonds and asset-backed obligations; and third, our acquisition of Artesia Banking Corporation, the fifth largest Belgian retail bank in 2001.

Dexia is active in almost all European Union countries as well as in the US, South America and Asia. How is the Group managed at the international level and how are both the international and national levels articulated?

RL: Dexia Group management is totally integrated at the international level. We have a Management Board that consists of seven members – chaired by Pierre Richard – and each constituent member has worldwide responsibilities. In total, we have four business lines: public/project finance and credit enhancement, personal financial services (covering both retail banking and private banking), investment management and insurance services (including fund administration, fund management and insurance), and treasury and financial markets. Each business line is headed by a member of the Group Management Board, which subsequently dictates its global and local responsibilities. All internal and external reporting – as well as strategy, planning and budgeting – are conducted per business line, not on a geographical basis. In addition to the five aforementioned members, the Group Management Board contains two additional members: the Chief Operations and Technology Officer (COTO), who plays a crucial role in identifying synergies among operations, and myself, the Chief Financial Officer (CFO).

As you mentioned earlier, Dexia Group has positioned itself from the outset as a European Group both in its scope and internal structure. What obstacles do you encounter in operating cross-border within Europe? Are regulatory discontinuities still substantive impediments to the execution of your strategy?

RL: Within the European Union, regulatory discontinuities remain, despite all the work conducted in recent years to achieve harmonisation – which I feel is a useful but presently incomplete project. Owing to this push for harmonisation, such regulations can no longer be considered as 'obstacles,' *per se*, but they do generate extra costs and add a further layer of complexity to our operations. To cite but one example, there is no single European banking regulator,

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even though the CEBS (Committee of European Banking Supervisors) was created in January 2004. As such, each European country has its own banking supervision authority and an international bank like Dexia needs to maintain contacts with each of them individually. The calculation of financial solvability ratios, for instance, is not the same in Belgium, France or Luxembourg. Furthermore, the European markets are fragmented in that the banking culture differs from one country to the next, a sequence of divergences well reflected in the diverse legislative models utilised across Europe. However, none of these differences inhibits our international strategy even though they may, as I mentioned before, generate extra costs and oblige us to have specific reporting systems per country.

The adoption by the EU of international accounting standards on January 1, 2005 has been discussed at length recently but it is unclear what this ultimately means. To be sure, this event does not imply the end of national accounting standards and taxation will remain based on financial reporting criteria, which, of course, derive from national accounting standards. In fact, every European company will actually have two different modes of financial reporting, one for the equity markets and other users of financial reporting, and another one for relevant fiscal authorities. Moreover, we do not yet even know what impact this will have in terms of prudential supervision, a further factor that I believe distinguishes Europe and the US. In America, the US GAAP system and the same prudential regulations apply across the entire country, a phenomenon that we are not yet witnessing in the EU.

However, one should not oversimplify. In the US, there are multiple regulators defined not only by industry groups but also, in some cases, by states, themselves – as is the case with insurance. Still, by comparison, the situation remains considerably more complex in Europe, with different norms and regulations applying across the various member states.

Beyond the extra costs resulting from the need to interact with various regulatory institutions in different countries, one also needs to take into account the influence national regulators exert *in practice* that exceeds the legislative text. In terms of European consolidation, the implicit preference is always for acquisitions by another national company, rather than a company coming from another EU member state. This national preference has prevented the *creation of European banks*.

It is always surprising to contrast some of the European political achievements, like the creation of the Euro and of the ECB, with the difficulties the EU encounters in overcoming some internal economic barriers. Could an institution like the ECB intervene to push toward the creation of a truly European banking market within the Eurozone? Or, could the merger of national regulatory agencies help European consolidation to take place?

RL: You are right: very ambitious political objectives have been achieved at the European level, among which the creation of the European Central Bank and the common currency are the most noticeable in the financial sector. Indeed, they could be considered as much more complex achievements than simply merging a bunch of banking supervisors or establishing a close cooperation between them. However, two main types of obstacle remain on the long road toward common banking supervision: first, a common banking supervisor would not be the ECB, as many countries are still not part of the Eurozone; and second, there is no consensus among European countries on a common supervisory model. Some countries, for instance, have opted for a single integrated model with a unique regulatory authority for banks, investment, insurance activities and financial markets. The best-know example of this development is the *UK Financial Services Authority* (the FSA), but the same model prevails also in Germany, with the *BaFin*, or in Belgium, with the *Banking, Finance and Insurance Commission* (CBFA). In fact, many other European countries are following the same direction as regulatory authorities are progressively merged: France has fused the two regulatory agencies in charge of investments and capital markets (the *Commission des Opérations de Bourse* – COB – and the *Commission des Marchés Financiers* – CMF) into a joint regulatory authority (the *Autorité des Marchés Financiers* – AMF), and has strengthened the co-operation between the three remaining regulatory authorities, the AMF, the CB (the *Commission Bancaire*) and the CCAMIP (the *Commission de Contrôle des Assurances, des Mutuelles et des Institutions de Prévoyance*) which is in charge of insurance activities. However, another model exists in countries like the Netherlands, Italy or Spain, where the National Central Bank exerts banking regulatory responsibilities, while different specialized agencies supervise other financial institutions or markets.

Before agreeing upon the merger of national regulatory authorities at the European level, European member states would have to agree on a common model but also on common regulations. However, the absence of this model has not been an obstacle to Dexia's formation as a European banking institution.

Banking cultures, business lines and products remain different in various European countries. Are these differences not a more substantive impediment to the creation of an integrated European banking market than the lack of veritable regulatory harmonisation?

RL: *Banking cultures* remain very different within Europe, indeed, and harmonisation will take time, if it happens. In retail banking, especially, nobody would argue that the products are the same everywhere in Europe. UK mortgages have no equivalent in France, savings are not invested in the same types of products and there is no equivalent to the French *Livret A* in other European countries. Retail banking still keeps national characteristics and it will remain so for some time. Accordingly, *cross-border consolidation* in retail banking is not achieving the same benefits as in other business lines: a retail bank in one country willing to acquire one in another cannot generate significant economies of scale, while an acquisition in the same country could generate *synergies* in terms of back-office operations or distribution networks. As I mentioned earlier, each Dexia business line manager conducts his / her globalisation strategy with respect for the nature of the specific business and its products at hand. In retail banking for example, we have developed credit-scoring techniques in Belgium that could easily be transposed to other retail banking subsidiaries.

In other business lines, like public finance, national markets also remain quite different. This is especially so in terms of competition because some governmental agencies, or national entities, may still provide preferential financial arrangements to local governments. However, the same risk analysis expertise is used in virtually all EU countries as well as in the US and in some emerging countries.

Do those differences between national banking cultures have an impact within Dexia? Or, has a common corporate culture emerged since the merger of the different national entities?

RL: Some cultural differences remain visible despite the federative role of various initiatives at the Group level. To be sure, corporate culture varies by business line, and these differ greatly among the various countries in which we operate: Belgium and Luxembourg have strong retail and private banking businesses, respectively, but this is not so in France. Having said this, we are involved in public project financing everywhere, and risk analysis is the same in the different countries. Perhaps most relevant to your question is that our employees now share a common corporate identity wherever we operate.

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We have mainly discussed Dexia's activities in Europe. However, Dexia is now very active in other parts of the world, particularly in the US. What types of business are you principally involved in America?

RL: From the beginning, Dexia aimed to become the world leader in project / public finance. Therefore, it conducts a strategy of internal and external growth in that domain. Dexia Group, already the leading European actor in the local public finance market, wanted to establish a strong presence in the American sector. However, this huge market is very different from the European one. Local governments directly finance their investments in the financial markets by issuing municipal bonds and, in order to lower the cost of credit, turn to insurance companies specialized in insuring financial assets to guarantee principal and interest. This type of insurance products has no equivalent elsewhere in the world. Financial guaranty insurers in the US are highly regulated and are mono-line companies. Interestingly, in economic term, these companies are doing a business similar to that of Dexia in Europe, as they are assuming the *counterparty risk* of local government bonds within a very regulated framework.

In this sector, we executed a major, and from our point of view *decisive*, transaction in 2000 with the acquisition of Financial Security Assurance, a business specialised in the credit-enhancement of municipal bonds and asset-backed securities. The acquisition of Financial Security Assurance is important for Dexia both in terms of geographical reach and technical expertise, the latter of which could eventually become useful in other markets. In fact, Financial Security Assurance already has a subsidiary in the UK that provides credit enhancement to project / public finance, a market that very much developed as a dual result of the British Government's Project Finance Initiative and of the growth of Private Public Partnership schemes.

Do you anticipate that in the future, Dexia could provide these credit enhancement products in continental Europe just as it now does in the US and the UK?

RL: These products are especially useful when investors turn to markets, not to banks, to finance their projects. However, such disintermediation remains very limited on the European continental market. Of course, it could develop in the future but I have to confess that I don't share the views of those who anticipate that disintermediation may eventually reach the same scale in Europe as in the US.

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This position is aired less often today than it was a few years ago!

RL: Certainly, but even several years back, we openly said that we did not anticipate such a change. Today, the market confirms that our assessment was correct: banking intermediation will keep its predominance in Europe over market intermediation.

Dexia is active in other parts of the world, like Singapore or Hong Kong. What types of businesses are the most relevant for Dexia in these Far Eastern markets?

RL: I think your question ultimately addresses our approach to globalisation and in discussing this topic, one has to distinguish between two kinds of markets: those that keep a strong 'national' flavour in terms of culture and regulation – such as credit enhancement in the US; and, those that are global by 'nature' and impose some type of global presence on any actor seeking to prosper in that field because cost synergies are predominant. Investment fund servicing is one of these 'global' businesses and Dexia Fund Services, a subsidiary of Dexia BIL in Luxembourg, is a major player in this industry. It has built its expertise in Luxembourg, the biggest European investment funds market.

In fund management, two different sets of expertise apply to administrative and financial management – the latter of which comprises investment strategy and portfolio selection. Dexia Fund Services focuses on the administrative aspect of this chain, and especially on fund accounting and custodian bank services, acting additionally as a transfer agency for funds distributed internationally. We have established a strong position in many locations both in Europe and worldwide – such as in Singapore and Hong Kong – where our 'global clients' – the big fund managers – want services to be provided. The same back-offices are used for operations everywhere, and they operate 24 hours a day.

Our globalisation strategy is adapted to the characteristics of each of our business lines, taking into account whether our clients need global geographical reach, whether the market is actually 'global,' or not, and what level of economies of scale and synergies are to be expected.

In globalisation strategies, brand plays a critical role. Dexia has had an active acquisition strategy during recent years. What is your brand policy? How do you take into account the various national sensitivities in your re-branding decisions?

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RL: We have decided to federate all of our different activities under one brand name, Dexia, either by adding it to the name of the company we just acquired or by direct substitution. In Belgium, for instance, all banks have changed name in the recent years so the transition from *Crédit Communal de Belgique* to Dexia was not a problem. In France, brand conservatism is much stronger though. The main noticeable exceptions of French brand conservatism are *AXA* – a totally new brand name given to *Mutuelles Unies-Drouot* in 1985 – and *Total*. *Total*, you recall, decided after acquiring *Elf* to federate all the activities under *Total* name, keeping the *Elf* brand only in distribution as there were competition issues related to the dominant positions of the *Total*, *Elf* and *Fina* – another of *Total's* acquisitions – retail stations. Dexia could not escape this conservatism, so we operate in France as *Dexia Credit Local*, and we use this name across Europe for public and project finance, as well as for local governmental financial services.

Dexia defines itself as a 'bank for sustainable development.' By defining its identity in such terms, it differentiates itself from other financial institutions and underlines its core values and commitments. What role does these values play within the bank?

RL: As a bank with a cross-border scope, Dexia maintains different business lines in different countries. As I mentioned before, we have strong retail banking operations in Belgium and Luxembourg, but not in France, while we are a public finance leader in France and Belgium, but not so in Luxembourg. Moreover, although we may run similar businesses in diverse countries, our operational strategy is not necessarily homogeneous in each of these venues due to historical reasons. Thus, group cohesion needs to be asserted through federative values and a strong corporate culture.

For us, sustainable development – taken in its broadest sense and not limited to growth minimising the use of natural resources, beyond its intrinsic importance – is a federative project that has the potential to reinforce cohesion within the group. Indeed, sustainable development is integral to the very nature of our activity. Our first business line concerns public project financing – in financing collective equipment that aims to improve people's living environs, from transportation to education and water treatment. We are also deeply involved in asset management. Here, Dexia allocates its expertise at the service of responsible investment and we manage a sizeable share of the sustainable funds market in Europe.

I should also note that Dexia Group has made its commitment to sustainable

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development formal by taking part in various international initiatives. To mention only the main ones, Dexia is a signatory party to the 'UN Declaration of Financial Institutions on Environment and Sustainable Development' (of the United Nations Environmental Program – UNEP) and a participant in the *UN Global Compact*,[1] and adheres to the *Equator Principles*.[2]

Therefore, sustainable development is now considered to be one of the key components of our identity, our socially responsible corporate culture, and is highly visible in both our internal and external communication. However, it should not be overemphasised: our commitment to the long-term does not overlook the need for short-term results and high profitability.

1. This set of rules advocates respect for the environment and social equity and is applicable to all those loans aimed at financing projects for an amount of $ 50 million and above.

2. The Equator Principles are a framework for financial institutions to manage environmental and social issues in project financing.

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