

2022 EBA Policy Research Workshop
*Technological innovation, Climate finance
and Banking regulation*

Hybrid event, Paris, 27/10/2022 (date of
delivery)

Workshop dates: 26 and 27 October

Closing remarks, François-Louis Michaud, EBA Executive Director

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Good afternoon ladies and gentlemen, dear colleagues and guests,

It is my pleasure to close this year's policy research workshop, an important annual rendez-vous to reflect on the findings of the most recent research in our areas.

I would like to thank all of you for attending. We have been fortunate to attract this year again very distinguished policymakers and academics, and to hear keynote speech from Jose Manuel Campa, Cornelia Holthausen, and José-Luis Peydró. In total our hybrid event could be attended by more than 400 registered participants – a big success.

I should recognise that the topics of this year's EBA workshop – climate and ESG (Environmental, Social, and Governance) issues and technological innovation – came hardly as a surprise. These are clearly the issues which are front and centre for the banking sector at the current juncture.

The traditional question one raises after such an event is the following: all these discussions are *finem* but how can we make sure that such a lively (academic) research then translates into policy regulatory developments? In my view, the research that you have been discussing brings a number of immediate and very valuable insights.

Starting with the discussions of yesterday around climate-related and ESG risks: for the policymakers, a thorough understanding of where (climate) risks lie, and in how far they are accounted for by the banking sector or the prudential framework, is key. In this sense, the pricing of climate risk is a fundamental question, with implications in terms of incentives provided to economic agents to support an allocation of capital consistent with the transition towards a more sustainable economy. In this regard, it is only reassuring that research on this topic is so lively. Several papers presented yesterday analysed the reflection of climate or ESG risks in the pricing of specific assets. We have heard speakers examining questions such as the relation between the environmental profile of firms and their cost of funding, or the effect of environmental policies such as the Paris Agreement on bank lending and the pricing of so-called brown assets.

A second take way is that evidence-gathering should underpin policymaking. We attach the highest importance to this at the EBA. We collect a wealth of data from banks and other firms, and one of our key strategic priorities is to make them available, to disseminate, in appropriate manners of course, to policymakers, to our members, but also to the industry, academia and the public large. When it comes to the prudential framework in particular, insights from the literature on the impacts of environmental factors on credit risk can be valuable. On this topic, there were interesting discussions related to the papers investigating whether green loans in Romania bear less credit risk, what is the relation between corporate environmental performance and credit risk, how physical risk drivers affect the credit quality of mortgages in Florida, and how default models for mortgages could potentially be improved.

Third take way, from our perspective as a banking regulator, insights on the respective roles of bank financing and market functioning in the green transition do matter. On this, we have carefully listened to speakers looking into the allocation of capital for polluting firms in the financial markets, and how banks versus market-based financing may differ in their attitudes towards ESG risks.

Now turning to technological innovation: during the course of today, we explored various aspects of how technological innovation poses opportunities and challenges, including new risks, for the financial sector. Over the past years, we have seen how digitalisation has accelerated the pace at which financial institutions experiment new tools and approaches, and how the structure of the EU financial sector is being transformed, with the emergence of new business models and new entrants. As a result it is now absolutely necessary to go back to first principles and ask ourselves who is performing the key features of what constitutes banking, and how, so that this be placed under the regulated safety net.

New insights were also provided: for instance, while it seems already well-established that the availability of new models based on machine learning and big data could help bridge some information asymmetries (especially for SMEs and firms with short credit history), today we also saw how IT investments by credit institutions may have the side effect of spurring entrepreneurship and start-ups.

But technological innovation does not come without risks, as we know, and this was very well illustrated during the last session. Cyber-attacks are now a standard feature of our operating

models, and the discussions here have highlighted the importance for banks of having adequate contingency mechanisms to be put in place by banks. Moreover, we learnt how a prompt intervention by the financial authorities could indeed prevent a local disruption to spread over the whole banking systems. But, once again, the principle of one-size-fits-all does not apply here either, as we have seen how the reputational effect of cyber-attacks may not be the same for small and large institutions, with the former more likely to suffer a slowdown in terms of perspective depositors.

Now, whether it is for ESG or technological innovation, needless to say that the EBA is actively working on these issues and will continue to do so. In fact, one of our priorities for the upcoming period 2023-2025 is to tackle ICT (information Communications Technology) risks and digital finance challenges, and to further strengthen operational resilience. At the same time, we will strive to embed ESG-related considerations in all our products and activities. Our work in this area will cover the three pillars of banking supervision:

- With regard to Pillar 3 (i.e transparency), building on the ITS published this year, we will seek to expand the scope of quantitative disclosures beyond climate, and potentially expand the scope of disclosure requirements to a larger universe of banks, while continuing to support institutions in the implementation process;
- With regard to Pillar 2 (i.e. the supervisory review), we will provide more guidance to institutions and supervisors, in particular through Guidelines for institutions on the management of ESG risks including through prudential risk-based transition plans;
- With regard to Pillar 1 (prudential requirements, especially capital), building on a discussion paper released earlier this year on the feedback received, we will continue to assess what potential changes to the prudential framework should be considered and propose a forward in the course of 2023;

And, last but not least, we will also deliver on our climate-related stress test mandates, including a one-off cross-sectoral exercise coordinated with EIOPA and ESMA, the ECB and the ESRB.

For all our activities, we will continue to monitor and draw on the excellent research of central banks, supervisors and academics. This is key to inform our policy reflections and ground them on solid theoretical foundations, evidence and data.

Let me conclude by saying that technological innovation and the transition to a more sustainable economy will continue generating new challenges and opportunities to financial institutions, to consumers, and to policymakers. Current developments are likely to deeply transform the landscape for financial intermediation. Institutions will need to adjust, so that we can collectively reach a good balance in terms of efficiency, resilience, stability, and sustainability.

Let me again express my gratitude to all of you for your active participation, interest, and cooperation. This has been a very fruitful policy research workshop from our perspective. Your

speeches, papers presented, and interventions allowed it, and will be a continued source of inspiration for us.

A final warm thank you to my colleagues Samuel Da-Rocha-Lopes and Laura Macchioni for the organisation of this event.

I look forward to seeing you again in 2023 at the next EBA Policy Research Workshop. In the meantime, do not hesitate to reach out to us so that we can continue the dialogue.

Thank you for your attention.