

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

Hybrid event, Paris, 26/10/2022 (date of
delivery)

Workshop dates: 26 and 27 October

Welcome speech of Jose Manuel Campa, EBA Chairperson

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

Introduction

Good morning and welcome to all participants.

It is my pleasure to open our eleventh EBA Policy Research Workshop. This annual event aims at bringing together economists and researchers from supervisory authorities and central banks, as well as leading academics, to discuss how the banking sector is evolving, and challenges from a regulatory and supervisory perspective. I am confident that this year's event will once again generate rich discussion as well as new ideas and insights.

This year we host the event for the first time via a hybrid format, after having held the past two workshops virtually. This hybrid format offers the considerable advantage of hosting many of you here at our premises in Paris, while still enabling many more participants to join us remotely from across the world.

In total, we have more than 400 registered participants, which demonstrates the clear interest in the theme of the workshop as well as the eagerness to learn about the work that will be presented and discussed during the coming 2 days.

This year the workshop focusses on technological innovation, climate finance and banking regulation. These are clearly crucial topics for the banking sector. To some extent, they are even shaping its future. These are areas which share some commonalities. For example, they set out new frontiers for the banks, they evolve rapidly, and they attract a lot of interest from various stakeholders.

These are also areas where regulators such as the EBA are increasingly active and will certainly continue to play an important role going forward. Hence also the value of such events like ours today, which allow to bring together different perspectives and to stimulate a policy debate nurtured by academic research.

In my opening remarks this morning, I will first share a few comments related to climate finance, which will be discussed today. Then, I will turn to technological innovation and other topics that will be covered in the second day of the workshop.

Climate and ESG

First, climate finance, and climate-related risks.

It is now widely recognised that the implications of climate change for the global and EU economy are of paramount importance. Climate change and the risks associated with it have implications for the macro economy, a large range of economic sectors, households, and of course the financial sector and the banking sector. It is now firmly established that institutions need to identify, measure, disclose and manage these risks.

In parallel to this growing recognition of the financial risks linked to climate change, the EU has decided to pursue ambitious sustainability objectives. This is well illustrated by the objective to attain an EU's 'climate neutral status' by 2050 – or in other words: achieving a state of net-zero carbon emissions in the EU by 2050. These climate goals will require substantial investments, which cannot be shouldered by public sector funding alone. Bank financing and the role played by banks in channelling private investment towards the transition to a climate-neutral, climate-resilient, and resource efficient economy will be crucial.

Against this background, it is not surprising that sustainable finance and environmental, social and governance - in short ESG - risks, have been a top priority in the EU policy agenda over the last years. I believe this will also remain as such in the years to come.

The European Banking Authority is working together with other policymakers and regulators to create the right framework for banks and supervisors in this journey. Our ESG agenda covers a wide range of elements of the regulatory framework, including risk management, disclosures,

supervision, stress-testing and prudential elements. Central to all these aspects and at the core of our approach is a continued focus on risks, consistently with our prudential risk-based mandate.

To begin with, the EBA is taking initiatives to ensure that institutions clearly embed ESG risks into their business strategies, risk management frameworks and internal governance arrangements. ESG risks are progressively integrated into our regulatory framework. They are now clearly referred to in several EBA Guidelines– on loan origination and monitoring, on internal governance and remuneration policies, and on the supervisory review – and more guidance will follow going forward on risk management.

In this regard, I note that the first climate stress tests conducted by EU supervisors, including the ECB this year, confirmed the need for banks and supervisors to continue building their capabilities. Banks should continue to improve their climate risk modelling and their capacity to identify and manage these forward-looking risks. Ultimately, we expect banks to incorporate considerations on ESG risks into their regular business and risk management.

Secondly, earlier this year we developed and published our Pillar 3 disclosure requirements on ESG risks, which will start to be implemented by large and listed institutions in 2023. This is a key milestone. Disclosures by banks should contribute to convey relevant information to stakeholders, facilitate the understanding of risks to which institutions are exposed, and support an appropriate channelling of capital flows, including to sustainable activities.

At the same time, by systematically collecting and analysing the data necessary for the disclosure metrics, banks will gain a better understanding of the risks they are facing. I hope that banks' disclosures, together with other disclosures such as those that will be required from non-financial corporations, will substantially increase data availability and quality, which is of course key and unanimously recognised as a significant challenge at the moment.

Last but not least, we have also started considerations on the appropriateness of the prudential framework. So far, the analysis focused on the prudential treatment of exposures subject to environmental risk drivers. This is the topic of the discussion paper we released few months ago, where we aimed to collect input from stakeholders on some conceptual issues as well as on the relevance of targeted amendments to the existing framework to capture environmental risks more accurately. This work will continue, with the key objective of ensuring that the prudential framework reflects the risk of exposures accurately and supports the right capitalisation and resilience of banks.

Going forward, we will continue to deliver on the ESG mandates included in various pieces of legislation. In this regard, we will pay attention to the finalisation of the updated banking package, which may result in a series of new mandates. Further work may be undertaken accordingly, for example to include ESG risks into the supervisory reporting, and to develop Guidelines on the management of ESG risks including risk-based transition plans and climate stress-testing practices.

Going forward, we will also monitor these risks in the EU banking sector, including through dedicated and regular stress testing exercises. And we will continue to assess possible measures to address emerging risks such as greenwashing. All of this will come in addition to the continued collaboration with international and EU institutions, such as the Commission's Platform on sustainable finance, the Basel Committee, the Network for Greening the Financial System, or the ESRB.

In short, there is a lot on-going in the ESG risks sphere, and research by central banks, supervisors and academics can usefully feed into this work. During the first day of the event, we will discuss recent research on climate policy risk and the pricing of bank loans, regulation and market functioning, and the financing and hedging of climate change. This definitely makes the program of this first day not only very interesting but also highly relevant for the future regulatory work.

At the same time, technological innovation also clearly features as a crucial topic for the banking sector. Allow me then to turn to this theme, which will be discussed tomorrow.

Technological innovation of financial services

Over the last decade, new and innovative technologies have profoundly transformed the provision of financial services. While much of this innovative wave has occurred in the non-banking sector, as new intermediaries have been quicker than banks to exploit the advances in digital technologies, traditional banks had also to adapt to the new forces and eventually embrace them. Overall, this has changed the way financial institutions provide services to their clients. More and more customers now interact with their banks mainly through digital channels and benefit from reduced transaction processing times and lower costs, for instance in the context of cross-border payments. On the other hand, digitalisation has also impacted some fundamental processes of banks' operations. Back-office procedures can be streamlined, thus increasing efficiency, while machine learning techniques have now become more widespread in the assessment of creditworthiness, thus allowing for faster responses and filling potential informative gaps.

Like any other major industrial transformation, the digital revolution impacting financial services is driven by powerful forces acting on both the demand and the supply side. While the factors underpinning these forces may be evolving over time, their essence is here to stay, and the transformational trajectory initiated one decade ago will likely continue over the next years.

Looking at the demand side, as any of us has experimented in our every-day life, the growing use of online services (even outside the financial sector) led to a fundamental change in customer expectations and behaviour with regard to financial services - customers now demand products that are more user-friendly, instantly available and intuitive to access through digital interfaces. As noted in the EBA Report on impact of fintech on incumbent institutions' business models¹, for financial services providers, including banks, this often implies the need to provide 24/7 access, possibly optimized for mobile phones, and beyond the traditional physical branch and online-based customer service. Demand will also continue to be influenced by powerful demographic factors, as

¹ [EBA \(2018\) Report on impact of fintech on incumbent institutions' business models](#)

the new generations are more likely to adopt digital solutions to manage their financial needs, being more accustomed than older cohorts to customer journeys taking place entirely online.

On the other side, as shown by FSB and OECD², a few, long-term, supply factors have also played a key role in the digital disruption that has impacted the financial sector. First, the development of Internet Application Interfaces (APIs), which allow third-party access to consumer bank data and are now the standard in Open Banking applications. Second, the increasing use of cloud computing, so that IT services are provided, and data are stored, through a network of remote servers. Third, the emergence of smartphones as an outlet more and more capable of delivering multiple functions, including financial services which previously were accessible only through traditional branches or through websites.

New demand and supply forces have often left the incumbents, traditional players that were slow to adapt, with over-capacity, both in terms of IT and physical infrastructure, and with slower and inefficient processes³, struggling to meet a demand that has structurally changed. On the other hand, these forces have also provided a formidable incentive for the financial sector to undergo a radical transformation in a short period of time.

The digital revolution did not lead only to a major change at micro-level, but it had a profound impact at the level of the industrial macro-structure of the financial sector. A recent work from the BIS⁴ shows how new technologies, leading to increased connectivity and the ability to process quickly large amount of data may impact the fundamental factors that are at the root of financial intermediation in the first place: *economic frictions*, like transaction costs and information asymmetries, and – although to a different extent - *economic forces*, such as economies of scale and scope, which often limit the entrance of new players into an established market.

This radical change in the market structure has meant that the production of financial services could be disaggregated and, in some cases, re-bundled, thus transforming the value chain. In turn, this is creating new interactions between financial and non-financial players: over the recent years, we have witnessed growing interconnections between established financial institutions on the one side, and FinTech and BigTech players on the other, through a variety of business models, ranging from the provision of services to various forms of cooperation and partnership.

Unsurprisingly, these developments are bringing regulatory/supervisory challenges and new risks. First, the fragmentation of the value chains has made it more difficult to identify who does what in

² For a detailed account of how these demand and supply factors have impacted market structure and the dynamics among different players, see FSB (2019), [FinTech and market structure in financial services: Market developments and potential financial stability implications](#) and OECD (2020), [Digital Disruption in Banking and its Impact on Competition](#)

³ See OECD (2020), [Digital Disruption in Banking and its Impact on Competition](#).

⁴ E. Feyen, J. Frost, L. Gambacorta, H. Natarajan and M. Saal (2021), [Fintech and the digital transformation of financial services: implications for market structure and public policy](#), BIS Papers No 117

the provision of a specific financial service⁵. While the principle of technological neutrality, that is, to avoid favouring one technological solution above another, seems now well established in the regulatory and supervisory community, the digitalisation and the related market developments have opened the debate on whether regulation and supervision should shift towards an entity or an activity-based approach. As we noted in the response provided to the EU Commission CfA on non-bank lending⁶, a one-size fits all approach may not necessarily be the most appropriate solution; entity-based and activity-based requirements should be seen more as complements rather than alternatives. For instance, in those cases where there is no entity-based supervision, activity-based tools may become relevant and allow a more effective supervision.

Transitioning to the digital world will not come without operational challenges for institutions. To this extent, a second concern is that the growing reliance on tech companies by financial institutions may create risks to financial stability. This may happen if the same relatively small number of technological companies are providing their services to a multitude of institutions across the financial sector. Therefore, ensuring the resilience of the financial system following possible third parties' disruption has been a key priority of the EU co-legislators. Therefore, the political agreement reached earlier last spring for the Digital Operational Resilience Act (DORA) is a significant step that will strengthen the mandates of competent authorities to supervise the management of ICT risks in the financial sector and will assign the EBA and the other two ESAs oversight powers over risks that the critical ICT Third-Party providers (CTPPs) may pose to the EU financial sector.

Considering the important on-going technological innovation of financial services, during the second day of the event, we will discuss recent research on the new developments in financial innovation, products and payment systems, and the impact of cyber-attacks and financial crime technology.

Conclusion

To sum up, sustainable finance, ESG considerations and the digital transformation are becoming key elements in the way financial institutions including banks operate. Financial institutions have already started adapting their processes. Work is on the way, but we still have a long way to go.

The EBA will continue to assess the implications of technological change, financial innovation and ESG risks to best contribute to the sustainability and digital transformation of the EU financial sector and the real economy.

⁵ See EBA-EIOPA-ESMA (2022), [Joint European Supervisory Authority response to the European Commission's February 2021 Call for Advice on digital finance and related issues: regulation and supervision of more fragmented or non-integrated value chains, platforms and bundling of various financial services, and risks of groups combining different activities](#)

⁶ See EBA (2022) [Final Report on response to the nonbank lending request from the CfA on digital finance](#)

I conclude by thanking all of you who have contributed papers for this workshop, and to EBA colleagues for the excellent organisation. We look forward to an interactive and lively discussion of the papers that will be presented over the next two days.

Thank you very much for your attention.