European Banking Authority

13th EBA Annual Policy Research Workshop

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# Opening speech by Francois-Louis Michaud, EBA Executive Director



## Introduction

Good morning, Ladies and Gentlemen, dear colleagues, and a warm welcome to all participants to the thirteenth EBA Policy Research Workshop!

As you know, this annual event, that started in 2012, brings together economists and researchers from the supervisory community and central banks, as well as academia, to discuss how the banking sector is evolving, and to identify current and future challenges from a regulatory and a supervisory perspective.

Close to 450 participants have registered to this year's Workshop and will be contributing to the debates during the next two days, attending either in person here in Paris or joining virtually from around the world. This testifies to the importance of our EBA Research Workshop and to the theme we have selected for this year's edition.

We will indeed be reflecting on the "boundaries of banking regulation". We will be addressing the new frontiers of the traditional efficiency-stability trade-off, and considering which policies, in a context of competition and well-functioning risk management, can best foster innovation and safeguard financial stability. Against the background of buoyant ICT innovation and the growing role of non-bank financial intermediation over the past decade, important research questions arise around the adequacy of the current regulatory regime. In the coming two days, we will have the chance to bring together different perspectives and to stimulate a policy debate in areas where regulators and supervisors are increasingly active.

As an introduction to the Workshop, I would like to share a few preliminary insights inspired from the EBA's work about the topics which will be discussed in the various sessions of the workshop, related to innovation, non-bank financial intermediaries, the effectiveness of regulation, and the transition to carbon neutrality.

## ICT innovation and its impact on the financial sector

Let me start with the impact of ICT innovation on the financial sector. The development of digital technologies, and the corresponding regulatory response, are key topics for the future of the financial sector. Innovative technologies are transforming the provision of financial services beyond recognition.

Digital innovation, which brings inter alia new payments solutions, but also blockchain technologies and artificial intelligence have already dramatically increased the efficiency of the banking sector. Significant reductions in transaction processing times and costs have been achieved, for instance in the context of cross-border payments and banks' back-office processes. Other areas that have been benefiting from digital disruption are (i) the development of Internet Application Interfaces (APIs, which allow third-party access to consumer bank data); (ii) the growing use of cloud computing (where IT services and data moved to networks of remote servers); and (iii) the use of smartphones to deliver financial services directly to consumers.

All these developments naturally create new risks and regulatory/supervisory challenges. Considering the importance of on-going financial innovation, we will later today discuss the benefits of SupTech for bank supervision; the ability of technological advancements to provoke new business models in banking; and the financial stability implications of new products, such as fixed income ETFs and other less illiquid financial assets.

## Non-Bank financial intermediation, micro and macro policy responses

Let me now turn to the topic of non-bank financial intermediation. Since the great financial crisis, the number and types of non-bank intermediaries competing with traditional banks have increased, and this is changing the way customers obtain financial services. The implications of the growing role of non-banks for loan origination standards, access to finance for riskier borrowers, and for the stability of credit supply over the business cycle, are key topics for economic growth and competitiveness. In addition, the ongoing fragmentation of the value chains makes it more challenging to identify who is responsible for what in the provision of a specific financial service.

The links between supervised and non-supervised financial entities, and the potential financial stability implications of the failure of a non-bank financial firm, need to be carefully identified. Over the past decade, we have witnessed increasing interconnectedness between established financial institutions on the one side, and asset managers, FinTech and BigTech companies on the other side, through a variety of new business models, which cover both the provision of basic financial services and sophisticated investment and lending vehicles. It was interesting to see in 2023, during the short-lived banking turmoil in the United States, that contagion channels between the banks and non-banks did not work as generally envisaged.

However, growing reliance of regulated financial institutions on non-banks may create new risks to financial stability. As a concrete example of actions to check such identified vulnerabilities, the resilience of the financial system in the face of potential disruptions at third party digital service providers has become a key priority for the EU legislator. The application of the Digital Operational Resilience Act in the European Union in January 2025 will give the EBA, and the two other sectoral European Supervisory Authorities, new oversight responsibilities in this area, which should benefit a balanced relationship between ICT providers and their financial customers.

The growing role of non-banks also raises the question of possible macroprudential responses. In this workshop, we will have presentations of recent work in the areas of banking competition and risk management, bank lending to hedge funds, non-bank intermediation and systemic risk, and the impact of fluctuations in interest rates and collateral values.

## Evaluating the effectiveness of regulation

Next, let me touch briefly on the question of whether and how the newly reformed regulatory regime for banks and investment firms will interact with increasing non-bank intermediation activity that operates within the boundaries of the current rules.

Financial intermediation and maturity transformation by alternative asset managers, including private equity, private credit and hedge funds, and the fostering of the use of securitisation markets, are important areas where the boundaries of the regulation might be tested in the coming years. After the bulk of the Basel III rules will come into force in the EU on 1 January 2025, it will be important to continue assessing whether the new regulations might be encouraging banks to reduce their presence in certain activities in favour of non-bank players, to which they might establish important on- or off-balance sheet connections. Identifying such interconnections is key for the ongoing monitoring of risks and identification of pressure points and potential channels of propagation and contagion within the broader financial system.

The incumbent players in the banking market are also facing a constant threat from new and often more technologically agile contesters. Should some of these entities decide that the price that comes with becoming registered as a credit institution will be more than offset by the opportunities that open when crossing the regulatory boundary, the landscape of the banking sector – and with that the regulatory challenges – could profoundly change.

The digitalisation of finance and the growing prominence of non-banks in extending credit to the non-financial sectors has important implications on systemic risk and how it is addressed by the current regulatory framework. In this context, a debate has picked up on whether the approach of regulation and supervision should shift away from an entity-based towards an activity-based approach. In our opinion, while activity-based regulation may have its merits, robust entity-based rules should remain the cornerstone of financial regulation. Activity-based requirements are therefore best seen as complements or introductions rather than substitutes to entity-based rules.

Considering the evaluation of the effectiveness of regulation, our event will present research on the EU securitisation regulation and the performance of the SME securitisation market; on bank resolution reforms and the perception of too-big-to-fail, as well as the drivers of supervisory capital add-ons for internal models.

## Transition to carbon neutrality

Finally, let me turn to the topic of climate change and transition to carbon-neutral economy. The financial sector plays a key role in financing the transition, by extending loans to transition projects and creating and marketing financial instruments that invest is such activities. It is crucial that consumers and institutions can rely on the information that is published on such activities. The recent EBA report on Greenwashing identified increasing amounts of cases where the statements, actions, declarations and communications by financial institutions on their green activities were considered as potentially misleading. The EBA recommends that institutions take measures to ensure that sustainability claims are accurate, substantiated, up to date and are presented in an understandable manner.

Climate stress tests are another area where the EBA is leading the way in developing new models and techniques. For example, in the context of the European Commission's "Fit-for-55" exercise and in cooperation with the other European Supervisory Authorities and the European Central bank, valuable insights have recently been gained in this challenging area by identifying key risks associated with the transition to a green economy, to inform future joint work.

The final session of the workshop will discuss papers on transition finance and climate stress tests which will further advance our knowledge in this area. I strongly encourage the academic community to continue to invest in research in climate issues, given the central role that the climate transition will play for society at large in the coming years.

## Conclusion

Let me now conclude. I am very confident that this year's event will once again generate rich discussions and provide us with extremely useful new ideas and insights. From our own part, at the EBA, we will continue to be committed to designing and implementing adequate, effective and evidence-based regulatory guardrails that allow the banks and their clients to reap the benefits from financial innovation, to manage the interplay with non-banks, and to support the transition to a green economy. In this way we should best contribute to both the stability and competitiveness of the EU banking system in the future.

I wish you all the best for very rich and interactive discussions in the next two days, which I trust will bring a wealth of insights to our regulatory and supervisory community.