

# EUROPEAN BANKING SUMMIT

## Banking On The Future

 ONLINE EVENT | THURSDAY 30 SEPTEMBER

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### European Banking Summit 2021: Banking on the Future September 30, 2021

Europe's banking sector is at a crossroads. As the Covid-19 recovery gathers pace, banks can play a vital role in building back better; simultaneously, the green and digital transitions will test banks' agility and resilience. Beyond this, challenges include soaring costs, disruption from big tech, a constantly evolving regulatory landscape and a truly global business environment.

The European Banking Federation (EBF) fifth European Banking Summit brought together 450 experts, senior policy makers and key stakeholders to discuss the industry's future. Topics included regulation, the green transition and digital transformation, with panels taking deep dives into the detail. Here's an executive summary of the key takeaways.

#### Morning Session: Recovery, Reinvention, Regulation

**Wim Mijs, Chief Executive Officer of the EBF** welcomed delegates while expressing regrets that the summit was happening virtually, and not in person. "I believe that the European banking system has proven its resilience in the pandemic," he said. Now, it needs to contribute to a more sustainable future and a more sustainable economy.

"What role do we want European banks to play in building Europe's future?" asked **Ana Botín, EBF President and Group Executive Chairman of Banco Santander SA**. Europe's banks have weathered the storm, but looking ahead they need to confront three major challenges: keeping Europe's recovery on track, ensuring that recovery is green and meeting the expectation of the digital age.

"Profitability is the first line of defence," in doing all three, she said, noting that after an extended period of low profitability the Basel III regulatory framework means that "choices that we make now will have a long lasting impact on European economy and sovereignty."

The European Commission is working on all these areas, said **EU Commissioner Mairead McGuinness**, head of DG FISMA. With the continent's vaccination rollout going well and people starting to spend money again, "we need to consider what might happen when loan guarantees and moratoriums start to end." Completing the banking union "would create the conditions to reduce fragmentation," she said: the need for consolidation, particularly across borders, was raised by several speakers throughout the day.

The next step is making full use of the EU taxonomy for sustainable activities to propel the banking sector forward, and an ideas forum on the future of finance involving banks, fintech players and other stakeholders. "If we are serious about banking on the future, these are the conversations worth having," she concluded.

### **First Panel: Session 1: Balancing on the (cliff) Edge?**

This autumn will bring major developments for the European banking industry. Fresh economic forecasts, the lifting of the ban on bank dividends and a new Banking Package from the commission. How can European banks remain competitive vis-a-vis US peers and other financial players? Some key takeaways from the panel:

- **"Profitability has been low for quite a long time now,"** said **ECB Supervisory Board member Kerstin af Jochnick**. It would be "nice" to see more cross-border consolidation, along with more ambitious cost reduction programs and transformations.
- **"Banks did well under those dire straits"** during the pandemic: now the industry needs to make sure "we don't implement something that will hamper the European recovery," said **Lars Machenil, Chief Financial Officer of BNPPG & Chair and EBF BSC**. Default levels after the moratoriums ended so far seem to be the same as before, and the latest round of EBA stress tests were reassuring.
- **"As regulators... we're a little bit more worried about capital levels in peacetime than they were in the past,"** which is why it's important to meet commitments under Basel III, said **John Berrigan, Director-General at the European Commission's DG FISMA**. Approaches need to be consistent with international agreements, including the implementation of the output floor.
- Still, **"too much capital can be a bad thing,"** and banks need to find a way of returning the excess to shareholders, said **Stuart Graham, Founding Partner and Head of Banks Strategy at Autonomous Research**. Investors want to see improved returns on equity, more competition with big tech/fintech and cost-cutting exercises including closing branches.

### **Afternoon Session: Leaner, Greener, More Digital**

**"Events like this show that banks are fully aware that climate risks are also financial risks,"** said **Paolo Gentiloni, Commissioner for Economy, European Commission**. He added detail on the Fit for 55 Package, which "gives business, customers, and policymakers the policy certainty they need."

**Sandrine Dixson-Declève, Co-President of the Club of Rome**, then threw the debate wide open by saying that tweaking at the edges is not enough: for a healthy humanitarian system within planetary boundaries, net zero is no longer an option for 2050; we need to be there by 2040. That means the industry needs to **"shift from just financing change to changing finance."**

In a fireside chat on banks in a Net-Zero Europe, **Antoni Ballabriga, Global Head of Responsible Business at BBVA** and Chair of the EBF Sustainable Finance Expert Group said that Europe has established itself as a global sustainability leader, but must go further. At the upcoming COP26 talks, developing a multilateral approach that gets emerging on

board markets is essential, as is more clarity on rich countries' promise to [give \\$100 billion annually in climate finance](#) to support the needs of developing nations. "Sustainability is a new set of values for bankers," he said. "The challenges are great, but we are on track."

## **Second Panel: A Vision for Banks' Contribution to the European Green Deal**

Chief Sustainability Officers from some of Europe's biggest banks gathered to discuss the role of banks in delivering ambitions outlined by the 2030 Agenda, the Paris Agreement and the European Green Deal.

- **"This is a moving target... as we progress, the target has moved and the acceleration has increased,"** said **Roberta Marraccino, Head of Group ESG Strategy and Impact Banking, at UniCredit.** "We need to be very agile and also have an integrated and holistic approach." Banks need to be able to start thinking in a very long term way, while also reacting to shocks such as rising gas prices seen in recent weeks.
- **"We need an open source ESG database in which we can find all the data our corporate clients are disclosing,"** said **Laurence Pessez, Head of Corporate Social Responsibility at BNP Paribas.** Sustainability departments currently spend millions buying data from providers, while also striving to translate macroeconomic scenarios into relevant data. Better data will make taking a holistic view easier.
- **"Our clients might be on a very different level of maturity around thinking, around strategies, on the climate agenda,"** said Viktoriya Brand, Head of Group Sustainability, Deutsche Bank -- and banks can play a vital role in getting them engaged. From asking oil and gas clients about their transition perspectives, to helping clients set targets, banks as well as industry and regulators can help meet the EU's climate and energy targets. Panelists also pointed out the need for a clear way to measure the the impact of their actions.
- **"We prioritize an inclusive approach,"** said Anne-Sophie Castelnau, Global Head of Sustainability at ING . **"All our stakeholders must move forward together."** That means reducing financing for coal power generation and upstream oil and gas. At the same time, ESG linked loans, which release funds when business meets green KPIs can play a role.
- **Taxonomy for the Green Economy:** Moderator Wim Mijs, CEO of the EBF praised the "clear step by step approach" of the proposed sustainability taxonomy, which could support the next step for European banks.

## **Third Panel: Digital Banking for a European Digital Economy**

The Commission aims to build a Europe fit for the Digital Age, with a focus on data, technology and infrastructure. At the same time, the ongoing digital transformation of financial services was accelerated by the pandemic. How can banks make the most of this situation?

- **"We need a holistic digitalization strategy on a whole government basis and across the whole European Union,"** said **Masamichi Kono, Deputy Secretary-General of the OECD.** The advent of blockchain, crypto assets, AI,

machine learning for credit underwriting, and a myriad of applications to pay and transfer money have brought huge potential into this space, alongside risks around data privacy, confidentiality, consumer protection and even possible discrimination. Europe needs policies that enable this new tech to be used to full capacity but also policies that will safeguard consumers and investors.

- **“As banks, you will not just want to be the infrastructure, you will want to be on top,”** said **Gerard de Graaf, Director-General of the European Commission’s DG CONNECT**. What gives banks an advantage in this area is the trust they’ve built up in client relationships over the years, while big tech companies have a trust deficit when it comes to emerging areas such as identity management, convenience, and personalised services.
- **“Think about barriers for immigrants, for people who struggle to access traditional banking services,”** said **Giuseppe Castagna, Chief Executive Officer of Banco BPM**. Digital services can make a huge difference to getting underbanked and non-banked people online. Banks are in the final stages of the digitalization process and clients are following -- which made keeping funds flowing easier during the pandemic.
- Proposals for central bank digital currencies, such as the digital Euro, **“have the potential to change the financial sector,”** said **MEP Ondřej Kovařík**. Discussing the [MiCA proposal on crypto assets](#) he said the idea is to bring some of the principles we’re used to respecting in the financial services sphere into the crypto space, which is currently “a jungle.”