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New Frontiers in Finance

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Ladies and Gentlemen,

It is a pleasure to be with you today: this Paris - Europlace International Financial Forum is more and more “the place to be”, as France and Paris are increasingly stimulating first-movers in Europe. The theme of this Forum – “New Frontiers in Finance” – prompts us to look towards new territories that we have to explore and conquer. Regarding finance, I will focus on two of them: digitalisation and green finance. But before looking at the future, let me stress two prerequisites for the present.

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I. Two prerequisites for the present

My first message is to welcome the new European team, nominated in Brussels last week, starting with Christine Lagarde and Ursula von der Leyen. Once again, albeit at the last minute, albeit under the threat of a crisis, Europe has proved itself to be decisive and innovative. Now, it is time to begin the fundamental work on a true financial Eurosystem. Let us look beyond Brexit, and beyond the somewhat disappointing debates on the euro area budget. The top priority on the European agenda should be a Financing Union for Investment and Innovation, which will channel our abundant private savings through a combined Banking Union and Capital Markets Union. Firms need this in order to raise equity and find European venture capital; keeping a European capacity in investment banking is a strategic imperative. Financial players need this in order to conduct cross-border mergers: European banking consolidation is overdue, and it is indispensable, not to reduce competition – quite the opposite – but to reach the critical mass necessary to make digital investments and allow savings to circulate. And, lastly, the euro area needs it in order to finally have an effective economic stabilisation tool to weather the shocks affecting some countries: “private risk sharing” is effective between states in the United States. If one doesn’t want a fiscal union – duly noted –, one must make even more resolute progress on the Capital Markets Union. We have talked enough about this, and it is now time to take concrete

measures: this must be the ambition of the new Commission. The ECB will support it, and France will be a committed player.

My second prerequisite is the successful implementation of Basel III. It is vital that we do not forget the lessons from the financial crisis, nor break the promise we made in 2017. But this transposition must be fair – naturally involving the United States – and reasonable. The first estimates of capital requirements are premature and do not give the horizon: Basel III will be finalised only in 2027. But our objective and our assessment are crystal clear: Basel III is for all French banks compatible with normal allocations of profits to reserves in the coming years, after distribution; in no case will it require a dedicated capital increase.

II. Taking the digital turn with lucidity

We obviously all need to make the digital leap. Digitalisation is shaking up the way we live and consume, opening up a world of possibilities for corporates and customers alike. Worldwide, it clearly represents both an opportunity and a challenge for banks, as well as for supervisors. The ACPR is working actively on these issues. Last year, it published a discussion paper on the implications of AI in the financial sector. And this year, we are working with financial industry participants on the implications of AI algorithms in three topics: AML/CTF, internal models and customer protection.

Beyond incumbents, **new players** are now becoming increasingly important. Fintechs are competing on niche markets. Yet they do not have the capital resources to disrupt incumbent banks and can even be acquired by them. On the contrary, Bigtechs do have the potential to fundamentally redefine financial intermediation: they have strong brand recognition, a worldwide customer base and privileged access to cutting-edge technologies. This new situation is a major challenge for regulators and supervisors. Of course, financial regulation should remain technologically neutral: the basic principle “same activity, same rules” still applies. This is a good thing for the level playing field.

However, beyond traditional financial regulation, international cooperation should be developed in three areas, three cornerstones of the regulation of digital finance. First, **cybersecurity** is a sine qua non for a reliable and sustainable digital future. It is a clear priority of the G7 French Presidency next week in Chantilly. Second, regarding **data protection**, financial supervisors and authorities in charge of privacy have to invent new ways of cooperation to address data issues that have become central to financial services. Third, regarding **competition** and anti-trust policies, situations where “the winner takes most” while staying outside the scope of financial regulation should be adequately anticipated and addressed.

“**Stable coin**” projects, including Facebook’s Libra, are a case in point. “Stable coins” are quite different from speculative assets like Bitcoins. However, regulators will have to keep a very close eye at the global level, and believe me, we will do it. France, as Chair of the G7 this year, has created a dedicated task force. Our aim is to formulate a response that is common to all jurisdictions, and holistic on all the issues. And to quote only two of many requirements: it is imperative that the projects comply with **anti-money laundering** regulations; the anonymity of the users creates heightened risks. In addition, if issuers of stable coins also want to offer banking services such as deposits, financial investments and loans, then they will have to obtain a banking license in all countries where they operate. Otherwise it would be illegal. We are quite far from the creation of a global private currency. But stable coin projects reveal gaps in existing cross-border payment systems.

Hence, at the European level, we should aim at promoting a **genuine European strategy for retail payments**. Payments are no longer a mere boring back-office technicality. They are innovative, and they provide two strategic assets: data, and daily customer relations. The raw truth however is that the European payments market is already dominated by non-European stakeholders. Furthermore, the growing role of non-European digital firms – be they American or Chinese – offering payments solutions should be taken seriously. Despite the creativity of the European ecosystem of payments, our

market remains too fragmented. Against this background, I call for the creation of pan-European payment solutions, building on a common brand and on the technical success of the Target Instant Payment Settlement infrastructure (TIPS) managed by the Eurosystem. We don't have much time left, but regulators – starting with the Banque de France – and market players should work hand in hand to create a momentum.

III. Green finance, “a new frontier for the 21st Century”

Let me now conclude with some words on green finance. As I once said, it is “a new frontier for the 21st Century”. Much has already been undertaken over the past few months.

We are currently witnessing **a growing awareness** from central banks, supervisors and financial institutions about climate-related risks. Clearly, green finance and climate risks management have gone from the “nice to have” to the “must have”, from emotion to reason. From the point of view of your financial institutions, climate change is no longer confined to Corporate Social responsibility (CSR) policy. Concerning central banks and supervisors, the creation of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) in Paris in December 2017 has been a decisive step forward. In 18 months, this coalition of the willing has increased from 8 founding members to over 40 members and observers from all 5 continents, with the Banque de France acting as its permanent Secretariat. This momentum has an important meaning: supervisors and central bankers have collectively acknowledged that climate change-related risks are a source of long-term financial risk. In April 2019, the NGFS published its first comprehensive report issuing four recommendations for central banks and supervisors, and two additional recommendations for policy makers.

Let me now say a few words on **the road ahead for us**. I will mention three priorities for the near future. First, we must rely on enhanced disclosures that need to be built on sound taxonomies. The taxonomy published by the

Technical Expert Group (TEG) on Sustainable Finance of the European Commission three weeks ago [on 18 June] is a welcome step. Second, we have to better anticipate long-term climate-related risks, through what I call “the video of the risks”. We must push for building a forward-looking approach of the impacts of climate risks through the development of comprehensive climate stress tests. Third, green finance should mature and upgrade its professional standards. Financing needs for energy transition are huge; in Europe alone, it is estimated that an additional EUR 177 billion per year will be necessary over the period 2021-2030 to reach the EU’s energy and climate objectives for 2030.ⁱ The European Green Bond Standard proposed by the TEG should ultimately help to further develop the green bond market and channel more investments towards green projects. Let me add that France has strengthened its role as leader in green finance. Last week, Paris Financial Centre players have committed themselves to adopt a carbon exit strategy by mid-2020.

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To conclude, let me quote John F. Kennedy: “the New Frontier of which I speak is not a set of promises – it is a set of challenges. [...] I believe the times demand new invention, innovation, imagination, decision. I am asking each of you to be pioneers on that New Frontier.ⁱⁱ” Today, almost 60 years later, we face other challenges. But let us keep the same energy. Let us not think that the battles have already been lost. Let us break limits and invent new practices taking into account both digitalisation and climate change. Thank you for your attention.

References

ⁱ Source: European Commission

ⁱⁱ John F. Kennedy, Democratic National Convention Nomination Acceptance Address, “The New Frontier”, delivered 15 July 1960, Memorial Coliseum, Los Angeles