

## Denis Beau: Competitiveness of the European financial sector in the digital context

Introductory remarks by Mr Denis Beau, First Deputy Governor of the Bank of France, at the Fourteenth Annual European Financial Services Round Table "Financial Services in Europe – fit for the future", Frankfurt am Main, 22 March 2024.

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Ladies and Gentlemen,

I would like to structure my initial remarks around 3 points:

- I. The role of regulation with respect to the competitiveness of the European Financial Sector in the digital age.
- II. My perspective as supervisor on the ability of the traditional core players to navigate successfully the digital transformation underway.
- III. The contribution supervision may bring.

### I. On the role of regulation,

1. Let me start with stating certainly the obvious: The **relationship between regulation, innovation, and competitiveness is not straightforward; it's complex and multifaceted**. Innovation, while a crucial driver of competitiveness, is not its sole determinant. Similarly, regulation certainly influences innovation but through many different channels and its impact can be two-sided. And let's remember that without customer demand, there is no innovation.
2. But regulation can contribute to create a nurturing environment for innovation and competition. This seems clear when looking at the financial sector. Initiatives like the Payment Services Directives – 1, 2 and soon 3 are for me a good case in point. And the forthcoming regulations on crypto-assets (MiCA) and open finance (FIDA) could also bring such benefits by providing a regulatory framework that creates confidence and stability both for market players, old and new, and for consumers. This is essential to ensure sustainable benefits for the effectiveness and efficiency of the financial sector and thus a tool for competitiveness. And it is important that the regulatory framework is well kept in tune with transformations underway or the need to create what François Villeroy has called in a recent speech a "genuine financing union for transition". For instance, while MiCA represents a fundamental regulatory advance, it will need to be complemented in the coming years to cover the emerging DeFi ecosystem.
3. However, **innovation and competitiveness are obviously not the be-all and end-all of any regulation**. Goals such as consumer protection, AML-CFT, financial stability, sovereignty, are just as legitimate. And that should certainly be the case for services like financial ones where information technology facilitates the exploitation of huge economies of scale and network effects. There is therefore a great risk that these markets will be dominated by very large players - in the cloud or, perhaps tomorrow, in generative AI. It is no surprise and legitimate

that regulations such as DORA, and the AI Act currently being adopted, aim to provide tools to limit the systemic risks that excessive dependence of financial players on a few critical service providers could generate. **Here, sovereignty, the promotion of innovation, and the fight against market concentration converge as legitimate objectives for regulation.**

## **II. Regarding my perspective as supervisor and central banker, on the ability of traditional core players of the European financial system to navigate successfully the digital transformation underway, I see many reasons to stay optimistic. Let me just mention two:**

1. **First, according to SSM and ACPR most recent surveys, traditional banks, once thought to be at risk of obsolescence, are adapting,** embracing new technologies, and reimagining their roles in a changing financial system, in which we are witnessing the emergence of new players, new infrastructures and new settlement assets which may challenge the traditional architecture of the monetary and financial edifice. Banks seem keen to embrace new technologies, either on their own or in partnership with innovative players. The survey published last year by the ECB shows that almost all of the banks now have a digital strategy in place with a core focus to improve profitability, either by enhancing customers experience or improving operational efficiency. However, the average budget banks are allocating to the digital transformation is still limited but it is likely to grow going forward, and I am firmly convinced that banks still have a role to play in the future, even as so-called decentralized finance progresses: **I would not pit the old world against the new.**
2. **Second, central banks are seriously considering adapting their services in central bank money in the wholesale or the retail space, or both to maintain central bank money as the anchor of a morphing payment and more broadly financial system** towards a world where crypto-based alternatives to traditional finance centralized around trusted institutions- the central bank, credit institutions and market infrastructures may significantly prosper. This is certainly the case of the central banks of the Eurosystem (but I do not elaborate on that point at Ulrich Bindseil will certainly do)

## **III. Finally, let me conclude in saying a word on the positive contribution supervision can bring to the development of an innovative and competitive financial system in the digital age.**

1. Speaking from the stand point of an SSM bank supervisor, **this contribution has taken the form so far of putting among our supervisory priorities,** within our mandate of keeping the banking system safe and sound, and beyond the strengthening of banks' resilience to immediate macro and geopolitical shocks, and of the strengthening of their management of climate and environmental risks, that **banks make further progress in their digital transformation.** The objective here is to ensure that they address herewith the risk digitalization create on the sustainability of their business model and their profitability.
2. Should we go beyond? For instance some recent industry proposals call for a broader mandate of the EU supervisory and regulatory authorities to include the

goal of **competitiveness of the EU financial sector**. I am not sure that for us, supervisors, this would be appropriate as I believe that the supervisor's essential mission should remain to contribute to ensure financial stability as I see it as a necessary pre-condition to any sustainable competitiveness. It might be different for regulators but when I consider for instance the outcome of the negotiations on the banking regulation package, which preserves overall alignment with Basel 3 while taking into account European specificities with the phase-in of the output floor, or the possibility to adopt a delegated act to postpone or adjust the market risk reform, should other major jurisdictions fail to deliver on their own implementation, I see that in practice the issue of competitiveness is already taken on board.

This is the reason why in 2020, **the Banque de France launched a large-scale experimentation program on wholesale CBDC** with a number of market participants. This program has allowed us to understand better how DLTs work and the benefits that are likely to emerge for financial markets.

**Our main motivation is to extend the existing trust in our settlement infrastructure and assets to transactions carried out on DLTs.** Their settlement in central bank money appears essential to guarantee the players in these markets against the counterparty risks inherent with other, private tokenised settlement assets. The new European DLT pilot regime, which will come into force in March this year, will allow us to continue our experiments within the boundaries of a simplified regulatory framework.

**At the same time, the Banque de France is contributing to the reflection on the possibility of a retail CBDC:** this is currently what Eurosystem central banks have embarked on, under the ECB aegis, with the ongoing investigation phase for a digital euro. The evolution of the payment landscape leads us to reflect on the ways in which citizens can have access to central bank money, also in the digital world.

Let me conclude in saying that tokenization can be a blessing or a curse for the functioning of the financial system. It is my belief that we can collectively make the best of it if we ensure its expansion within a framework of confidence in which good regulation has an important role to play.