Soledad Núñez: Embracing the future on solid grounds - reinforcing financial stability

Speech by Ms Soledad Núñez, Deputy Governor of the Bank of Spain, at the EFDI (European Forum of Deposit Insurers) 2025 Annual International DGS (Deposit Guarantee Scheme) Conference, Madrid, 5 June 2025.

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We are living in an age of profound uncertainty.

In recent months, geopolitical actions have greatly affected the global economy. The United States imposed tariffs, leading to retaliatory measures from other countries, which disrupted global trade. In Europe, these issues are worsened by the ongoing conflict in Ukraine, which has had severe human and economic impacts since it began in 2022.

However, the challenges do not end there. Europe's economic performance lags behind other regions, particularly the United States and China. The Letta and Draghi reports have made this clear: Europe must act with urgency, implementing policies that drive productivity and innovation.

The gap is particularly wide in the field of technological innovation. The world's largest tech companies by market capitalization are either American or Asian. Not a single European startup has reached a valuation of 100 billion USD in the past fifty years. Closing this gap will require significant public and private investment.

Investment alone isn't enough. As Mario Draghi recently said, "Integration is our last hope." We need not just a single market for goods, but a unified financial system where European and national authorities work together for stability.

This principle of unity applies equally to our financial safety net. Cooperation between central banks, supervisory authorities, resolution bodies, and deposit insurers is essential.

It is in this context that this European Forum of Deposit Insurances (EFDI) International Conference provides a valuable platform to reflect on these challenges from the perspective of financial stability.

I would like to thank the Spanish Directorate-General for Insurance and Pension Funds and EFDI for bringing together such a distinguished line-up of speakers.

1 European Economic Situation

Recent episodes of protectionism, including the generalised tariffs announced by the United States and the retaliation of China, require continued attention, as they continue to have an impact on capital flows and thus on the stability of financial markets. In Europe, this difficult situation is compounded by the tensions of other conflicts in Ukraine or in the Middle East, with an unbearable and unacceptable cost in human lives.

Against this international background of unprecedented uncertainty, as Letta and Draghi's past diagnostic reports have already pointed out, Europe faces a structural competitiveness gap compared to the United States and China. This gap is aggravated by differences in Research and Development investment, industrial scalability and access to venture capital.

The current climate of uncertainty and such competitiveness gap mean that the only valid response at European level is unity and swift action.

In response, the European Commission recently launched the Competitiveness Compass, a road map to revamp the EU's economy. It transforms Draghi's recommendations into a concrete roadmap - backed by the political support needed to act rapidly and in a coordinated way.

The Compass aims to close the competitiveness gap while reducing strategic dependencies for the Union. The Compass proposes measures such as a call for deepening the single market, prioritising European Union policies, reducing bureaucracy and simplifying regulatory and fiscal frameworks.

Europe needs to act together to boost its economy. To face challenges like climate change, technological changes, and geopolitical issues, Europe must invest significantly. The Draghi report suggests an additional €750-800 billion per year is needed by 2030, especially for small and medium-sized businesses and start-ups, which can't rely just on bank financing.

2 Savings and Investment Union and the Single Capital Market

One initiative deserves particular attention - and I'm sure Commissioner Albuquerque will speak to it as well: the Savings and Investment Union.

The EU is equipped with a talented workforce, innovative companies and a large pool of household savings of around €10 trillion in bank deposits. Bank deposits are safe and easy to access, but they usually earn less money than investments in capital markets. The Savings and Investment Union will make it easier for citizens' savings to be mobilised for productive activities both through traditional bank financing and by putting their savings to work in capital markets. In this way companies - especially innovative start-ups and SMEs - will gain greater access to finance and venture capital.

This initiative will also help us move towards the long-standing goal of a genuine capital single market.

These changes will not, however, be immediate. European banks, including Spanish banks, must continue to play a key role in channelling savings into productive investments. Their better competitive position allowed them to cope with the turmoil that affected US regional banks a couple of years ago as well as more recent shocks.

It should not be forgotten that a strong regulatory framework together with robust governance and effective supervision are essential elements to contribute to a sound banking system.

The ECB has recently launched an initiative aimed at identifying redundancies and unnecessary complexities in regulation that affect the efficiency and competitiveness of European banks. The necessary reduction of the bureaucratic burden should not, however, affect the quality of compliance and reporting standards, which have made a decisive contribution, especially in the area of capital and solvency, to the solid position that European banks enjoy today.

Current historical low NPL ratios, high profitability and strengthened solvency ratios will allow European banks to best meet the challenges associated with the environment I have mentioned. One of these will be related to digitalisation and the use of artificial intelligence. Banks can take advantage of their good momentum to boost digitalisation and prepare for competition from new competitors.

3 Digitalization and Technological Innovation

The digital transformation of the banking sector is irreversible. AI, asset tokenisation, and quantum computing are already reshaping finance, and their impact will only grow. But they also introduce new risks. These risks relate to the possibility of cyber-attacks but also to the dependence of financial institutions on technology providers. The DORA Regulation establishes mandatory standards for technological risk management, focusing on cybersecurity and testing but also on the management of technological suppliers, which recognises their critical role.

I am sure that the panellists in the conference sessions will address the relevance of this new regulatory framework, the implementation of which will require strong support from institutions, providers and of course authorities. Lessons learned in the implementation of this new regulatory framework may be useful as a reference, with appropriate proportionality, for the management of technology risk by the deposit insurers sector, as their systems and processes are exposed to similar risks.

The transformative potential of AI for the economy in general and the financial sector in particular is obvious. The use of AI will make it possible to automate repetitive tasks, free up human resources for higher value-added activities and improve decision-making through advanced data analytics. Banking should in turn support the use of AI in its relationship with customers, personalising and improving the customer experience. However, AI management entails relevant risks that must be monitored, from the misuse or bias of models, their lack of explainability or the increase in cyber-attacks.

The European Union has taken a decisive step in regulating these risks. The new European AI Regulation grants specific competences to national authorities for the supervision of high-risk AI systems in the financial sector, which implies additional tasks for supervisors such as the Banco de España. Again, the successful implementation of this framework will be crucial for authorities, institutions and providers.

Let me also make a brief reference to the importance of a digital euro in the area of payments. The digital euro won't replace cash, but will reduce dependence on big tech and thereby boost competitiveness in the Union. Card payments in Europe are dependent on foreign networks, which is a strategic weakness for the continent.

This dependence may become even greater with the emergence of foreign providers of digital mobile wallets or the expansion of dollar-denominated stable coins. There are still important elements to be defined in the design of the digital euro, in particular how it operates with private systems. Despite some concerns for the financial sector about the cost of adaptation and balance limits – which will need to be addressed in the ongoing design phase - the digital euro will bring strategic advantages for the future of the Union.

Also in the area of payments, it is also likely that in 2025 the future PSD3 will see the light of day. The new Directive will replace the current PSD2. Its development responds to the need to adapt regulation to the growth of electronic payments, reinforcing consumer protection in accessing digital services and reducing payment fraud. PSD3 will also impose a single authorisation and operating regime for electronic money institutions and payment institutions, with a growing presence in the financial sector.

The new regulation will remove barriers to the entry of these competitors into payment systems. As with any innovation, its development must be accompanied by an appropriate balance of responsibilities and rights of the parties involved.

We have also seen the adoption of the immediate transfer regulation for the euro area from early 2025, which will be implemented gradually until 2027. Since the beginning of this year, payment operators in the euro area have already been offering their customers the same or better rates for immediate and ordinary bank transfers, with the addition of verification of the identity of the beneficiary.

I am sure that the Conference will also address the challenges and implications for deposit insurers of these innovations in the scope of their functions, in particular in the reimbursement of guaranteed balances to depositors in case of a payout event.

4 CMDI: The role of deposit insurers

Equally important for guarantee funds will be the framework resulting from the negotiations between the European co-legislators on the ongoing revision of the Resolution Directives (BRRD) and its Regulation (SRMR) as well as the Guarantee Funds Directive (DGSD), the Crisis Management and Deposit Insurance (CMDI) legislative package. The reform of the CMDI represents an important step towards a more integrated, resilient and, above all, better prepared Banking Union to cope with future crises, and promises important benefits in terms of financial stability and depositor protection.

The Commission's original proposal of April 2023 was followed by two more alternative proposals from the Council and the Parliament, in its old composition. The different proposals share the need to strengthen crisis management to protect depositors' access to their deposits by reinforcing the use of funding mechanisms such as the Resolution Fund, the SRF for the Eurozone, and national deposit guarantee funds. The reform seeks to expand the perimeter of resolution, applying the resolution mechanisms to a greater number of credit institutions, by enabling easier access to the resolution funds thanks to the contribution of deposit guarantee funds to resolution. The contribution from private sources such as the one from deposit insurers, will complement adequately the internal bail-inable resources of the bank, without resorting to public money.

Equally important, the CDMI proposal will review the use of guarantee fund resources for other purposes than deposit payouts, as the measures to prevent the failure of a credit institution or the alternative measures to be used in insolvency proceedings, acknowledging the effectiveness and benefits of these tools for the management of banking crises. The wider the tool-kit, the better.

The framework will also deepen the coordination between resolution authorities and deposit guarantee schemes. Robust communication protocols, joint crisis preparedness exercises and early access to information are essential elements to ensure an effective crisis management mechanism.

In any case, the final text should provide a framework that facilitates its effective implementation, especially important when it comes to acting decisively in a short time frame, such as the "weekend" of resolution. It should also reinforce the role of guarantee funds in the management of banking crises.

In this regard, let me point out the importance of the role that the Spanish DGS played in crisis management of the Global Financial Crisis, which severely affected the Spanish financial sector and particularly the savings banks. The contribution of the Spanish DGS, and thus of Spanish banks, was decisive in the management of the crisis that affected these institutions from 2010. The contribution of FGD's resources for the absorption of losses and recapitalisation amounted to 23 billion euros, approximately a third of the total granted to the sector including public aid, and it served to reduce the cost to the taxpayer.

Since then, the FGD has been improving its financial capabilities besides its systems and processes. On the financial side, it has already reached a capitalisation level exceeding the minimum regulatory target, well complemented by a private commercial line. In the operational area, the EBA, in charge of assessing the implementation of its standards on stress testing for guarantee funds, recently published a benchmark report among 7 EU deposit insurers, including the Spanish DGS. In the report the EBA acknowledges the FGD has in place adequate arrangements to test its capacities under stressed scenarios, and therefore in good position to be prepared to face an intervention.

5 Conclusion

Let me conclude.

I believe a strong crisis management framework with a flexible toolkit is essential. Equally important is the coordination among authorities before, during, and after any disruption. This means authorities and deposit insurers must act quickly, decisively, and together.

This unity is crucial now more than ever. In a time of increasing fragmentation, both globally and regionally, Europe must respond with a single purpose and strategy, especially in maintaining financial stability.

Today, I've highlighted some of the missing pieces in Europe's financial integration - and the need for national authorities to step up. The Spanish Deposit Guarantee Fund is committed to this goal. Through its active role in European forums, it will continue to contribute to the strengthening of our shared framework.

As Mario Draghi recently reminded us in his report presentation: "In this world, it will be only through unity that we will be able to retain our strength and defend our values."

I am confident that the distinguished speakers we will hear today and tomorrow will help illuminate the path ahead.