SPEECH BY VP DOMBROVSKIS AT THE EUROPEAN BANKING FEDERATION CONFERENCE – EMBRACING DISRUPTION

Available on the EC website via this link.

Brussels, 29 September 2016

Ladies and Gentlemen,

It is a pleasure to be at the European Banking Federation Conference. I am glad to have the chance to talk to you about the work we are doing to complete the regulatory framework for Europe's banking sector. And to set out our approach to managing risk effectively and proportionately - while fostering innovation and competition in Europe's banking sector.

We all agree Europe needs healthy and dynamic banks, playing their full part in Europe's recovery. But we know the broader environment is challenging. The question mark over Britain's future in the single market is creating unwelcome uncertainty which hampers long term planning, investment and growth. And your industry has had to contend with implementing a significant amount of post crisis legislation which is not yet finalised, at the same time as adapting to disruptive technological change.

Against this backdrop, the Commission wants to provide as much continuity and predictability as possible. The positions taken by the Commission over the last two years were taken collectively. We will stand by them. With this approach in mind, I would like to focus on the main subjects of your conference: the work being taken forward by the Basel Committee and our approach to technological change in the financial services sector.

Let me begin with the work which is underway to finalise the Basel framework.

Under our current rules, capital requirements can vary in a way which does not always reflect the differences in banks' risk profiles. The Basel Committee feels we should tackle unjustified variations which work against competition and financial stability. The European Commission supports this broad objective. But we are also clear that we need an intelligent solution which takes account of the individual banks' situations and maintains a risk sensitive approach to setting capital requirements. Different banks have different business models which involve different levels of risk. This needs to continue to be recognised so as to preserve Europe's diverse financial landscape.

A solution we could not support is one which would weigh unduly on the financing of the broader economy in Europe. At a time when we are focused on supporting investment, we want to avoid changes which would lead to a significant increase in the overall capital requirements shouldered by Europe's banking sector. This is a clear Commission position. It received strong backing from all EU countries in July. It is in line with the Basel Committee's commitment.

More specifically, it is important that any future international agreement should be based on solid quantitative evidence. Basel revisions should recognise that in a number of areas, markets in Europe face different challenges than elsewhere. Equalising average risk weights across the world cannot be the answer. It is perfectly normal for a bank focused on lending in a sector and region with low risks to have lower average risk weights than a bank operating elsewhere. We believe it is important to keep it that way.

As things stand, the proposals Basel has issued for consultation would imply significant capital requirement increases in all areas. As far as the EU is concerned, there remains work to be done on a number of areas which are important for the EU economy. These include the general treatment of real estate loans, corporate lending, and infrastructure lending. The treatment of operational risk also needs to be given further consideration as outcomes of the new method appear to produce arbitrary capital requirements that do not properly reflect the risks faced by banks. We do not believe a standardised capital floor – the level of capital a bank cannot go below irrespective of its internal risk calculations – is an essential part of the framework. Latest data shows it undermines risk sensitivity could lead to significant capital requirement increases. We want a solution that works for Europe and does not put our banks at a disadvantage compared to our global competitors. We believe such an agreement is in everyone's interest if we're to maintain a credible framework.

With this work in mind, we will come forward with a revision of our own legislation the Capital Requirement Regulation and its sister directive CRD this autumn. Our aim has not changed. We want legislation which supports financial stability, but allows banks to lend and support investment in the wider economy.

We are also committed to a framework which allows sufficient space for technological innovation, while keeping consumers safe. In recent years, traditional banks and Fintech companies have been developing new services in areas such as payments, transfers in foreign currencies, lending and investment.

Fintech companies are bringing huge opportunities for consumers but also for the industry. They drive competition and provide user-friendly services, often at lower prices. Digitalisation allows the access to new markets and new consumers. Cloud systems and distributed ledger technology also offer the potential to streamline firms' internal processes. These are exciting new developments from which European companies and consumers should benefit.

Yet there are new potential risks which come with these fast paced developments. We need to make sure that the security of transactions, the safety of mobile applications and data protection is maintained for consumers. Equally, purely on-line services should not lead to the financial exclusion of less digitally literate consumers.

The European Commission wants to take a cautious and evidence based approach and not create new rules unless we have to. We are assessing these new opportunities and risks carefully. Our goal is to find the right balance between fostering innovation and fair competition, and ensuring financial stability, safety and security for consumers at the same time.

It is no secret that agreeing legislation at EU level can take time. We therefore want to avoid proposing legislation which is then overtaken by technological change before it has even been implemented. To remain on top of developments, the Commission has created a FinTech taskforce to monitor the market and be ready to act if necessary.

We have demonstrated our commitment to taking a proportionate approach to digital innovation when we revised the Payment Services Directive, PSD2, to support innovation in payment services. This legislation ensures that all players are supervised under the same conditions, and it addresses concerns arising from technological change. Across the board, we want to encourage cooperation and competition between banks and FinTechs, providing user and e-commerce friendly solutions in banking and payments.

That is why we are taking a cross cutting approach to looking technological change which is specific to financial services through our Green Paper on Retail Financial Services. We want to see how we can support the use of remote identification tools which comply with anti-money laundering requirements, like electronic IDs and signatures. These are important for on-line environment and cross border service provision.

We are interested in initiatives which have been taken in some Member States designed to help firms test new ideas in close cooperation with regulators: regulatory sandboxes. These can help regulators understand new business models better, and only once they have a clear idea how they work decide whether regulation is required. The Commission would like to promote the sharing of best practice in this area. But we also want to look at ways to reduce the differences in the requirements on financial service companies delivering services at a distance.

Follow up actions to the Green Paper will focus on how to build a genuine single market for consumer financial services like insurance, pensions, loans, and current or savings accounts. We're clear that FinTech and technological innovation has a key role to play.

Across the board, we will continue to push for coherent supervision and regulation. The Call for Evidence on financial services legislation is part of this push. We launched it to check whether legislation passed during the crisis works as intended. And to see whether it’s as growth friendly as possible. We are committed to acting on our analysis of Call for Evidence responses.

We'll set out our way forward on this in much more detail by the end of the year. The main thrust of it is already clear. We need to consider adjustments to increase funding to the wider economy. We need to look at whether we can make legislation more proportionate. And whether the compliance burden can be reduced for businesses.

By the end of the year we'll also close a gap in our framework and come forward with a proposal on Central Counterparty (CCP) recovery and resolution. We have required more clearing to go through central counter parties. That's good for transparency and will reduce risk. But if we are going to rely more on CCPs, we need to have a clear system in place to resolve them if things go wrong.

Ladies and gentlemen,

The Commission remains committed to striking the right balance between supporting reforms at a global level and respecting the diversity of Europe's financial sector. We will continue to strive for a financial framework that gives companies enough space to innovate and consumers the certainty they need. And we will follow through on our work to review our legislative framework and make targeted adjustments to support investment and sustainable growth in Europe.