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Prepared by

KREAB

Charlene Bowditch
Tel: +44 (0) 2920 783 079
Email: charlene.bowditch@forum-europe.com

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Keynote Interview

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Keynote Interview: Verena Ross, *Chair, European Securities and Markets Authority (ESMA)*

- After the financial markets' turmoil in March 2020, the EU's financial market infrastructure was able to cope reasonably well. There were nonetheless some concerning developments, such as in the fund markets. This led regulators to turn their attention to money market funds and especially at their liquidity management tools, in order to ensure that these non-bank financial institutions are resilient enough.

- ESMA has committed to integrate ESG factors in all its activities, especially with a look at investor protection, orderly markets, and financial stability. It is crucial to work on corporate disclosure, to assess risks arising from ESG factors, and to prevent greenwashing as a particular risk for investor protection. It is of major importance to work together with the national authorities to ensure to have converged supervisory emphasis on this part of the new financial environment. A common regulatory framework is needed to properly protect investors and ensure that they have access to information, as well as to support and advise.

- Digitalisation and gamification are global phenomena which are giving easy access to investors to financial markets. This digital facilitation is a benefit as it allows for higher engagement of retail investors and financial inclusion, as well as more comparability of information, but also presents some risks. Crypto assets are currently outside the EU legislative framework, and there is also the issue of social media advertising and the risks posed by online investment advice. It is important to raise awareness and potentially also warn investors of such risks.

VIEW REPLAY

SESSION 1

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Fireside Chat

New ambitions, new visions – redefining Europe's financial services systems

Main takeaways

- The current state of the European economy presents a number of risks, namely the spread of the Omicron variant, rising inflation, higher energy prices, geopolitical events such as the Ukraine-Russia friction, volatility in financial markets, supply chain constraints, and negative spillovers from the increase in house prices. However, the economy has embarked on a recovery trajectory with an expected growth rate for 2022 of around 4%, largely fuelled by increased consumption and high consumer confidence and saving rates. EU fiscal rules are also expected to be reintroduced in 2023, shifting from growth support to debt sustainability. All these developments lead to a cautious optimism, as many elements should continue being monitored.

- For the European Commission, it is important to have a regulatory framework for financial services that is fit for purpose against the current state of the European economy. The main issues on the EU regulatory agenda for financial services are the completion of the Capital Markets Union (CMU), the green and digital transitions, and to have a framework that ensures financial stability. In particular, the CMU is taking its time to come to fruition. As the EU currently has a high savings rate, the resource is there that could potentially be harnessed to accelerate the creation of the CMU. There is a need to show greater political support, and to channel those savings more into securities than traditional saving products. More could be done to align taxation levels across the EU to allow cross-border investment to flow freely, to harmonise insolvency laws and financial restructuring frameworks, and to develop hubs that are asset-based for capital markets with differentiated features.

Speakers

Moderator
Robert Priester
Chief European Representative, Institute of International Finance

Francesco Ceccato
CEO, Barclays Europe

Santo Borsellino
Chairman, Generali Insurance Asset Management; Vice-President, Assogestioni; Board Member, EFAMA

Alexandra Jour-Schroeder
Deputy Director-General, DG FISMA, European Commission

SESSION 1

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- There is a strong need for long term investments to finance both the digital and climate transition. In terms of providing incentives for long term investing, the proposed reviews of the Solvency II Directive and the European Long-Term Investment Funds (ELTIF) Regulation have the potential to play a positive role. With Solvency II, the insurance sector will be able to invest directly into the real economy. Moreover, the revised ELTIF framework should open long-term private assets to a larger retail client base, broadening the scope of eligible assets and allowing for more diverse investment opportunities.

- The EU's ESG framework presents both opportunities and challenges. On the one hand, if supported by a good data management system and research, ESG could be an important opportunity for asset managers to identify mispricing and to better manage the risk profile of portfolio. Moreover, investing in ESG enablers could be an opportunity to generate both financial returns and impact over the long term.

- On the other hand, the emergence of many different ESG reporting frameworks has led to inconsistent ESG data reporting. There is a need to consolidate and standardise ESG disclosure, in order to ensure consistency between data reported by companies and financial institutions. Moreover, we are also witnessing a proliferation of different methodologies and assumptions to assess the ESG performance of companies. It is thus vital to achieve greater international coordination of ESG standards, not least to ensure the avoidance of greenwashing.

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SESSION 2

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From ideas to delivery

Turning principles into real life benefits for Europeans

Main takeaways

- This panel discussed the main developments and future of the different legislative dossiers in the financial services area and provided insights into the opinions of various policyholders on the files.
- Economies are increasingly resilient, but inflation has made a comeback. The pandemic was a catalyst in areas such as digitisation and environmental, social and governance (ESG) considerations.
- Even though the EU is a world-leader on sustainability, transition to net-zero will require vast amount of funds and the EU's pools of long-term capital are only half of what they are in the UK and one third of what they are in the US. Yet, more focus has been put recently in the Capital Markets Union (CMU) considerations on the sources of funds which is a positive change. A good mix of funding and proper risk sharing will be necessary – from insurers, public, long-term investors, and private companies. Governments also need to play a vital role, in particular given the historically low interest rates that allow them to make investments at scale.
- Insurers should play a larger role in the future, in particular as the long-term investors that can fund Europe's transition towards green and sustainable economy. The Solvency II regime has been working well and therefore its review should be an evolution rather than revolution of the rules.
- To increase public engagement in funds, pensions, and stocks, improving financial literacy by educating consumers on the available insurance products and main financial instruments will be crucial. The EU also needs a wide range of simple, cost effective and understandable investment products to further improve individual investors' participation in financial markets.

Speakers

Moderator
Ida Levine
Principal,
Two Rivers Associates Limited;
Board member and Lead Expert on Policy, Impact Investing Institute

Markus Ferber
Member,
European Parliament (EPP, DE)

Petra Hielkema
Chairperson,
European Insurance and Occupational Pensions Authority (EIOPA)

William Wright
Founder and Managing Director,
New Financial

William De Vijlder
Group Chief Economist,
BNP Paribas

SESSION 2

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- The EU should ensure that it does not become a protectionist continent by introducing rules limiting progress and flexibility which can cause lower investments in region and fewer multilateral agreements with countries and trade partners.
- The ESG considerations and taxonomy will be valuable tools, yet the EU needs to ensure that it doesn't act as an investment blockage by giving companies and investors wrong incentive that can limit their green investments to only the required and necessary amount.

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SESSION 3

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The digital single market for financial services

Regulating services rather than institutions

Main takeaways

- This panel provided insights into the overlapping worlds of finance, fintech and big tech and drew conclusions on what this means for citizens, businesses of different sizes and nature, and supervisors.
- As a result of the pandemic, digital transformation is happening at an unprecedented speed. Technological innovation brings about challenges, some of them unknown, that require updated and proportional regulatory frameworks. For all panellists, regulation and innovation need to be hand-in-hand. Regulating digital services is both necessary to build confidence in them but also to manage any risks they may present. Cooperation remains an essential tool for bringing industry stakeholders and decision-makers together to create better regulatory tools, and hence their constant interaction remains crucial in this process.
- Regulation can be an enabler for crypto assets, and it can help build trust. Whereas new technologies bring opportunities, they also create risks. While illicit activities do occur in crypto, they are at a very low level due to the high degree of transparency of their mechanisms. However, a case can be made for crypto-assets and their providers to be a part of the EU's new anti-money laundering reform.
- The work that the EU is currently doing in developing the European digital identity and digital signatures can be an enabler for open finance. Having access to a safe digital identity can serve as an enabler for innovation. This has been the case in countries such as Denmark, where the use of digital identities for accessing financial services, as well as public services, is widespread. As far as open finance is concerned, the EU remains at the forefront of innovation.

Speakers

Moderator
Nicolas Véron
Senior Fellow,
Bruegel / The Peterson Institute for International Economics

Stéphanie Yon-Courtin
Member, European Parliament (Renew, FR)

José Manuel Campa
Chairperson,
European Banking Authority

Morten Bech
Centre Head,
BIS Innovation Hub

Roberto Catanzaro
Group Chief Strategy & Transformation Officer,
Nexi

Faryar Shirzad
Chief of Staff,
CoinBase

SESSION 3

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- Having a high level of security in the financial services system is one of the key priorities, both for the EU and for financial services providers. In addition, for the EBA there are three other trends for the digital single market for financial services: i) the fragmentation of the financial services value chain from the provision of services to the distribution of those services, ii) the growth of digital platforms and the use (and misuse) of data, and iii) the existence and problems of mixed activity groups for providers and regulators.

- Geopolitics, including the escalating tensions between Russia and Ukraine, are prompting EU countries to react. Among the sanctions discussed, there is an option to exclude Russia from the SWIFT system that sends money between banks worldwide. On this, panellists adopted a cautious approach and argued that it is up to the government to make these political decisions. Nonetheless, they underlined that the ongoing discussions on sanctions confirm that digital payments are becoming increasingly strategic.

- The digital euro presents an opportunity. However, fraud-proofing the digital euro will be crucial to making this currency a success. Even though the negotiations have moved forward positively and industry stakeholders have welcomed this proposal, the rapid adoption and rollout remain a challenge.

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