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Embracing Change in a Time of Uncertainty

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Virtual debates, networking & discussion

Executive Report

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COVID-19 has created severe disruptions to demand, labour supply, and supply chains across the world. The global economy is heading into a recession and the EU and the Member States are therefore being affected. The Commission’s priority was to tackle the public health emergency, to protect people’s jobs and incomes and keep business running. To do so, it has adopted a number of initiatives such as three safety nets worth €540 billion to support workers, businesses and countries and a banking package to give banks the right resources and flexibility to channel funds to businesses and households. The financial sector has also made efforts to continue to provide liquidity by, among others, granting moratoria on payments or credit obligations.

To contribute further to Europe’s recovery, the Commission has proposed the Next Generation EU plan, which, combined with the next Multiannual Financial Framework, will give the EU a financial firepower of €1.85 trillion. This money will be a channel to support EU countries in their reforms and investment, in line with our goals for the green and digital transitions.

The Commission has heightened its ambition to cut emissions and is on track with its plan to raise the EU’s 2030 climate target and deepen cuts in greenhouse gas emissions. The goal is to make Europe climate-neutral by 2050. To meet these goals, the private sector will need to scale up to meet the EU’s green ambitions. The Green Deal Investment Plan therefore seeks to generate at least €1 trillion over the next 10 years. To encourage private efforts, the Commission is working towards better reporting of non-financial information and an EU’s taxonomy for green investments. This taxonomy will be the basis for labels for retail financial products.

Deepening Europe’s Capital Markets will be key for the economic recovery. The Commission will present its CMU Action Plan in Autumn. The Commission is currently working on how to remove unnecessary burdens for investors by making changes to MiFID II and to the prospectus regulation. The Commission is also exploring further promotion of simple, transparent, and standardised securitisation to free up new lending for the economic recovery.

The pandemic has also shown our dependence on digital technologies and networks. Digitalisation has been essential to guarantee business continuity during these months. The Commission will present a Strategy on Digital Finance in early Autumn focusing on deepening the single market for financial services, promoting a data-driven financial sector, and adopting EU rules that promote innovation and are technology neutral. The Commission’s approach is to make sure that all activities and risks are properly regulated and supervised. The Commission will also adopt legislation on crypto-assets and digital operational resilience.
Panel Discussion:
The Immediate Challenges and Implications of COVID-19 for Financial Institutions – Views from the Top

- The resilience shown by companies, supervisors and customers has been key for companies to go through the new situation created by the pandemic. The next big question is how we can confront systemic risks in a better way in the future. A good idea would be to build a pandemic pool where public and private convergence will provide the solution for the biggest risks.

- It is worth highlighting two aspects that were essential during the first shock of the crisis: cooperation and having a solid infrastructure. Looking ahead, there will be a need to strengthen supply chains as well as infrastructures to make them more resilient. The two key elements for the near future will be the digitalisation and the mutualisation of resources for the recovery.

- Sustainability is fundamental in the recovery of the crisis and it needs to be green. Supporting those who are at disadvantage is also required. Sustainability needs to be put at the core of businesses’ strategies not because it is a nice thing to have, but out of necessity. Innovation as well as stronger cyber-capabilities to withstand cyber-attacks are also crucial elements for future growth.

- There has been a combination of trends in the financial services sector which were already happening before COVID-19 such as cross-border payments. The crisis has introduced changes to business models, and they may stay in the future. For instance, future models will require a stronger focus on immediacy and security. Data analytics, which have been built throughout many years, may also be taken to a next level.
The pandemic has made evident that changes driven by digitalisation are increasingly affecting the financial sector. For instance, there has been an acceleration in the adoption of digital technologies in the banking industry as well as a significant decrease in the use of cash. In the longer term, there will likely be two outcomes for the banking sector: the first one will be the acceleration towards horizontal services; the second will be the mutualisation of costs. Banks will need to capitalise on public trust and maintain it to convert it into a sustainable, commercial advantage.

There are many areas for which digital solutions are a good opportunity. However, the client interaction model will change, with some new clients favouring virtual interaction over face-to-face interaction. Such changes in behaviour will demand a different set of skills as well as cultural training.

The policy framework for digitalisation has not slowed down. On the contrary, innovation keeps moving forward. The Commission is updating its FinTech strategy, new instruments, and consulting on its Digital Services Act. There are also a wide range of digital initiatives that will be used as part of the recovery package. The Commission is envisaging several funds including the EU Green Tech investment fund. Europe should act together and enable the technologies at its disposal in order to build a competitive EU infrastructure and move to cashless payments. Work is also being done to facilitate visas and cut burdensome procedures for start-ups and migration procedures from other EU Members or third countries to make the case for a start-up movement in the digital single market.

During this transition, it is paramount to be inclusive and to not leave behind, for example, the unbanked. Financial inclusion is a problem as the number of non-banked is increasing. FinTechs and start-ups have the right mindset to increase financial inclusion. However, since the beginning of the crisis, FinTech investment has dropped to 2016 levels, which accounts for much less than in 2019.

As we move to the digital realm, there is a need to ensure that it is secure. The rapid uptake of digital solutions has spurred the Commission work on cyber resilience due to the sense of emergency arising from the digital component of the economy. Cyber resilience is linked to the cyber competence centre in Europe, which can offer all these rules in order to have some autonomy. Cyber-certification schemes should reflect EU values and interest to make sure that the choice of the tools is where they need to be, to be certified as cyber-safe. Moreover, European values must be part of the technological design.
Panel Discussion:

Financing the Green Recovery

- Banks should adapt their risk models to start taking a forward-looking approach which integrates sustainability and climate risk. The European Investment Bank will be instrumental in the implementation of the Green Deal as it extends finance to commercial banks which, ultimately, finance SMEs. It will be important to know how this funding will be compliant with the taxonomy.

- Climate risk will greatly affect financial services, as it is being increasingly identified as a financial risk which will lead to further global action. Europe is currently the global leader on advancing the sustainable finance agenda. However, harmonised global action moving forward will be essential. Global action and cooperation are necessary.

- Getting political consensus on the Green Deal is the link between prosperity and the green transition. The different actors should highlight all the economic opportunities around the green transition. The narrative needs to be shifted from cost to transitioning to competitive advantages highlighted by green finance.
Despite softer volatility over the past weeks, there is still fear that a second wave may make things worse before they get better. The banking system has played an important role in this crisis, becoming part of the solution.

Public authorities have taken a broad array of actions at the monetary and fiscal levels. There has also been much better coherence between European and national responses compared to the financial crisis of the last decade and supervisors and regulators have also taken action to address the unintended negative implications of financial markets regulations, thus increasing the flexibility of financial market participants. The tools with which Member States were equipped, such as the classic countercyclical instruments as well as short-labour schemes and temporary unemployment schemes, have worked well. It was important to increase the flexibility in the real economy. A second instrument, which has been key and expanded rapidly, is government guarantee lending. However, discussions are ongoing on a common European fiscal response to the crisis. This proves that EU decision-making procedures are slower than at the national levels.

The German Presidency of the Council will prioritise the agreement on the Recovery Fund. Once the Head of Government and State reach an agreement, technical work will continue. The German Presidency will be under severe time pressure to make the funds available in January 2021.

Digitalisation is also a prominent topic on the agenda. The EU has fallen behind the US and Asia in this area. There is a need for further harmonisation of Know Your Customer (KYC) procedures and Anti-Money Laundering (AML) legislation across the EU. The focus for policymakers should be to address existing fragmentation in order to bolster an internal market for financial services. Otherwise, financial services providers in Europe will continue to be at a disadvantage.

The Capital Markets Union will also be an important project. The first ECOFIN under the German Presidency will discuss the report published by the High-Level Forum. The German Presidency will accompany the Commission’s efforts to adopt legislation. It is important that discussions on the Capital Markets Union run in parallel with discussions on the Banking Union since one lagging behind would impede further progress of the other. Both projects reinforce one another in their attempt to address fragmentation and segmentation.
Panel Discussion:

CMU and Banking

- Both Brexit and the COVID-19 crisis are creating the momentum for a further deepening of European Capital Markets; however, some scepticism still exists on the extent to which co-legislators could commit to removing cross-border obstacles (i.e. taxation, insolvency, supervisory divergence).

- The Capital Markets Union Report published by the High-Level Forum provides the basis for the upcoming Commission initiatives to deepen the Capital Markets Union. Its set of 17 recommendations is concrete and pragmatic and suggestions are supported by a great degree of granularity. The Capital Markets Union agenda should be developed in parallel with other European priorities such as sustainability and digitalisation.

- The first Capital Markets Union Action Plan did not deliver enough on engaging retail investors. New initiatives should motivate retail investors not only to talk about how to manage their money, but also to devise solutions to manage their savings. Moving forward, legislators and regulators should not lose sight of investor protection, which ultimately strengthens the trust and confidence of the investors.

- Debt and Equity should be complementary. However, historically, in Europe there is a shortage of equity funding and now is the time to address this imbalance. Compared to the United States and the United Kingdom, the European Equity issuance is very low and, albeit riskier and more costly than debt, it is also more profitable and key to fostering growth.
A single rulebook for supervision will help smoothen divergence across the 27 capital markets. ESMA reacted quickly to the COVID-19 crisis and provided guidance during the peak of the pandemic. Nevertheless, the European Supervisory framework so far is unbalanced in favour of convergence, requiring national supervisors to undergo frequent and resource exhausting convergence exercise instead of developing other tools. The potential for cross-border investments is hindered by, among other things, divergent supervisory practices. A single point of entry for third-country firms could ensure a level playing field.

The development and deepening of European Capital Markets, together with a stronger international role of the Euro and a single European voice in European Fora, is key to ensuring European competitiveness at a global scale.

To watch the sessions in full, please visit https://bit.ly/FSCconf20video