“Tomorrow is ours to win” **CHECK AGAINST DELIVERY**

Keynote speech by Wim Mijs, Chief Executive Officer of the European Banking Federation, at the Annual General Meeting of the Association of Cyprus Banks, Tuesday 20 June.

Dear Minister Giorgiades, dear Michael, dear George,

ladies and gentlemen,

Let me start by thanking the Association of Cyprus Banks for inviting me to participate today. As the first meeting of its kind since the 2012 financial crisis in this part of Europe this event marks a truly important moment for the banking sector in Cyprus.

This meeting reflects the **significant progress** that has been made in recent years. You have worked closely with the European Commission and the IMF to bring your crisis under control. The levels of Non-Performing Loans in Cyprus are declining consistently. That is a fact that cannot be denied. Close cooperation with EU-level bank supervisors is paying off, as is your introduction of codes of conduct that govern the interactions between banks and indebted customers, which makes it possible to set priorities and facilitate the triage of customers.

The **commitment of the authorities and the Cypriot people** to the overall programme agreements has also been essential to a fiscal performance that exceeds expectations. The European Union has recognized these positive developments and they have been instrumental for regaining investor confidence in the Cypriot economy.

For us in Brussels, the case of Cyprus also is another example that clearly demonstrates the value of European cooperation.

As **your European partners**, we at the European Banking Federation -- with members in 32 countries representing about 4.500 banks – are committed to working together with you so that our sector can continue to serve businesses and households to the best of their ability in an increasingly international and European environment.

The challenges that both of us, you and me, are facing are not unique. They are not only found in the area of regulation and supervision, but also in financing the economy, the businesses and households that I talk about. We are a truly bank-financed economy.

Some 80 percent of company **financing in Europe** comes from bank loans, supporting new investments and growth of millions of companies. In the face of a difficult decade for the global economy, the European banking sector has proven to be strong and resilient; loans to non-financial companies exceeded €10 trillion last year and show a positive trend.

And it is not just about loans. It is for managing risks through complex products. For supporting corporate restructuring or for helping clients access capital markets. Banks are there to help Europe's companies every step of the way. In fact, given the diverse needs of business clients, capital markets and bank lending complement each other fully.

Hence our support for the EU's project of the **Capital Markets Union**, aspiring to boost capital markets as a reliable source of corporate finance. Increasing the diversity of financing can contribute to greater growth and can improve the resilience of the financial sector by ultimately 'growing the pie'.

We all know that banking in the 21st century requires a new approach. To shape the future we are looking ahead. Our aim is to provide tailored, dynamic funding possibilities that bring together the traditional advantages of client and market knowledge with new digital solutions that make risk management more accurate and that allow clients to interact virtually.

Digital banking is more than a challenge. It provides many new opportunities in our sector. **Financial technology**, or 'FinTech', is rapidly changing the way that our clients interact with financial services. There is no denying that financial technology is the DNA of our industry. Banks actively embrace FinTech to serve clients with new products and services, and it's great to see how fresh competition helps us keep our focus.

If we as Europeans really want to play a role in FinTech globally we need to create room for innovative financial services in a flourishing Digital Single Market. Just last week, the European Commission closed its consultation on financial technology. The response of the EBF emphasised our desire to create a customer-centric and inclusive ecosystem in which all actors, ranging from small start-ups to established multinational banks, are committed to serving clients with innovative financial services.

First and foremost, we ask EU policy-makers to let themselves be guided by the **interests of end-users** – clients and consumers. Financial technology has the potential of making financial services more attractive and more accessible. Europe's policy approach needs to encourage trust in FinTech services.

A forward-looking approach to EU policy needs to ensure that **data protection and trust** in financial services remain adequate. Customers expect banks to protect their personal data. Data protection is at the core of trust in financial institutions. The banking industry has been among the top investors in IT services for a long time, keeping systems up to date while maintaining high standards for cybersecurity.

And to create a European FinTech ecosystem in which both newcomers as well as established businesses can flourish we need a properly balanced approach when it comes to regulation and supervision of financial technology in the EU's digital single market.

At the EBF we describe this approach as one for **'Same services. Same risks. Same rules. Same supervision.'** This would ensure high standards for consumer protection, market integrity and financial stability in a level playing field that supports fair competition and innovation.

The EU also needs to leave room for partnerships. Our industry is committed to **FinTech partnerships** and in many cases banks already actively work closely with newcomers. Potential regulatory obstacles to such partnerships should be prevented and if necessary eliminated.

A very specific point we are making in financial technology is the treatment of investments in software by banks. The EU needs to update prudential requirements for **investments in software by banks** if it wants Europe to remain competitive in the global FinTech market. At present, software of EU banks is treated as an intangible asset. This means banks have to deduct their software investment from their key capital ratio when calculating capital requirements.

Software however is a strategic asset for European banks, enabling them to serve clients where and when needed, to develop cyber security measures, and to deliver digital services competitively. The current prudential treatment is a significant disincentive for investments in innovation. It also distorts the global playing field, particularly when compared to the U.S., where software investments can be treated as tangible assets that do not have to be deducted from a bank's capital ratio.

One more final point on the digitalisation of finance: it significantly increases the importance of **financial education** programmes and for raising financial literacy levels. On that note I am pleased to see that the ACB is an active participant in European Money Week, which next year, in March, will celebrate its fourth edition.

When it comes to financial education we are not just talking about 15-year olds. **Investors, creditors and retail customers will need to be continuously educated** on the possible consequences of bank resolution and bail-in. It is key for market participants to understand that, while resolution aims to hold them accountable for losses in a bank resolution, no creditor shall be worse off than in a liquidation. The objective of a bank resolution is to **preserve value and continuity of access**.

Before I conclude let me also address one of the most important aspects of the work of the EBF over the last decade: **banking regulation in the age of Banking Union**. At present, almost ten years after the 2008 financial crisis, the European Union is undergoing a comprehensive review of the Banking Reform Package.

The package seeks to address what the Commission calls 'some outstanding elements', elements important for the resilience of banks that were only recently finalized by global standard setters such as the Basel

Committee on Banking Supervision and the Financial Stability Board. These discussions in particular address MREL, or the minimum requirement for own funds and eligible liabilities, and TLAC, the new minimum requirement for a bank's total loss-absorbing capacity.

As European Banking Federation we support **TLAC for Globally Systemic Banks and MREL for all other banks in Europe.** Ensuring banks have sufficient well qualified bail-in-able liabilities is essential to ensure resolution works in practice and that there is no recourse to public funds or even bail-in of uninsured deposits.

Policy makers and resolution authorities should take care not to go beyond the globally agreed framework. Especially since Europe already applies minimum bail-in requirements to all banks. **Excessive requirements may further endanger the profitability of banks. That would be counterproductive for financial stability.**

Thus, for G-SIBs, any add-ons to TLAC should only be allowed where they are material impediments to resolvability. Similarly, with regard to setting MREL, which is set on individual basis per bank, authorities should take into account the resolution strategy and funding model when they determine the amount needed for recapitalisation.

A resolved bank will likely have a smaller footprint from its original balance sheet and will require less capital buffers to command market confidence after resolution. Also, and I know that this is particularly important for Cypriot banks, a bank funded predominantly by deposits should not be forced to seek expensive funding, especially if it only has limited access to capital markets.

Meeting the MREL requirement by means of debt instruments would penalise the business model of such banks without enhancing significantly their loss absorbing capacity.

Meanwhile additional measures for capital requirements are being lined up at the global level. We are anxiously awaiting the finalisation of **Basel4**. Last week's meeting in Sweden of the Basel Committee made clear that their negotiations are still deadlocked, and that it may take months at least before an agreement could be possible.

I sincerely hope that the EU Member States – finance ministers and central bankers - will remain united in their approach towards the Basel Committee.

The views of the banking sector are clear. We do not share the enthusiasm for **output floors**. The floors *curb the potential of bank funding and risks leading to higher costs for loans,* mortgages*.*

Introducing an output floor also threatens to ***water down the work of European bank supervisors.*** *The Basel Committee should consider the significant changes in European bank supervision from recent years. The European Banking Authority and the European Central Bank now play a lead role and closely supervise the internal models that Basel wants to* *address. The European Commission should stick to the EU plan and support the technical work underway by the EBA and the SSM.*

So, when considering the global discussions, we all need to recognise the improvements made in the EU with recovery and resolution planning and enhanced supervision, as well as the big leap made in raising the quality and quantity of capital and liquidity. **The focus now should be on getting banks to lend and finance the economy.**

Now let me close.

As former US president Lyndon B. Johnsson said in the 1960s: ***"Yesterday is not ours to recover, but tomorrow is ours to win or lose."***

Next year here in Cyprus you will mark the tenth anniversary for your adoption of the euro. It will mark a moment to celebrate what has been achieved, to celebrate the benefits of being a full member of the Eurozone and of the European family.

Yesterday can be remembered, but what is most important for us as banking sector, is to learn and look at the future, and **embrace this tomorrow** with a desire to win, not on behalf of our banks and our country, but on behalf of the people who are our clients.

The clients – households and businesses, big and small – are the ones that guide the main question in our industry: How can we give them the best opportunity to thrive and to prosper?

If we as banks continue to focus on the needs of our clients, then tomorrow can only be ours to win.

I thank you for your attention.

Wim Mijs