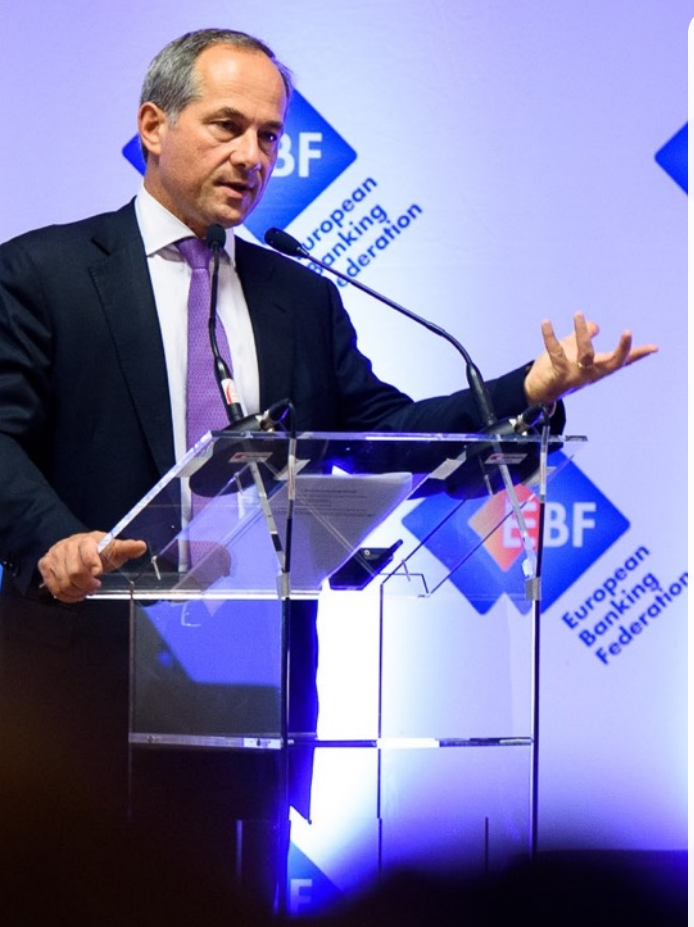
MEMORANDUM

#EBS2016

EUROPEAN BANKING SUMMIT

Embracing disruption

Brussels, 29 September 2016
www.europeanbankingsummit.eu



Opening remarks by Frédéric Oudéa, President, EBF & CEO, Société Générale

Mr Oudéa said the aims of the European Banking Federation (EBF) are to promote growth in the EU; ensure that EBF is a natural stakeholder, in particular for the supervisors and regulators at European level; take targeted action to strengthen the reputation of the banking industry in Europe; and ensure a regulatory environment that is conductive for digital banking. He said that the banking sector in Europe faces four formidable challenges. Firstly, all banks in Europe, irrespective of their business model, are facing increased political risk. Second, banks are facing a lower – even negative – interest rate environment, which he described as a game-changer. In Mr Oudéa's opinion, this situation is likely to last for at least another two to three years. Third, the magnitude of the regulatory agenda. And fourth, the impact of digital technologies on business models, the changes these technologies are likely to bring to client behaviour, and the opportunities that these technologies present, if embraced.

Keynote speech by Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue & responsible for Financial Stability, Financial Services and Capital Markets Union, European Commission

Mr Dombrovskis remarked that Europe needs healthy and dynamic banks that can play a full part in Europe's recovery. However, he is aware that the environment is challenging. The UK's uncertain position in the single market is creating unwelcome uncertainty and hampering long-term planning, investment and growth, and the banking industry has still to finalise post-crisis legislation while adjusting to technological change. Against this background, the European Commission wants to provide as much continuity and predictability as possible.

Mr Dombrovskis said that the Commission supports the broad objective of the Basel Committee to tackle unjustified variations which work against competition and financial stability. However, an intelligent solution is required, taking into account individual bank situations and maintaining a risk-sensitive approach to setting capital requirements. "Different banks have different business models which involve different levels of risk," he remarked. "This needs to continue, to preserve Europe's diverse financial landscape." He went on to say that changes should be avoided which would lead to a significant increase of the overall capital requirements shouldered by the European banking sector; a position which received strong backing from all EU countries in July.

Mr Dombrovskis listed a number of areas which are important for the European economy. These include the general treatment of real estate laws, corporate lending, and infrastructure lending, while 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 appropriately reflect the risks faced by banks.

He does not consider standardised capital essential to the framework, as it undermines risk sensitivity and 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,” he stated, adding that “we believe such an agreement is in everyone’s interest if we are to maintain a credible rule framework.” The Commission is to come forward with a revision of its own legislation – the Capital Requirements Legislation and its sister directive CRD4 – in the autumn. The aim is to produce legislation that supports financial stability while allowing banks to lend, and support investment in the wider economy.

Mr Dombrovskis then moved to the topic of disruptive technological change, and said that the Commission is committed to a framework that 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 and foreign currencies, lending and investment, all of which are bringing huge opportunities to consumers and the industry. They drive competition and provide user-friendly services, often at lower price. Digitisation is allowing access to new markets and consumers, while cloud systems offer potential to streamline firms’ internal processes.

Yet Mr Dombrovskis is aware that new, potential risks 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,” he stated. “Equally, purely online services should not lead to the financial exclusion of less digitally literate consumers.”

The Commission wants to take a cautious and evidence-based approach and not to create new rules unless absolutely necessary. New opportunities and risks are being carefully assessed, with the goal to find the right balance between fostering innovation and fair competition on one hand, and ensuring financial stability, safety and security for consumers on the other. In this respect, the Commission has created a FinTech task force.

He pointed out that the Payment Services Directive (PSD2) legislation ensures that all players are supervised under the same conditions, and said that across the board the aim is to encourage cooperation and competition between banks and FinTechs, to provide user and eCommerce friendly solutions in banking and payments.

He mentioned the Commission’s Green Paper on retail financial services, and how the Commission wants to support the use of remote identification tools – such as electronic IDs and signatures – which comply with anti-money laundering requirements. These are important for the online environment and cross-border service provision. So-called regulatory sandboxes can also help regulators understand new business models better, and help them decide whether regulation

is required. The Commission would like to promote the sharing of best practices in this area, as well as ways to reduce differences in financial services companies delivering services at a distance and across borders. Mr Dombrovskis said that follow-up actions to the Green Paper will focus on how to build a single market for consumer financial services like insurance, pensions, loans, and current and savings accounts. He said goals include increasing funding to the wider economy, making legislation more proportionate, and reducing the compliance burden for businesses. “By the end of the year we will come forward with a proposal on central counterparties (CCPs) recovery and resolution, which will be good for transparency and 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.”

Finally, Mr Dombrovskis said that 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. The Commission will continue to strive for financial frameworks that give companies enough space to innovate and consumers the certainties they need. And work will continue on reviewing the legislative framework and making targeted adjustments to support investment and sustainable growth in Europe.

GLOBAL DISRUPTION

Does the balkanisation of the global economy harm international trade? What scope exists for an international level playing field in financial services? How does this affect European banks who are active in the global economy? And what will the outcome of the presidential elections mean for trade and growth in Europe?

Panelists:

- **Maria Åsenius**, Head of Cabinet of Commissioner Cecilia Malmström, DG TRADE, European Commission
- **Dr Gert D. Wehinger**, Senior Economist, Financial Affairs Division, Directorate for Financial and Enterprise Affairs, OECD
- **Judith Hardt**, Managing Director, Swiss Finance Council
- **Daniel Schmand**, Chair of the Banking Commission, ICC & Global Head of Trade Finance, Deutsche Bank

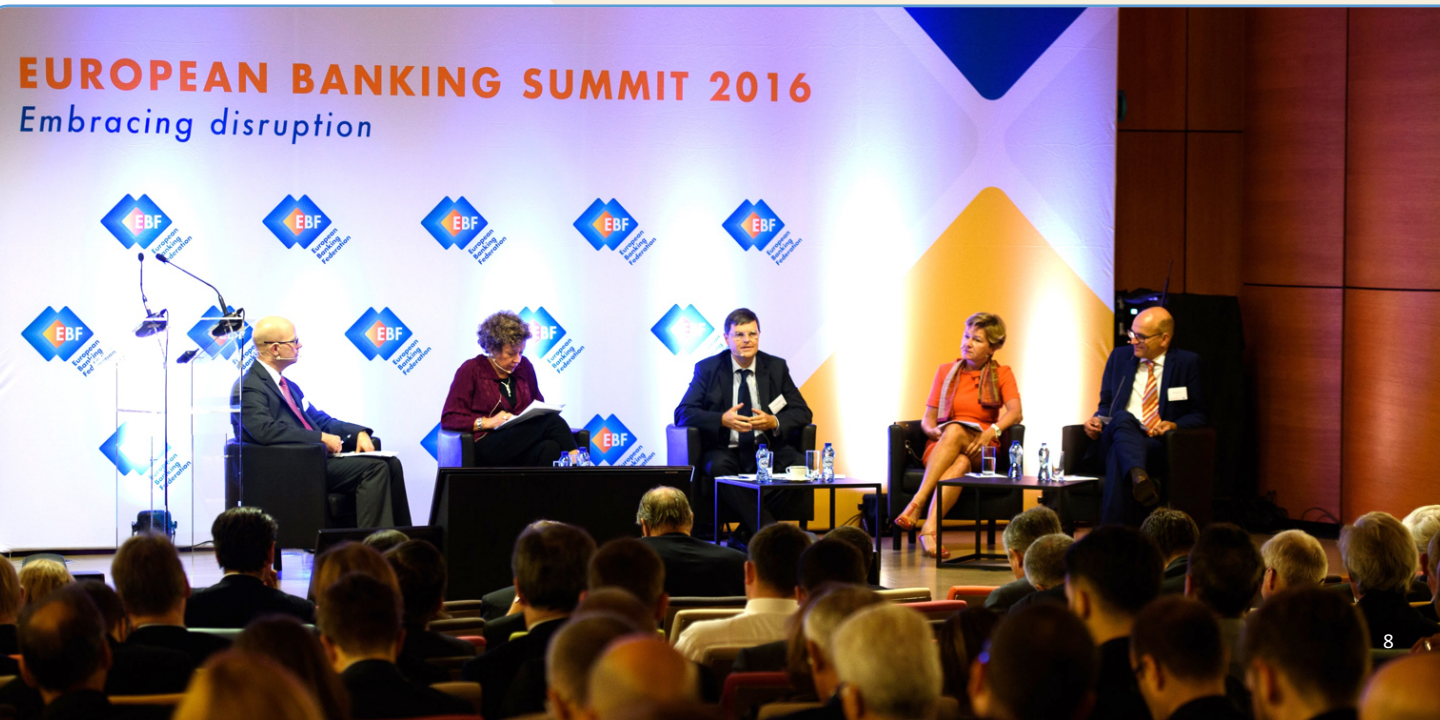
Moderator:

John Rega, Chief Correspondent, Financial Services, MLex

Mr Rega asked the panel what they consider to be the key globally disruptive elements. In the opinion of Ms Åsenius, they are growing protectionism, the remarkable slowing down in trade growth, and globalisation. She said that what really drives structural change in people's lives is technological change and innovation. She believes that people who are concerned about these changes often and unfortunately make a scapegoat out of trade agreements. Dr Wehinger considers the global financial crisis has been the biggest recent disruption, and pointed out that the effects are still being felt, particularly in the periphery of Europe and some emerging countries. The OECD has observed relatively low growth, worldwide and especially in Europe, which links back to declining global trade. At the same time, central banks are trying to counter the negative effects, but cannot do this alone; structural and fiscal policies are needed. He also considers that the disruption in banking has driven risks to the shadow banking and led to its rise.

Mr Rega asked how all these disruptions are changing the economic landscape. Ms Hardt is worried about the political disruptions currently being experienced, and considers that Europe is at a political tipping point, with Brexit a major distraction. She believes that political leadership is needed, to help people understand and embrace disruption, and to look more to the longer term, rather than focus merely on short-term issues. Mr Schmand added that increased complexity has been disruptive. Liquidity becomes an inventory, with the threat to completely change business models. He mentioned quantitative easing: for emerging Asian markets, there is a financing gap of 1.7 trillion, despite the fact there is more liquidity than ever. Compliance is also disruptive. For Mr Schmand personally, the biggest disruption is having to change from being a banker to a surveillance officer.

Mr Rega wondered if trade policy has a role to play for financial services, in regard to the political impetus towards protectionism.

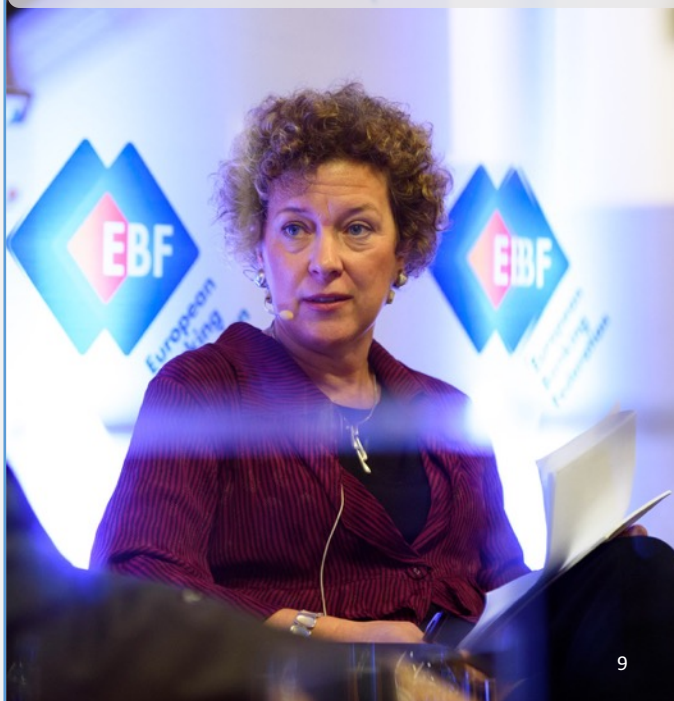


Ms Åsenius said that the Commission constantly works to improve business opportunities for European banks and create market access, as well as fight trade barriers, caps on foreign direct investments, restrictions on data transfers, and burdensome licensing systems. The second important strand in the Commission's work is to fight regulatory inconsistencies, and ensure that jurisdictions can work well together. She singled out trade agreements with Japan and the United States, where the Commission wants to strengthen regulatory cooperation in financial services. In this respect, a joint EU-US regulatory forum was announced in July. She also thinks it important to achieve supervisory cooperation: "The ultimate goal is to achieve equivalence so we can rely on each other's rules."

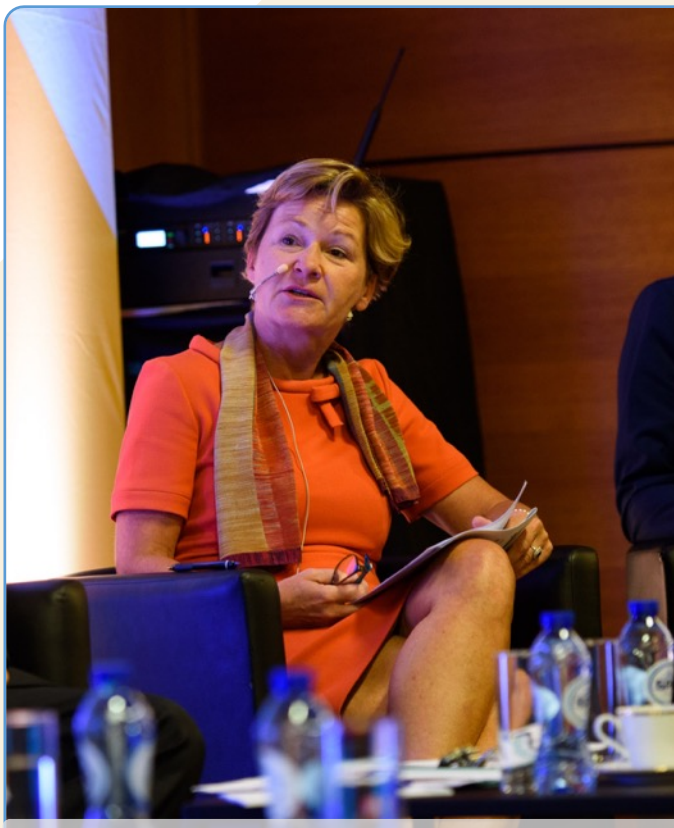
Ms Hardt believes it is important to speak about international standards in regard to globalisation, and believes that Europe has been quite good in pushing the multilateral agenda. However, she is concerned about transfer of sovereignty. She also thinks that when the Commission launches a policy, it should consider the borders and the rest of the world rather than be too Eurocentric. She gave the example of the Capital Markets Union that was very much needed but lacks the external border dimension. Ms Åsenius responded by pointing out that the EU-US cooperation is about consulting with each other at an early stage, raising awareness about problems, addressing them in a concerted fashion, and not giving away sovereignty. Dr Wehinger considers that Brexit was a wake-up call, forcing Europe to rethink its approach to globalisation and politics. He said that there is always a plea for a level regulatory playing field, but some new regulation has led to market fragmentation and has been driven some globally active banks out of remote areas of some emerging markets, and has also reduced some SME lending, which means that those who need bank credit the most are not getting it.

Mr Schmand picked up on SME financing in emerging markets, and said that if 50 or so emerging markets become unbankable, this translates into a significant number of people with no access to the international clearing system, or for whom financing is severe. Referring to the refugee crisis, he admitted that some refugees are fleeing political instability and war, but most are economic refugees, from countries where addressing the financing of SMEs would create prosperity and jobs and would take away the main driver of Brexit.

Maria Åsenius, Head of Cabinet of Commissioner Cecilia Malmström, DG TRADE, European Commission

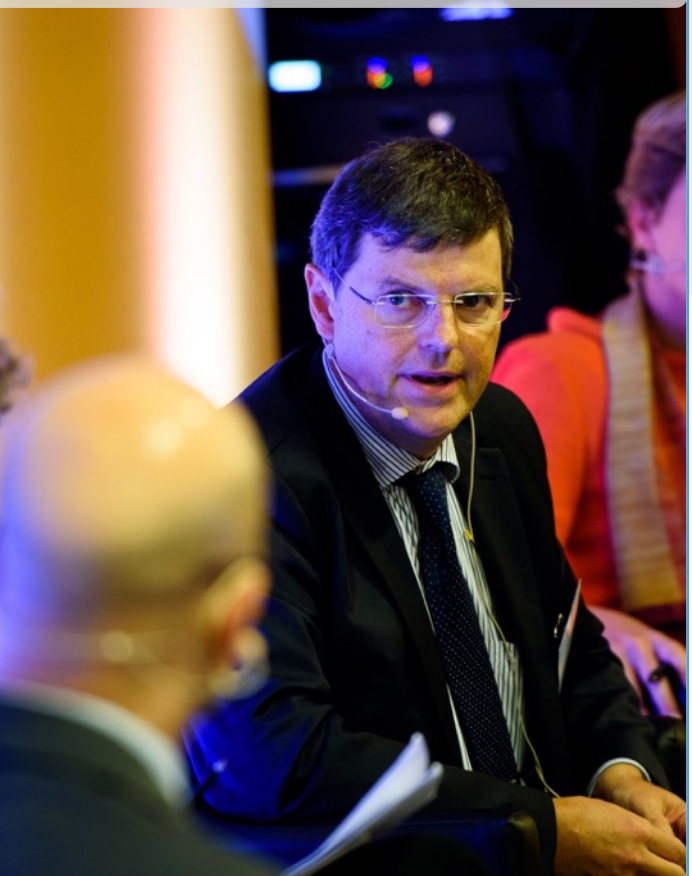


Mr Rega asked how much disruption Brexit is likely to cause. Mr Schmand considers the big question is to what extent the UK will be allowed to use EU passporting; if not, it is a big problem for all the main EU financial institutions operating out of London. Ms Hardt is worried about the lack of precision in the debate, and considers that Brexit is extremely bad news for the banking industry. Ms Åsenius considers that the Brexit strategy of the UK government remains somewhat unclear, and said there can be no cherry-picking in which the UK just takes the elements it wants and drops the rest. Dr Wehinger compared it to "starting a divorce without first taking counsel from a divorce lawyer." He considers that some kind of passporting and "grandfathering" of current rules with a long grace period might be helpful.



Judith Hardt, Managing Director, Swiss Finance Council

Dr Gert D. Wehinger, Senior Economist, Financial Affairs Division, Directorate for Financial and Enterprise Affairs, OECD

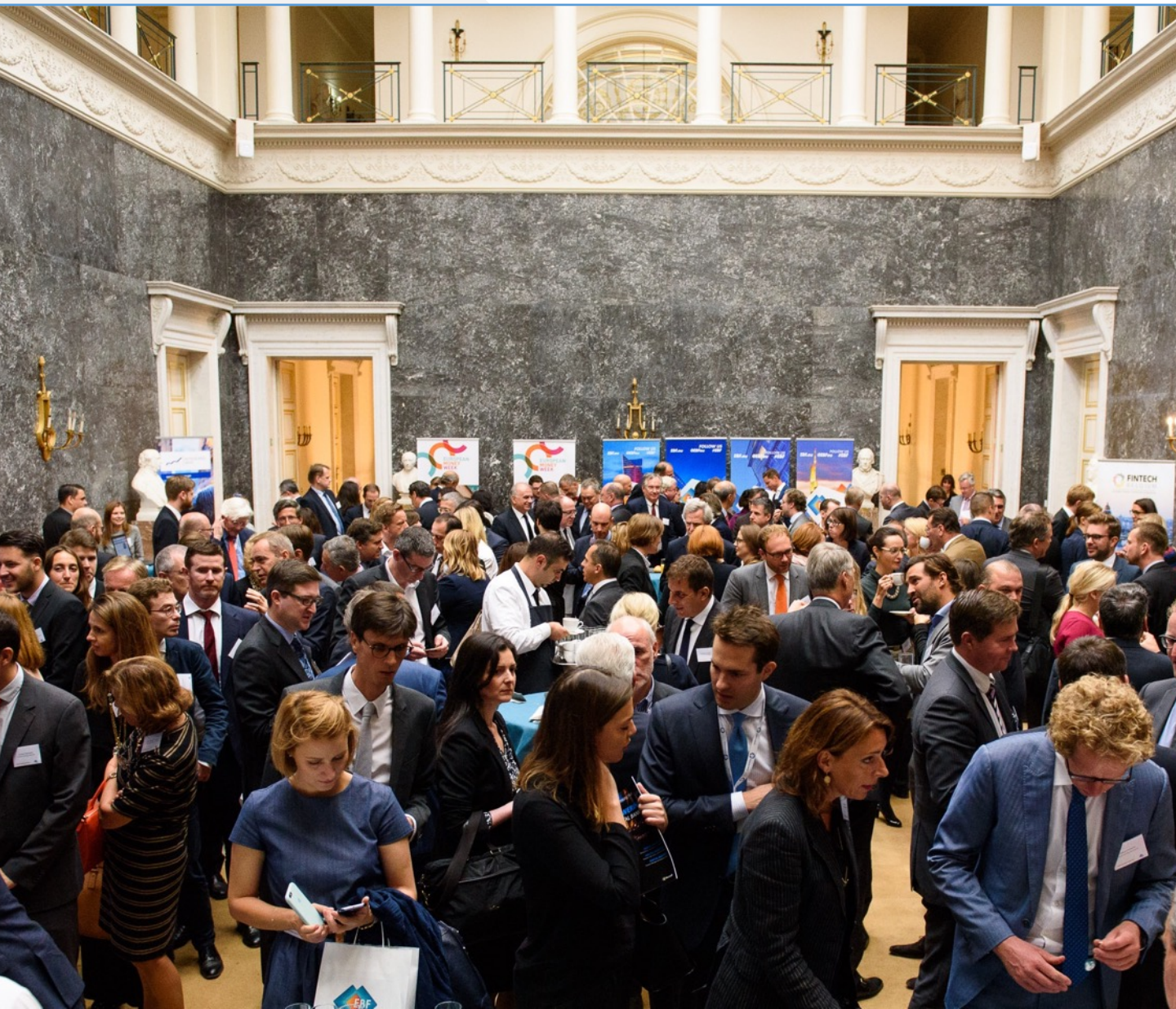


A delegate asked if the disruptor of quantitative easing can be better embraced to deliver better results. Dr Wehinger believes the low interest environment could be used to finance infrastructure to encourage growth. However, Mr Schmand said that the yield of such projects is not attractive; the attractive investments are not in Europe but in the emerging markets. Dr Wehinger said that the Capital Markets Union is key to Europe to diversify the capital base and the lending possibilities and raise equity.

Another delegate pointed out that most major economies have inflationary policies, and stringent labour rules which drive the cost of employment up. In such an environment, he wondered whether trade liberalisation is counter-productive and is

turning people back towards globalisation. Ms Åsenius believes that trade agreements are instruments to set rules, shape globalisation, and create win-win situations, although she agreed that trade agreements have become extremely complex, and need to be better explained. Mr Schmand said that driving flexibility, innovation and productivity are the key factors.

In their concluding remarks, Ms Åsenius stressed the importance of a thriving financial sector, while Dr Wehinger said that education is vital; people coming out of schools and universities need to be able to adjust to this new world. Ms Hardt says we need to push for the Capital Markets Union, which needs healthy banks and the lifting of uncertainty about capital rules. Mr Schmand said that disruption is good; it's a huge opportunity. Speed is of the essence, along with the ability to change people and organisational models, while increasing confidence levels and globally harmonising rules and regulations.



DIGITAL DISRUPTION

How does financial technology change banking and how does it create new opportunities for innovation and economic growth? Case study presentations both by FinTech challengers and established banks on the impact of new technologies.

Speakers:

- **Richard Peers**, Director Financial Services Industry, Microsoft
- **Lisa Terziman**, Co-founder and CMO, Fentury
- **Ali Niknam**, Founder and Chief Executive Officer, Bunq
- **Teppo Paavola**, Chief Development Officer, General Manager of New Digital Businesses, BBVA
- **Dr David Andrieux**, Senior Business Consultant, Sopra Banking Software

Chair:

Wim Mijs, CEO, European Banking Federation

Richard Peers, Director Financial Services Industry, Microsoft

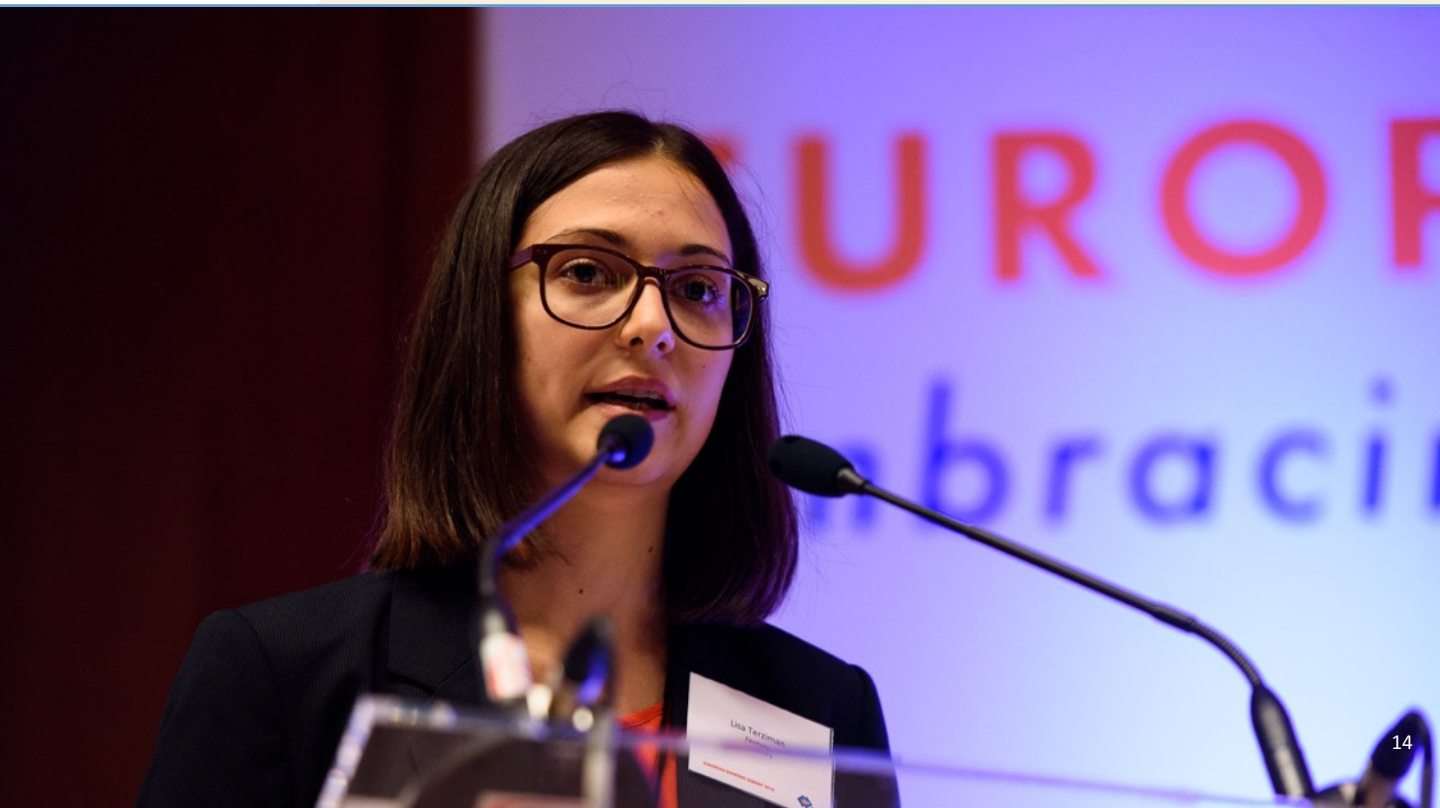
Mr Peers said that disruption is coming from a lot of players, from all angles. He gave the example of the self-driving Tesla which has transformed the automotive industry; the parallel situation in terms of "financial vehicles" is the self-autonomous investor. Microsoft has worked with over 45 financial services regulators, and has brought in aspects like the regulator right to examine, and the institution is accountable and in control, as it leads financial institutions forwards in the adoption of the Cloud. He said that Microsoft's solutions are safe and secure catalysts for change. There is no one-size-fits-all approach to compliance, but a scaled approach. He said that the Microsoft Financial Services strategy is focused on combining high impact industry solutions with the agility and cost benefits of the Cloud. Mr Peers gave examples of banks that have purchased tools to empower their customers, processes, employees and operations, reduce the cost to serve, and improve customer experience. He said that to address the problems of compliance, regulations and legacy, regulators have to allow opportunities for agility to flourish in the market. Microsoft is keen to allow that change to happen in a safe way, and believes it is time for this change to accelerate through the market.

A delegate asked how outsourcing issues are managed, and in particular how liabilities are allocated when things go wrong. Mr Peers said outsourcing is different now than it used to be. A key aspect is that it's still the customer's data. All data is encrypted at source, and the keys are held by the customer; Microsoft can't actually do anything with that data.

Lisa Terziman, Co-founder and CMO, Fentury

Ms Terziman introduced Fentury, the personal finance advisor app, which shows an entire picture of a user's finances and helps them keep in touch with their money on a daily basis. She explained how it works, the target audience, the subscription costs, and how it allows a user to acquire healthy financial habits. She explained how banks and providers are connected to the app, via three connection types. Currently Fentury covers 2500 banks in 50 countries. Banks in Europe are apparently going to open up and accelerate the innovation, thanks to the Revised Payment Services Directive. Ms Terziman also explained how collaboration with banks is increasing, helping them meet the new regulation requirements by using Fentury technologies. She believes this will also help FinTech companies to provide even better experiences for users, making finances transparent and clear for everyone. Ideas for the future include "Fentury events" – the most relevant and useful insights of a user's financial life, including warnings and advice. A next step would be to suggest better services to the user, based on peer analysis of similar audiences with similar patterns within the same region. She believes that banks and FinTech companies can have a beneficial and productive alliance in revolutionising the financial world.

A delegate raised security and privacy concerns. Ms Terziman said that Fentury's security measures are the same as banks, with encrypted data, private keys, and all data available as read access only. They are also heading towards ISO 27001 certification.



Ali Niknam, Founder and Chief Executive Officer, Bunq

Mr Niknam explained Bunq, a completely new banking app that has gained thousands of users since its introduction earlier this year in the Netherlands. It is described as a simple way to request money from friends, split bills and make payments in real time. He said that growth of Bunq on a global scale is hampered by regulations in the financial sector, although he thinks that a regulatory sandbox approach would help to speed up innovation. He has had particular problems regarding the Europe-wide implementation of IBANs.

A delegate reported similar problems with opening IBANs in different countries, because in SEPA regulations a bank has to be locally present in order to have the IBAN of that country. Deleting this phrase would be an improvement. Mr Niknam also thought that an EU IBAN might be helpful to enable the transfer of an IBAN to other banks.

Another delegate wanted to know if Bunq customers keep their own bank accounts as well as their Bunq account. Mr Niknam is surprised that a lot of Bunq customers are switching, although that is not the objective; Bunq wants to be an addition to a customer's current bank.

Teppo Paavola, Chief Development Officer, General Manager of New Digital Businesses, BBVA

Mr Paavola regards disruption as an opportunity, and BBVA has the mission to create new business models and a diversified portfolio. He explained how FinTechs and other innovators are innovating on top of BBVA's open core banking platform. Mr Paavola explained some of BBVA's acquisitions, such as SIMPLE, Holvi and Atom. SIMPLE differentiates by focusing on the customer experience and has no customer fees; Holvi is banking for micro-SMEs with free-to-use business tools; and Atom is the first fully licensed digital bank in the UK. On the latter, he drew attention to the different – and more stringent – regulations for newer, smaller banks compared to those for the larger, more well-established banks.

A delegate brought up the subject of Blockchain and asked about the disruption that Blockchain can bring from a bank's perspective. Mr Paavola said that Blockchain is a very interesting and enabling technology that can lead to efficiency improvements through sharing ledgers with trading companies. He believes that Blockchain technologies will come to banking but questions whether they will be driven by technology companies like Microsoft, or based on innovations occurring in nearby industries such as cross-border trade. He thinks that if the banking sector moves slowly, the decisions on Blockchain technologies will be made elsewhere.

Dr David Andrieux, Senior Business Consultant, Sopra Banking Software

According to Mr Andrieux, artificial intelligence is probably the most disruptive technology in banking. He gave the example of a self-driving car and the choices that have to be coded, to enable it to make good decisions in real life situations. Some of these decisions may appear difficult to understand by humans. Similarly, in the 2010 Flash Crash, when the market lost nearly 10% of its value in 15 minutes, no-one seems to fully understand the reason why the highly automated algorithms acted so unpredictably. Bankers need to understand what these technologies can do and cannot do. Two dual, complementary approaches are the learning approach (recognizing patterns) and the deterministic approach (fully traceable logic). Mr Andrieux gave some use cases of AI, such as natural language interaction, virtual assistants, risk & fraud detection, investment advisor, commercial underwriting, and commercial loan origination.

A delegate pointed out that in healthcare there is a distinction between making a diagnosis and giving treatment, and wondered where that distinction will be in the financial sector. Mr Andrieux said that two activities can be automated: basic actions and problems that are easy to understand and solve; and those that are more complex and relate to business expertise. The latter are also being automated, but still require experts to understand and update the system. Some things will still need to be done by humans. If artificial intelligence can build better models to determine risk, said another delegate, regulators will require senior managers to understand their models, so we need to open the model and make it explainable. Mr Andrieux agreed that compliance should be demonstrated, to trace recommendations and decisions. This applies particularly to the deterministic approach.

REGULATORY DISRUPTION

How will the European banking sector look like once the new international supervisory framework is in place? What should banks do to prepare for another set of new measures from Basel? Is the Single Rulebook for European banking supervision wishful thinking or can it become reality?

Panelists:

- **Andrea Enria**, Chairman, European Banking Authority
- **José María Roldán**, Vice President, EBF & Chairman and CEO, Spanish Banking Association AEB
- **Dr Paul Tang**, Member of the European Parliament
- **Martin Merlin**, Director, Regulation and prudential supervision of financial Institutions, DG FISMA, European Commission
- **David Schraa**, Regulatory Counsel, Institute of International Finance

Moderator:

Huw Jones, Regulation Correspondent, Europe, Thomson Reuters

Mr Jones asked whether regulation has become a bad rather than a good disruptor? Mr Schraa said it's not an entirely negative disruptor, and that that basic post-crisis regulation was directionally appropriate. He recognises that a lot of useful work has been done by the Basel Committee and the Commission. However, with respect to the current issues, "Basel IV" has some major challenges. "If it was enacted as proposed, it would clearly have a very substantial effect in increasing overall capital requirements, especially in Europe but also in every part of the world, in ways we think are unnecessary," he stated. Mr Schraa believes that the capital requirements overall have hit the level they should be, and do not need to be increased. In addition, the IIF is keen to maintain the risk-based approach, which Basel IV would undermine. Dr Tang is concerned about over-regulation, but would be more lenient about it if the banks had bigger buffers. Mr Roldán believes that regulation is disruptive in a bad sense. It is too complex, is a black box that nobody understands, is unstable, and is prone to regulatory arbitrage. He thinks that going back to the drawing board is necessary, to perform a cost-benefit analysis and consider the unintended consequences of regulation. He is also concerned about shadow banking and FinTechs, and the fact that bank boards are spending 80% of their time discussing regulatory issues and only 20% of their time on the business.

Mr Jones asked whether the Call for Evidence on regulation is a golden opportunity to get some of these bad disruptions out of regulation. Mr Merlin said that regulation is neither good nor bad, but necessary, and has to be regularly updated to take into account technological and market developments and to foster financial stability. He said that disruption is bound to happen and will lead to uncertainty, but the Commission tries to limit disruption and uncertainties by consulting as much as possible whenever draft legislation is prepared. He said that the Call for Evidence is a good illustration of this process.

José María Roldán, Vice President, EBF & Chairman and CEO, Spanish Banking Association AEB

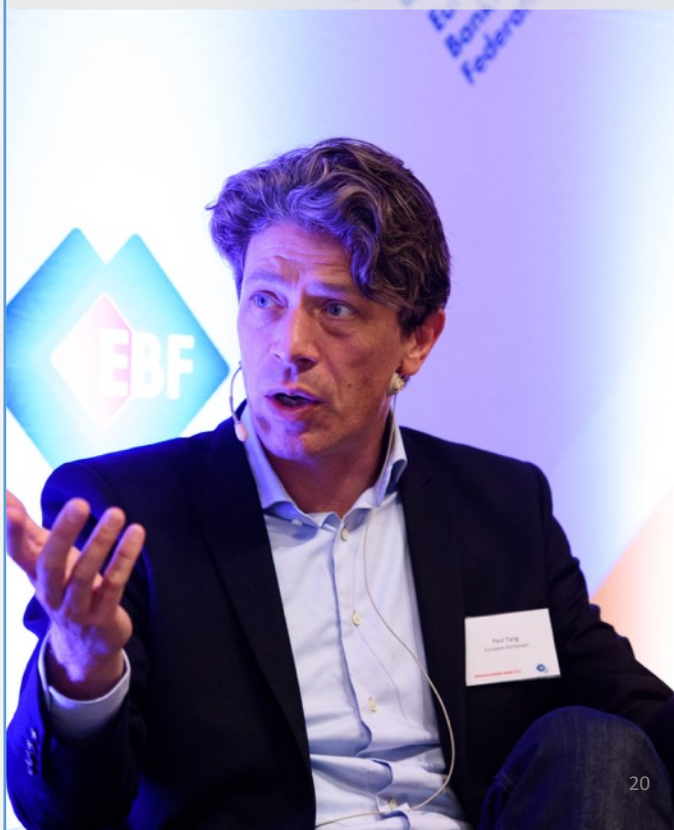
Mr Merlin remarked that in the autumn the Commission will make a number of proposals to address some of the problems and weaknesses in the current regulatory framework. These will include making the regulatory framework more proportionate, reducing the compliance burden, and ensuring that the funding of the economy is not unduly hampered.

Mr Enria commented that the banking sector is much better capitalised now than it used to be. He considers that the key point of "Basel IV" is whether there is a regime shift, which depends on two aspects: "Are we abandoning the previous approach to regulation, and are we increasing the level of capital requirements significantly?" If the answer to these questions is yes, then it's a regime shift and Mr Enria would agree with the industry that it would be wrong to make such a change so late in the process. However, he is still convinced that what has been done so far is heading in the right direction and is not responsible for major problems.

Mr Jones asked whether Europe could become a disruptor in the whole global regulatory consensus? Mr Roldán pointed out that the US is not applying Basel III but is using another approach. So care has to be taken when transposing our regulatory supervisory system that is devised for our financial system to another completely different financial system. Mr Merlin pointed out that this is a globalised industry requiring international convergence regarding the rule book, otherwise serious distortions may result in re-nationalisation of financial markets with a poorer, less efficient allocation of capital at the global and European level. The Commission believes in pursuing international regulatory convergence, while recognising that the financial systems of the EU and US are different; Europe relies more on bank lending than the US, and does not have public agencies guaranteeing the mortgage market – such specificities have to be taken into account in the details of the rules. However, he believes that the same principles should be adhered to whenever possible.

Mr Schraa stated the importance of maintaining an area of risk sensitivity, and getting the right balance between growth and stability. He thinks that Basel has failed to take into account the risk specificities of different markets, and would like to see this addressed in the revision of Basel.

Dr Paul Tang, Member of the European Parliament



He agrees with Mr Merlin that it is important not to lose sight of the important goal of international consistency and regulatory cooperation. This is especially important, he believes, in the context of Brexit.

Mr Tang commented that US regulators are much tougher on banks than their European equivalents: “Europe has been slow and indecisive and we are still having problems here.” He also considers that the Banking Union is far from complete: “It has three pillars but we can’t complete the fourth pillar. We talk about an international playing field but don’t even agree among ourselves on the Banking Union and the deposit guarantee.” Mr Roldán added that Europe needs to do its homework, because the reality is that liquidity does not flow freely within the Eurozone.

David Schraa, Regulatory Counsel, Institute of International Finance

Martin Merlin, Director, Regulation and prudential supervision of financial Institutions, DG FISMA, European Commission

Mr Schraa pointed out that investment banking is another area – sometimes overlooked in the European debate -- that is important to bringing savings together with investment needs.

A delegate asked if it would be wise to return to principles-based regulation, and would that be easier than a one-sized fits-all approach? “If principles-based regulation means a light touch in the regulatory framework, leaving a lot of space for self-regulation, I have my doubts,” replied Mr Merlin. He went on to say that the Commission understands the call for predictability and greater stability of the framework. A legislative package is to be tabled in November to complement the reform of the regulatory framework with a more

stable funding requirement and a leverage ratio: "All of which are needed to repair the system after the crisis." Mr Schraa agrees that "a light touch" in the regulatory framework in the sense understood before the crisis is not what anyone is arguing for, but that some things that are over-engineered in Basel IV would be better addressed by more use of Pillar 2 – Supervisory Oversight – in the present framework.

A delegate asked why, since the crisis, an increased concentration of banks in the banking sector has been observed, and whether this points to something going wrong with regulation. Mr Tang believes that is true, and he is concerned that banks are still under-capitalised and have legacy problems, and that the problem of Too Big To Fail still exists. Mr Enria added that in any sector that has gone through major crises, such as automotive or steel, a reduction in capacity generally takes place, along with exits from the market of a number of players, and some concentration of the remaining players. "In the banking sector, we have seen few exits in Europe, and concentration has been mainly at the domestic level," he remarked, adding that he would have liked to have seen more integration at the European level.

Mr Jones asked whether Brexit is likely to be a major disruptor? Mr Roldán sees no silver lining in Brexit. He does not think London can be replaced as the best place to meet the markets. He foresees business leaving London and relocating in several European capitals rather than a single location. Mr Merlin said it creates a lot of uncertainty, and is concerned that the City will be outside Europe, and about its potential impact on developing market-based finance without a funding gap. Mr Enria said that the EBA conducted preparatory work prior to the referendum, and immediate market disruptions have been contained, although he is anticipating longer term disruptions. Mr Schraa pointed out that Brexit is creating major uncertainty and will have global ramifications, although he agrees that it's too early to say what these are going to be. He believes there is a need for a considered and ample transition period to allow firms to make the adjustments with minimum disruption.

Andrea Enria, Chairman, European Banking Authority

THE C-LEVEL PERSPECTIVE

What does disruption in financial services mean for those that lead a bank in Europe today? This session hears the views held by chief executives at a large and a small European bank. What challenges and opportunities do CEOs see for the industry? What scope exists for a future-proof business model for banking?

Panelists:

- **David Wright**, Chairman, Eurofi
- **Frédéric Oudéa**, President, EBF & CEO, Société Générale
- **Maurice Oostendorp**, CEO, SNS Bank

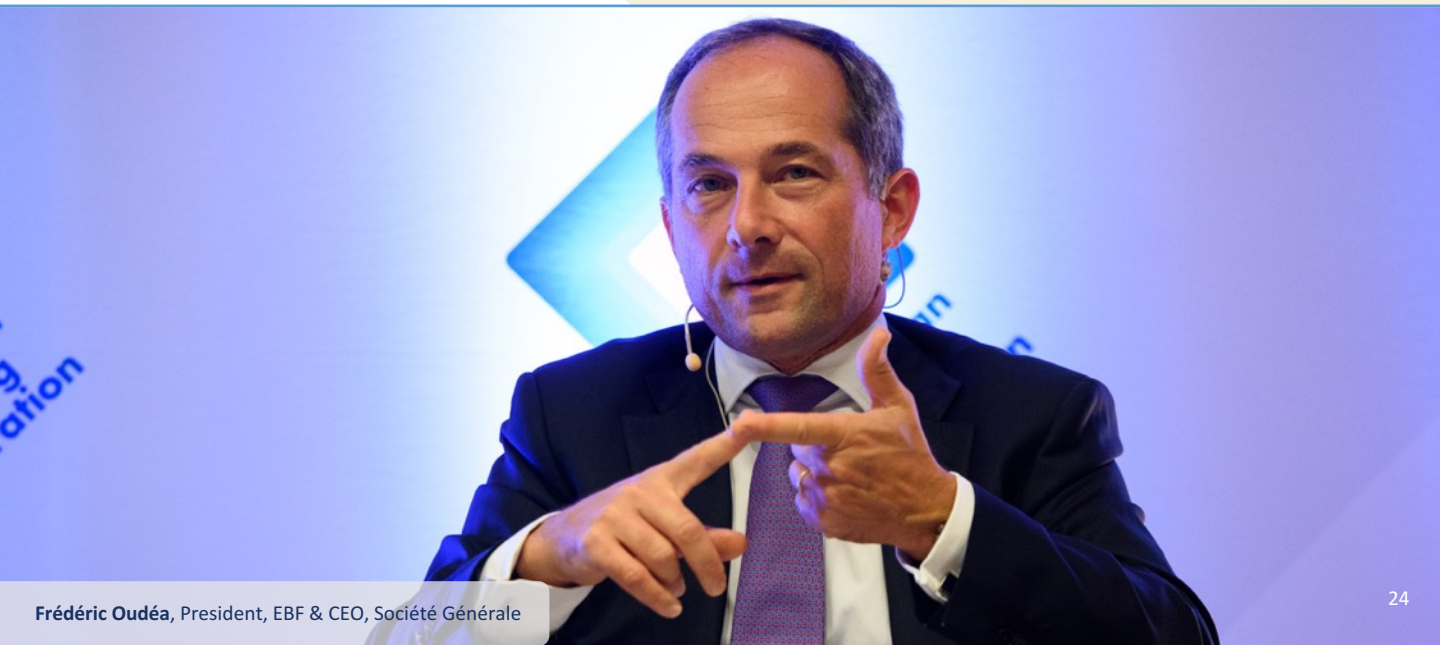
Moderator:

Francesco Guerrera, Chief Financial Correspondent, POLITICO

Mr Guerrera asked the panellists what they consider to be the best business model for European banks and how can banks deal with the disruptions they are currently facing. Mr Oudéa does not think there is a single business model that works; different ones are capable of working and adjusting to disruptions. He believes the key points are the optimal allocation of capital, to distinguish B2B from B2C, and to take into consideration geography, diversification and the presence of non-banking activities. For the SNS Bank, Mr Oostendorp said that a simple and straightforward business model focusing on a limited number of risks has worked well. It might miss out on the advantages of diversification, but in his experience, adhering to a such a simple business model brings a better risk return than diversifying. He would prefer more in-depth dialogue with the ECB on this approach than is currently possible.

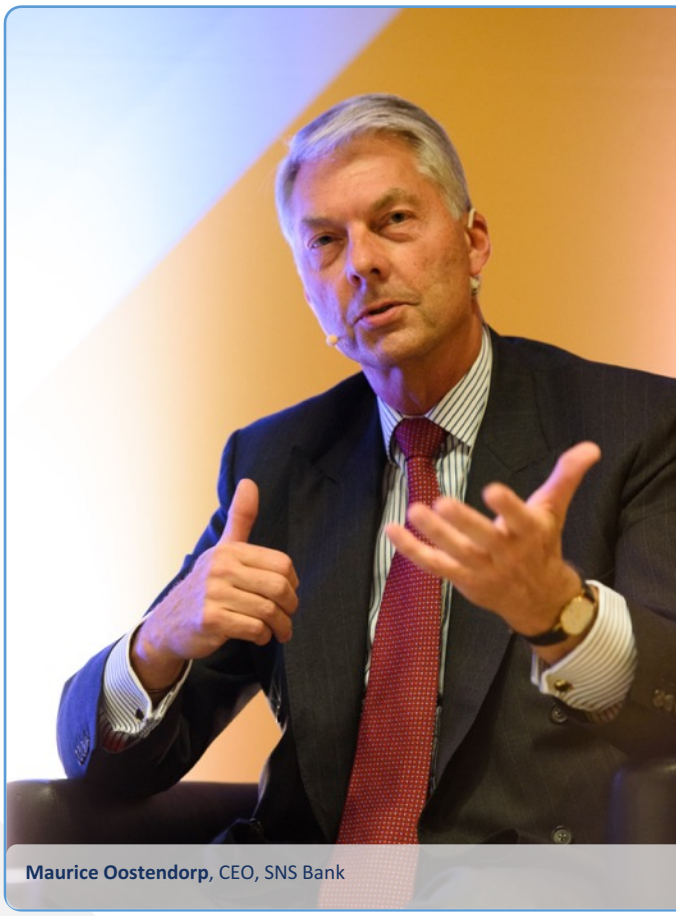
In regard to the disruptions faced by banks, in Mr Wright's opinion the first priority is to restore stability, both in a regulatory sense and in an economic sense, as soon as possible. He would like to see the current discussions successfully brought to a conclusion in a way that addresses the serious European concerns about the proposals and takes into account the diversity of European banks. He would also like to see strong political leadership, and called on European Heads of State to set out ten points and fix a date to deliver them. "By delivering them, confidence will begin to grow," he remarked. "By just drifting along, as we are now, in both a political and economic sense, we face regulatory uncertainty, which makes it difficult for banks to plan ahead."

Mr Guerrera asked how banks can get out of the vicious circle of regulatory uncertainty, low interest rates, uncertainty over the business model and FinTech disruptions. Mr Oostendorp spoke about the disruption of client trust. The SNS Bank is addressing this issue by reversing the banking model; focusing more on the needs of the client as the starting point for their products and services.



Frédéric Oudéa, President, EBF & CEO, Société Générale

Mr Guerrera asked what the ramifications are likely to be of Brexit. Mr Wright has an extremely pessimistic view on Brexit, likening it to "Dante's Hell, the first step of which is limbo, which is where we are now." He said it is leading to serious disruption, and does not hold out hope for passporting negotiations, bilateral trade agreements or free trade treaties. He considers that a huge number of European institutions are going to be occupied by this negative event, "which will suck political energy up from the real issues." He is aware that the City of London is desperately trying to find some good models but hasn't yet found one, and fears that the current uncertainty is going to be with us for some time. "Brexit is pure uncertainty of the very worst form," he remarked. "It's bad for Europe and bad for the global economy." Mr Oudéa is also



Maurice Oostendorp, CEO, SNS Bank

David Wright, Chairman, Eurofi

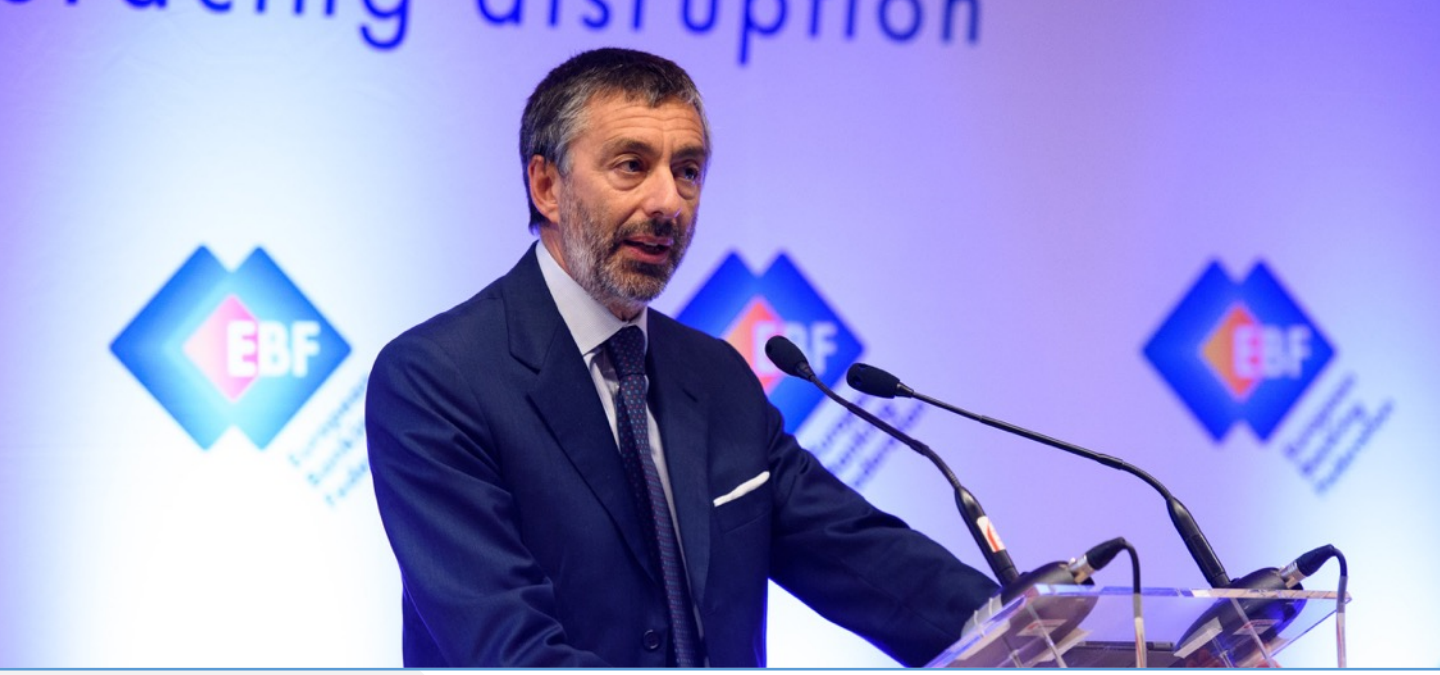
extremely disappointed in Brexit and believes that Europe will have to come up with solutions very quickly, because the US and Asian markets, as well as European citizens, all have questions about the whole European project. However, with French, German and Dutch elections coming up, he can't see serious negotiations starting before 2018. Regarding financial companies and banks moving out of the City of London, he considers this might happen, although is not sure if they will all migrate to a single city.

Mr Guerrera asked panellists for their opinion about the troubles at Deutsche Bank. Mr Wright believes that we will always have certain banks in difficulties from time to time, but that the whole edifice being put in place is designed to deal with

those situations, and he is reasonably confident that the people in charge of the key decisions will be able to manage this particular situation. Mr Oudéa believes that a number of very powerful tools – such as the Total Loss-Absorbing Capacity (TLAC) standard and the Single Resolution Mechanism (SRM) – have been put in place to help cope with such problems.

A delegate asked about the potential of Blockchain technology to disrupt the banking sector. Mr Oostendorp said that if Blockchain becomes a leading technology, he believes his bank will be able to implement it, along with other new technologies such as cognitive computing and automatic identification. Mr Wright added that Blockchain technologies can be impressive in cutting down back office error. He also sees a major benefit for regulators, in that it provides real-time data.

Francesco Guerrera, Chief Financial Correspondent, POLITICO



Closing remarks by Giovanni Sabatini, Chairman, Executive Committee, EBF & General Manager, Italian Banking Association (ABI)

Mr Sabatini said that Europe is at a crossroads, and it is of the utmost importance to ensure that the European Union meets the expectation of its people. New common European projects should focus on the immediate concerns of its citizens, and deal with today's priorities such as immigration, security and defence. However, he pointed out that the electoral cycle ahead adds uncertainty about how and when commonly agreed and coordinated European decisions will be taken to address these priorities.

He touched on the outcome and implications of the UK referendum on EU membership: "This is an additional source of uncertainty about the future shape of the EU which is reflected in exacerbated market volatility." He said that the extent to which the economic outlook will be affected depends on the timing, development and final outcome of the upcoming negotiations.

Mr Sabatini remarked that lingering regulatory uncertainty is also contributing to poor performance of banks. He said that there is a widespread sense that the Basel III target is incomplete, in part due to the attention given to the revisions underway. He believes that any further adjustments should not move the finish line of Basel III. Indeed, he considers that the recent proposals that were not part of the original Basel III package would be more appropriately classified under the title "Basel IV" for sake of clarity. He referred to the earlier comments of Mr Dombrovskis who expressed the concerns of the Commission about the potential negative impacts of the Basel IV package, and welcomed the commitment of the Commission to prevent new rules from substantially increasing the capital requirements for European banks.

Mr Sabatini said that banks are often at the forefront of technological innovation and are seeking to seize the opportunities of digital banking while addressing the challenges to existing business models. The swift development of new

technologies such as Internet, smartphones and tablets in less than ten years, has been accelerated by new entrants which are further changing the role of banking and forcing banks to rethink the way they operate. At the same time, Mr Sabatini is aware that customers have new expectations.

These are being met by high-quality digital communication, and user-friendly financial products and services that simplify and improve consumers' experience. He believes that banks are leading the change through innovative solutions that successfully preserve their core values – trust, integrity, privacy and security – to offer the best of the digital age to consumers.

He considers that digitisation is moving banks from a multichannel approach focussing on maximizing the performance of each fiscal channel into an omni-channel approach which puts the customer at the centre and promotes the use of channels simultaneously instead of focussing on corporate siloes. In this way, all the channels are linked to one another in a platform with integrated devices providing a seamless banking experience for customers. However, Mr Sabatini is certain that customers will still value human contact and a physical point of contact for financial decisions.

The European Banking Summit was organised on behalf of the European Banking Federation by QED.
The 2017 summit is scheduled for Thursday, 28 September in Brussels.

Contact details:
QED: Adam Lindmark, Partner, adam.lindmark@qed.eu
EBF: Raymond Frenken, Head of Communications, r.frenken@ebf.eu

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