European Parliament Financial Services Forum Conference

What vision for Europe

Contribution to the discussion

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I am honoured to represent our Group in such a high-level Forum. Intesa Sanpaolo is the leading Italian banking group in all business areas, from retail to corporate and wealth management, and ranks third among European banks by market capitalization.

We are aware of the responsibilities that come with the Bank's standing. We want to contribute to the construction of a New Europe built on a shared vision of inclusion and economic and environmental sustainability. Keeping in mind our impact on the broader social and environmental context, we have already chosen to conduct our business not solely in the shareholders' interest. Indeed, our purpose is to create long-term value for all our stakeholders. For this very reason, Intesa Sanpaolo generates value for the communities in which operates and offers its capabilities in reducing the impact of phenomena such as climate change and social inequality. Our ranking in the main international sustainability indexes attests to the effectiveness of our approach.

The challenges the world is facing have prompted the EU to revise its positions in the current multipolar context, and renew its strategy and vision for the future. We also aim towards a Union that is more inclusive, more attentive to balancing inequalities in the access to resources, and more resilient to shocks.

Let me now go directly to the crucial points as asked by Mr David Wright.

First, I wish to say that we have high regard for the concept of open strategic autonomy set out by the Commission[1]. The COVID crisis has exposed the weaknesses of the EU. Its dependence on the supply of critical medical equipment and other vital products from third countries has been disruptive. Making the EU more resilient, more influential and less dependent on others, while playing a leading role in global economic governance, requires leveraging on the Single Market project and completing it. **Banking Union** is the first item on the bucket list. An agreement on **EDIS**, to achieve a complete banking union supported by a mutual deposit insurance scheme would also help break the nexus between banks and sovereign debt. The current divergences between national Deposit

[1] When presenting its strategy on the NGEU on how to address the vulnerabilities exposed by the pandemic crisis.

Guarantee Schemes in terms of funding or availability of national fiscal resources leave an uneven playing field on which banks must play and, ultimately, contribute to market fragmentation. Besides, the lack of common safeguards is hindering banks' decisions to expand across borders, at the cost of lower efficiency. And depositors' confidence will continue to reflect the stability and credibility of individual national banking systems. We understand the work on this topic is progressing. Hence, we welcome the endeavours of the current Presidency to advance on EDIS.

Second, a more resilient and independent EU needs to **strengthen the productive structure and a transition towards a sustainable approach to growth**. For ISP – and let me say for the Italian banking system in general – this transition implies greater support to SMEs. They are the engine of innovation and a major source of employment. This holds at the European level too. The EU should implement all the necessary measures to make SMEs more resilient and equipped to face a very competitive international environment. From this perspective, CMU is essential. The pandemic and Brexit make this even more crucial. Hence, the European Commission should continue working on creating an **SME IPO Fund** to make it easier for small, high-growth companies to raise capital and finance their growth, especially in sectors of strategic importance to the EU. The simplification of listing rules for public markets as well as incentives to the banking sector to invest in firms' equity capital are equally important.

The supply chain is fundamental in connecting strategic autonomy and growth, and fits perfectly in a comprehensive approach to crisis resilience. In this context, the financial dimension of the supply chain is vital for SMEs that may experience liquidity shortages at favourable terms, during times of crisis. **Rebalancing this liquidity asymmetry** is the key to advancing supply chain transparency, resilience and sustainability. It requires an incentives-based approach that uses the contract between supply chain partners as an umbrella for combining liquidity with the value of data. Getting data out of existing data silos would significantly increase transparency. Instant access to liquidity on favourable terms can provide the incentive to do so, and banks can help this process if transparency is promoted across EU countries. We also believe that the upcoming Mifid review could improve the so-called unbundling regime on SME research. This would foster research on SMEs and attract more investments. We also believe that, to promote investments, the review of Mifid should continue to guarantee investor protection.

Third, despite vast amounts of public money deployed by Member States to the economy and the Next Generation EU, these funds will not be sufficient to support the EU priorities related to the green transition and digital transformation unless the financial sector also gives a hand. Banks can play a valuable role by raising funds and mobilizing deposits built up during the lockdowns, channelling them into profitable EU sustainability projects.

We also need other components of CMU to be in place. The focus should be on the relaunch of the **securitization** market for at least two reasons: a) to allow banks to free-up resources for new lending; and b) to foster the development of a deep secondary market. Moreover, the EU should provide sponsorship of other secured funding initiatives (such as ESN - European Secured Notes, mentioned in the CMU action plan) which will offer new support to companies that deserve it. And the promotion of efficient settlement services on a truly European scale (in the context of the review of the Central Securities Depositaries Directive - CSDR) and the availability of post-trade equity and equity-like quality data – through a consolidated tape as well as the harmonization of insolvency procedures – would be appreciated.

Fourth, **digital operational resilience** is a vital topic for the banking community. Thanks to digitalization, banks were able to ensure business continuity during the lockdown period, continuing to provide essential services to the economy. But digitalization also brings risks that need to be addressed at a European level. We therefore commend the European Commission proposal on Digital Operational Resilience for the financial sector (the so-called DORA). It aims to set up a detailed and comprehensive framework on digital operational resilience for EU financial entities, putting an end to fragmented national approaches. From our perspective, it is a fundamental element of the EU Digital Finance Strategy, whose adoption is urgent both for the stability and integrity of the EU financial sector and for the protection of consumers and investors. Thanks to this approach, the critical path of incident management will become more efficient and allow financial institutions to focus on tackling the incident itself.

The current regulatory framework requires financial institutions to report ICT incidents to various authorities according to different means, terms and criteria. In some cases, Member States have also introduced requirements, thus increasing the fragmentation at the EU level. So, we welcome this first attempt to harmonize the multiple and fragmented incident reporting requirements for financial institutions. Nonetheless, DORA will provide only for a partial harmonization. It does not consider other relevant ones (such as ECB incidents reporting, Eidas regulation, GDPR and reporting stemming from being a direct member of the financial market infrastructure, such as Target 2). Hence, we encourage policymakers to go for even further harmonization; it would be helpful considering the centralized HUB at EU level being proposed.

Digitalization has led to a fast rise in new online customers, often including people less familiar with technology, thus more vulnerable to social engineering attacks. Online fraud suffered by clients has significantly increased in recent months. Such incidents dent customers' trust in the financial system and result in economic losses both for clients and financial institutions, while at the same time tarnishing their reputation.

Financial institutions have put in place processes to monitor and detect the emergence of such phenomena and have increased awareness campaigns for citizens. But they cannot act alone:

supervisory authorities, police, law enforcement agencies at EU level (and national Computer Security Incident Response Teams, CSIRTs) and other third parties such as Telcos should join forces and cooperate within a public-private partnership to address this phenomenon. The objective should be to set up – for both citizens and business – a single entry point to report online fraud and initiate immediate actions against such crimes.

Finally, **the Fintech** phenomenon is growing and is an opportunity to accelerate the tech transfer that can boost innovation in the financial system. In the last three years, Intesa Sanpaolo has incorporated the services of 30 Fintech/Bigtech groups into its business model, offering its clients the value of benchmark innovations and the benefit of the high-security standards of a big bank.

On this matter, Fintech and Bigtech active in the credit market should be subject to the same requirements that apply to the banking sector, both to protect customers but also to ensure a level playing field.

Let me now turn to Artificial Intelligence, an advancement that provides significant opportunities in the banking sector. They range from enhancing the customer experience, improving financial inclusion, cybersecurity, and consumer protection, to strengthening risk management and process efficiency. We consider investments in R&D of AI applications to be essential. This technology now has an integral role in a range of activities, including anti-money laundering, Know Your Customer procedures, fraud and anomaly detection, cyber threats and customer service.

However, the ethical challenges of AI technologies from a human-centric perspective are undeniable. In our understanding, the European Commission will publish, later this year, its legislative proposal for AI. In this respect, let’s not forget that the financial services sector is already a highly-regulated industry. When designing, developing and deploying AI, financial services are subject to duties and obligations that apply regardless of the technology employed and that already address and mitigate many risks related to AI applications. Therefore, in our view, the best course of action for the Commission should consist in promoting partnerships, fora and any other experimental approach to better understand risks and advantages of AI applications, and dispel the myths that may have arisen about the technology.

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