WHAT ROLE SHOULD BANKS PLAY IN THE TWIN DIGITAL AND CLIMATE REVOLUTION?
I. THE BANKING SECTOR AND THE TRANSITION TO A DIGITAL FUTURE AND A SUSTAINABLE ECONOMY

The digital transition is changing the traditional banking model

- New customer expectations
- Competition from bigtechs and fintechs
- Rise of DeFi

Percentage of individuals using the internet for online banking across the EU

Source: Report by the ESRB advisory scientific committee on digitalisation and the banking sector (January 2022)
Note: The thick line represents the European average, while the thinner lines represent the first and third quartiles. Maxima and minima are shown with dotted lines.
I. THE BANKING SECTOR AND THE TRANSITION TO A DIGITAL FUTURE AND A SUSTAINABLE ECONOMY

Banks are exposed to losses in the event of a disorderly transition

Source: Main findings of the ACPR's pilot climate exercise in 2020
Note: the accelerated transition scenario corresponds to a disorderly transition
I. THE BANKING SECTOR AND THE TRANSITION TO A DIGITAL FUTURE AND A SUSTAINABLE ECONOMY

These structural transformations could weaken banks and financial stability

The entire economy would be negatively impacted if transition risk were to materialise

Competition from new intermediaries and private digital assets could lead to fragmentation of financial services

The effects in 2050 of a disorderly, sudden and severe climate transition (compared to a baseline orderly transition scenario):

5.5% loss of GDP

58% loss of value added in the most affected sector, the coking and refining sector

6-fold increase in the probabilities of default in the coking and refining sector, rendering more than 50% of the sector’s assets ineligible as collateral for monetary policy operations

**Source:** Banque de France Bulletin 237/9

**Source:** IMF GFSR 2021
I. THE BANKING SECTOR AND THE TRANSITION TO A DIGITAL FUTURE AND A SUSTAINABLE ECONOMY

Assisted by resilient banks, we need to build a Financing Union for Investment and Innovation

A Capital Markets Union to channel savings towards financially constrained businesses

Source: Banque de France (author’s diagram).
II. THE BANKING SECTOR: A PARTICIPANT IN THE DIGITAL AND GREEN TRANSITION

Regulatory responses seek to ensure that risks are better controlled and to create a change-friendly framework

Regulate digital finance according to the “same activities, same risks, same rules” principle

The EU framework is a leader compared with other jurisdictions in terms of regulating sustainable finance

**SQUARE OF GUARANTEES**

- **Equal security**
  (stability in value / cybersecurity)

- **Equal accessibility**
  (no fragmentation / no exclusion)

- **Equal compliance**
  (AML-CFT / data protection)

- **Equal responsibility**
  (no asset without identified and regulated players)

- European Taxonomy Regulation
- Corporate Sustainability Reporting Directive
- European Green Bonds Regulation
II. THE BANKING SECTOR: A PARTICIPANT IN THE DIGITAL AND GREEN TRANSITION

Banks are adapting to these challenges, which are also genuine opportunities for growth

Coopetition between fintechs & banks

Chart 1: Green bond issues aligned with ICMA criteria since 2012 (€bn equiv.)

Source: Internal - Banque de France
II. THE BANKING SECTOR: A PARTICIPANT IN THE DIGITAL AND GREEN TRANSITION

Central banks are leading by example

### WORK BY THE EUROSYSTEM ON A RETAIL DIGITAL EURO

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2020</td>
<td>Creation of a high-level task force within the Eurosystem</td>
</tr>
<tr>
<td>14 July 2021</td>
<td>Governing Council opens an investigation phase</td>
</tr>
<tr>
<td>Q4 2023</td>
<td>Decision on whether to launch a digital euro</td>
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</tbody>
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#### Preliminary work
- **Publication of report on a digital euro (Oct. 2020)**
  - Preliminary trials (Oct. 2020 – Apr. 2021)
- **Investigation phase**
  - Conduct prototyping and conceptual and work on a digital euro
  - Dialogue with users and market participants
  - Assess and control the impact of a digital euro on financial intermediaries

#### Development phase

### 23 billion euros

The total value of portfolios to which the Banque de France’s social responsible investment strategy applies

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2024</td>
<td>Target date for a complete exit from coal and for exclusion thresholds for oil and gas;</td>
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#### 3 pillars

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Pillar 1</td>
<td>Align investments with France’s climate commitments</td>
</tr>
<tr>
<td>Pillar 2</td>
<td>Exclusion based on environmental, social and governance (ESG) criteria</td>
</tr>
<tr>
<td>Pillar 3</td>
<td>Exercise voting rights and engage dialogue with issuers</td>
</tr>
</tbody>
</table>

#### Source

- Banque de France

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An active role in digital innovation...

and in the transition to a sustainable economy