

**ESRB**

European Systemic Risk Board

European System of Financial Supervision

Press release

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ASC publishes report on digitalisation and the future of banking

In a new report entitled “Will video kill the radio star?”, the ESRB’s Advisory Scientific Committee (ASC) takes stock of the many forces currently affecting Europe’s banking system (including climate change, the growth of non-banks, overbanking and the COVID-19 pandemic) and looks at how digitalisation could change the way that financial and banking services are provided in the future.

Digitalisation could give rise to new financial products and services, resulting in benefits for customers. However, it could also mean that banks face greater competition from new providers of financial services in the form of fintech companies and big tech firms. That could result in the emergence of new risks, both financial and non-financial. The impact that those risks have on the overall level of systemic risk will depend on how banks interact with fintech companies and big tech firms – something that is still the subject of considerable uncertainty.

The report defines three hypothetical scenarios for the EU financial system in 2030 and discusses the appropriate macroprudential policy response. In the first scenario, banks continue to dominate, retaining their central role in the areas of money creation and financial intermediation. In the second scenario, banks retrench while big tech firms capture the lending market, leading to a structural shift in the financial system. And in the third scenario, the issuance of retail central bank digital currencies results, under certain specifications, in financial intermediation shifting away from banks.

The report proposes a number of policy measures aimed at addressing financial and non-financial risks associated with the digitalisation of banking. Some of those measures apply to all three scenarios, whereas others are only relevant to one or two of them.

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