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Changing financial landscape

IFIGS AGM, 8 December 2021

Agenda

1. Entry of Big tech firms in financial services
2. Changes in the interest rate environment
3. Climate-related financial risks
4. Policy considerations

Entry of Big tech firms in financial services

- Big tech firms can rapidly scale up their financial activities with user data from their existing business lines and by harnessing the inherent network effects in digital services.
- New activity generates even more data, which in turn reinforces their comparative advantages.
  - **DNA loop.**
- Firms have been responding to this threat by adapting their business models.
- However, some firms have fared better than others in this process.

Changes in the interest rate environment

- Financial institutions have also been adapting their business models since the end of the Great Financial Crisis to mitigate the impacts on their profitability of low for long interest rates.
- They have done so, to some extent, by increasing risk-taking in the hope of securing higher yields.

- However, the more accommodative policy stance may be coming to end.
- If monetary authorities increase interest rates in response to these inflationary pressures, firms with significant exposures to interest rate risk might suffer.
- With high levels of debt, financial institutions' customers may struggle to cope with rising interest rates.

Climate-related financial risks

- Firms also need to adapt their business models in light of the risks posed by climate change.
- Financial institutions have started to identify the climate-related financial risks.

- But more progress is needed.
- Firms need to be able to effectively manage these risks and have sufficient loss absorbency capacity.
- Financial institutions' collective behaviour has a bearing on aggregate climate-related financial risks.

Policy considerations

- These three developments pose formidable challenges to policy makers.
- Big techs: one priority is to define what is the adequate regulatory framework to maximise the benefits and mitigate the risks posed by the entry of Big techs into financials services.
- Climate: one key question is about the adequate prudential treatment of climate-related financial risks.
- Interest rates: more about implementation and enforcement rather than regulation.
- As the combination of these three developments puts additional pressure on the busines models of financial institutions, there is risk that some of them will become unviable in the years to come.
- Authorities should enhance their crisis management capabilities, including by expanding their resolution toolkit whenever necessary and by investing in recovery and resolution planning.

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Questions?