

International Arab Banking Summit, "Mediterranean Banking Dialogue", 28 June 2018

**Inauguration Speech by Marc-Olivier Strauss-Kahn
Director General, Special Advisor to the Governor, Banque de Franceⁱ**

Governors of central banks, Ambassadors, Presidents of banks, Ladies and Gentlemen, I am very pleased and honoured to participate in the inaugural session of the International Arab Banking Summit, focusing on the "Mediterranean Banking Dialogue".

Governor François Villeroy de Galhau could not join us and asked me to apologise on his behalf. He also stressed how much your discussions today and tomorrow are key to the development of sound and significant financial relations between the Arab countries and the European Union, and in particular France.

Without pre-empting your discussions, I'd like to highlight some elements regarding the global challenges raised by three factors: climate change, financial innovation and the regulatory framework of correspondent banking. I'll conclude by emphasising the importance of the Mediterranean dialogue in assessing and addressing such challenges.

First, climate change: let me briefly discuss the necessary contribution of the financial system to the adaptation of economies to this phenomenon.

The challenge is to finance the transition to a green and low carbon economy consistent with the "well below 2 degrees Celsius" goal set out in the Paris agreement and to promote environmentally sustainable growth. Such a process creates both opportunities and vulnerabilities for financial institutions.

Financial institutions need thus to better measure and mitigate the climate-related financial risks to which they may be exposed. Climate stability is, in the long run, one of the drivers for financial stability; therefore, central banks and supervisors are paying more and more attention to this issue. In December 2017, the Banque de France (BDF), alongside other authorities, launched the Central Banks and Supervisors Network for Greening the Financial System (NGFS).

The Network's purpose is twofold: on the one hand, to help strengthen the global response required to meet the goals of the Paris agreement; on the other, to enhance the role of the financial system in managing risks and mobilising capital for green and low-carbon investments.

Green financing requires an innovation-friendly framework. This leads me to a second issue, which will be covered in your second panel: financial technologies and regulatory technologies, or Fintech and Regtech.

We are witnessing an unprecedented acceleration of technological innovations, with big data/cloud computing, artificial intelligence and blockchain. These developments particularly affect the financial industry, which has always been a pioneer in the use of new technologies.

Of course, this is not without risk – cybersecurity and data protection should be fully taken into account – but there are also huge opportunities, including the way innovation facilitates financial inclusion of people far-removed from traditional services and, more generally, financial and economic education, one of the BDF missions.

Incumbent actors need to adapt to this new environment and the BDF itself has been the first central bank to create an open-innovation Lab. With the ACPR (Autorité de Contrôle Prudentiel et de Résolution), we are thus involved in the implementation of various innovations, including proofs of concept launched in the field of blockchain technology. We also want to facilitate initiatives with Fintech players so as to help them in their regulatory procedures.

We work with our European and international partners to adapt the current regulatory framework to this new world, based on three core principles:

- technology neutrality (the same rules for all institutions);
- proportionality (robust rules suitable for different business models, sizes and activities);
- market integrity (transparency, privacy and security for consumers).

Your discussions are also likely to address the challenges raised by crypto-assets. The latter, like Bitcoin, expose investors to increased risk of financial loss and are also risk vectors for cyber-attacks, money laundering and terrorist financing.

The prevention of these last two risks is precisely one of the objectives of the global regulatory framework for correspondent banking. This third issue will be discussed tomorrow.

The decline in the number of correspondent banking relationships has been a source of concern for the international community. In affected jurisdictions, this decline may indeed impact the ability to send and receive international payments. It may also drive some payment flows underground.

This could potentially have adverse consequences on international trade, growth and financial inclusion, as well as on the stability and integrity of the financial system.

The Financial Stability Board has coordinated an action plan to assess and address these issues. The guidelines published by the Basel Committee for Banking Supervision (BCBS) and the Financial Action Task Force (FATF) clarify various regulatory expectations.

The latter concern Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) issues; they recall the risk-based approach in due diligence measures; they also encourage the sharing of information among financial institutions, and the use of “KYC utilities” as an effective and efficient tool to support due diligence processes.

To address such challenges, a key priority is to promote a Mediterranean dialogue between central bankers, supervisors and all actors in the financial sector.

To this end, the International Banking and Finance Institute (IBFI) of the BDF organises many seminars every year. For instance, since 2014, the IBFI has contributed to joint annual workshops for high-level central bankers and supervisors from countries located on either side of the Mediterranean Sea, together with the World Bank Group and the Center for Mediterranean Integration.

This provides a unique opportunity for a Mediterranean exchange of experiences. It gives a better and more thorough understanding of the wide diversity of national situations across the Mediterranean area. One of the key messages delivered by this forum is that there is no single road for implementing international reforms on financial stability issues and addressing banking supervision challenges.

Beyond this regional dialogue, cooperation between the Banque de France and Arab countries is also well developed through capacity building and practice sharing. We have worked in the Mediterranean area with the support of the European Union and the Bretton Woods Institutions. As part of these European and international projects, we have sent resident advisors to Algeria, Egypt, Morocco and Tunisia.

This shows how keen the Banque de France is to promote dialogue and cooperation with Arab countries.

To conclude, let me remind you that a well-known French historian, Fernand Braudel, once described the Mediterranean area as a region with a “collective destiny”. The Banque de France – alongside the French authorities – believes that we can better handle challenges and grasp opportunities thanks to our multilateral dialogue. Multilateralism remains indeed a key ingredient for stability.

I trust that the excellent agenda of this summit will prove engaging and productive.

ⁱ Speech written thanks to the staff of ACPR (Autorité de Contrôle Prudentiel et de Résolution) and BDF (Banque de France, DGEI/DERIE)