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Regulation and digital operational resilience challenges in Europe Published in The EUROFI Magazine

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Given the importance of the banking sector in the economy, banks' profits are a fundamental source of capital to support economic growth and preserve financial stability. The low interest rate environment and digital disruption are two of the main challenges currently facing traditional banking. Digital transformation is key to underpinning institutions' profitability, efficiency and new business activities. Moreover, it is necessary to ensure banks remain competitive and can offer their customers personalised services in an agile, efficient and innovative way. But this transformation comes at the price of huge investment and the risks associated with the large-scale use of technological solutions.

The goal of DORA is to mitigate the risks of digital transformation in the EU financial sector by establishing a common framework for enhancing digital operational resilience. It contains provisions for institutions on technology risk management, incident management and reporting, digital resilience testing, third-party risk management and information sharing. Furthermore, to tackle the increasing dependency of the financial sector on third party services, DORA establishes a framework for the direct oversight of those technology service providers that become critical for the EU financial sector as a whole.

All in all, DORA is an ambitious proposal that could be a game changer in making the EU financial sector more operationally resilient. However, it also poses important challenges that need to be addressed.

The scope of DORA is wide, covering institutions of different sizes, business models, risk profiles and complexity. Therefore, when the level 2 regulation is drafted it will be crucial to take into account proportionality, without impairing DORA's goal of establishing a minimum level of resilience even for smaller or simpler institutions. Given the current regulatory fragmentation, some types of institutions will already be compliant with most of the provisions in DORA, while others will need to make a significant effort to comply. Although the text includes some exemptions for smaller institutions, it should be further refined to take into account criteria other than economic size, which is not necessarily directly related to the level of technology risk.

Notably, DORA requires an unprecedented level of coordination and cooperation amongst authorities. Recognising that cyber threats are cross-border and cross-sector, DORA establishes several mechanisms through which authorities will have to exchange

information and work together, not only within the financial sector, but also with the cybersecurity authorities in the NIS¹ ecosystem. Establishing clear roles and responsibilities and building trust amongst stakeholders to ensure secure and timely information sharing is, without doubt, another challenge. **DORA offers a unique opportunity to build cyber threat intelligence in the EU financial sector**, a very powerful tool to enhance its resilience.

As mentioned already, DORA proposes a novel EU framework for the direct oversight of critical technology third parties. This is a completely new set-up with complex governance arrangements, in which it is crucial to ensure that all stakeholders participate effectively and efficiently. In addition, to be able to oversee highly sophisticated technology providers, competent authorities will have to consider whether they have enough resources and technical skills. This is also the case for the European Supervisory Authorities, who have a prominent role to play.

Once in place, the oversight framework will have benefits not only for financial institutions, but also for the affected service providers, by creating a single framework to replace the current fragmented regulatory and supervisory regimes. At the same time, it will allow competent authorities to monitor those providers on which the sector is highly dependent.

To seize the opportunity provided by DORA to enhance the operational resilience of the EU financial sector, financial institutions, third parties and authorities will have to cooperate and work together even more than they do already.

¹ Network and information systems. See [Directive \(EU\) 2016/1148](#).