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Opening address*

Official inauguration of the new ING headquarters in Madrid

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* English translation from the original in Spanish

Good morning everyone.

First, I would like to thank ING for inviting me to take part in the inauguration of this new headquarters, which underscores the bank's steadfast commitment to its business in Spain. Almost three years ago I spoke at the 20th anniversary event, when I highlighted ING's characteristic agility to adapt to new environments.

This new headquarters is a further example of that. As we can see, it is perfectly attuned to modern times and new ways of working. It also meets the highest building standards in terms of sustainability and energy consumption.

Russia's invasion of Ukraine is a new shock that adds uncertainty regarding the recovery, with foreseeable consequences for economic activity. It also exerts additional pressure on inflation.

Spanish banks have minimal financial exposure to these two countries and the trade channel is not significant for the Spanish economy. However, there could be important indirect effects in the economy, particularly through the confidence channel and uncertainty.

The European banking sector overall, and the Spanish banking industry in particular, face this new shock from a position of recovery and resilience, having returned to pre-pandemic profitability levels and with stable solvency levels. That said, some sectors in Spain have still not fully recovered their activity levels following the health crisis or have been hit harder by the energy and commodity shocks.

Accordingly, I wish to take this opportunity to repeat the message that, faced with a foreseeable tightening of financial conditions that will have most impact on more indebted firms and vulnerable households, banks must remain watchful of their credit quality and take measures to ensure the proper management of their credit risk.

Against this backdrop, allow me to touch on the two structural challenges facing banks, which were also present before the pandemic. First, profitability/efficiency, digitalisation and competition from new players. Second, the challenges inherent in the transition to a more sustainable economic model.

As I'm sure we'll hear in the discussions that follow, two of the challenges that banks currently face, perhaps the main two, are adapting to new ways of doing business and sustainability.

I will briefly comment on both, starting with the challenge of digitalisation. ING knows a good deal about this. Indeed, since launching its first retail banking services in Spain back in 1999, one hallmark of ING has been its use of alternative channels, initially telephone banking and later online banking, to market its financial products, including the popular "Orange account". The pandemic has accelerated the digitalisation of Spanish banks. According to Eurostat data for 2021, 65% of people in Spain had used online banking in the three months leading up to the survey, ahead of the euro area average of 60%. This is significant, considering that five years earlier, in 2016, that percentage stood at 43%, below the euro

area average (49%). This indicates that digitalisation has grown very significantly, particularly in Spain.

As well as novel ways of interacting with customers, we should also take into account the emergence of new players, new contact channels and new ways of providing services.

As regards new players, we cannot fail to mention FinTech firms. These tech sector companies benefit from flexibility, since they are unburdened by legacy operating systems and can therefore adapt to change more swiftly, while they also tend to focus on the highest-return segments of the value chain. At present, the bulk of this sector operates in payments, online lending, wealth management and crypto-asset trading.

The entry of BigTech into the financial sector could be far more disruptive, given the sheer amount of data that these firms hold and the economies of scale already available to them.

On top of these are other technological elements, such as cloud computing infrastructure, artificial intelligence, machine learning, and other issues such as the distribution of financial services through non-financial channels (banking as a service) or the use of banking platforms to provide – proprietary or third-party – financial and non-financial services.

Naturally, job profiles in the sector will also have to adapt to the new digital ecosystem, as will banks' risk culture. The operational risk associated with digitalisation is increasingly significant.

In short, the banking industry is evolving at such a fast pace that this is currently viewed as one of the main challenges for the sector. If banks are to be adequately positioned, senior officers must be fully aware of this and be knowledgeable of the field. This will avoid any fear of the unknown, which might lead them to shun innovation and leave banks in a vulnerable position relative to the rest of the sector.

The second challenge that has been mentioned today, and one that is also very high on the supervisory agenda, is sustainability. The political commitment reached at the 2015 Paris Summit to combat climate change is steadfast and has prompted a slew of very significant regulatory changes to prepare the economy for the new sustainability requirements.

Tasked with channelling resources, the financial sector has a key role to play in the process of transitioning the economy towards more sustainable models. This is unquestionably driving change in risk management, where sustainability factors are now an important element to be considered. Proper assessment of how the physical and transition risks affect banks' risk profiles is essential if climate-related risk is to be managed correctly.

Key to this is obtaining quality data, with sufficient historical depth and based on clear and internationally standardised definitions. This is a global risk that must be addressed in a coordinated manner worldwide. Banks will have to expend a great deal of effort on data compilation, analysis and reporting, following the guidelines recently published by the European Banking Authority. They will need to compile and process information on their borrowers, be they firms or households, and this will be a considerable task.

We find ourselves, therefore, in a process of adapting to new environments that will require a period of learning and adjustment. We supervisors have published guidelines on our supervisory expectations in this regard, conducting specific assessments of banks' compliance with those expectations. Stress tests of varying scope have also been performed to ascertain banks' resilience to the challenges posed by climate change. We are currently in the implementation stage of the last of these tests.

Standard taxonomies and clear and comparable definitions, along with data compilation and analysis, will shape the new climate risk management framework. However, there is still a long road ahead.

The ultimate goal is to ensure that the financial sector stands ready to channel the resources required to transition the economy towards more sustainable models. That transition must be orderly, and must ensure that the more polluting sectors also receive the funds needed to switch to a green and sustainable economy.

As a Dutch bank, ING is keenly aware of this challenge, given that the Netherlands was among the first countries to put climate-related risk on the international agenda.

To conclude, I would like to congratulate ING on its new headquarters, which epitomises the bank's commitment to modernity and sustainability. Both of which are a must for success in today's world.