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* English translation from the original in Spanish

Good morning everyone and welcome to this 5th International Congress on Banking Law. I would like to thank the organisers for inviting me to open this annual event that brings together numerous banking experts to share their insights from different perspectives.

The financial sector in general, and the banking sector in particular, is regulated due to its critical importance for financial stability. This is the only way to ensure its proper functioning, stability and efficiency. This ultimately serves the public interest with a particular focus on protecting consumers' interests. A regulated banking system like ours strengthens trust in the financial system and promotes sustainable economic development, which are essential for social well-being and progress.

Banking regulation

In recent decades, regulators and supervisors alike have made a remarkable effort, shared by the banking sector itself, to address the significant vulnerabilities that had been building up in the financial system and which were revealed starkly in 2007 with the outbreak of the great global financial crisis.

From a regulatory standpoint, the reforms agreed upon in Basel III and implemented in Europe focused primarily on four areas: avoiding excessive sector leverage, strengthening regulatory capital levels and quality, addressing risks arising from excessive maturity transformation and including macroprudential elements alongside the microprudential approach.

The current regulatory mix, which extends beyond the Basel agreement, also covers other key aspects, such as the prevention of money laundering and terrorist financing, the protection of customer deposits, the promotion of financial inclusion and transparency in its broadest sense. Thus, financial reporting is now complemented with other non-financial aspects that are essential for decision-making, such as environmental, social and governance factors.

It is important to acknowledge the effort made during these years in the design and implementation of this entire regulatory framework. Thanks to this hard work, the current banking system is in good health and more resilient. Proof of this is its strong performance despite the extraordinary shocks it has experienced in recent times.

A strong regulatory framework, robust governance – including prudent risk management – and effective supervision have laid the foundations for building a strong and resilient banking system.

With historically low levels of non-performing loans, high profitability and strengthened solvency ratios, the banking sector is now widely recognised as being in a strong position.

However, we cannot ignore the current geopolitical challenges around the world and their potential implications for all sectors, including banking.

Competitiveness

The current environment of uncertainty and ongoing shifts in the position of some international actors make unity and speed the only valid response at the European level. The European economy needs a serious boost, which requires Europe to act in a coordinated manner. The Letta and Draghi reports have highlighted the importance of promoting European competitiveness and call for deepening the single market, prioritising European Union policies, reducing red tape and simplifying the regulatory and fiscal frameworks.

We also need to bolster private investment. In the euro area, productive private investment accounts for 12.3% of GDP, compared with 15% in the United States and 27% in China. Banking plays an essential role in this regard, since our economy remains highly banked[1] compared with other economies. But banking alone won't be enough. The capital markets union is another pillar underpinning the revitalisation of the European economy, as it will promote a wider range of funding sources, reduce vulnerabilities and improve the resilience and investment capacity of European firms. Venture capital is fundamental for innovative projects and strategic sectors. However, European early investment markets pale in comparison to those in the United States.

Digitalisation

To boost competitiveness, it will also be necessary to invest in digitalisation and the use of artificial intelligence.

In the specific case of banking, we have seen great progress in recent years. In fact, over the past decade the percentage of internet banking users in Spain has nearly doubled and is now 71.5%,[2] well above the EU average. The banking sector can seize this strong momentum to accelerate the digitalisation process and prepare for the emergence of new competitors.

Banks' digital transformation is unprecedented, leading to higher technology-related risk, not only because of the increase in cyber attacks, but also due to the immense complexity of financial institutions' technological environments. In addition, their growing reliance on specialised technology providers, sometimes through long subcontracting chains, makes managing operational resilience a challenge for the sector.

In this context, the EU regulation on digital operational resilience (DORA) establishes uniform requirements for the entire sector, focusing on ensuring that critical or important business functions can continue to be provided or, at least, can be recovered in accordance with previously established objectives.

DORA introduces requirements on technology risk management, incident management and reporting, resilience testing and management of third-party technology partners. But it also

[1] Bank loans currently account for 92% of European firms' total debt.

[2] 2023 figure. Source: Eurostat.

highlights the importance of governance aspects, as well as cooperation and the sharing of cyber intelligence.

The most innovative component of DORA is undoubtedly the supervisory framework for critical technology providers. This ties back to what I mentioned at the outset, that providers have become an indispensable part of the ecosystem, with some occupying absolutely critical positions. Consequently, the financial sector's resilience depends upon the resilience of those it relies on.

DORA has been applicable since January 2025 and will mark a turning point for the financial sector. The cost for the sector to adapt to DORA will vary significantly, as some banks are better prepared than others. Some requirements will also be new to providers, particularly for those designated as critical. In addition, authorities must take on new tasks that will demand more specialised resources.

At the Banco de España, we are convinced that digital operational resilience is not a luxury, but a necessity and that we all – banks, providers, and authorities – are responsible for helping to support this resilience as much as we can.

Artificial intelligence

AI is one of the major developments in new technologies that could have a significant impact. AI is a true disruptor, enabling synergies between existing technologies, as it affects productivity and has the potential for economic and social transformation, across a range of sectors.

The financial sector is particularly well-positioned to harness the benefits of AI as it has very high-quality data. The range of tasks that can be automated and enhanced with generative AI is broader in the financial sector than in others. Therefore, the adoption of AI holds potential benefits for both the financial sector and, through it, for other sectors. These include more efficient risk management, pricing improvements and better capital and liquidity planning capabilities. Additionally, AI can improve the ability to detect and address cyber threats while also cutting costs and boosting efficiency.

Banks can further facilitate the use of AI in their customer relations, personalising and improving the end-user experience.

But what can the Banco de España do to help face the challenges brought on by this technological revolution? First, banks should be encouraged and helped to take advantage of their strong starting position to develop and invest in new technologies while maintaining their commitment to financial inclusion. Second, we should help to dispel some of the regulatory uncertainty so that banks can roll out new technologies with every assurance. In this regard, the Banco de España is emerging as the market watchdog for high-risk AI systems in credit models. Third, it is essential to ensure that AI development is pursued using an ethical approach that minimises risk.

AI brings with it risks that must be managed by banks and monitored by authorities within this new framework. These risks are highly diverse, ranging from herding due to algorithmic convergence, inadequate or biased model application, consumer data protection breaches, lack of transparency and difficulties in model explainability, to a rise in cyber attacks.

Payments and the digital euro

Other key elements for increasing competitiveness that are closely linked to the banking sector are payments and the digital euro. Europe relies on foreign networks for card payments. 72% of payments are made through these networks, posing a strategic weakness and resulting in fees being paid beyond our borders. In addition, other foreign players, such as digital portfolio providers, are also entering this sector. At the same time, we are closely monitoring another challenge in this field: the expansion of dollar-denominated stablecoins, supported and promoted by the new US Administration. This could lead to an even greater dependence on foreign big tech.

This is the context in which the Eurosystem is developing the digital euro project, although EU legislators will have the final word. As you all know, the digital euro is not intended to replace cash. What I would like to emphasise today, beyond the specifics, is that the digital euro offers a strategic opportunity – an opportunity to complete the single euro payments area and reduce our strategic reliance on foreign providers in a sector critical to our economy. We must also underline the business opportunity of retaining the revenue from point-of-sale payments, which is currently lost beyond our borders, within Europe. Additionally, the digital euro will allow us to establish a stable framework to address future threats, such as the potential rise of dollar-denominated stablecoins.

The sector has repeatedly expressed concerns regarding design issues, such as balance limits or adaptation costs. These concerns are, of course, legitimate and are being taken into account in the final design of the digital euro. However, I believe they should not be the primary focus of the discussion. From a strategic perspective, especially in the current geopolitical climate, the digital euro is a solution, not a problem. This is an important point and at the Banco de España, we aim to convey this message clearly.

We are currently in the process of drafting new European payment regulations to replace the Second Payment Services Directive (PSD2). This new legislative package is expected to consist of a new Directive and a new Regulation. Both represent an evolution of the current regulatory framework and, like PSD2, come in response to technological innovations in the payment sector over recent years, which have contributed to offering new methods and solutions to make payments easier and faster.

A brief overview of this new regulatory framework reveals an intent to achieve regulatory convergence in payment services and electronic money, enhance the functioning of open banking services, strengthen consumer rights and, in particular, combat payment fraud. This latter issue has gained significant prominence in recent times. The adoption of new technologies has greatly facilitated the emergence of novel types of fraud that result in situations where consumers are tricked into making payments. Striking the right balance between the rights, obligations and responsibilities of all parties involved is a task that the new payment regulation must address, taking into account the conduct and due care of all those involved.

Concluding remarks

In conclusion, the heavily regulated banking sector is transforming and undergoing material changes. The roll-out of artificial intelligence and developments in digital payments present both opportunities and substantial challenges for the sector, which call for careful analysis and management.

Additionally, the development of the digital euro and new payment regulations aim to reduce reliance on foreign providers and protect consumer rights. In this geopolitical context, the digital euro should not be seen as a problem, but rather as a strategic solution to enhance the competitiveness and security of the European financial system.

Integrating these innovations promises to bolster the competitiveness and security of the European financial system in an increasingly complex and dynamic global environment. It is imperative that banks capitalise on their strong starting position to develop and invest in new technologies while ensuring their commitment to financial inclusion. Furthermore, it is essential to dispel some of the regulatory uncertainty so that banks can roll out new technologies with every assurance.

At the Banco de España, we are eager to work together with all stakeholders to address the challenges and seize the opportunities presented by the technological revolution.