



## TOPICS:

Technology

## SOURCE:

European Central Bank

## ECB: Digital Innovation - Hindrance or Booster for Banks' Business Models?

- This keynote speech by Claudia Buch, Chair of the ECB Supervisory Board, examines **how digital innovation can both strengthen and challenge banks' business models**. The central message is that technologies such as **artificial intelligence (AI), distributed ledger technology (DLT), cloud computing** and, prospectively, **quantum computing** can improve efficiency, risk management and customer services, but simultaneously introduce competitive, operational and financial-stability risks.
- **Digitalisation** is reshaping banks' traditional competitive advantages in deposits, payments and lending. Easier account switching and online banking may increase deposit sensitivity, particularly during stress, although the ECB currently sees no broad structural increase in normal-time deposit volatility. **Tokenisation** could alter funding structures, while **stablecoins** could shift funding from relatively stable retail deposits toward potentially less stable wholesale deposits. In payments, non-bank providers increasingly compete for customer relationships and fee income. Meanwhile, AI-enabled credit scoring offers opportunities to improve lending decisions, although the ECB stresses that AI cannot replace human judgement.
- For banks, **the supervisory implications are significant**. The ECB expects digital transformation to be supported by reliable data, resilient IT architecture, multi-year investment budgets, effective governance and strong risk management. Boards remain accountable for AI-related decisions and cannot outsource responsibility to models or third-party technology providers. Concerns include cyber threats, cloud-provider concentration, outsourcing dependencies, AI bias and future quantum-related cryptographic vulnerabilities.
- ECB supervision is consequently becoming **more system-wide**, using frameworks such as DORA to identify common dependencies and vulnerabilities across institutions. Supervisors will also scrutinise remediation of cyber weaknesses, risk-data capabilities and banks' long-term digital strategies.
- From a **policy perspective**, the speech supports interoperable European infrastructure, harmonised digital rules and greater banking-market integration. Initiatives including Pontes and Appia are intended to facilitate tokenised finance while retaining central-bank-money settlement.