Pills

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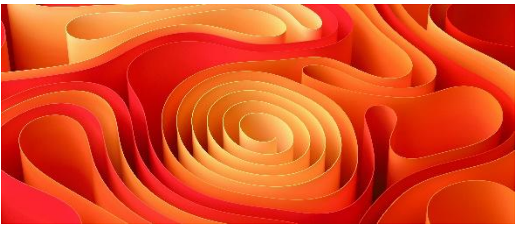

TOPICS:

Banking System

SOURCE

European Central Bank

ECB: Global Banking, Global Risks - How Banks and Supervisors Can Navigate a Complex Environment

- This keynote speech by Claudia Buch, Chair of the ECB Supervisory Board, addresses **how banks and supervisors can enhance resilience** amid rising geopolitical and structural risks. Delivered at the ECB Forum on Banking Supervision, the speech highlights **the growing complexity of the global financial environment** due to fragmented international cooperation, digital transformation and geopolitical volatility.
- Buch emphasises that **resilience - both financial and operational - is essential**. This includes robust capital and liquidity buffers, sound governance and operational flexibility. The **ECB's supervisory strategy is adapting** to reflect this, becoming more effective, efficient, and risk-focused. A key supervisory priority is managing geopolitical risks, now considered a cross-cutting driver affecting credit, market, liquidity, business model and operational risks.
- **European banks**, regardless of size, **are increasingly exposed to cyber threats, reliance on third-country service providers** and economic spillovers. Supervisory efforts have included establishing analytical frameworks to assess **geopolitical risk** transmission and promoting forward-looking tools like stress testing. For instance, the 2025 EU-wide stress test used a geopolitical shock scenario, while a reverse stress test in 2026 will examine institutions' vulnerabilities to firm-specific geopolitical risks.
- The ECB is streamlining supervisory processes via **internal model approval reforms**, a **restructured Supervisory Review and Evaluation Process** (SREP) and the adoption of **suptech tools**. These initiatives aim to free up supervisory capacity for addressing emerging threats. Additionally, Buch underscores the importance of **robust internal data aggregation (RDARR) and scenario planning** within banks to support timely, informed decision-making.
- Broad-based resilience, she argues, supports rather than hinders competitiveness. It enables banks to withstand adverse events and adapt to structural changes such as the rise of **non-bank financial intermediation** and **digital assets**. The ECB also stresses that legislative and supervisory frameworks must remain robust; weakening them would increase systemic vulnerability.