Working Session I: The Future of Global Capital - Innovation in the Financial Sector

This session will take the form of presentations by Patrick Collison, CEO of Stripe, and Pablo Hernández de Cos, General Manager of the Bank for International Settlements, with an exchange of views among Ministers and Central Bank Governors to follow.

Keeping pace with financial innovation

The latest technologies have the potential to rapidly rewire our financial infrastructure. From credit cards to online banking, from the digital stock market to the advent of cryptocurrencies, each past innovation has paved the way for further transformation. That new technology is breaking down longstanding barriers and boundaries in our financial system is therefore nothing new, but the pace of change has accelerated rapidly in recent years.

Financial innovation is at its core a disruption, with the capacity to rapidly overhaul the existing order. Only two decades ago, being physically present at a bank branch was simply how banking was done. Today, the number of bank offices in the EU has fallen by 48 per cent since its peak in 2008. Digital innovation will bring further significant shake-ups for established industry in the financial services sector.

Innovations like distributed ledger technology are already providing new, more efficient, and more transparent offerings in financial services, with atomic settlement, smart contracts, and tokenisation presenting immense potential. At the same time, generative (and increasingly agentic) AI is enabling product launches to take place in months, even weeks, instead of years. We can expect the breadth of products and use cases will grow further as the potential of new technologies is realised, as consumer preferences change, and as the regulatory environment adapts.

However, these transformative technologies can only realise their full potential when systems adapt, through coordinated and coherent change, including the provision of regulatory and legal certainty. This is the system-wide challenge that the EU must meet in order to reap the benefits of these innovations, and to manage the associated risks.

Financial innovation as a catalyst for growth

At the global level, emerging technologies are demonstrating the capacity to rewrite our financial architecture – bringing greater efficiency to cross-border transactions and breaking down international boundaries, personalising finance and expanding financial inclusion, while also lowering barriers to entry for new firms and new innovations.

In the EU specifically, technology's capacity to reach across borders could do more than mitigate the effects of market fragmentation: just as e-commerce transformed retail from a collection of national markets into a largely integrated digital marketplace, technology could reshape capital markets in ways that render many existing sources of fragmentation increasingly incidental, if not obsolete. In the EU specifically, the potential benefits of tokenisation are particularly relevant, where integration into finance has the potential to transform underlying market structures and reduce fragmentation in European capital markets.

For consumers, the practical effects of financial innovation can mean easier and speedier access to financial services, new investment opportunities and modes, and improved efficiencies in transactions, credit, and insurance. For firms, financial innovation means expanded market reach, lower operational costs, and the diversification of financing options.

Of course, new technologies also beget new risks. Exposure to fraud and cyberthreats is evolving amidst an increased dependency on digital modalities, while viral culture in finance and a lack of financial literacy raises concerns about consumer safety.

At the financial system level, innovations can also have financial stability and monetary policy transmission implications, while the increasingly digital nature of firms in the financial sector raises challenges for regulatory authorities. Equally, there is a risk that a failure of the regulatory system to adapt to a changing environment constrains the creation and implementation of new financial technologies.

Setting the right framework for innovation

Innovation in the financial sector presents novel avenues for growth and new approaches to unlock investment, while raising dynamic risks to be managed. To truly unlock the potential of technology to support our economic and strategic objectives, the financial system as a whole must evolve and adapt.

We must recognise the capacity of regulation to act as an enabler of innovation, as well as a break on it. This can be seen in the success of initiatives like open banking - as supported by the EU's payment services framework - and the Single European Payment Area (SEPA).

The purpose of today's session is to provide Ministers and Central Bank Governors with fresh insight into the impact of the latest innovations in the financial sector, and to look ahead to further changes already visible on the horizon. Ministers and Governors will consider the risks and opportunities at hand, and discuss the policy adaptations that may be needed to maximise Europe's growth and resilience going forward.

With contributions from Stripe, a company on the cutting edge of the financial sector, and the Bank for International Settlements, this session will provide key insights for Finance Ministers and Governors into the 'on-the-ground' reality of global financial innovations. Participants will hear how digital innovation is affecting the global monetary and financial system as a whole, but also how these changes are having a practical effect on consumers and firms.

Questions for discussion:

- When you reflect on the landscape of financial services in your country, what do you consider to be the major challenges and the ongoing achievements of the sector? How do you expect technological innovation to impact the status quo?

- How can monetary sovereignty, financial stability, and consumer protection be preserved while enabling innovation in money, payments, and financial services? Does the EU's regulatory and supervisory framework provide sufficient flexibility to achieve this?
- How might financial innovation contribute to Europe's growth and competitiveness objectives? Beyond improving efficiency, how do you assess the potential for new technologies to fundamentally reshape how financial services are provided across the EU and accelerate the integration of the Single Market?