Opening Remarks by Alejandro Díaz de León, Governor of Banco de México, at the 4th Conference on Financial Stability.[1]

Mexico City, November 23, 2021

It is a pleasure to meet you all at this fourth edition of the biennial Conference on Financial Stability, jointly organized by the Bank of Canada, CEMLA, the University of Zurich, and Banco de México.

This is a special forum where academics, policy makers and practitioners in general gather, although virtually this time, to discuss topics which expand the frontier of financial stability policy.

The Great Financial Crisis contributed to the largest global regulatory and supervisory financial collaboration effort on record. Multilateral consensus enabled to adopt standards at the international level to limit the occurrence of new crisis episodes. Key among these standards is a broader adoption of macroprudential measures that recognizes close and complex interactions among intermediaries and networks of the financial system.

[1] The opinions and views expressed in this document are the sole responsibility of the author and do not necessarily represent the institutional position of the Banco de México or of its Governing Board.

Financial authorities, international standard setters, and market participants have learned a lot from this episode and have worked together to create a more robust micro and macroprudential framework through methodological advances, identification of vulnerabilities, and assessment of upcoming risks.

Recently, we had the opportunity to successfully test our progress. The swift and coordinated response to the COVID-19 pandemic providing liquidity in a wide range of fronts was key to preserve financial stability. The financial system was resilient and is playing a key role in the recovery.

Many of the advances that were key to strengthening the financial system were the result of coordinated efforts by academics and policy makers to understand the origins, dynamics, and how to manage systemic risks.

This research agenda allowed us to understand and develop policy work on relevant topics to enhance financial stability, such as:

i. designing a framework to deal with too-big-to-fail;
ii. developing the right incentives, and a credible message, that banks won't be bailed out;
iii. determining the amount and type of capital that banks should hold at an entity level to absorb potential losses;
iv. identifying when credit is growing too fast and may increase systemic risk; and
v. disentangling the interaction and feedback loop that exists between monetary and macroprudential policy, among others.

To foster high quality research and discussion, forums like today's conference are of paramount importance.

The financial stability paradigm relies on key elements, some of which are reflected in this conference:

i. macroprudential policy;
ii. stress testing as a tool to monitor systemic risk;
iii. interconnectedness as a shock amplifier;
iv. financial system and banking regulation;
v. potential systemic risk from financial innovations;

vi. interaction among price, macroeconomic and financial stability; and

vii. risks originating outside the financial system.

However, it is important to recognize pending areas and emerging risks ahead, such as those stemming from financial and technological innovations or from climate-related risks, and the need to better communicate to the public at large the role of financial stability and the needed actions to preserve it.

Recent advances in technology and innovation have created the potential for a structural transformation in payment and financial services (platform payments and platform finance). The inclusion of networks with a wide customer base in financial ecosystems, the so-called Bigtechs and Fintechs, seeks to link customers with financial services, either provided by financial intermediaries or themselves. This raises key issues for public policy, in terms of competition, consumer protection, and financial stability.

An open finance ecosystem could render several benefits such as better services, lower costs, and deeper financial inclusion, but authorities should avoid potential suboptimal results, for example concentration, vertical integration, lack of interoperability, among others. An open finance ecosystem without adequate regulation will not deliver the desired public goods. To attain this, research and new ideas coming from academia, think tanks and authorities would be of relevance.

As for climate-related risks, this is a highly complex, infrequent but material risk, which affects all countries and sectors. We need to develop more detailed plans and a deeper understanding of its impact on the economy and the financial system.

Climate change can have major effects on our economies and financial systems. Central banks, which have price, output and financial stability mandates, have been active in assessing these risks, and developing tools and analysis to address these risks.

While work is being undertaken on both of these areas, it is important to devote more efforts to continue analyzing them. In particular, it is key to

better understand the role of the financial system in mitigating or amplifying the impact of such risks. The session on overlooked systemic risks is a step in this direction.

One last topic to develop, is the need to improve communication by sending a clear message that financial system users are always at the center of our regulatory and intervention decisions. We must make sure that if there is a shock to the financial system, the public is informed and has clarity about our objectives and policies to intertemporally minimize the shock's impact to the real economy and, therefore, to the public's welfare.

This is a great opportunity to reflect on financial stability on a broader sense, acknowledging what has been achieved, digging deeper to better understand the relevant topics already identified, and continue working on pending issues.