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Centre for International  
Governance Innovation



Conference Report – Rome, Italy, November 21, 2023

# The New Monetary Order

Paul Samson and Angelo Federico Arcelli





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The Centre for International Governance Innovation (CIGI) is an independent, non-partisan think tank whose peer-reviewed research and trusted analysis influence policy makers to innovate. Our global network of multidisciplinary researchers and strategic partnerships provide policy solutions for the digital era with one goal: to improve people's lives everywhere. Headquartered in Waterloo, Canada, CIGI has received support from the Government of Canada, the Government of Ontario and founder Jim Balsillie.

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## À propos du CIGI

Le Centre pour l'innovation dans la gouvernance internationale (CIGI) est un groupe de réflexion indépendant et non partisan dont les recherches évaluées par des pairs et les analyses fiables incitent les décideurs à innover. Grâce à son réseau mondial de chercheurs pluridisciplinaires et de partenariats stratégiques, le CIGI offre des solutions politiques adaptées à l'ère numérique dans le seul but d'améliorer la vie des gens du monde entier. Le CIGI, dont le siège se trouve à Waterloo, au Canada, bénéficie du soutien du gouvernement du Canada, du gouvernement de l'Ontario et de son fondateur, Jim Balsillie.

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# Table of Contents

vi	About the Authors
1	Introduction
1	Discussions
3	Conclusion
3	Works Cited
4	Agenda



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## About the Authors

**Paul Samson** is president of CIGI, working on international governance with a focus on policy solutions for the digital era. He was previously a senior official with the Government of Canada, including at the deputy minister level. Among other positions, Paul served as Canada's deputy for finance at the Asia-Pacific Economic Cooperation (APEC) forum and as long-time co-chair of the G20 Framework Working Group on the global economy. Earlier in his career, he worked at several think tanks and universities in Geneva; Washington, DC; Oslo; and Boston. Paul completed a doctorate and an M.A. in international relations at the Graduate Institute, Geneva, and a B.A. at the University of British Columbia. He completed post-doctoral studies in global environment assessment at Harvard University.

**Angelo Federico Arcelli** is a CIGI senior fellow and a professor of economic policy at Università Cattolica. Federico has served in several advisory roles, including at the European Investment Bank and at the Independent Evaluation Group (World Bank Group) and as a member of the executive board of the World Bank (in Washington, DC, 2008–2009) and of the consultative committee (“Osservatorio”) on the European constitution in Italy's Ministry of European Union Affairs (2002–2004). In the private sector, he is currently a partner at Oliver Wyman. He has held positions at Marsh and McLennan Group, McKinsey and IMI Bank. He holds an M.Sc. in economics and a Ph.D. in economic history, both from Bocconi University in Milan.

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# Introduction

This conference report summarizes the key points and discussions from the tenth Financial Regulatory Outlook Conference, co-hosted by the Oliver Wyman Forum and the Centre for International Governance Innovation (CIGI) and held at Palazzo Taverna in Rome, Italy, on November 21, 2023. The evening before the conference, a fireside chat — “The Impact of Artificial Intelligence on Financial Services” — was held.<sup>1</sup>

The conference was opened by addresses from Paul Samson, president of CIGI, and Élie Farah, partner and head of Financial Services, Europe, at Oliver Wyman. This was followed by a dialogue between Pablo Hernández de Cos, governor of the Bank of Spain, and Lorenzo Bini Smaghi, chairman of Société Générale, moderated by Douglas J. Elliott, partner at Oliver Wyman. The introductory remarks underlined the speed at which interest rates have increased in parallel to general reductions in balance sheets. Nonetheless, there remained a broadly held expectation for a “soft landing” following a likely mild economic slowdown. There was a general view that interest rate cuts have pushed inflation down, that the transmission mechanism is broadly working and that risks are relatively balanced. However, significant uncertainty remains in a context of rapid technological change and an evolving geopolitical order. It was noted that the financial sector was profitable in the current environment, but that continued focus and actions would be needed, including at the European level, to ensure this path continues into the medium term. This background helped set the stage for the discussion to follow about monetary policy and the role of central banks.

The introductory session was followed by a keynote address by Pierre Gramegna, managing director of the European Stability Mechanism (ESM) and former minister of finance of the Grand Duchy of Luxembourg.

The first session and the keynote address outlined a series of possible new monetary challenges

and the evolving economic environment in Europe and in the world. This was the basis for the two panels that followed with specific and concrete discussions on how regulators, financial institutions, corporates and governments could navigate these challenging times.

The first panel was “Structural Change in the Sector and Business Models”; the second was “Regulation, Supervision and Resolution.” A concluding keynote address was given by John Romeo, managing partner and head of Oliver Wyman Forum. The conference was held under the Chatham House Rule.<sup>2</sup>

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# Discussions

While the opening sessions stressed the evolving nature of current monetary order, it was also noted that the current system is still fundamentally based on the US dollar, with no credible alternative for the medium term.

Geopolitics are causing increasing debate about the monetary order. On the one hand, the BRICS+, through its emerging rhetoric and direction and led very much by China, is actively seeking to transform the international trade and monetary system to something less dependent on the US dollar, as evidenced in its declarations at the BRICS summit in 2023.<sup>3</sup> On the other hand, the United States has increasingly demonstrated actions that imply a potentially weaponized US dollar. US action, and the uncertainty it has created, has consequences, evidenced by a growing interest in alternative currencies and assets such as gold in some emerging economies.

In the introduction to the keynote speech<sup>4</sup> it was noted that the world is at a moment of “radical uncertainty” as the ongoing wars could very much affect economic growth and financial

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1 The fireside chat was moderated by Sian Townson, partner, Oliver Wyman, and the speakers were Eric Caen, chief digital officer, Groupe Crédit Agricole; Elizabeth Kelly, special assistant to the president, National Economic Council, The White House; and Spencer Kelly, BBC tech expert.

2 See [www.chathamhouse.org/about-us/chatham-house-rule](http://www.chathamhouse.org/about-us/chatham-house-rule).

3 See BRICS (2023).

4 Based on institutional practice, Pierre Gramegna’s full speech is publicly available; see Gramegna (2023).

stability.<sup>5</sup> Today's reality is not rosy and, as crises are becoming normalized and effectively permanent, the implication is that the current system exists within a context of "permacrises."

This new context forcefully raises questions about whether and how Europe is prepared for this new "radically uncertain" world and the unforeseen shocks that are expected. Nevertheless, Europe entered the pandemic in a better economic situation compared to the time of the 2008 financial crisis and subsequent sovereign debt crises, and its economy has recovered much faster than expected since 2021.

Notably, looking at the public accounts, the relevant macroeconomic imbalances — among the key drivers of sovereign debt crisis — have declined, while the banking sector entered the pandemic crisis with stronger balance sheets, which allowed this sector to then be part of the solution rather than the problem. During the recent energy crisis stemming from the war in Ukraine, European national governments took comprehensive measures to support the economy.

Fiscal and financial approaches were successful, although with additional debt, and the euro-area economy recovered faster from the pandemic, due to government-supported savings in the private sector and households and well-coordinated action at the European level.

Now it is paramount that the EU governments unite their efforts to design innovative schemes to overcome the risk of fragmentation and support citizens by providing liquidity and focusing on structural reforms to strengthen potential economic growth across the European Union. As the recovery and resilience facility played a vital role when the crisis caused the hardest hit, new European initiatives have now been deployed to cope with the functioning of energy markets and increased EU membership energy independence.

The first panel focused on private sector views, including on how businesses are impacted by the current environment and the consequences in terms of investments, growth and geopolitical implications. It was clearly acknowledged that the context has evolved in several key respects:

there is no full separation between economics and geopolitics (for example, friendshoring); the needed green and digital transitions are massive, will require significant investments and have implications for competition priorities; and the difficult task for politicians in moving forward some needed, but not very popular, reforms (for example, spurring the development of more integration in European capital and financial markets).

Overall, the European insurance and banking sectors are doing quite well at present (and Europe has world-class education, infrastructure and regulatory systems), but there are some significant global competitiveness issues on the horizon in the medium term. Part of the answer on the path forward will be actions, led by the European Union, to ensure a level global playing field.

The second panel, on regulation, supervision and resolution, noted two significant developments in the last 12 months: First, protracted inflation prompted central banks, including the European Central Bank, to swiftly and markedly increase interest rates, which triggered a lot of ripple effects, including a crisis for some regional banks and the downfall of Silicon Valley Bank (SVB). Second, cases such as SVB, and later Credit Suisse, demonstrated that grand plans for resolution are not easily implementable. Therefore, new vulnerabilities have materialized in the financial system, while old strategies that previously worked for banking troubles have been put into doubt.

One issue often being raised is that supervisors should put more emphasis on business model supervision (for example, good governance to ensure intervention when business models are not sustainable). Asking for more capital and liquidity is unlikely to be enough to cope with instability issues. More pre-emptive regulatory powers may be needed. Under the current legal and regulatory environment instituting further powers might be possible, but there needs to be a careful assessment of the potential actions, to avoid surprises and market disruptions.

The rise of generative artificial intelligence (AI) and the increased use of AI at scale is poised to have a profound impact on the business models of regulated entities, contributing to new risks in the market and forcing changes in the way in which markets are regulated and supervised. There will certainly be important opportunities and challenges over the near term, and we should

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<sup>5</sup> International Monetary Fund (IMF) Managing Director Kristalina Georgieva used this phrase in the plenary speech at the IMF 2023 Annual Meetings (see Georgieva 2023).



expect structural shifts over the next decade that will favour first movers. Leading the way in setting standards that others will ultimately need to adhere to, could bring significant advantage.

The interconnectivity across sectors, particularly between technology and financial sectors, means that many regulated entities are now overseen by multiple regulators across sectors, data protection agencies and competition authorities. But the interconnectivity between regulators and the oversight of regulated entities require that we be mindful of effective and efficient mechanisms that promote sustainable growth.

Current discussions on the digital euro are a good example of both the evolving system from technology and the risks inherent in moving forward prematurely. In fact, with the increased importance of digitalization comes the increased importance of technology providers for banks (Bank for International Settlements 2020). Imagining this evolution to a more advanced stage, there is a risk that banks could be hollowed out by new financial players in big tech and decentralized finance and could become simply a balance sheet vessel with a banking licence, losing many of their core service lines.

Also relevant for monetary policy and stability, the liquidity side of asset and liability management of financial intermediaries is increasingly concerning to regulators. From a world where banks have been mostly funded with sight deposits, also due to the low/negative interest rate environment, the financial markets are watching an increasing role for more sophisticated tools and the introduction of digital currencies that could, actually, represent a threat to deposit stability. The short-term funding backstop was one of the enablers of the bank runs we have seen recently. But banks could return to funding themselves more in the long term, thereby improving deposit stability, provided this is not impaired by a technological revolution or by the breaking in of unregulated players affecting the current level playing field.

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## Conclusion

The conference provided participants with significant context and a holistic view on the potential evolution of the monetary order, including existing challenges and threats as well as opportunities. The overall feeling at the event was cautiously optimistic about a smooth monetary order evolution, conditional on further reductions in inflationary pressures as well as the ability of politicians to manage challenges in multiple areas of priority relating to the green and digital transitions and significant geopolitical and regional conflicts.

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# Agenda

November 21, 2023

10:30-10:45

## Organizers' Welcome

- **Paul Samson**, President, CIGI
- **Élie Farah**, Head of Financial Services, Europe, Oliver Wyman

10:45-11:30

## Setting the Stage: Monetary Policy and the Role of Central Banks

- **Pablo Hernández de Cos**, Governor, Bank of Spain

Followed by a conversation with:

- **Lorenzo Bini Smaghi**, Chairman, Société Générale
- Moderator: **Douglas J. Elliott**, Partner, Oliver Wyman

and Q&A

11:30-12:00

## Keynote Speech: Risks and Resilience in the Euro Area

- **Pierre Gramegna**, Managing Director, ESM

12:00-13:30

## Panel: Structural Change in the Sector and Business Models

- **Jörg Asmussen**, CEO, German Insurance Association
- **Marguerite Bérard**, Head of French Commercial and Personal Banking and Member of the Executive Committee, BNP Paribas
- **Andrea Sironi**, Chair, Generali
- **Giulio Terzariol**, CFO, Allianz SE
- **Silvia Vori**, Deputy Director General for Economics, Statistics and Research, Bank of Italy
- Moderator: **Andreas Dombret**, Global Senior Advisor, Oliver Wyman

13:30-14:45

**Buffet Lunch**

14:45-16:15

**Panel: Regulation, Supervision and Resolution**

- **José Manuel Campa**, Chairperson, European Banking Authority
- **Margarita Delgado**, Deputy Governor, Bank of Spain
- **Elizabeth McCaul**, Member of the Supervisory Board, European Central Bank
- **Sheldon Mills**, Executive Director of Consumers and Competition, Financial Conduct Authority
- **Karlheinz Walch**, Director General Banking and Financial Supervision, Deutsche Bundesbank
- Moderator: **Lisa Quest**, Head of UK and Ireland, Co-Head of the Public Sector and Policy Practice Europe, Oliver Wyman

16:15-16:45

**Coffee Break**

16:45-17:30

**Closing Remarks**

- **John Romeo**, Managing Partner and Head of the Oliver Wyman Forum



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