Keynote Address

High Level Conference on the Bali Fintech Agenda
(Co-hosted by the Bank of Botswana and the IMF)

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Fintech – The global experience and emerging issues

I am grateful to the earlier speakers, Honorable Minster Matambo and Governor Pelaelo, for providing the strategic backdrop and perspective on the importance of the Bali Fintech Agenda (BFA) and its implementation experience in Botswana and for raising important issues that arise from this. I will follow up by providing an update on the global experience and the issues that countries are confronting as they seek to balance the risks and opportunities from the applications of innovative technologies in finance.

But first, let me express our deepest thanks to the Bank of Botswana colleagues who have worked tirelessly for co-hosting this high level round table; and to all the participants from our member countries who have joined us here today as, as we gather for this fifth and final roundtable in our series of regional outreach events on the Bali Fintech Agenda — where we're exploring the wide range of issues surrounding how the new financial technologies are slowly but surely changing the financial landscape.

Our earlier conferences – in Vienna, Rabat, Costa Rica and Bangkok - have all proved to be very useful in helping us understand better how the elements of the Bali Fintech Agenda fit in to the policy priorities of our membership; to share experiences; to voice concerns and explore challenges; and to discuss various policy approaches. The issue at the core of the dialogue is how best we can reap the potential benefits of new financial technologies, while also managing their risks. It's especially fitting that we're in Africa for the final edition, given that this is where mobile telephony and finance got together to lay the foundations for what is now being called the fourth industrial revolution. It is also a privilege that we have with us today Professor Ndung'u who was the Governor when mPesa was launched in Kenya, and will hear from him in the next session.

To recap, the BFA started in response to the call — by many member countries of the World Bank Group and the IMF — to have a high-level conceptual framework that can tie together the many challenges inherent in the digitalization of financial services. These issues were being picked up in the course of our bilateral and multilateral surveillance and ranged from the concerns around the issuance of crypto-assets and its potential abuse for money laundering and the volatility in their market prices; the use of shared computing services like the cloud; the use of algorithm driven decision making and the many pronouncements about the imminent deployment of central bank digital currencies.

Maintaining the momentum of the BFA — after its launch last October at our Annual Meetings — the Bank and the Fund have worked together to document the experience of our global membership with fintech developments, and our paper was presented to our Executive Board last week and will shortly be published. I should thank here the alternate ED from this constituency, Ito Mannathoko, who has also joined us today, for the support provided in the Board discussions on the stocktake paper.

This paper pulls together inputs derived from three sources - the results of a global survey which was completed by nearly one hundred countries, the issues that we are picking up in our bilateral and multilateral surveillance and country engagements, and deep dives in a half dozen areas which we felt merited closer attention. I thought I would share with you a few key findings which will help place our discussions today and tomorrow in useful context.

Overall, we find that countries are broadly embracing fintech and working on building up an enabling environment. Two- thirds of all surveyed jurisdictions recognize the potential of fintech and either have (or are working on) a national strategy in place, which often focuses on improving consumer awareness and education, reviewing and amending the policy framework and improving institutional capacity to enable fintech investment, innovation, and adoption. Most jurisdictions, irrespective of income level, aim at achieving universal coverage with open and affordable access to core digital infrastructure services.

Jurisdictions broadly expect fintech to increase competition in the financial sector, especially in the area of payments, clearing, and settlement services, and to a lesser degree in credit and deposit taking services. Most significantly, there is an overwhelming expectation of the potential of fintech to expand financial inclusion for households and MSMEs, and reduce the urban-rural gap. However, there is only a modest expectation on the potential of fintech to address the gender participation gap. In addition, a majority of jurisdictions have reported differentiated compliance requirements for fintech products and services targeted at the unbanked and underserved populations.

On the risks, the survey brings out that there is a lot more to be done. Systematic monitoring of fintech developments is largely confined to the regulated perimeter, suggesting that the collected information might not be granular enough to capture the risks associated with new fintech developments. Furthermore, there remains significant room for improving information sharing, as only about half responding countries have set up a consultation mechanism with the industry and less than a quarter of jurisdictions have established protocols for information sharing with foreign authorities.

While international consensus on good practices is still evolving, the majority of respondents have made some modifications to their regulatory approach to facilitate the development of fintech and supervisory capacity, mostly in response to a perception of rising risks, but also to achieve objectives other than financial stability (e.g., differentiated compliance in support of financial inclusion objectives).

Most countries have identified gaps in which fintech issues are not adequately addressed by their existing legal frameworks. This is particularly the case with the legal framework to support financial regulation related to crypto-assets, peer-to-peer lending, mobile money, robo-advisory services, algorithmic/automated trading, and lending activities using artificial intelligence and machine learning. In the field of private law, most respondent countries recognize the need to amend their legal frameworks to address technological innovation in the financial sector, but comparatively few have done so at this stage.

There is considerable awareness of the need to establish modern data frameworks that support a robust financial system. Half the survey respondents cite long-standing bank secrecy and personal privacy laws may only partially address the full breadth of implications from modern financial applications. In those cases, modernization of data governance frameworks is becoming an increasingly salient policy challenge.

While awareness of cyber security risks is high across the membership and gaps in mapping cyber risks are common, particularly among EMDEs. Cyber risks in fintech have been publicly identified and acknowledged as an emerging risk to the financial sector in a majority of jurisdictions, but only a third of jurisdictions have analyzed IT interdependencies within the financial sector.

Finally, countries overwhelmingly identify cyber security as a major priority for increased international cooperation, followed by AML, legal and regulatory frameworks for fintech and cross-border payments.

A few notes on the Regional experience

The Africa sub-Saharan region has become a leader in mobile money resulting in a radical change in the delivery of financial services and significant gains in financial inclusion. However, there are noticeable regional differences. East Africa has maintained an overall lead including in attracting fintech investments. Southern and Central Africa have seen increases in delivery of financial services through digital channels, but there is significant room for further gains. Despite their varied starting points, priorities, and capabilities, countries in West Africa are getting primed to take advantage of digital technologies. Regulatory responses in many countries have been more reactive to the rapid pace of change in the sector and much work remains to be done with regards adjusting their legislation, as needed, to facilitate orderly digital payments and to adjust to the new challenges coming with digital finance including for: AML/CFT, cybersecurity, consumer protection and data privacy issues.

Asia has made significant advances in nearly every aspect of fintech, although there is heterogeneity within the region. Fintech use has expanded beyond payments to include lending, insurance, and investment. Asian tech giants (e.g., in China, Bangladesh, Indonesia) have become important providers of financial services, putting competitive pressures on traditional financial institutions. Public support has played an important role in providing shared infrastructure, for example, the digital stack in India. Some fintech products have raised significant consumer and investment protection issues, as well as financial stability and integrity concerns (particularly in crypto assets and P2P lending).

The fintech market in Europe is growing but is unevenly distributed, with non-EU countries trailing EU peers in fintech adoption. The key issues under discussion are the two key regulations introduced in the EU in the form of the General Data Privacy Regulation (GDPR) and the Payments Services Directive 2 (PSD2), both of which came into force in 2018. The full implications of these significant policy developments, both inside and outside Europe, will take some time to become clear.

The MENAP and CCA regions had a slow start in adopting fintech and activities are concentrated in few countries and sectors. Innovations have mostly focused on payments and, to some degree lending. New growth centers have emerged in Saudi Arabia, Bahrain and Iran. Policy priorities include addressing the gaps in digital infrastructures, both physical and institutional.

In Latin America and the Caribbean (LAC), fintech startups are growing, albeit from a low base and still behind the United States and Canada. Adoption of mobile money services in LAC countries remains low, despite relatively high mobile and internet penetration rates. Several central banks (e.g., Uruguay, Bahamas, and the ECCU) are exploring the possibility of issuing CBDC. Regulatory responses to finteach varies widely across the region - For example, while Mexico introduced new and comprehensive fintech-specific legislation, Brazil integrated fintech issues into the existing regulatory and legal framework.

So what lies ahead ?

These developments have put an early spotlight on key policy issues that need to be addressed given the new players, products and processes that they bring. For instance as posed by the increasing role in financial transactions and intermediation by hitherto unregulated or differently regulated non-bank firms — such as telecom operators and lending platforms. Financial regulations, in the past, have been focused more on licensed institutions — principally, banks. So how should these new players be regulated so that similar activities attract similar regulation ? And, since they may be licensed and otherwise regulated by other regulators such as telecom and technology ones, what kind of coordination mechanisms should be in place to be effective ? Given their increasingly critical role in the financial ecosystem, what type of access should they have to the payments system and what type of central bank facilities should they enjoy ? What safety nets should be extended to them ? Should the customer balances held by them or placed in other financial institutions on their behalf be insured like deposits? While some of these issues will be decided in the national context, there is still a pressing need for good practice guidance based on successful country experiences. And, in matters where there are clearly international and cross-border implications, is a matter of some concern is that very different approaches have been taken by countries in their regulatory response, for example, the regulation of the issuance, trading and settlement of crypto-assets, which could lead to greater market fragmentation.

Another area concerns the financial stability implications that may be associated with the rise of the Big Tech firms—who can use their enormous customer bases and deep pockets to offer financial products based on Big Data and Artificial Intelligence. Early experience has increased awareness of the link between market concentration and financial stability. National authorities will have to ensure that a competitive marketplace can be preserved in the face of entry by firms that have already built stupendous scale, and also be prepared for the exit of such firms from the market without major disruptions. Our Managing Director referred to these issues when speaking at a conference on the sidelines of the G20 meetings in Fukuoka earlier this month and only this morning, the BIS has released a major report laying out these issues in more detail.

A related issue that is on everyone's minds is that of how data frameworks should be developed and governed. Data generated by our digital interactions fuels and lubricates the entire fintech ecosystem and is collected, stored and monetized by a handful of global Big Tech giants. How should issues like ownership, privacy, consent, access, storage, usage, security and controls be handled in a manner that balances the very different social and cultural attitudes to personal data, protects legitimate interests of all stakeholders across all countries and yet allows for it to meaningfully flow through the system ? Different national and regional frameworks are emerging and this issue is becoming more and more important on the global agenda particularly in the cross border context as some of the responses may lead to greater market fragmentation rather than integration, and thus lower the cost efficiencies that fintech promises.

And finally, there is the issue of meaningfully enhancing cyber resilience in a financial system that is exponentially increasing its technological footprint. While data on damages continues to be scarce, several estimates point out how the materialization of risk events continues to cause increasing disruptions, downtime and financial losses to financial institutions and their customers. It is not just the affected institutions who are shy of disclosing their losses and responses prompted by fears of reputational impact – regulators are also hesitant to to share event data given the intersection sometimes with national security concerns. In this complex environment, being aware of the continuously changing threat landscape and preparing for timely responses and developing contingencies is a challenge for every one of us.

To conclude – the many different country experiences reflect how the financial industry continues to move at breakneck speed, matching new technical opportunities with local regulatory possibilities. In recent months, StableCoins have received increased attention, new digital ID offerings are being introduced by Microsoft and Canadian banks, and new fintech-based payment services are being adopted in various countries. Last week, Facebook announced its plans for launching a new global stable coin, the Libra, which will be based on blockchain technology running on an open platform, backed by a basket of currencies and available to the one billion plus facebook users. The announcement has led to a flurry of activities in capitals around the world as central banks and finance ministries think through the implications this could have for their currencies, their tax receipts, their ML controls and eventually, if this and other similar private currency initiatives were to catch on in a big way and the platform spawn a parallel financial ecosystem, the effectiveness of their monetary and financial policies.

And all this is happening at a time when we are still rewriting our text books from the experience of the global financial crisis, where the conduct of monetary policy in a low growth, low inflation and low interest rate environment is challenging policy makers just as the increasing role being played by shadow banks in financial intermediation is challenging financial sector supervisors. And to add to this mix, innovative technologies are unbundling financial transactions and bringing together fintechs, techfins and bigtechs into the financial system and challenging the business models of the incumbents. It is not unlikely that the terms bank, banking and central banking may well take on a different meaning in the coming years.

It is important that we are well prepared for the changes that may lie ahead allowing for the great benefits that technology promises. In facing the challenges ahead, everyone has a role to play. Given the diversity within our global membership, the experiences of policymakers with Fintech vary widely. Some jurisdictions are at the frontier, with pro-active and sometimes experimental proposals — while others, until now, have observed from the sidelines. Today provides an excellent opportunity for all of us to share these experiences and help build a more inclusive financial system that is strong, safe and sustainable.

With that, I look forward to productive discussions today and tomorrow.