Andreas Dombret: Statement at the workshop on "Digital finance - regulatory challenges"

Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the G20 conference "Digitising finance, financial inclusion and financial literacy", Wiesbaden, 26 January 2017.

* * *

Mr von Weizsäcker,

Ladies and gentlemen,

For a first approach when talking about regulatory challenges in the age if digitalisation in finance, I would like to consider three aspects of financial technology and regulation:

- First, I perceive no general need for separate regulation; to me it seems even detrimental to treat comparable businesses with equal risks in a different way,
- second, regulators have to stand ready to propose solutions for emerging risks. We should initially concentrate on the basics, such as setting the right incentives, but – beyond that – should refrain from regulating “theoretical risks". We should closely monitor Fintech evolution to be able to act swiftly, once risks become relevant in practice,
- third, international exchange about experience with Fintechs is very fertile to set the right course for future regulation from the outset.

The way we perceive financial technology has transformed over the last years. When the buzzword “Fintech” emerged a few years ago, everybody was excited: Is there a better way ahead for doing finance – maybe even without banks? I also remember regulators in a state of anxiety: Is traditional financial regulation unsuitable for high-tech financial innovations? Today and up to now, we have a far more relaxed view about business disruption and regulatory challenges.

In Germany, Fintechs have not forced us to overhaul existing financial regulation or to consider a new framework. The reason for this lies in the setup of German financial regulation: The rules apply to specific business models and their associated risks – technology is, by and large, treated neutrally.

This becomes apparent in our financial services landscape. Some digital innovators that actually accept deposits or lend money need to be licensed as credit institutions. For some other business models, the rules for financial services institutions apply. Other innovative businesses remain unregulated, but this is for a good reason: they are non-financial in character and only provide auxiliary services complementary to financial services.

By treating financial innovations equally under the regulatory framework, German regulators follow the maxim of “same business, same risk, same rules". But the important strategic question is: does this principle offer enough orientation for the future – given that no one knows how financial innovations and emerging risks may develop in the future?

At the Bundesbank, we have identified some potentially risky Fintech activities that may warrant different regulation at a later stage. For example, various business models have not yet been tested in a downturn. And we cannot predict which of these start-ups is going to evolve into a major player that may end up even becoming too big to fail or too interconnected to fail some time.

But rules that target a mere theoretical risk might result in overregulation. On the other hand: If we wait too long for financial innovations to settle, risks could increase and adjustments to the existing regime will be more difficult, as vested interests become increasingly powerful. To strike the right balance, a general approach could be to initially concentrate on two aspects: One, setting the right incentives through regulation and two, monitoring Fintech evolution closely.

Uncertainty about regulation is surely a common ground for all of us. Exchanging knowledge and experiences should be to our mutual benefit. Some may raise the different circumstances in our countries as an obstacle. It is true that digitisation has not spread with the same speed across the globe. Also, regulations differ. My response is that we need this exchange precisely because of our divergent experiences. Given that digital innovations may be “black boxes", learning from each other might help to contain threats from the outset. That way, regulation will not lag one step behind financial innovation. Best practices could be a valuable output.