BANK · VERSICHERUNG

Basel Committee on Banking Supervison

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Comments on the consultative document on implications of fintech developments for banks and bank supervisors

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as legal representative of the entire Austrian banking and insurance industry, appreciates the possibility to comment on the consultative document on implications of fintech developments for banks and bank supervisors and would like to submit the following position:

The document addresses properly the key aspects concerning implications of fintech developments for banks and bank supervisors.

Overall remarks:

- **In general:**
  - Still unbalanced approaches:
    - Global Digital Business Models and Data Sharing/Usage versus
    - Local National Diverging regulations/laws/interpretations/data protections
  - Still missing final EU approach - single, national approaches still pre-dominant; primarily "learning" from each other instead of setting up European Hubs/Sandboxes/Services
  - Data Protection is the largest obstacle for innovation and basic protection for customers and banks:

    Neither private institutions nor legal authorities or law enforcements are allowed to share or exchange data, which is affecting business models and implementation possibilities for identified technologies (big data, cloud).
  - Artificial Intelligence and Machine Learning has a far more reaching and immediate impact on banks than all other technologies together (big data, cloud, distributed ledger technology, biometrics, etc.). A similar statement on EU level is missing.
  - The immanent guiding principle with regard to the (prospective) regulation of FinTechs has to be – "same business – same rules" at all times.

- **Technology areas covered:**
  - Missing Quantum Computing and Algorithms EU initiative: This will still need 3-5 years to come, but then in combination with other technologies (esp. AI/ML) will unleash the true potential (IBM, Google and dWave are currently leading), 50 QBits as "Quantum Supremacy" (=threshold when Quantum Computing starts being able to solve problems which classical Computing will never be able to) – first implementation expected in 2018
  - Missing Identity and Asset Management technologies (sometimes mentioned, but not explicitly covered): more standardized, enhanced eIDAS/STORK implementation necessary.

- **FinTech business models covered:**
  - A CryptoCurrency regulation is missing: either EU regulated similar to fiat currencies or defined as speculation object and undergo respective regulations.

Specific remarks:

- **Observation / Recommendation 1:**
  - In general adequate, especially when it comes to AI/ML – should be reflected in future onsite visits from authorities, when AI/ML start replacing legal rule-based solutions (AML, CTF, etc.)
  - RegTech and respective services are missing (in combination with AI/ML, this would have significant impact on efficiency and effectiveness, especially in combating financial crime)

- **Observation / Recommendation 2:**
  - In general adequate.
  - Complementary FinTech Regulations are missing: FinTechs should have the very similar regulations (especially compliance, data protection, etc.) as (incumbent) financial institutions when they offer banking or insurance services. This should apply for all scenarios

- **Observation / Recommendation 3:**
  - In general alright, but eventually too much focus on high-level aspects
  - Existing principles (KYC, Information/Cyber Security, Authorization and Authentication, etc.) continue to be necessary and to be met:
    - There are not almost any new principles to be met. Regulations are necessary (only exception for DLT when it comes to "permission-less" models)
    - All other need relief from banking secrecy and data protection regulations

- **Observation / Recommendation 4:**
  - In general adequate. This is in the self-interest of banks, but perhaps too much focus on high-level aspects
  - Unbalanced risk mitigation responsibilities already in PSD2 (TPP registration process/quality unclear, Identity Management/Viability unclear, KYC and SCA responsibilities, etc.)

- **Observation / Recommendation 5 and 6:**
    - In general adequate.
    - e.g. PSD2: According to EU regulations, all
      member states "approved" TPPs can access EU markets – one sound EU standard is therefore necessary
    - see also general remarks above

- **Observation / Recommendation 7:**
    - Yes, FinTech in terms of "know-how" supervisors are some 10 years behind the market.
    - More data scientists, mathematicians, physicists and statisticians along with IT experts are necessary for the supervisors staff. In order to overcome resource shortage and combat with private sector, an expert group on EU level is recommended to build initial knowledge and should work in the different memberstates
    - Shared services/sandboxes together with FinTechs/private institutions could also help overcoming knowledge shortages

- **Observation / Recommendation 8:**
    - Yes

- **Observation / Recommendation 9:**
    - Yes
    - Supervising of TP service providers should not differ from incumbents institutions
    - Licensing regimes should be on EU level and cover all areas (including CryptoCurrencies, etc.)

- **Observation / Recommendation 10:**
    - In general alright,
    - For regulatory purposes, respective "startups" could also be invigorated/initiated by regulatory authorities themselves (!)

Concise List of Risk and Opportunities

A concise list on risks and opportunities on both the consumer sector and the banking system rounds off the very comprehensive overview. Especially the set out scenarios offer more clarity for banks to grasp the changes to come and their implications on existing and most likely to be rethought business models.

Impact on the Business Model

The paper of the BCBS in this respect gives also foresights on the upcoming technology trends and their thinkable impact on the business model. Only banks that now start preparing new governance structures and processes to cope with the disruption will succeed. The question of how to address the future changes is one of the most urgent for incumbent banks.

Principles for Sound Management

From a regulatory perspective the Basel Committee gives review ideas of the "Principles for sound management of operational risk" which would come as a guideline for banks if implemented. The vagueness comes natural with the only recent degree of attention and alertness that regulatory bodies pay to the FinTech topic. However, answering these will turn out as a real challenge for banks and those that move first will gain opportunities first.

View on Resources and Security

In addition, the recommendation for supervisory bodies to employ resources with IT backgrounds to get a hold of new technologies and their implications would set a strong foundation not only to follow with regulation, but also to lead. Addressing the issue of security in regards to new enabling technologies should be guided by regulatory authorities.

Innovation Hubs and Sandboxes

The paper also stresses the need to implement innovation hubs and regulatory sandbox regimes in the national legislation. Concluding, the necessity for banks to cooperate with regulators in the upcoming phase of new market entries is underlined several times.

Striking a Balance

The concept of striking a balance of safeness and innovation appears to be a legitimate consideration. This is the bottom line of the paper. The implications on risk management, control standards and customer protection are briefly outlined, though of course explicit answers are yet difficult to give and cannot be found in the discourse.

Recommendations by BCBS

The recommendations given are comprehensive, however they should be elaborated especially on the recommended process for **due diligence and risk management**.

We ask you to give our remarks due consideration.

Yours sincerely,

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