POSITION PAPER

Basel Committee on Banking Supervision consultation Sound Practices: Implications of fintech developments for banks and bank supervisors

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

EU Transparency Register ID 8765978796-80

October 2017

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ESBG Position Paper on
Basel Committee on Banking Supervision consultation
Sound Practices: Implications of fintech developments for banks and bank supervisors

ESBG would like to thank the Basel Committee on Banking Supervision for the opportunity to review and comment on this consultation document. Whilst ESBG agrees with many considerations of the document, it would like to raise the following observations:

A. Regarding fintech developments and forward-looking scenarios

- ESBG can agree with the FSB's working definition for fintech – it being clear that the definition covers both incumbent financial institutions and non-financial companies, the latter ranging from start-ups to large technology companies ("BigTechs).

- That "most surveyed agencies have not formally defined fintech, innovation or other similar terms" (page 8) should be seen as an issue which requires urgent attention. Whilst the risk linked to the adoption of too narrow a definition which could bias action can be understand, the downside of not sharing a common, even high level vision – all the more so as the necessity for supervisors to cooperate cross-border is stressed, see Recommendation 6 – should be rather obvious.

- Whilst intellectually the distinction between innovation and disruption (page 9) has appeal, its practical implications with respect to adjustments to the regulatory and supervisory frameworks should be more questionable – as it may be difficult to assert ex ante whether a new technology will be either innovative or disruptive, and as regulators and supervisors tend to react to new technology developments, rather than anticipating them.

- The representation of "Sectors of innovative services" (page 9) is of interest, in particular with respect to the listing of market support services. This is certainly the area where the interaction between incumbents and new technology companies (including the Big Techs) will be the more critical, and where clear rules and regulations are required to enable experimentation, support partnerships and outsourcing, and ensure a level playing field.

- Whilst the question "How big is fintech" (page 10) is interesting, it would seem that the proposed answer focuses on non-financial service companies. On one side, this approach is inconsistent with the proposed definition of fintech (see above), on the other side it completely misses the significant investments that incumbent banks have been and are pouring into rebuilding themselves as digital banks.

- The assertion that "fintech can be compared with previous waves of innovation" (page 13) should be challenged. Indeed fintech is leveraging the infrastructure of a very connected, always on world, where reach and choice are in the hands of consumers, a reality which is a wholly different one from previous waves of innovation. The implications of this reality on i.a. the hype cycle model are not yet clear, but for a drastic shortening of the time needed to reach "enlightenment and productivity" – at least for the more successful products and services.

- ESBG can agree with the 5 forward-looking scenarios (pages 14 and following). It should highlight that the larger members of the savings and retail banking community are busy transforming themselves into the "better bank" model – at times in combination with a "distributed bank" model – whilst the smaller members of the community are working towards the implementation of the latter model.

B. Regarding implications for banks and banking systems, and bank supervisors and regulatory frameworks

- Recommendation 1: it must be highlighted that the risk of having "beneficial innovation inadvertently inhibited" is present for both new entrants and incumbents. Indeed, the latter's compliance obligations are far more extended and stringent than the former's, and often constrain any ability to move with the required agility and creativity that new technology would permit. In addition, reference should be made to the use of RegTech by authorities which, combined with artificial intelligence and machine learning could significantly increase the efficiency and effectiveness of their action, in particular with respect to combating financial crime.

- Recommendation 2: for banks (and actually for society as a whole) the risks associated with the emergence of fintech would be significantly mitigated if the principle that new entrants were subject to the same regulations (notably capital requirements, banking secrecy, risk management, data protection, and so forth) as incumbents was more widely implemented.

- Recommendation 3: whereas IT and other risk management processes are required also to address the risk posed by new technologies, it should be stressed that (apart from permission-less distributed ledger implementations) no new regulations are required.

- Recommendation 4: banks' obligations with respect to outsourcing are pretty much defined in the existing regulatory and supervisory framework. The onus actually is on regulators and supervisors to ensure that banks face counterparts that allow to comply with these obligations.

- Recommendations 5 and 6: these are indeed essential recommendations, which regulators and supervisors across all markets should be encouraged to implement soonest. In particular these recommendations should be strictly followed once the revised Payment Services Directive has been transposed and a range of new actors are allowed to play throughout the EU.

- Recommendation 7: this is another core necessity. Supervisors should recruit with a sense of urgency not only IT experts but also data scientists, mathematicians, statisticians and build and share expertise.

- Recommendation 9: this Recommendation is assuredly supported. It should be stressed that the supervision of new entrants should be no different from the supervision of incumbents, and that e.g. in the EU, licensing regimes should have an EU-wide scope and cover all areas.

About ESBG (European Savings and Retail Banking Group)

The European Savings and Retail Banking Group is a Brussels-based association that helps its member savings and retail banks thrive, focus on providing service to local communities and boost SMEs. ESBG brings together nearly 1000 savings and retail banks in 21 European countries that believe in a common identity for policy in Europe. Its members represent one of the largest European retail banking networks, comprising one-third of the retail banking market in the European Union, with 190 million customers, more than 60,000 outlets, total assets of €7.1 trillion, non-bank deposits of €3.5 trillion, and non-bank loans of €3.7 trillion. ESBG members come together to agree on and promote common positions on relevant regulatory or supervisory matters. Learn more about ESBG at www.wsbi-esbg.org.

European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ▪ B-1000 Brussels ▪ Tel: +32 2 211 11 11 ▪ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ▪ www.wsbi-esbg.org

Published by ESBG. October 2017