KNF | KOMISJA NADZORU FINANSOWEGO
POLISH FINANCIAL SUPERVISION AUTHORITY

Marek Chrzanowski
Chairman

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William Coen

Secretary General

Basel Committee on Banking Supervision

Re: Basel Committee on Banking Supervision Consultative Document

Sound Practices: Implications of fintech developments for banks and bank supervisors

Dear Mr Coen,

I am pleased to have an opportunity to provide you with the KNF's comments on the recent BCBS consultative document devoted to fintech developments, and the respective risks and opportunities for the banking sector stemming from the rapid changes in this field.

The KNF considers the paper a valuable voice in the discussion on the possible approaches that the regulators may adopt towards the new and quickly developing industry area which may in the future either support or even replace the traditional models of providing financial services. In the KNF's view, it would definitely be beneficial to repeat a stocktake exercise among supervisory authorities in the future to see the evolution and progress made in the area. Future work should also probably give attention also to increasing the awareness of financial market participants who are the users of innovative fintech products.

In addition to the overall support for the conclusions drawn on the basis of the analysis conducted, please find below several observations on selected issues the KNF finds especially important.

Part II – Fintech developments and forward looking scenarios – Comparison with previous waves of innovation and factors accelerating change

There are two factors that are crucial for the rapid expansion of the fintech industry. The first is the evolution of the society functioning model. Intensification of the everyday life makes people look for the solutions that are less time-consuming and more convenient than the traditional ones (e.g. not requiring visiting the bank branch). It results in the reduction of the number of branches and further development of electronic means of communication with clients. Another factor is the widespread availability of mobile devices with an internet connection, allowing the customers to use financial services based on advanced IT systems. Therefore for customers it is more than just a habit to use electronic banking and financial services.

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Part III – Implications for banks and banking systems – Opportunities

The KNF definitely agrees with the Recommendation 1 (maintaining the right balance between safety and soundness of the banking system and the opportunity for the development of innovation). The most significant challenges for the fintech industry will include the proper protection of customers' personal data and the cybersecurity. Cybersecurity breaches are among the most important potential risks that may hamper the development of the industry. In Poland particular attention is paid to the development of proper attitude and behavior by both the fintech companies and their customers. It is our belief that the security of the operations will foster the trust and make the new solutions more popular. The security should therefore be definitely one of the goals pursued during both the design and offering new innovative financial services solutions. It is worth noting that the utilization of modern (e.g. biometric-based) identity verification techniques can significantly improve the security of transactions.

Part IV – Implications for bank supervisors and regulatory frameworks

A. Increased need for cooperation

The KNF supports the recommendation 5 which stresses the need of cooperation between the supervisors and other institutions responsible for consumer as well as data protection. In January 2017 the KNF, in cooperation with the Ministry of Finance and Ministry of Development created a new inter-ministerial task force on the financial innovation (fintech), with participation of the representatives of 22 institutions, both public and private. The goal is to identify the legal, regulatory and supervisory barriers to the development of financial innovation in Poland, and to prepare a draft action plan for their removal. The work will be summarized in the Report containing the recommendations for different relevant authorities and entities.

In the KNF's opinion it would also be beneficial to conduct work on international level on certain legal issues that are common and relevant for different jurisdictions.

B. Continued relevance of regulatory frameworks

The recommendation 9 on need to review the current regulatory, supervisory and licensing frameworks in light of new and evolving risks is a very important one for the development of innovation. The dedicated task force created for this purpose in Poland has already analyzed over one hundred potential barriers, and has prepared relevant proposals for establishing a fintech-friendly regulatory and supervisory environment, which preserves at the same time a high level of consumer protection.

E. Facilitation of innovation

The KNF considers Recommendation 10 on the need for sharing experience and learning about other authorities' practices as one of the most relevant ones. The KNF has organized a dedicated team within its structures whose task is to facilitate the development of financial innovation, and to establish a relevant supervisory policy. For greater transparency a dedicated fintech webpage has also been created which includes a description of main innovation areas, relevant regulations applicable, supervisory statements and Q&As. It is also planned to implement the Innovation Hub concept, which is an information and education related procedure aimed at increasing the knowledge and awareness of fintech sector participants.

Yours sincerely,

Marek Chrzanowski

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