WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

Comments from: Matthew Blake; Kai Keller

The World Economic Forum, through its initiative on the Future of Financial and Monetary Systems, has been exploring the nature and implications of the current wave of technology-enabled transformation of Financial Services for the past three years. Through our multistakeholder project work we have identified significant opportunities as well as notable risks resulting from the ongoing changes in the financial ecosystem and we have highlighted these implications in multiple white papers and reports. Our most recent publications "Balancing Financial Stability, Innovation, and Economic Growth" and "Beyond Fintech: How the Successes and Failures of New Entrants Are Reshaping the Financial System" provide summaries our work on the underlying technologies driving innovation in Financial Services as well as the implications of innovation for consumers, industry, regulators and central banks, as well as civil society.

Reflective of the work and conversations we help facilitate on this topic, we feel it is important to equally highlight benefits as well as risks and we encourage the BCBS to be consistent in the usage of this 'benefits and risks' language. In particular we refer to Observation 1 on page 5 of the document and comment that 'these changes' not only can open up new opportunities for consumers, banks, the banking system and bank supervisors but certainly do open up such opportunities. Among these opportunities we would list improved, more accessible and cheaper financial services, better risk management, improved efficiency for incumbent industry participants, and new value creators (the BCBS report list similar benefits on pages 22 and 23).

We strongly endorse the text of Recommendation 1 which speaks to the need to balancing safety and soundness with the need to enable beneficial innovation. Safeguarding both system stability and enabling economic growth through innovation will become a key responsibility of regulators in the changing financial services landscape and supervisors should be careful to dedicate adequate resources to both obligations. The Forum's project work has shown regulatory sandboxes to be a particularly helpful tool to facilitate the pursuit of this dual-obligation and we would advise the BCBS authors to somewhat strengthen their language in support of sandboxes and similar regulatory approaches and practices as outlined in Recommendation 10 (page 38).

Finally, we find the challenge of developing a common language between regulators, incumbents and fintechs unreflected in the BCBS report. The report makes reference to the gap of "risk culture" and "risk tolerance" among entities participating in the financial system (page 32) yet from our perspective the communication challenge between actors goes well beyond a different understanding of risk. Insufficient dialogue and poor communication are key hurdles to further responsible and beneficial innovation and improved regulatory frameworks. The repercussions resulting from an absence of a common language and understanding pose a significant risk to stability. This reality underpins the ongoing focus of the World Economic Forum's Future of Financial and Monetary System Initiative on facilitating the development of a common vocabulary and understanding through its multistakeholder approach. We encourage the BCBS authors explore the common language challenge in greater detail and explicitly name it as a key observation.

We applaud the BCBS's efforts to help the industry and supervisors understand the implications of technology-enabled transformation on the financial system, and congratulate the authors on this report. We look forward to ongoing collaboration on this important topic.