Andreas Dombret: Banking on big data – different policy issues?

Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Third Frankfurt Conference on Financial Market Policy "Digitizing Finance", Frankfurt am Main, 6 November 2015.

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Thank you for giving me the opportunity to briefly state my opinion on data-based banking and policy issues.

First of all, I would like to talk about one received idea in connection with new technologies flooding the financial sector that I find somewhat misleading. It is a common perception that Fintechs have been set up purely in opposition to banks. As a matter of fact, their distinctive features are the all-embracing use of IT and, in particular, internet-based technologies and their business structure and appearance. They may look different from traditional banks and they may care about customers' needs, such as 24/7 accessibility, ease of use and individualised services, but that doesn't render the basic financial functions of banks obsolete. Some Fintechs have even already acquired a banking license.

Although the appearance of banking business and its technical implementation may very well change across the entire sector, banks as they are defined by regulation are still necessary and important players in our financial system. You cannot grant loans to businesses or offer deposits without adhering to the prudential requirements regulators impose on banks. Our financial system relies on licensed monetary intermediaries, and computer algorithms don't change this fact.

Nevertheless, banks are definitely coming under pressure with respect to their profitability and visibility. Fintechs naturally focus on the most profitable areas of banking. This implies that banks have to deal with new competitors, and it is conceivable that we will encounter substantial changes in the composition of the sector over the next decade. But banks are not destined to become obsolete. First of all, banks have built up trusting relationships with customers, which includes knowing about the business and also knowing about changes in regulation over the past decades.

And there is not only a competitive relationship between banks and technological innovators. From what I gather from the sector, Fintechs are frequently approaching banks as soon as their ideas have matured. Banks are not likely to be as innovative and as quick off the mark as newcomers, although many cooperative arrangements are possible.

With regard to regulation, this means that we should stop drawing an imaginary line between technology-driven and traditional approaches to financial services. Regulation by no means serves to penalise certain players or to give them special privileges. The main purpose of financial regulation is still to ensure financial stability by avoiding risks to a stable and trustworthy financial sector.

In the case of both Fintechs and banks, new risks stemming from intelligent technologies cannot be ruled out. Big data is a good example: on the one hand, it may definitely prove helpful in terms of keeping a proper and timely overview of risks and processes in a complex banking world. But big data technologies may also give rise to whole new categories of risk. For example, big data could entice banks and also unregulated players to let algorithms become even greater decision-makers – think of decisions regarding credit assessment or trading, for example. But we have to ensure that humans, or, more precisely, well-informed risk takers ultimately take responsibility for their decisions.

The same applies to risk management via intelligent data processing methods: The approaches I have witnessed so far sound very promising. But we have to bear in mind that computer algorithms may not always be right. Cyber security is another issue that needs to be dealt with in an industry that is becoming increasingly reliant on IT.

All in all, regulators will have to remain alert with regard to new technologies. There are many new businesses and technologies out there, and we cannot foresee for the time being all of their possible risks, nor can we limit the scope of potential risks. The objective is therefore more a matter of ensuring a risk-adequate prudential approach and the necessary degree of intervention.

Thank you.