

# François Villeroy de Galhau: Technological innovations in payments and beyond

Opening speech by Mr François Villeroy de Galhau, Governor of the Bank of France, at the Bank of France and CNPS (French Payments Committee) conference "Technological innovations in payments and beyond", Paris, 6 January 2017.

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Ladies and gentlemen,

I am very pleased to welcome you all to Paris, for this conference on technological innovations in payments and, more generally, in the financial system. Representatives from a wide range of stakeholders, from market to regulatory spheres, are here today and I have no doubt that this variety of backgrounds will make the discussions fruitful. Before leaving the floor to the speakers and panellists, I would like to share with you a few thoughts on three challenges raised by digitalisation, from the perspective of a central banker.

## **1. Technological innovations are opening up new opportunities for payments, which can provide benefits to the whole economy**

Payments are often viewed as a very technical and incidental activity, and sometimes even just as a matter of “plumbing”. And yet they are crucial for our economy and for central banks. For the Banque de France, payments are of the essence in all our three missions – what we call the “3 Ss”: monetary strategy, financial stability and economic services.

- ♦ First, monetary strategy: what is at stake with payments is the future of money. Central banks were born with the inception of fiat money – banknotes – and they have been pivotal for the take-up of non-cash payment instruments. Among the latter, a growing trend in the last few years has been the preponderance of electronic payments versus traditional paper-based ones – such as cheques – even if this trend varies across regions. This physical dematerialisation is actually ongoing, with the slow move away from dedicated form factors – such as plastic cards – towards entirely digitalised ones, for example solutions embedded in smartphones or other consumer devices. So, regarding money issuance, we have to monitor closely the latest technological innovations. Several central banks, including the oldest one – the Riksbank in Sweden –, have started to study the possibility of a digitally-issued central bank currency which could allow not only commercial banks but also the general public to access central bank money.
- ♦ Second, financial stability: payments are a key vector for trust and confidence in the adequate functioning of the financial system. This requires both secure and efficient payments and financial infrastructures. Therefore regulators attach importance to supporting technological innovations, including via the potential development of more efficient regulation or “Regtechs”, as long as they go hand in hand with low operational risks and high transaction safety.
- ♦ Third, economic services: payments are the nexus where a new ecosystem based on technological innovation and entrepreneurship is blooming. These developments are for the benefit of the real economy – and more particularly the corporate sector – in France and in Europe: a myriad of so called “Fintechs” are now emerging. They are competing with incumbents, notably in the United States, and are proposing not only new ways of paying but also new services related to payments (such as account aggregation). So there are high industrial stakes involved, and we must foster active competition, which is far preferable to monopolies, even technological ones.

Given the importance of payments in many aspects of our economy, we need a comprehensive

strategy. Most importantly, innovation should be spurred, whether it comes from start-ups or incumbents. This is exactly the purpose of the French national strategy for retail payments – consistent with the European framework. This French strategy was developed last year through a cooperative process: it aims at modernizing payments, by relying on the dematerialization of processes in different fields, such as e-invoicing, e-mandates for SEPA Direct debits, virtual wallets, etc. The implementation of this strategy has been entrusted to the National Committee for Payments (CNPS), your co-host for this conference, which gathers representatives from both the supply and the demand side and is chaired by the Banque de France.

Going beyond the sole payments sphere, innovation in the financial sector can generate significant benefits that have to be reaped. It has the potential to foster financial inclusion all over the world, as long as people are provided with internet access. It also prompts incumbents to adapt, pushing them to develop new business models and new activities that ultimately benefit the customers. In this regard, let me highlight the initiatives to develop instant payments in the SEPA area, to facilitate market-based funding and equity financing in the European Union. I would like also to mention that the Banque de France is conducting its own experiments, with the recent creation of a Lab and the appointment a Chief Digital Officer, Thierry Bedoin, who will moderate the first panel of this afternoon's session.

## **2. Technological innovation is to be welcomed but the risks should not be underestimated**

Innovation brings new threats for the financial system that have to be carefully dealt with:

- ♦ First, it raises challenges in terms of fraud and security, given the multiplication of actors involved in payment and financial processes, the higher circulation of personal data as well as the multiplication of potential “points of failure”. These new “cyber” risks are an acute concern for the whole industry, including for a mature technology such as internet card payments which accounts for more than two thirds of all fraud losses on card payments in France. Thus “younger” technologies that may not have been tested yet, such as the blockchain, and might generate new security risks, deserve early and extended scrutiny.
- ♦ Second, it could endanger financial stability over the longer term, as a result of the process of increased automation that we have seen during the last few years. The development of High Frequency Trading for instance – whose economic utility is by the way also questionable – could hamper the resilience of financial markets in times of stress. New services such as smart contracts embedded on a blockchain could create new shock transmission mechanisms or result in new forms of interconnectedness or pro-cyclicality that could be the sources of financial instability.
- ♦ Third, it could threaten market integration, especially in Europe after a decade of tremendous efforts to foster harmonization between financial markets. Such efforts are evidenced in the securities markets area, by the recent launch of the Target2 Securities platform in 2015, in the payments area, by the completion in 2016 of the second round of the SEPA project which now allows for fully harmonized credit transfers and direct debits denominated in euros, throughout the European Union. By contrast, the current profusion of new technologies, standards and protocols that are not fully interoperable, at least at this stage, constitutes a potential risk of market fragmentation. Additionally, they could lead to some kind of social fragmentation, if the new payment means are less accessible to the less well-off.

## **3. Against this background, public authorities play a key role in helping to reap the full benefits of innovation while preventing the threats it brings**

This implies first rethinking the regulation so as to strike the right balance between innovation and security. Several objectives have indeed to be met: maximizing the spillover effects of

innovations, protecting the consumer and addressing financial stability issues, and ensuring that innovation is beneficial to all parties, in particular in the form of new services and costs reduction. Such a balance can only be reached through adequate and proportionate rules, based on the risk profile of the service provided and not on the nature or the legal status of the provider. This principle has guided European authorities in the review of the payment services directive, which will be thoroughly discussed during this afternoon's session.

On top of these regulatory changes, technological innovations reinforce the need for fruitful dialogue and cooperation between all parties concerned. At the French level for instance, this is the purpose of the "Fintech Forum" launched in July last year by the French prudential supervision and resolution authority, the ACPR, in coordination with the French Financial Markets Authority. The continuous dialogue between regulators, supervisors and companies will ensure that innovations are properly understood, that the necessary changes in regulation are identified in a timely manner and that information flows appropriately between stakeholders. We have also committed the Banque de France and the ACPR to a gradualist and proportionate approach in the regulation and supervision of Fintechs. We think it is still more appropriate than a "sandbox", which could create threshold effects. At the European level, cooperation between all stakeholders has been enhanced in the field of payments, so as to prevent market fragmentation. This is the central role assigned to the Euro Retail Payments Board. Later on this morning, Yves Mersch will give us further insights into the work of the ERPB.

Allow me now to conclude briefly by expressing again my gratitude to all the speakers, panellists and participants who are present today to share their thoughts on a wide variety of subjects of topical interest. I wish you extremely fruitful discussions throughout the whole day. Thank you for your attention.