Esteemed colleagues, Governors,

It is my pleasure to be here today and to address this distinguished panel. Before I start, let me just briefly thank our host Governor Matolcsy for his valuable insights. Building on some of the points raised, I would like to give the broad topic of central bank cooperation a somewhat more specific twist.

When talking about institutional cooperation, especially within such a diverse group of countries, we can indeed think of numerous possible layers for collaboration – from simple capacity building and information sharing to more complex aspects such as reserve management or bilateral swap lines. Yet in my remarks I will focus particularly on an emerging issue that we are still only getting to know – that is innovative financial technologies, or FinTech.

I believe that this topic is of equal interest both in Europe and China.

Let’s look at the numbers. In the first half of this year alone global investment in FinTech companies hit 58 billion US dollars. In this regard, both Europe and China are among the leading markets worldwide. Even though I am representing the European side, I have to admit that in some domains – such as the level of FinTech adoption by the population – China is way ahead of its European peers.

While FinTech is a rather new phenomenon in the central banking community, much has already been said and written on this topic. I am pretty sure that most of you are well aware of the pros and cons associated with financial innovations, so I will not go into details on this issue. Yet let me just briefly mention some of the benefits and risks brought about by FinTech that I find key.

Looking into the benefits side, FinTech offers possibilities to boost economic growth by providing additional sources of credit, which is especially relevant for SMEs. In fact, it is estimated that by 2024 the global peer-to-peer market will be worth nearly 900 billion US dollars, growing by roughly 50% annually. I must say – quite an impressive trend, illustrating the scale of opportunities that alternative funding sources hold.

Financial innovations may also enhance financial inclusion. World Bank data indicates that over 1,7 bn people globally still do not enjoy access to the formal financial system. FinTech solutions – such as mobile payments or crowdfunding platforms – can play a critical role in this regard, helping to ‘democratize’ access to finance and deepen our financial markets.

On top, FinTech creates instruments that may be used in enhancing the efficiency of financial sector regulation and oversight. Here I have in mind particularly the possibility to employ RegTech and SupTech tools to boost AML/CFT compliance. With the amount of money laundered globally ranging from 800 billion to 2 trillion US dollars each year, FinTech can definitely lend a helping hand.

Moving on to the challenges, what stands out is the potential impact of FinTech on the broader financial system.

By building novel consumer relationships, FinTech firms put pressure on the operative models of established financial institutions. To be more precise, nearly 90% of incumbents in Europe and Asia claim that at least part of their business models is at risk due to rising competition from innovators. This suggests that traditional players either have to change, or they risk losing market share – or even being completely pushed out of game.
Yet it is not only established financial institutions that need to change. The regulator community is facing a similar challenge. Without adapting our frameworks, we risk being sidelined and unable to meet expectations – especially when it comes to issues like ensuring financial stability. More and more regulators around the world – including within the 16+1 framework – seem to have realized this, tailoring their toolkits and choosing to facilitate rather than restrict innovations.

As we move towards more regulatory flexibility, we have to remain alert concerning the new risks stemming from FinTech. This has to do, first and foremost, with cyber security. Relying on novel technological solutions, such as cloud computing, certainly offers efficiency gains for financial entities. But it also creates additional headaches for regulators, as critical ICT infrastructure of the supervised institutions, as well as vast amounts of sensitive data are exposed to hacking and other forms of malware.

Apart from this, it is essential to keep a close eye on the potential intensification of macrofinancial risks. While currently FinTech does not pose a direct threat to financial stability due to its limited overall size, the situation may change rapidly if left unchecked, especially given the rapid expansion of the sector. And a hidden build-up of risk is definitely not the outcome we as regulators would like to see.

FinTech developments have also lately attracted elevated attention from international financial institutions. Various risk mappings and assessments of the opportunities embedded in financial innovations have been carried out by the Financial Stability Board, the Basel Committee on Banking Supervision and other key bodies. Just last month the International Monetary Fund announced its FinTech Agenda, which will serve as the basis for deeper Fund’s involvement in the field – primarily in terms of coordinating a more coherent international approach towards FinTech and assisting member countries in constructing their domestic policy frameworks.

While the multilateral response is useful and creates ground for the spread of best-practices across borders, authorities must do their part domestically too – especially when bearing in mind that most international initiatives are still at an early stage. It is therefore up for each regulator to choose their own standpoint on FinTech. In this vein, I will briefly present the approach that we have adopted and been implementing at the Bank of Lithuania.

What we do is position ourselves not merely as a watchdog, but also as a supportive regulator. In practice, this attitude is reflected in formats such as the ‘Newcomer’ program, which is a one-stop shop for new market entrants, providing consultations and advice on establishment, licencing and related issues. We have also recently launched a regulatory ‘sandbox’, which aims to facilitate and encourage the development of innovative financial products. At the same time, it allows building know-how and constantly upgrading our regulatory and supervisory instruments.

We are also among the few countries that provides non-bank financial entities direct access to central bank payments infrastructure – what we call ‘CENTROlink’. For FinTechs, this eliminates the need for intermediaries, placing innovative firms that choose to enter the market on equal footing with the established players, thus boosting competition in the financial sector.

Going further, Lithuania boasts one of the quickest and most cost-competitive FinTech licencing regimes across Europe, coupled with a broad choice of business models – from e-money and payments institutions to specialized banks.
And what you get is not simply a Lithuanian licence – it gives you access to the whole Single Euro Payments Area. Despite the speed and flexibility of our licencing regime, we maintain the highest standards and a strict and responsible overall outlook when it comes to risks, especially in the AML/CFT field.

Lithuania’s favorable regulatory environment has been recognized internationally and allowed Lithuania to become one of main gateways for third country FinTechs to enter the European payments and banking markets.

Entities with origins ranging from the US to Singapore have already used this gateway. A substantial part of third country firms choosing to enter the European market via Lithuania come from Asia and China in particular. In fact, several Chinese e-money and payments institutions have already established presence in our country, with more currently in the consultative phase. The amount of interest that we have been receiving lately indicates that there should be yet more to come in the near future. This is fueled partly by the ongoing Brexit process, which pushes UK firms to reallocate themselves to Europe if they wish to maintain their continental operations.

Aiming to further boost the standing of Lithuania as a FinTech hub, we are actively expanding our network of cooperation with foreign regulators. For instance, the Bank of Lithuania has signed FinTech cooperation agreement with the Monetary Authority of Singapore. We also have a supervisory agreement with the China Banking Regulatory Commission dating back to 2015 and we are currently in process of updating it to include FinTech and AML/CFT issues.

As for the 16+1 cooperation framework, I personally see this as a unique platform for deepening ties in the FinTech domain. It provides us with a setting that allows exchanging information, sharing the emerging best-practices, building mutual trust and facilitating day-to-day regulatory cooperation. Of course, these tasks are easier reached with dedicated formats. It is for this reason that Lithuania will be hosting a high-level 16+1 FinTech Forum next autumn, bringing policymakers together to consider practical ways of enhancing cooperation in the sector.

And that is not all. Next year Lithuania is planning to launch a 16+1 FinTech Coordination Centre. Operating in our capital city Vilnius, this centre will strive to involve decision makers, regulators, members of the academia, the civic society and industry representatives. Its key goal will be to facilitate continued dialogue and circulation of knowledge among the 16+1 countries regarding innovations in financial services. For instance, the centre could analyze the potential of the blockchain technology, application of artificial intelligence and big data solutions, as well as dealing with cyber security, consumer protection and operational risk management issues.

I sincerely hope that both formats – the high-level forum and the FinTech coordination centre – will attract substantial interest within this framework and that the interest will stem outside the regulator community. Instead of a conclusion, let me just say that I hope that in several years’ time, we will be able to look back and say that the topic of financial innovations is a true success story of the 16+1 cooperation, demonstrating the effectiveness and significance of this format.

Thank you.