

Yannis Stournaras: Launch of the Regulatory Sandbox of the Bank of Greece

Opening address by Mr Yannis Stournaras, Governor of the Bank of Greece, at the launch event of the Regulatory Sandbox of the Bank of Greece, Athens, 2 June 2021.

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It is my great pleasure to welcome you to today's event launching the Regulatory Sandbox of the Bank of Greece.

First of all, I would like to extend warm thanks and welcome Ms Andreea Moraru, ERBD, Director, Regional Head of Greece & Cyprus, and Mr Mario Nava, Director-General, Directorate-General for Structural Reform Support (DG-REFORM), European Commission, who will be taking the floor afterwards. This project would not have been possible without the financing of the EU, continuous support from the European Commission and technical assistance from the EBRD, all of which are gratefully appreciated. I would also like to thank Ernst & Young for their support as consultants on the implementation of the Sandbox, to continue until February 2022, as well as all the colleagues from across the Bank's Departments who contributed to the project with dedication and commitment and who, as of today, will assume the task of supporting its operation.

The Bank of Greece attaches great importance to Innovation, all the more so as it expects that the end of the pandemic will shape a new social and economic reality, primarily digital, in which knowledge, scientific research, technology and innovation will be the main drivers of prosperity.

With specific regard to financial services, the integration of technological innovation has become an undeniable reality, closely linked to technological progress and the use of new technologies in numerous business activities and social interactions. The financial system, incumbents and start-ups alike, is undergoing digital transformation at an increasingly faster pace. The pandemic has further accelerated this process, particularly in such areas as e-commerce, contactless transactions through cards or e-wallets and electronic money transfers in general, instant versions of which will soon become possible in Greece as well, once we join TIPS, the Eurosystem's TARGET Instant Payment Settlement market infrastructure service.

Businesses have been transforming both their internal infrastructures and processes and their channels of interaction with customers. This trend towards transformation is reinforced by growing demand for easy and quick access to all kinds of digital applications. Businesses can now enrich and develop their services by tapping into diverse data sources and big data analytics processes, until recently either unavailable or technically unfeasible.

Digital transformation can strengthen competition and the supply of innovative products and services, often across borders. This means that businesses in smaller countries like Greece can penetrate international markets and obtain financing for their innovative ideas. Furthermore, the new financial technology ecosystem can function as an incubator for cooperation between incumbents and start-ups, benefiting all participants across financial sectors.

Against this background of innovative technologies combined with financial services, regulators and supervisors are responsible for ensuring the smooth functioning of the market within their respective mandates. Innovation can bring about major changes in the way businesses operate and market their services, but with these changes come potential new risks. These risks involve specific aspects of technologies or how they are applied. Also, heavy reliance on technological infrastructures can increase vulnerabilities in terms of information security.

The Bank of Greece, as an innovation facilitator through the establishment of the FinTech

Innovation Hub in 2019, the adoption of relevant regulation, including on digital onboarding, outsourcing, PSD2, and now the launching of the Regulatory Sandbox, seeks to understand the various aspects of innovation and to help harness its potential, while limiting any inherent risks. In this context, I would like to focus on the three main reasons for implementing the Regulatory Sandbox.

Regulatory Sandboxes are globally seen as mechanisms facilitating financial technology, just as Innovation Hubs are. As you probably know, the Bank of Greece has been operating its own Innovation Hub since 2019 and recently published a report on the second year of its operation. The primary objective of the Regulatory Sandbox is to provide an additional mechanism facilitating the supply of innovative financial services and products, while at the same time safeguarding the efficiency and stability of the financial system.

It is important to note that, as is the case with similar initiatives of other authorities mostly in the EU, the Regulatory Sandbox that we are launching today is a regulated environment and should not be perceived as a testing ground where laws and regulations do not apply. Rather, its purpose is to enable market participants and the Bank to engage in a constructive dialogue that will translate into potential regulatory reforms and help to strike the right balance between financial innovation and risk reduction.

As already seen from the queries we have received through the Innovation Hub, the integration of innovative technological features into financial services can give rise to uncertainty about the existence of a relevant regulatory framework or the applicability of the existing regulatory framework to a particular innovation.

Two typical examples of such innovations are the ones based on distributed ledger technology (DLT) and the ones based on Artificial Intelligence (AI). Regarding the former (DLT), in September 2020 the European Commission adopted a proposal for a Regulation as part of its digital finance strategy. Regarding the latter (artificial intelligence), a proposal for a Regulation was adopted by the European Commission just recently.

The second objective of the Sandbox is to enhance legal certainty, i.e. to clearly delineate the scope of the regulatory framework within which an authorised institution may deploy a service, also identifying possible points of friction or needs for additional regulatory initiatives.

The third objective of the Regulatory Sandbox is to promote knowledge. In particular, collaboration with Sandbox participants will provide a two-way opportunity to disseminate and build up knowledge around financial technology. This knowledge will give us additional tools in order to inform our regulatory and supervisory approach, as and where appropriate. This can be done either on the initiative of the Bank itself, taking into account the relevant risks and the required risk management mechanisms, or in the context of EU legislation initiatives. By way of illustration, in 2020 the Bank's Executive Committee adopted an Act on the terms and conditions for remote electronic identification of natural persons as part of a digital onboarding process.

I should stress that the operation of the Regulatory Sandbox is an innovation, even for the Bank itself and a different, supplementary and structured approach to the exercise of its supervisory functions. Recognising the challenge that this poses, we will be constantly monitoring and reviewing the procedures that we have put in place, so as to ensure that these objectives are met in the best way possible.

In later presentations today, you will have the opportunity to hear details about how to access the Regulatory Sandbox and how it works. I look forward to your feedback on this new innovation facilitation mechanism that we are launching today.

Closing remarks

In closing today's event, I would like to thank all the speakers and participants for their attendance.

In summary, the Regulatory Sandbox will enable supervised FinTech firms to test innovative solutions in a protected environment under the auspices of the Bank of Greece. Thus, it will serve as a further driver of FinTech and innovation in Greece, in addition to the Innovation Hub.

Moreover, the Regulatory Sandbox will foster the market availability of innovative solutions, while safeguarding financial stability and the efficiency of the financial system. It will enhance legal certainty, particularly with regard to the application of the regulatory framework to innovative proposals. Meanwhile, the Regulatory Sandbox will enable the Bank of Greece to deepen its knowledge of financial innovation and, where appropriate, fine-tune its regulatory and supervisory approach accordingly.

This major project would not have been feasible without funding from the European Union, support from the European Commission and the EBRD, as well as the technical support received from Ernst & Young. We owe you a big 'thank you' for supporting our vision, and it was a great pleasure to have you with us today. Again, I wish to thank the Bank of Greece staff for their hard work in achieving today's milestone and for the support that they will continue to provide now that the Regulatory Sandbox has become operational.

The Bank of Greece closely monitors developments in the area of innovation in Europe and the rest of the world, and will continue to do so in future. The Regulatory Sandbox was set up drawing on the operational features of similar schemes in other countries, including Lithuania, whose central bank we had the privilege of hosting on today's panel. At the same time, the Bank of Greece is actively involved in European initiatives monitoring advances in financial innovation and reviewing relevant regulatory and supervisory developments.

However, the work of the Bank of Greece in the area of innovation does not end here. As pointed out earlier, in the initial phase the Regulatory Sandbox will be intended for use only by authorised firms and for services authorised by the Bank of Greece. Further down the road, our goal is to expand the scope of the Regulatory Sandbox to enable non-authorised financial firms to test their innovative solutions. A future version of the Regulatory Sandbox could be expanded to institutions established in another EU Member State and operating branches in Greece, in cooperation with the supervisory authority of the home Member State.

Furthermore, the current version of the Regulatory Sandbox relies on customised guidance and active dialogue as its primary tools. A future version of the Regulatory Sandbox could also benefit from other, more drastic tools, for instance the lifting of particular requirements, where permitted by law, or the granting of an authorisation under restrictions.

In conclusion, as of today, the Bank of Greece will be accepting applications from FinTech firms for participation in the Regulatory Sandbox. We look forward to receiving the innovative ideas to be tested under our close guidance and support before they are put on the market.

Once again, thank you for your participation in today's event.