BANK FOR INTERNATIONAL SETTLEMENTS

Financial inclusion and the fintech revolution: implications for supervision and oversight

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Welcoming remarks at the Third GPFI-FSI Conference on Standard-Setting Bodies and Innovative Financial Inclusion – "New frontiers in the supervision and oversight of digital financial services"

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Ladies and gentlemen, it is my great pleasure to welcome you to this Third GPFI-FSI Conference on Global Standard-Setting and Innovative Financial Inclusion. I would like to thank the Global Partnership for Financial Inclusion (GPFI) and our Financial Stability Institute (FSI) for once again bringing together representatives from standard-setting bodies, multilateral organisations and national authorities for this biennial event. The theme this year is "New frontiers in the supervision and oversight of digital financial services".

When I opened our previous gathering in October 2014, I expressed amazement at the pace of change. I cited, as an example, the growth of digital financial services resulting from the wider availability of mobile phones. Looking back, the 2014 conference marked the first time we used the term "digital financial inclusion". It was also the first time most of the organisations present in this room came together to consider the shifting risks posed by the spread of digital transactional platforms designed to bring much needed services to the world's financially under-served – then estimated at 2.5 billion.[1]

Now, just two years later, the pace of change seems only to be increasing – as does the urgent need for collective action, a theme to which I shall come back. The forces shaping and accelerating this change challenge us to revisit fundamental questions about the role of finance, the responsibilities of public authorities, and the power of private actors – including outsiders to traditional finance. For instance:

– What is the purpose of finance in relation to the real economy and how is this purpose evolving?

– How would the answer to this question vary for countries at different income levels? Or for countries without stable economies or governments – such as those in conflict?

– How can financial sector policy, regulation and supervision contribute to inclusive economic development, especially when digital technology is increasingly driving change?

Forces making (digital) financial inclusion more relevant

Let me elaborate on a few of the forces that I believe have taken on increased relevance since we last met.

1 Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer and Peter Van Oudheusden, "The Global Findex Database 2014: measuring financial inclusion around the world", *Policy Research Working Paper* 7255, 2015.

– The number of migrants, refugees and other displaced persons around the world is rising to new highs.[2] The safe and effective disbursement of aid and the proper integration of resettled persons are pressing priorities.

– The impact of climate change on people's livelihoods, especially in rural areas, is increasingly apparent. Means to cope with the resulting income uncertainty and to facilitate the needed adjustments are in demand.

– Amid regulatory and profit pressures, banks have cut activities that are deemed too costly to be commercially pursued. The reduction in correspondent banking relationships and cross-border remittance services, for instance, raises concerns that some parts of the world are being shut out of these formal financial channels.[3]

– The wider use of digital technologies has a dark side in the increasing pervasiveness and scale of cyber-attacks, which have posed privacy, security and integrity threats.[4] Greater awareness of cyber-risks is prompting a rethink of the trade-off between efficiency and security in financial services.

Encouraging developments since 2014

While there are challenges, there have also been encouraging developments since our last conference. For example:

– The adoption in September 2015 of the United Nations Sustainable Development Goals demonstrates growing consensus on the significance of formal finance in inclusive development.[5]

– The agreement adopted last December at the United Nations Climate Change Conference – or COP 21 – shows that there is political consensus among a large majority of countries to take climate change more seriously, despite varied national interests.

– The latest edition of the Global Findex Database shows that, between 2011 and 2014, the number of adults who do not use formal finance dropped by 20 per cent to 2 billion. The introduction of innovative digital delivery is a decisive factor behind the change, especially in developing economies.[6] I believe that our keynote speaker today, Sosthenes Kewe, will give us some interesting insights into the growth of digital financial services in Tanzania.

– Closer to home, coordinated efforts by international bodies and institutions to examine the extent of the decline in correspondent banking and its implications have led to a four-point action plan,

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2 United Nations High Commissioner for Refugees, *Global trends – forced displacement in 2015*, June 2016.

3 The World Bank's two 2015 surveys seek to document the reduction in correspondent banking relationships and activities in the remittance market: http://www.worldbank.org/en/topic/financialmarketintegrity/publication/world-bank-group-surveys-probe-derisking-practices. The CPMI's quantitative analysis of correspondent banking using data from SWIFT shows great heterogeneity of developments in different jurisdictions: http://www.bis.org/cpmi/publ/d147.htm.

4 Europol, *Internet Organised Crime Threat Assessment (IOCTA) 2016*, September 2016; and PricewaterhouseCoopers, *Global Economic Crime Survey 2016: Cybercrime*, 2016, http://www.pwc.com/gx/en/services/advisory/consulting/forensics/economic-crime-survey/cybercrime.html.

5 Leora Klapper, Mayada El-Zoghbi and Jake Hess, *Achieving the sustainable development goals: the role of financial inclusion*, Consultative Group to Assist the Poor, April 2016.

6 Demirgüç-Kunt et al (2015), op cit.

announced last November.[7] I trust that we will hear more about this work when Alexander Karrer, Chair of the Coordination Group on Correspondent Banking, addresses this conference tomorrow morning.

– The collaboration between the GPFI and standard setters has broadened and deepened, as evidenced by the second GPFI White Paper, *Global standard-setting bodies and financial inclusion: the evolving landscape*,[8] published in March. I am pleased that the BIS, home to five of the collaborating organisations, was able to serve as the venue for preparatory meetings for the White Paper.

– Beyond this type of collaboration, the BIS and the BIS-based committees have also enriched their own work. For example, in November 2015 we had the honour of welcoming Her Majesty Queen Máxima here as guest speaker, challenging central bank governors to think about how financial inclusion intersects with central banking. This year, we have new publications on how financial inclusion is measured, on how it affects central bank policies, and on how it relates to payment system issues and banking supervision.[9]

Fintech revolution: implications for supervisors and overseers

Perhaps the change of greatest import to this gathering is the fintech revolution.[10] The further penetration of mobile telephony and internet use, the availability of high-speed computing, advances in cryptography, and innovations in machine learning and data analytics are only some of the elements behind the latest fintech wave. More notably, the revolutionary change is also one of attitude.

A consensus is emerging that technology-driven change is inevitable, and that it brings with it massive potential for disruption. I believe this will be an overall positive development, although the final balance will depend on, among other factors, how the authorities respond – both at the domestic level and at the global level.

What does this mean for supervisors and overseers, in particular? Let me propose four areas to consider.

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7 Financial Stability Board, *Report to the G20 on actions taken to assess and address the decline in correspondent banking*, November 2015, and *Progress report to G20 on the FSB action plan to assess and address the decline in correspondent banking*, August 2016.

8 http://www.gpfi.org/publications/global-standard-setting-bodies-and-financial-inclusion-evolving-landscape.

9 Basel Committee on Banking Supervision, *Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion*, September 2016, http://www.bis.org/bcbs/publ/d383.htm (the page also lists a number of related publications from the BIS and BIS-based committees).

10 PricewaterhouseCoopers, *Blurred lines: how FinTech is shaping financial services*, March 2016, http://www.pwc.com/fintechreport; Accenture, *Fintech and the evolving landscape: landing points for the industry structure*, April 2016, http://www.fintechinnovationlablondon.co.uk/pdf/Fintech_Evolving_Landscape_2016.pdf; and Banco Bilbao Vizcaya Argentaria, "Fintech revolution", April 2016, http://www.centrodeinnovacionbbva.com/sites/default/files/ebook-cibbva-revolucion_fintech-eng-pc.pdf.

First, given the dynamics of technological innovation, it is vital to keep up with the developments and learn about their application to finance. This requires, among other efforts, greater engagement and dialogue with the private sector and innovators.[11]

Second, given the changes in finance, capacity-building is needed to help supervisors and overseers do their job well. I am pleased to see that the FSI embraced this challenge when in July it held a "Meeting on financial technology developments in the banking industry – implications for bank supervisors and central banks".

Third, the actors in fintech include non-bank financial firms, as well as non-financial firms such as tech companies and network operators. This means that the authorities responsible for the more traditional areas of finance will need to cooperate more with other authorities at the national level – to exploit synergies where appropriate, to fill in the gaps, to balance different interests, and to avoid working at cross-purposes.

And fourth, technology as well as finance now span national borders. Cooperation at the international level is essential. The international cooperation agenda these days has many competing priorities. But thanks to the GPFI's efforts, the advocacy for financial inclusion is maintaining its momentum – as seen in its continued endorsement by G20 Leaders.[12] We at the working level will need to make tangible progress.

Here at the BIS, our work has always been about international cooperation, whether in specific areas of expertise or on matters that cut across multiple disciplines. Today, with the GPFI, we are happy to open our doors once again to the broader community of standard setters and other global bodies to further our work in financial inclusion.

In closing, let me thank the organisers again for their initiative. Many thanks also to the speakers and to all of you for being here to share your insights. I wish you all a very productive conference.

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[11] Global Partnership for Financial Inclusion, *GPFI Private Sector Engagement Strategy*, 2015, http://www.gpfi.org/publications/gpfi-private-sector-engagement-strategy.

[12] See the G20 Leaders' communiqués for the Antalya Summit in 2015 and the Hangzhou Summit in 2016. The GPFI submits annual progress reports and related documents to G20 Leaders on the occasion of their annual summits.