



Payments and fintech

Raúl Morales in collaboration with Laura Sanchez and Dr. Serafin Martinez
Fintech Forum Secretariat, CEMLA

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Disclaimer

Views expressed in this presentation are my own responsibility and do not represent the opinion of CEMLA, nor that of the Fintech Forum Membership.

Contents were prepared using information of the Fintech Forum of CEMLA established in 2018.

“We have an obligation to bring the financial system closer to the people so that everyone benefits from access to credit, savings and insurance products.

And we have an obligation to ensure that the benefits of innovation reach everyone and not just a portion of the population. We need to encourage ***fintech to be built “for the people”*** – old and young, rich and poor, expert and layman alike”

Keynote speech by Benoît Cœuré, Chair of the CPMI

14th BCBS-FSI high-level meeting for Africa on strengthening financial sector supervision and current regulatory priorities
Cape Town, 31 January 2019

Outline

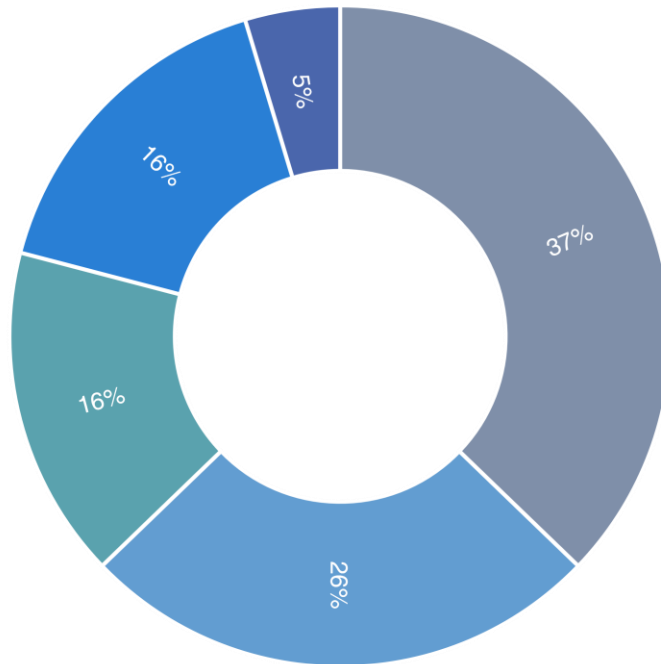
- Payments' innovations
- Fintech regional perspective
- Regulatory implications

Payments Innovations

Preliminary findings, CEMLA Payments Forum regional research,
2019



Retail is in the focus



- Speed
- Costs savings
- Remote access
- 24/7 real-time processing
- Other



Business models and products shifted to customer 360° tailored service

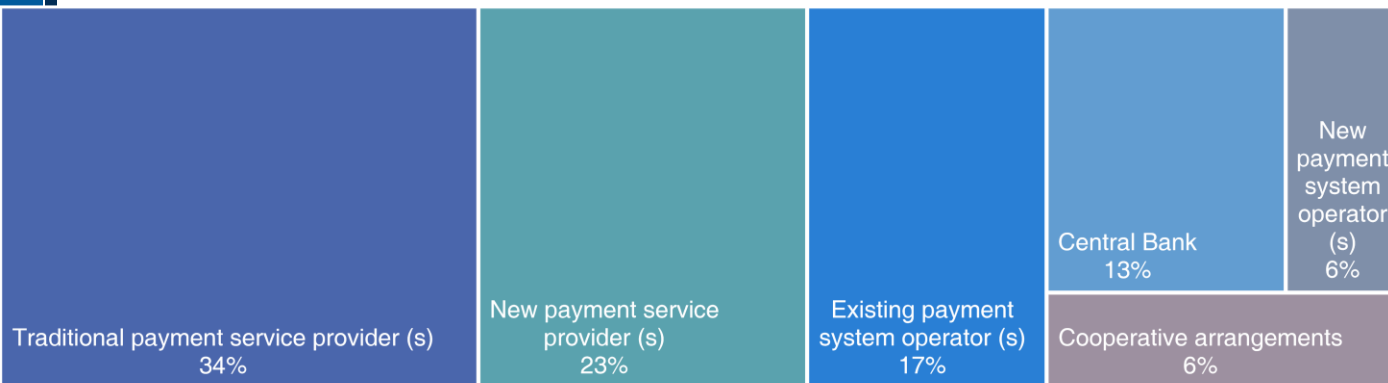
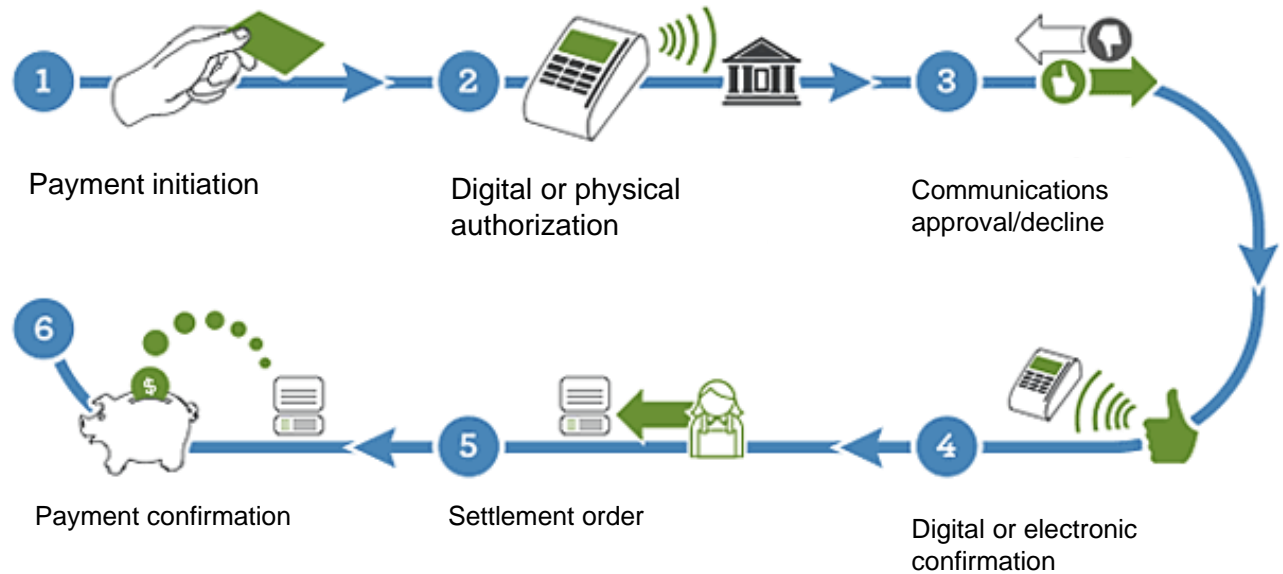


API keys to embedding new products, shifting connectivity and data transmission

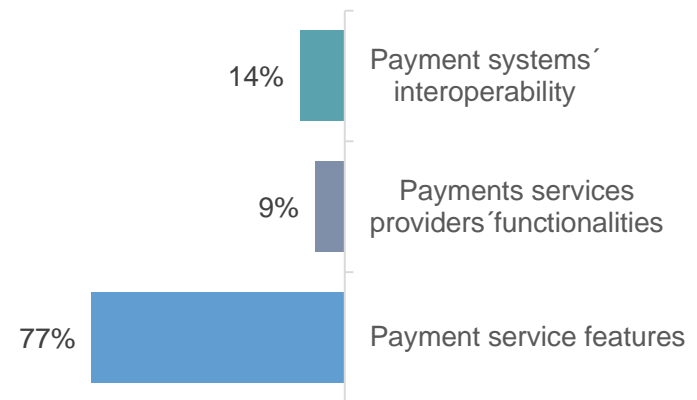
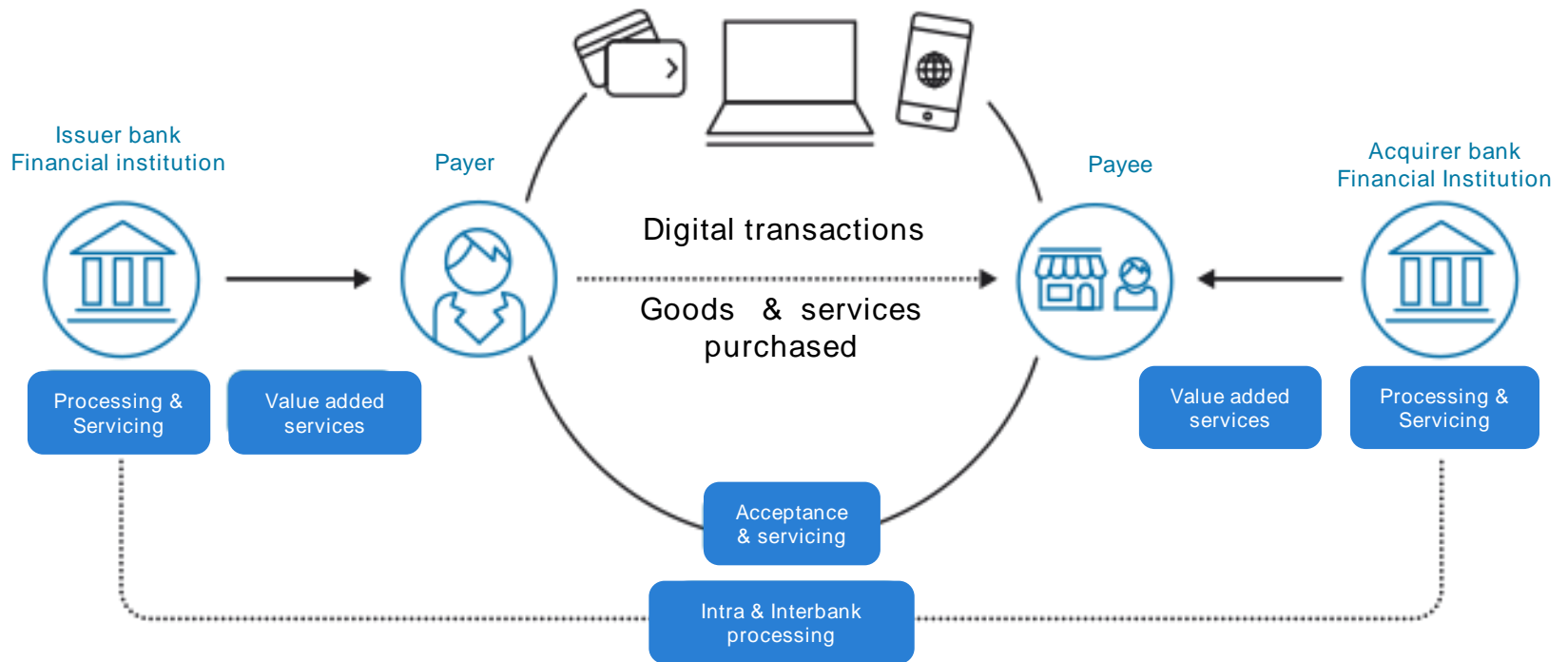


Cybercrime, a threat to new business models & products

Incumbents, new entrants, and central banks, too



Disrupting the value chain



Fintech across the region



Fintech Regional Perspective

Fintech Forum REG WG Report, 2019

Preliminary findings, CEMLA Payments Forum regional research,
2019

Potential of fintech



Authorities:
See fintech relevant for inclusion, competition and efficiency.

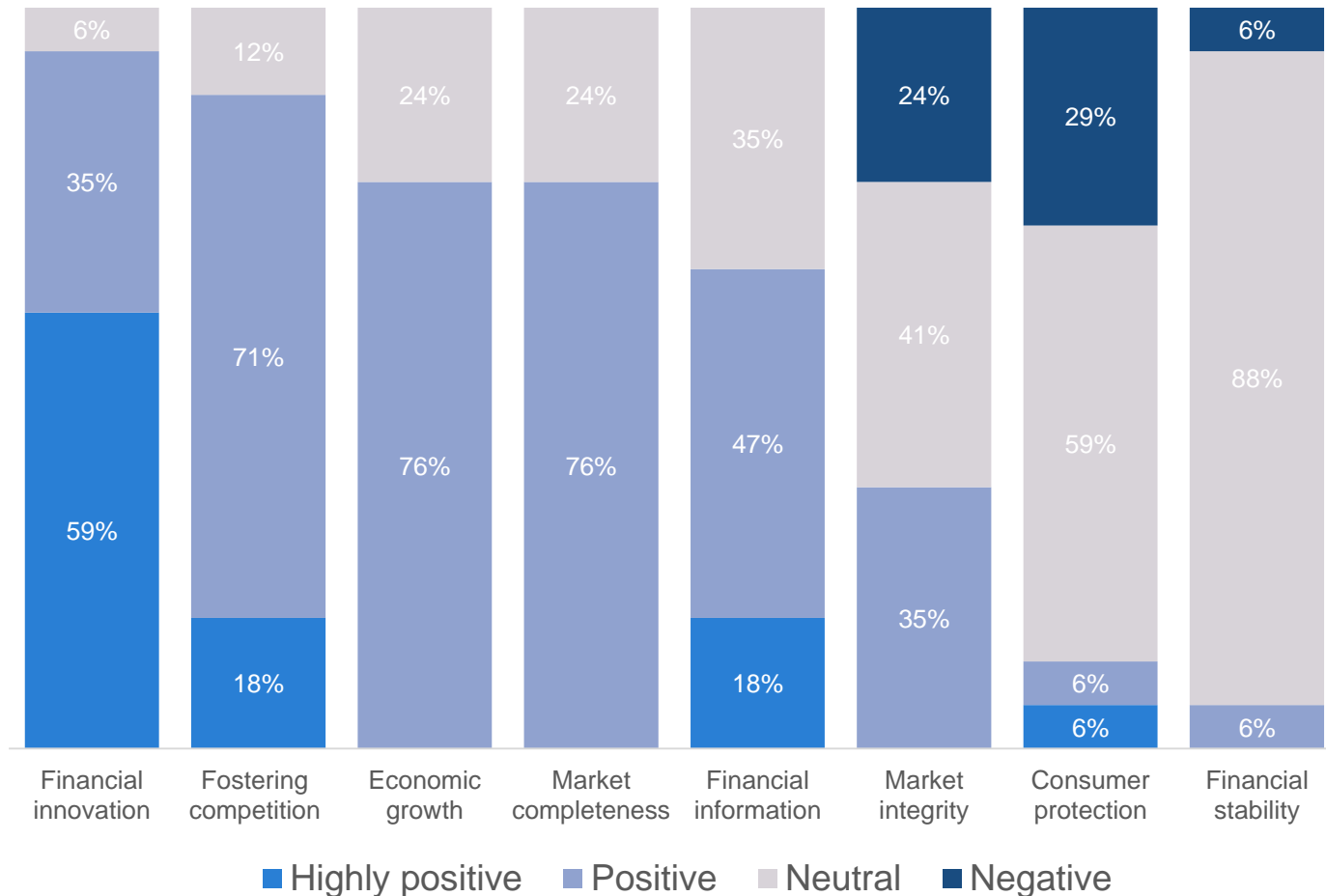


New entrants: see fintech as a game changer for financial inclusion, competition and a full transformation of finance.




Incumbents:
see fintech an enabler for enhanced efficiency and inclusion.

Fintech is impacting on...



Reintermediation by fintech

- Changes and rearrangements of technological innovation have led to the study of the effects on market concentration, as it has been the case in peer-to-peer economic activities
- Balyuk et.al.: Loan market - fintech companies:
 - Fintech start-up companies: P2P lending platforms.
 - Evolving:

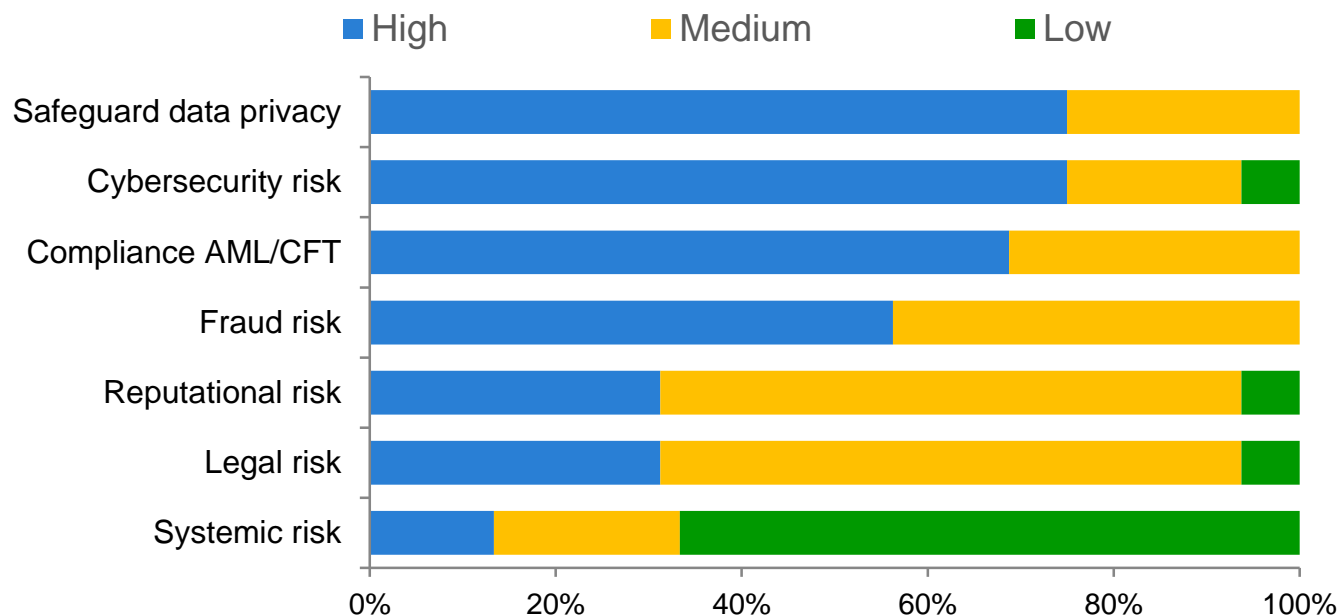
from trading venues  to new credit intermediaries
 - Potential situation: Moral hazard
 - A relevant finding is that given the increasing role of these new players, the end result may be a highly centralized market, with a few platforms' software replacing traditional intermediaries as a key decision maker, posing a challenge for regulators and prudential authorities.

Complex ecosystem

- Interconnectedness: important factor in the Global Financial Crisis.
- Risks implied by fintech:
 - For regional authorities: data privacy, cybersecurity and compliance AML/CFT (and traditional risks)
 - Off the radar: new interconnectedness by the technology that support financial innovations (pieces of software).
- Fintech implies an increase in the complexity of the financial networks.
 - Computer architecture
 - Software complexity
- Data importance to:
 - Study possible structural change
 - Analysis possible vulnerabilities
 - Established standards
 - Regulated fintech
 - Mitigate possible systemic risks

Authorities' fintech concerns

Risk exposure with fintech presence



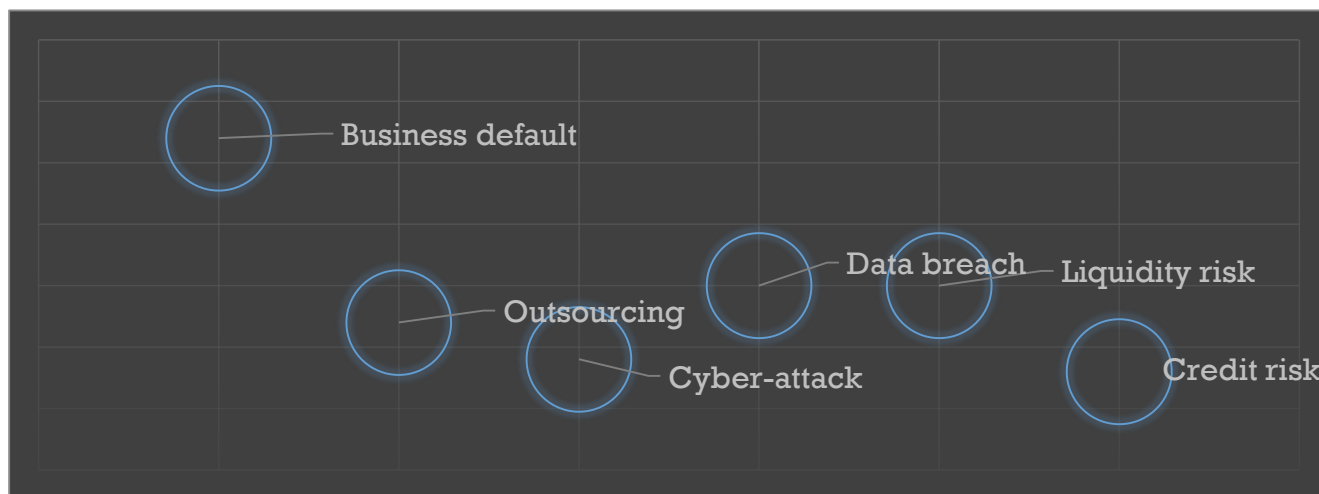
- Risks ranked as the highest: data privacy, cybersecurity and compliance AML/CFT .
- 63% ranked systemic risk as the lower risk.
- Reputational, legal and systemic risks are perceived as the least important.

Risk perception: public vs. private

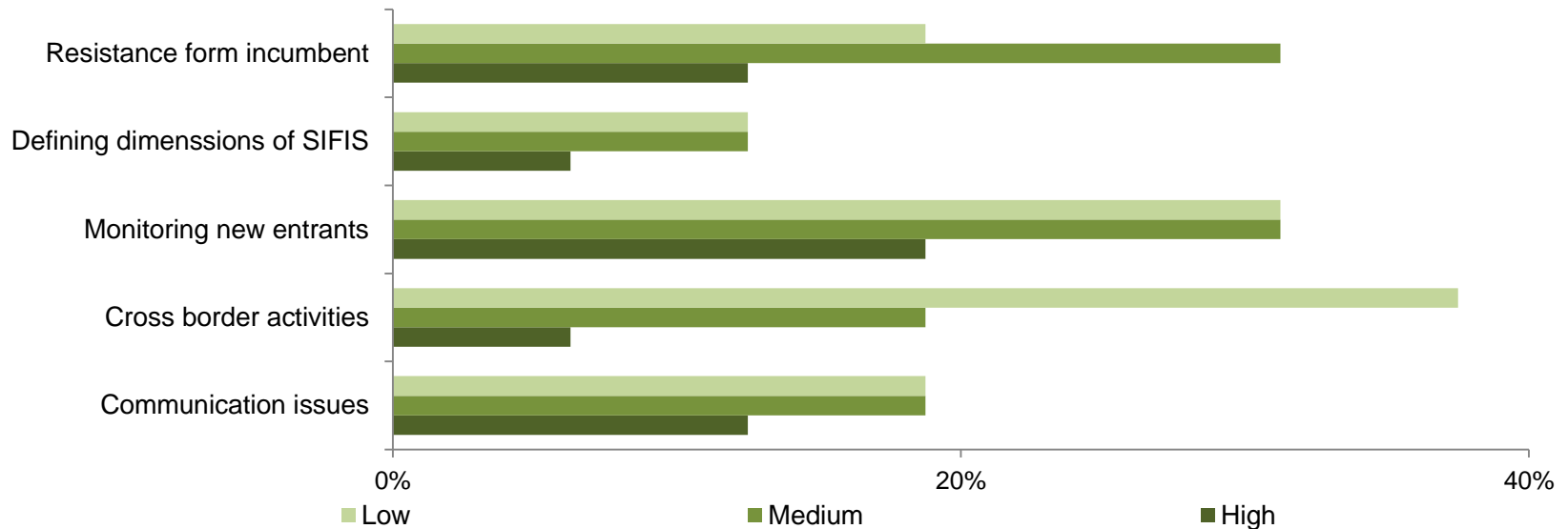
- Risks perception differs slightly among the relevant stakeholders:
 - All are worried about data privacy and cybersecurity.
 - Authorities consider AML/CFT compliance also relevant
 - Incumbents see operational risk as very relevant
- To address the fintech related risks, the policy agenda for central banks has several priorities:
 - Ensuring proportionality in regulation and risk management as the most relevant, followed by cyber and data protection

Emerging risks in payments innovations

- Operational risk is one of the highest concerns
 - Default of PSP, PSO, outsourcing (third party risk)
 - Data breach, cyber attack (cyber risk)
- Financial risk are seen more relevant for non-retail payments innovations (e.g. fast payments)
 - PSP and third parties funding is critical to address liquidity risk
 - Credit risk as result of CSM new arrangements, esp. w/ new entrants



Some regulatory gaps



- Monitoring new entrants and data availability arise as the main issues related to fintech.
- Coordination issues are frequently referred, in special the lack of clarity and attribution of responsibilities.
- Resistance from incumbents also referred on the need to address interoperability and competition aspects.

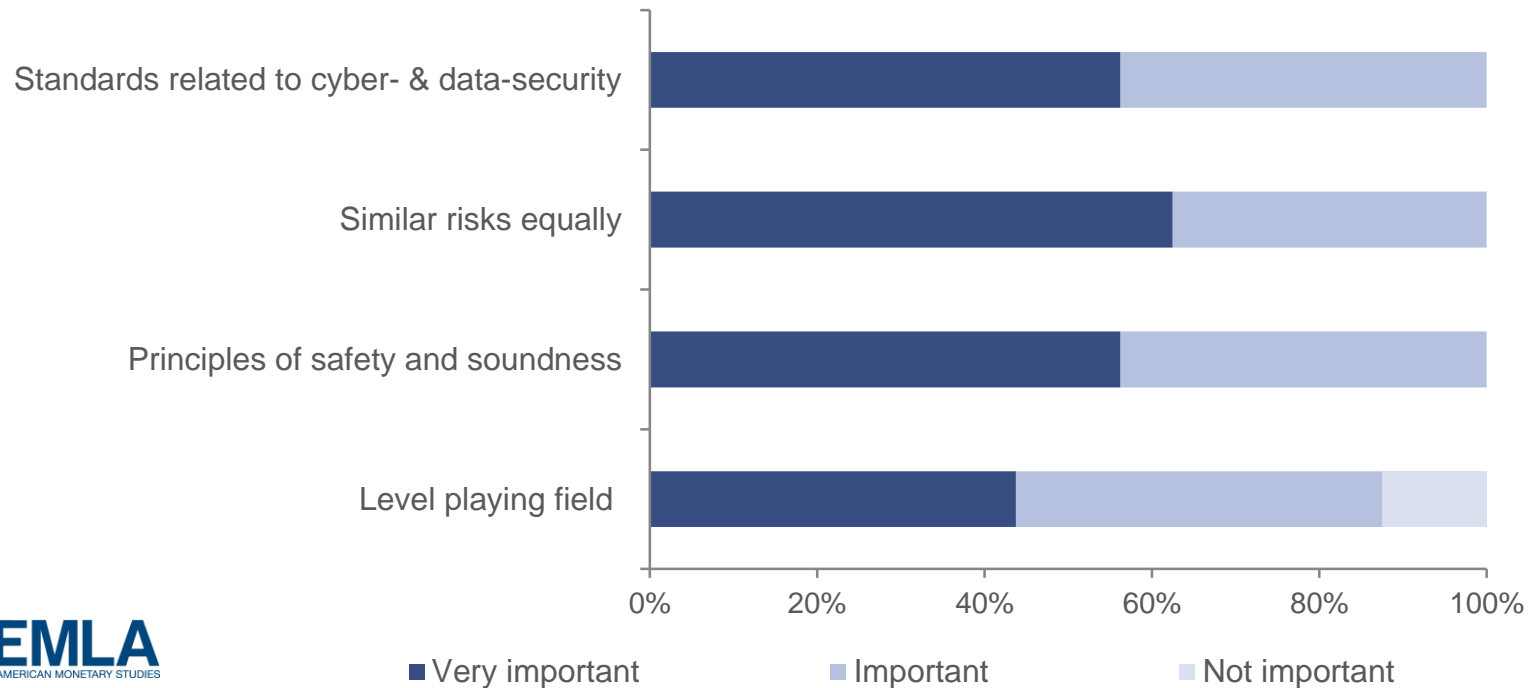
Regulatory implications

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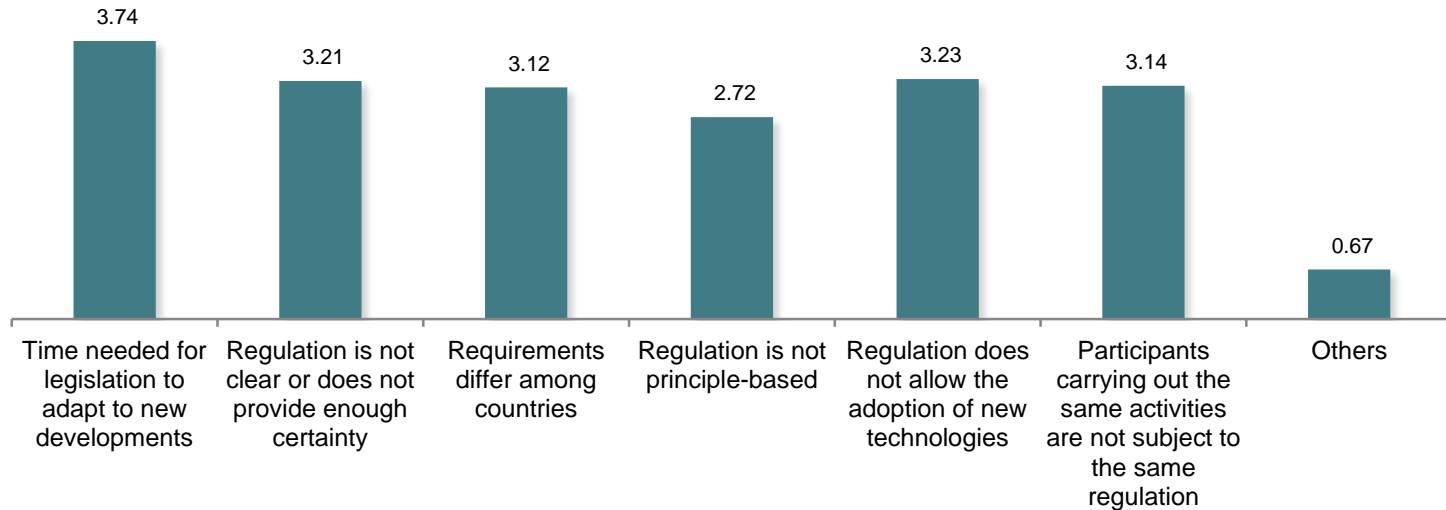
Priority focus of regulation

- A regulatory functional approach is seen as a priority to address “similar risks equally”
- Cyber and data security are also top priority to adapt regulation



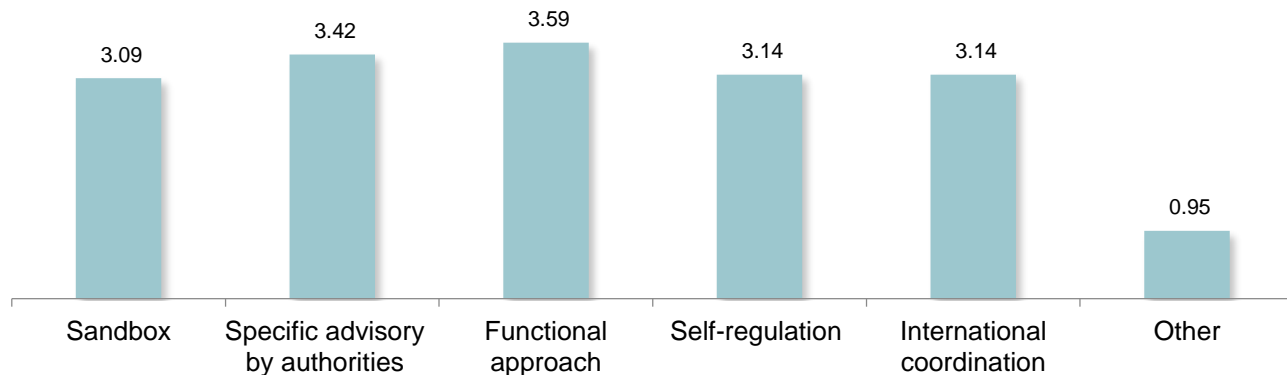
Taking the best approach

Regulatory barriers

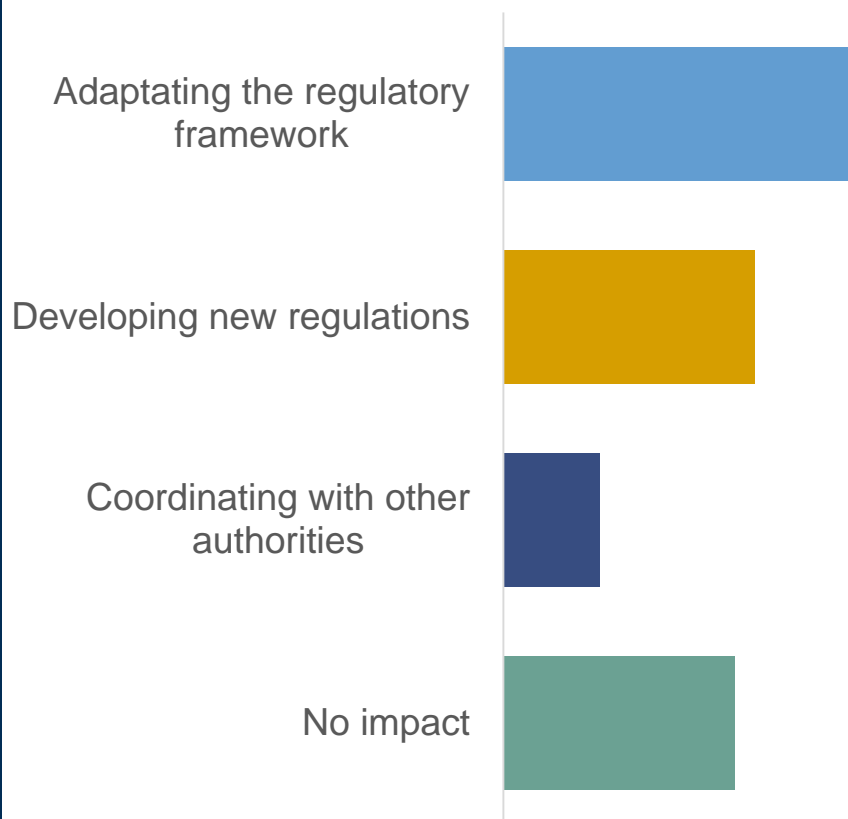


Best regulatory approach to enable fintech

Level of usefulness of regulatory approach to enable fintech and innovation (max. 5.0)

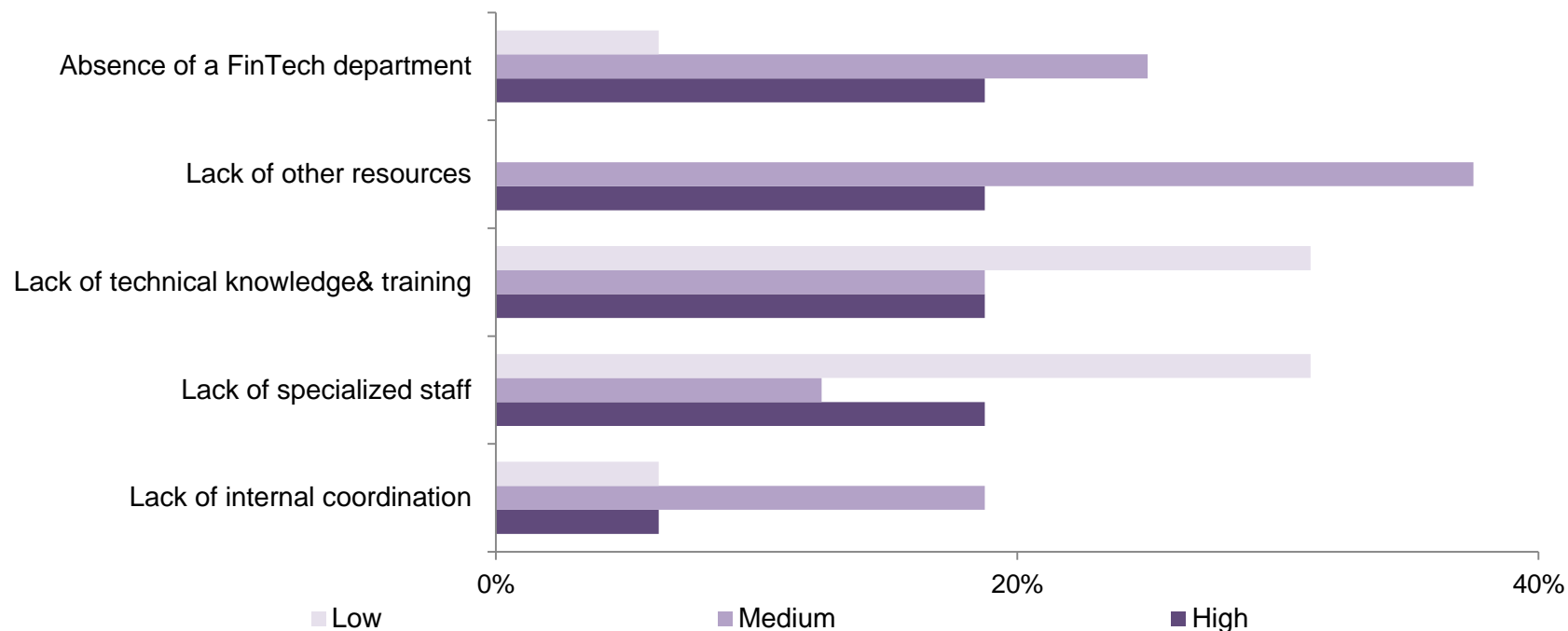


Regulatory implications with payment innovations



- Adapting current regulations more effective to embrace innovations
 - Guaranteeing funds and accounts management for new PSO
 - QR, NFC generally fitting in
- New regulations needed for products & schemes unfitting in the current framework
 - Schemes involving various parties, require enforcement via new rules
 - Data reporting (for monitoring) as a common concern for new products and PSP, PSO
- Coordination and communication w/ authorities and industry, playing a key role.

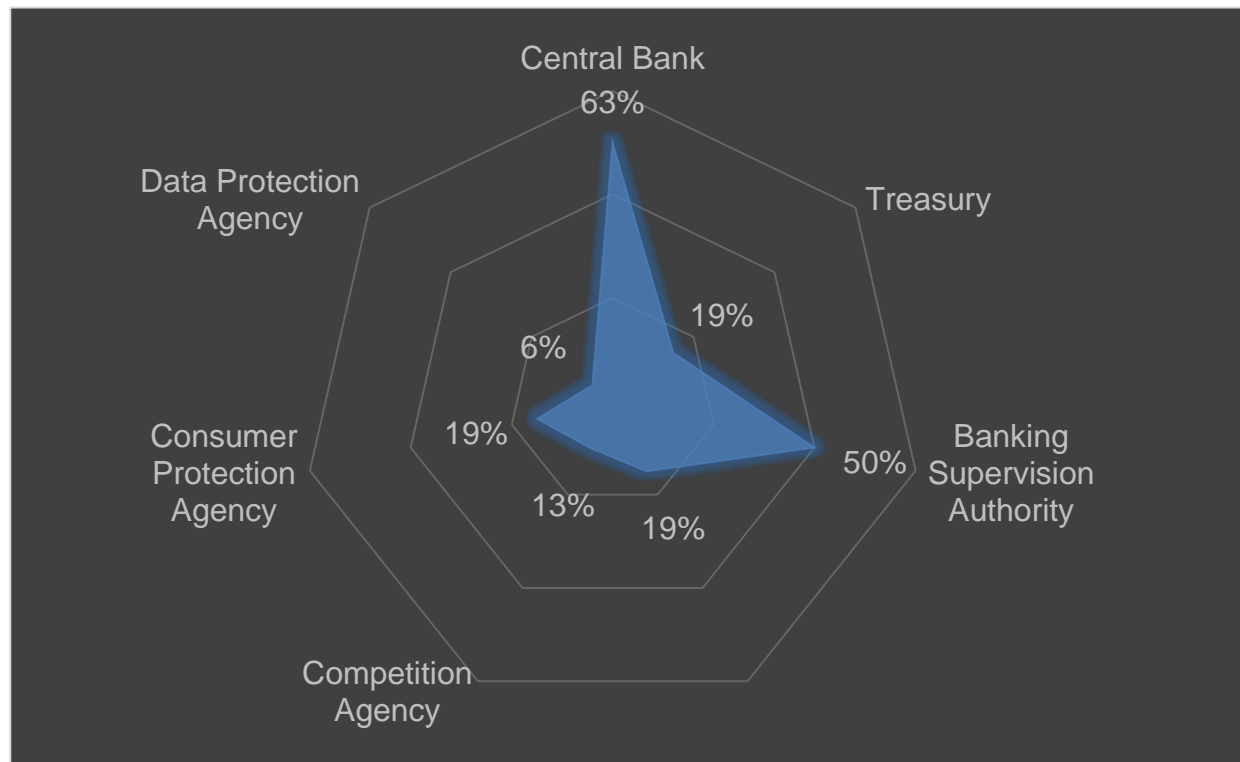
Authorities to build the capacity



- The lack of skilled staff on innovation and technology is seen as a barrier to properly monitoring fintech.
- Absence of a dedicated group could result in duplication of efforts or gaps regarding the regulatory powers.

Fintech, a matter of coordination

- Regional authorities, all indicate that there is a need of further involvement from all the relevant authorities.



Thank you for your attention