

II Meeting of the Fintech Forum

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Closing Remarks

Good afternoon, I'll wrap up this meeting by trying to summarize some of the insights I take from the various presentations and discussions. First of all, I hope that you all agree with the fact that these days have been highly informative, including raising various questions which still are a long way from having answers and/or from which lessons can be learned.

About the first day: I would agree with the panel members of the first session on the evident: we are in front of a significant major change for the financial services industry. Fintech is causing a radical shift of thinking. The industry representatives presented us with the *bright side* of technological innovation; let me recap some issues:

- *Artificial intelligence* (AI) is making it possible to overcome the trade-off between traditional vs. customized products from the cost perspective. AI could also expand the financial services provision through self-serve applications, or even the possibility of self-driving finance. Yet it is limited by the amount and quality of data AI processes.
- *Open banking* is focusing on the customers, not by creating new products, but by improving the efficiency of channels and platforms processing. Open banking is also fostering unseen partnerships between traditional and new players.
- Regarding *digital banking*, it was underlined that innovation, focused on the users' experience, is at the core of their "digital business model". In that sense, its strategy is based on the recognition of the power of data.
- Finally, in the case of *blockchain*, it was highlighted that this technology has opened the chance to truly decentralize the existing financial world. Tokenization of money for cross-border payments, and the possibility of borrowing collateralized liquidity or leveraging the global liquidity network, were some of the applications.

All of these technologies put data at the center of this transformation. In that sense, regulatory efforts for its adequate use and safeguard will be decisive. Market segmentation, new customer relationships, disintermediation processes, efficiency gains, processes optimization, are some of the concepts that our colleagues from the industry discussed in their presentations. This transformation could possibly represent a solution to unmet customer needs and to inefficient costs structures. But yes, these could also be only good intentions.

One of my takeaways of the dialogue with the industry is that one of the main challenges with new technologies reshaping the financial ecosystem could present itself in the mid and long-terms; indeed, we may face inefficient results including market power & pricing in the hands of non, under, or mis-regulated entities.

Another takeaway is the role of telecom companies. By their own nature, in many cases they are clear dominant players. In this context, of course, some of them want to get in on the action. This is, in my opinion, a potential weak spot that should be seriously addressed.

The “Panel: risks and challenges of the industry” was included with the idea of listening to the industry about a subject that they rarely discuss. Let me summarize some of the main ideas exposed:

- Cybersecurity issues represent an important obstacle for the materialization of partnerships between large, traditional financial intermediaries and small fintech companies. This is related to the fact that there is an important disparity in the different levels of maturity on cybersecurity between large financial intermediaries and small fintech companies.
- Let me add to what was said in that there is also a clear imbalance in many cases between the public sector’s optimal level of investment on cybersecurity and financial institutions’. In some cases, experience has shown that financial institutions tend to have suboptimal levels of investment in cybersecurity, and vulnerabilities have arisen from this that could lead to systemic risks.
- One industry participant suggested that Blockchain technologies do not pose systemic risk in the financial system; on the contrary, smart contracts, given their simplicity, could in fact reduce systemic risk, and could also be an adequate vehicle to implement regulation. To be quite frank, my perception is that this point was a little bit overplayed.
- The evolution of fintech activities may leave them outside the current financial regulation. That’s evident, and it is already happening, as many of you know.

As we witnessed, little was discussed in terms of risk management. And yes, it is not the industry’s role to address these matters, but ours. So, in these days of fintech promises, I invite you not to lose sight of all the possible emerging risks.

Let me turn now to the session entitled “The international fintech agenda and its implications for the region”, which was no less enlightening.

First, John Kiff illustrated how the Fintech Bali Agenda underlines the importance of data and experience sharing, as well as the strengthening of the institutional capacity of central banks and financial authorities. Concerning CBDCs, I would highlight the IMF’s recognition of the fact that motivations like financial inclusion could make a case for digital fiat money. That is, as long as a design choice is carefully assessed.

I think it was particularly important to hear the research efforts led by the CPMI in digital innovations. The CPMI underlined the importance of working with IOSCO in topics like the integration of trading, clearing and settlement platforms, as well as the securities

tokenization in light of new technologies, which I deem would be a game changer in many large international financial centers. We heard some very interesting words about the future role for the central banks' RTGS systems in this new set up for payments and market infrastructures.

The Irving Fischer Committee helped us to realize how important it is for the international community to both, develop a unique taxonomy for fintech (i.e. a common definition), and a data reporting framework as statistical inputs for central banks and financial regulators to properly understand and monitor developments and innovations based on new technologies. The discussions held by the group the day after confirmed the paramount importance data has as a strategic asset to monitor fintech developments and ultimately for designing and attuning the policy and regulatory frameworks.

Lastly, it was particularly important to hear the experience of ASBA in taking stock of regional developments from the viewpoint of financial regulators. A subject that I shall underline from Pascual's views is the role played by Big Techs and the related regional concerns, something which could lead to collaboration between CEMLA and ASBA.

Continuing with the following session "Central banks' efforts to deep dive in new financial technologies" we were briefed by the central banks of Canada, Hungary, Spain and the United States on their own fintech experience.

Ruth Judson talked about how the Federal Reserve System is approaching fintech by researching, regulating and monitoring these developments. In my opinion, the most important aspect to emphasize is that a better understanding of the core concepts (facilitated by research) allows for better monitoring. Additionally, given the complexity of the US financial system, regulatory efforts require appropriate coordination among the Board, the Reserve Banks, and other national agencies.

Carlos Conesa from the Bank of Spain briefed us on the internal adaptation of the central bank to approach financial innovation. We also heard about how the Spanish experience on a use case based on DLT brought about insightful conclusions on the scalability problems and immaturity of the technology, yet providing useful hands-on experience. Finally, Carlos talked about their regulatory sandbox.

László Ipacs brought to us the experience of the Central Bank of Hungary. He focused on the activities of the Fintech Lab that has served as a hub between the central bank and the industry, allowing a close contact with innovative developments. László mentioned that the innovation hub and the sandboxes (both of them being used at the central bank) could provide a possible solution to finding the right balance between a restrictive and lax regulation.

Paco Rivadeneyra, from the Bank of Canada, addressed the group with the past and recent work on digital currencies, focusing on the opportunities and the tradeoffs that CDBC's pose to central banks. Then, he explained the Fintech experiments (the Jasper Project) which has evolved from testing Large Value Payment Systems to Securities

Settlement and more recently to cross border payments in partnership with the Monetary Authority of Singapore and the Bank of England.

I will now briefly reflect on a range of topics that were the subject of discussion yesterday in light of the presentation of the two streams of work of the Forum. To start, I would stress out that both groups have addressed in an extremely balanced manner two relevant but challenging aspects. This work will be a purposeful vehicle for our central banking community to flag before the CEMLA Governors our understanding about the implications and challenges brought about by financial technologies and innovations.

With CBDCs, a gradual approach and experimentation are important elements to learn more about the operational and policy issues a central bank should bear in considering to embark in such a transforming project. In that vein, I also deem that experiences like the ones of Canada and Sweden are good examples of the progression and small steps that central banks must take in this field. In the near future, the Forum should be able to internalize the experience in the Caribbean and other regional cases that can contribute to the understanding of how convenient and necessary is it to digitize fiat money.

Another aspect with CBDCs is the design choice, because the trade-offs posed by digitizing banknotes and coins are relevant for central banks and the economy. Some of the aspects that CBDC design must comprise, include the involvement of the private sector, the IT infrastructure, adoption and education aspects, as well as the implications for the financial business models, to name just a few. Central banks should be also watchful of aspects like traceability, data privacy and cash pocket features. It is also true that in the region, financial inclusion efforts have led certain central banks (for instance, in the Caribbean) to engage in CBDC projects.

As regards the discussion of the regulatory working group, I think it is particularly important to note that the group agreed upon the need to pay special attention to aspects such as cybersecurity and a level playing field. These are both subjects not fully covered by the existing regulatory setup. Furthermore, it is desirable to promote coordination among relevant authorities to deal with this sort of challenges. Notwithstanding these needs, I consider it important that the group seems to be in agreement that, at this point it would be jeopardizing to provide specific recommendations, or a standardized framework in an attempt to embrace fintech developments, not just at a domestic, but rather at a regional scale. This, by no means, implies that collaborative efforts like the ones deployed by the Forum should stop; on the contrary, I would say that the observatory role played by the group can be deepened, especially with aspects like data requirements and potential risks that could emerge in the near future.

In the end, I feel that for now a great job has been achieved and a word of thanks for you all in contributing to these results.

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And this brings me to our last day. Listening to the fintech experiences on the regional central banks was enriching, since it allowed me to perceive how many different realities,

concerns and challenges on fintech we face. With this I confirmed that forums like this are a necessary vehicle for the region.

Last but not least, today's final session had the aim to discuss the way forward for the Forum. I consider that the topics that were just identified will guide us to new frontiers of knowledge that CEMLA's Membership will appreciate. I convey you to stay in touch with the team at CEMLA and, if possible, engage with our plan to launch the regional innovation hub. I can assure you that the guidance and support you will be given from our staff will be no less than mindful.

In sum, our time together these two and a half days has been well spent. We will return to our desks with a lot of food for thought. So, I think it is time for me to close the meeting by expressing again my appreciation to all of you. I would like to thank the speakers and the working group members for all these thought-provoking presentations and discussions. Let me remind you that we will be publishing the proceedings of the meeting, so that we have more time to think about the ideas that we have discussed here.

With no less importance, I think that we all know that behind the scenes there are very important people who have worked diligently to make this event come together. It would have been impossible to run this meeting smoothly without them. I would like to make explicit my thanks to all of them. Special thanks to Serafín Martínez Jaramillo, who has done a tremendous job and has outstanding intellectual leadership. Also, thanks to Raúl Morales and Yazmín Pérez, both of whom have turned out to be great assets for CEMLA.

Let me invite you to continue supporting the Forum activities and to approach us to explore new avenues for addressing the fintech challenge.

I wish you a safe journey back to your homes. Now, it is time for lunch, and for us to partake in some Mexican TNT. That is, tacos and tequila. Thank you very much.