

# A Global Perspective on Financial Innovation

Paul Wong (paul.wong@bis.org)

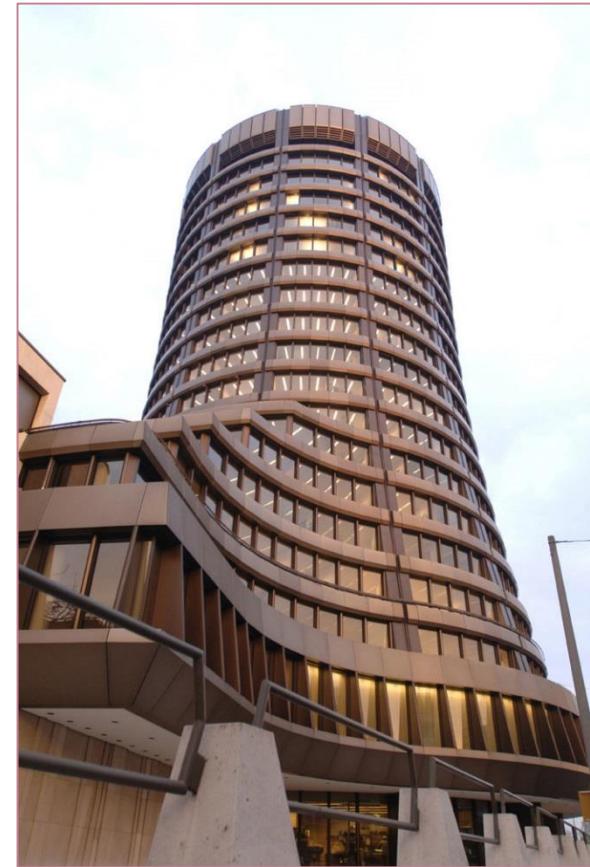
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\* Views expressed are those of the presenter and not necessarily those of the CPMI or BIS

# About the Bank for International Settlements

- Assist central banks in their pursuit of monetary and financial stability, **foster international cooperation** in those areas and act as a **bank for central banks**
- Hosts the Basel Committee for Banking Supervision, **CPMI**, Financial Stability Board, and the International Association of Insurance Supervisors
- Engaged in monitoring and assessing the **implications of digital innovations for the financial sector**



# A fast changing environment

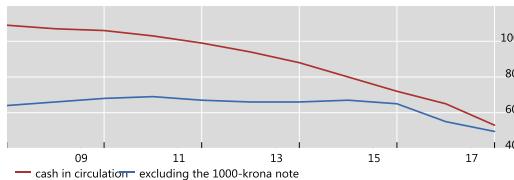
- How many make mobile payments?
- How many are comfortable with public peer-to-peer payments?
- How many can offer EUR/USD cross-border payments at this price?
- How many of you charge for stock purchases?
- How many of you can compete with these types of development?

*According to a McKinsey study, some market observers estimate that between 10-40% of revenues and 20-60% of retail banking profits are at risk over the next 10 years (BCBS 2017)*



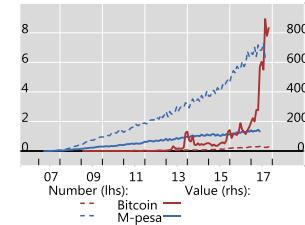
# Change by the numbers...

Cash in circulation in Sweden  
(including banks' holdings)



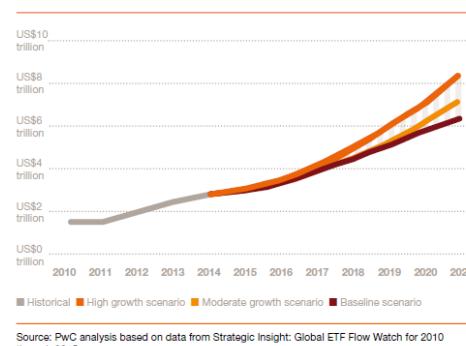
Source: Riksbank

Average daily bitcoin and  
M-pesa transactions



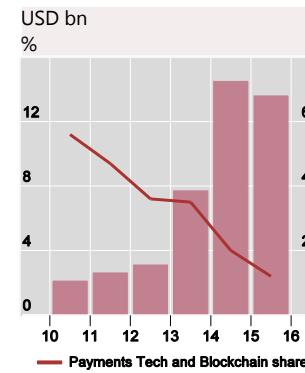
Source: CPMI

Estimated global EFT AUM growth through 2021



Source: PwC

Venture capital fintech funding



Source: KPMG

# Business threat landscape

- Consumer preferences, technology and financial regulation are driving financial innovation
- Innovation is affecting materially **every bank business line** and **every traditional “advantage”** of a bank

Business lines	Traditional advantages	Challenges
<ul style="list-style-type: none"><li>• Deposits, lending and capital raising</li><li>• Payments, clearing and settlement</li><li>• Investment management</li></ul>	<ul style="list-style-type: none"><li>• Trust</li><li>• Network</li><li>• Relationship</li><li>• Access to central bank services</li><li>• High cost of entry</li></ul>	<ul style="list-style-type: none"><li>• Trust-based technologies</li><li>• Peer-to-peer networks</li><li>• Regulations (eg PSD2)</li><li>• Nonbank entrants</li></ul>



# Opportunities to leverage (new) technology

- Enhanced operational efficiency
- New product and service offerings
- Expansion of financial access
- More effective use of customer data
- Improved operational and financial risk management



# Five potential scenarios for the future

- Which scenario do you envision for your bank and why? What is your strategy?

Better bank	New bank	Distributed bank	Relegated bank	Disintermediated bank
Modernisation and digitisation of incumbent players	Replacement of incumbents by challenged banks	Fragmentation of financial services among fintech firms and banks	Incumbent banks become commoditised service providers and customer relationships are owned by new intermediaries	Banks become irrelevant as customers interact indirectly with individual financial services providers, for instance, using DLT

## Select international committee resources

BCBS, Sound practices: *Implications of fintech developments for banks and bank supervisors*, August 2017.

CGFS and FSB, *FinTech credit: market structure, business models and financial stability implications*, May 2017.

CPMI, *Digital currencies*, November 2015.

CPMI, *Distributed ledger technology in payment, clearing and settlement*, February 2017.

CPMI, *Fast payments – Enhancing the speed and availability of retail payments*, November 2016.

CPMI, *Non-banks in retail payments*, September 2014.

FSB, *Artificial intelligence and machine learning in financial services*, November 2017.

FSB, *Financial stability implications from FinTech*, June 2017.

IOSCO, *Crowd-funding: An infant industry growing fast*, February 2014.

IOSCO, *Crowd-funding: 2015 survey responses report*, January 2016.

IOSCO, *Research report on financial technologies (Fintech)*, February 2017.

Markets Committee, *Electronic trading in fixed income markets*, January 2016.