Achieving Financial Sector Policy Objectives through Financial Technology

Notes for talk at London School of Economics Financial Regulation Seminar,

Alistair Milne 29th February 2016

Preliminary observation. Our financial arrangements are always technology dependent (e.g. the widespread use of banknotes depending on printing technologies, the rise of point of sale and now contactless card payments), but also institution dependent (mobile to mobile in Kenya but not UK)

# The growing interest in Financial Technology

## The emerging ‘FinTech’ industry

## Bitcoin and blockchain

Cryptography and ‘digital signatures’, **the** electronic equivalent of the  **b**earer bond

# Visions

## Low cost rapid automated processing

Global capital markets alone $40-$45bn per annum securities processing costs

## Competitive markets

Standardisation is key

e.g. UK APIs (Application programming interfaces) for SME banking data

## Banks as platforms, bringing together savers/ borrowers without taking risks

Peer-to-peer lending

## Direct transactions in central bank money?

## Digital transformation of the industry

promoting efficiency, crossing borders, extending to many currently unserved customers

# Practicalities

## Legacy is critical

20% technology (the easy bit),

80% changing business process (hard)

Need sufficient adoption (critical mass/ tipping points)

## Industry technologically fragmented

insufficient standardisation

e.g. lack of Identifiers (LEIs at last, security identifiers not yet, retail nowhere)

Internal Data a patchwork of approaches

## Footdragging/ Resistance from incumbents

Interim – running old and new – is costly

Some valuable franchises, overcoming fragmentation, threatened

## Case study: block chain in securities settlement

Paper for SWIFT institute appearing later this month

# Policy

## Central banks, finance ministries and regulators

## What steps to take?

Key may be direct transactions in central bank money

Another is promoting financial data standards e.g. through

SEFDA Single European Financial Data Area

## A broader stakeholder view of corporate governance

If financial institutions are infrastructures, is standard corporate legal form up to the job?

For further discussion, with an emphasis on Europe and financial data, see <https://www.ceps.eu/system/files/ECRI%20Commentary%20No%2017%20Alistair%20Milne%20Financial%20Technology_0.pdf>