Session V
New Technologies: *Opportunities and Challenges for Financial Intermediation*

CV Meeting of Central Bank Governors of the Center for Latin American Monetary Studies

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Carlos da Silva Costa • Governor of the *Banco de Portugal*

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1. **Digitisation will force banks to change** in order to adapt to the two main environments they face

Customer environment

Being exposed to digitisation in all aspects of life, **the customer**

- becomes **increasingly demanding**
- becomes **decreasingly loyal**
- gains **renewed aspirations**
- **becomes a *user***, trading information/knowledge instead of capital

Banking digitisation emerges as a strategic lever for **delivering improved *customer-user* experience** and **successfully mastering a fast-paced *collaborative competition***

Operating environment

Digitisation **challenges management/competition**

- **collaborative economy** enhances labour flexibility and values variety/complementarity/aggregation
- **accelerated innovation** boosts efficiency and requires new skills
- ***fintech* firms intensify competition** and redesign supply – e.g. ***big-techs* owning large, pioneering *big data*** datasets

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2. The financial system will be affected by the change in the following ways:

i. **Vending technologies.** The ECB finds a positive correlation between (a) progress in branch network reduction and (b) the degree of adoption of digital banking channels by customers, in EU countries, 1997-2015.

ii. **Product design.** Technological advances such as automation or agile *big data* treatment allow for faster and more effective product fitness with respect to customer's preferences and risk profile.

iii. **Human capital**. Banks need to attract a new and distinct set of skills, requiring a new generation of labour contracts, with distinct propositions.

iv. **International financial channels**. Digital channels may countervail reduction in correspondent banking relationships and cross-border remittance services.

2. The financial system will be affected by the change in the following ways:

v. **Business model**. Since the 1980s, the banking business model shifted away from customers and prudent risk management. Regulatory response to the recent crisis reintroduced risk, governance and capital consumption at the core of the financial system's concerns. Digital banking can help banks **shift focus towards *customers' values***, the main choice driver of today (and tomorrow).

vi. **Corporate culture and organisation**. Digitalised *customer-user* and *fintech* competitors require more flexible processes, less hierarchical structures, more collaborative environments, pristine information management, innovative culture and deep commitment with corporate vision.

vii. **Outreach of financial inclusion,** especially in developing economies. In these countries, growth in digital payments usage outpaced growth in account ownership dissemination. In the absence of widespread financial literacy, risks of abusive selling emerge.

3. **Supervision and regulation** of digital banking…

i. … is crucial for **protecting customers from a new set of risks – financial literacy constitutes a strategic pillar** of customer protection in this digitalised era

ii. … may represent a **strategic asset in the eyes of *fintech* firms**, in the sense that it provides the sector with distinctive robustness

iii. … requires **rigorous alignment amongst** all the **authorities** involved, both domestically and internationally

iv. … **must avoid hindering innovation**, balancing financial stability and business model redesign

v. … **must not prevent banks from collaborating with *fintech* companies or non-financial professionals**, given that such collaboration may help banks adapt their business model and unlock/capture value

vi. … may need to **focus on the profile of *activities* rather than on the profile of *firms*** in order to define a regulatory perimeter that ensures a level playing field, with similar products and services receiving analogous regulatory treatment

3. **Supervision and regulation** of digital banking…

vii. … **requires a reinforced and diversified set of tools and skills** and the authorities' continuous and serious commitment to learning and staying up-to-date

viii. … **must also embrace *collaboration*** – financial firms, non-financial *tech* firms and supervisors must experiment, communicate and collaborate in the very same *sandbox*

ix. … may need to pay **increased attention to systemic risk** – there are arguments postulating that artificial intelligence may reduce volatility but promote the likelihood of extreme events