BANCO DE ESPAÑA: ADAPTATION TO FINANCIAL INNOVATION

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DGA INNOVACIÓN FINANCIERA E INFRAESTRUCTURAS DE MERCADO
1. Internal adaptation

2. An example of a central bank proof-of-concept

3. The Spanish Sandbox
0. Initial stage: uncoordinated silo approach

1. Creation of transversal group: GIF (grupo innovación financiera)

2. Creation of Financial Innovation Division
Internal adaptation

Improved organisational set-up (I)

Goals

a) Devote **dedicated** resources to the study of innovation through a formal structure

b) Pursue a **better understanding** of the nature, scale and potential impact of tech-based innovations
Improved organisational set-up (II)

- **ADG Financial Innovation & Market Infrastructures**
  - Financial Innovation Division
    - New Products & Services
    - New Providers & Regulation
    - New Emerging Technologies

**Practicalities**

- **a)** Strengthened monitoring and analytical capabilities with a horizontal focus
- **b)** Advisory role to the Board on innovation-related policy developments
- **c)** Industry-wide engagement activities (traditional and emerging players)
- **d)** Information-sharing across functional areas
Main lessons after one year:

a) A holistic view of Fintech was necessary: contributions to several High Administration speeches and organization of seminars oriented to several areas.

b) The industry welcomes a non executive-analytical contact: 39 meetings with sector (most of them non incumbents).

c) High public exposure: Publications (3 specific articles, several contributions to regular Bulletins and contributions to financial education portal) and intervention in conferences and congress (36, most of them in non restricted forums)

d) Need to reinforce the financial stability perspective on the analysis (critical to prioritize the topics)
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Banco de España’s first DLT PoC:

- Use case: internal processing of cross border payments instructed by public institutions (customers of the central bank)
- Simplified operational model: no funds tokenized on shared ledger, only information depicting current transactional status
- Roles: a) payer, b) payer’s supervisor, c) comptroller, d) correspondent
- Set up: Endorsing (E) and Observing (O) nodes, Ordering service (block management) & membership Provider (id and permission management)

Conclusions:

- Immature technology
- Scalability issues
- Interoperability with other platforms and internal systems

... but positive in terms of gaining hands-on experience and a better understanding of the underlying technologies
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Spanish Sandbox

- Draft law publicly available (public consultation in summer 2018)
- Will create a controlled environment for testing products and services
- Based on law (general rules) and protocols (specific to each project)
- Open to any provider
- Not based on regulatory exemptions
- Coordination among authorities: Central Bank, Securities and Insurance regulators; coordination by a Committee chaired by the Treasury
- Single application window and cohorts (twice a year?)
Requirements

Technological based innovation

- May promote new business models, applications, processes or services

Sufficiently advanced

- Practical testing of innovations sufficiently mature and close to commercial deployment

With potential value added

- Improve regulatory compliance
- Improve services to end users (quality of services, enhanced access, better protection...)
- Increased efficiency of providers or markets
- Improves regulation or supervision
Protection of participants:

- Explicit consent in written
- Personal data protection
- Unlimited withdrawal rights
- Provider is liable for damages
- Continuous monitoring by authorities
- Test might be interrupted due to deficiencies, risks or unfulfillment of conditions

At the end of the testing, report by the provider
License might be obtained in shortened timeframe
Sandbox: practical challenges

- Cooperation (national and international)
- Resources
- Internal organisation
- Access to the sandbox
- Exit strategy – how to transition to a regulated environment
Thank you for your attention