Digital Finance, COVID-19 and Sustainability: Building Better Financial Systems

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Looking back, looking forward

• 2010s
  • Global Financial Crisis
  • LIBOR / AML
  • Technology

• 2020s
  • Sustainability
  • Technology
  • Globalization vs fragmentation
The Evolution of FinTech:
FinTech 4.0

• Digital Finance Platforms
• Decentralisation
Implications

Main current concerns of policymakers and industry arise not from the technology itself but from the question of who is applying technology to finance along with the speed of development.

An evolutionary approach to create a framework of understanding is necessary to understand the implications for established financial institutions, IT companies, start-ups and regulators alike.
Regulatory challenges

New emerging FinTech companies often have limited track records regarding their business (eg risk management, liquidity and profitability) and difficulty identifying their obligations (eg applicable regulations or licences).

For regulators, these early-stage companies represent a limited prudential & consumer risk. However, exponential company growth can create “risk blind spots”. Additionally, frequent failures or fraud can impact market or investor confidence.
Finance in the 2020s: Pandemic Impact

- **Digital Finance, COVID-19 and Existential Sustainability Crises: Setting the Agenda for the 2020s** by Douglas W. Arner, Ross P. Buckley, Andrew M. Dahdal, Dirk A. Zetzsche :: SSRN

- Technology
- Sustainability
  - Development
  - Future crises: resilience? (jared diamond): digital ID / simplified account opening / eKYC / electronic payment (CBDCs?)

- Globalisation / fragmentation
  - Trade patterns
  - Movement
  - Finance / money
  - Geopolitics
Financial crises: This is not 2008

• Financial crises
  • Currency
  • Banking / financial
  • Debt
  • Current account
• Liquidity / solvency
• Private / sovereign
• Domestic / international
Covid-19 and Digital Finance

• Digitisation

• Payments / CBDCs?
• RegTech / SupTech
• AML / market integrity?
• BigTech / data
Payments evolution

• Technological revolution in money and payment: decentralised / centralised
• Money, payments, finance and the technological horizon
• RTGS / mobile money / FPS
• Bitcoin
• Blockchain
• Libra
• Covid19
• Digital Yuan: DCEP
International Money and Payment Arrangements

• Cross-border payments: G20 / CPMI / Libra / SWIFT etc
• International arrangements?
RegTech and the Reconceptualisation of Regulation

RegTech digital disruption is not just about greater efficiency in existing processes but new processes altogether.

RegTech and the Reconceptualization of Regulation
SSRN: http://ssrn.com/abstract=2847806
RegTech4Regulators / SupTech

• Startups / incumbents / BigTechs / supervisors / individuals
• Efficiency / stability / integrity / innovation / competition

• Market integrity: AML/CFT, reporting, monitoring, enforcement etc
• Financial stability: macro/micro pru
• Market development: infrastructure
• TechRisk: data / cyber / infrastructure

• Internal / external systems
Market Integrity

• Analog framework: FATF
• “recommendations”
• Soft law / hard law
• AML / CFT / KYC / CDD
• Onboarding / Monitoring / STR
• Internal / compliance: “risk-based”
• Digitisation / datafication / regtech
TechFin / BigTech

• Network effects
• Competition
• Regulation
• Non-traditional infrastructure
• Open data?

• Governing Global Digital Finance by Aiaze Mitha, Simon Zadek, Douglas W. Arner :: SSRN
Themes

• TechRisk
• Technology: no longer the constraint
• Building better systems
TechRisk


- Cybersecurity
- Data: protection / security / privacy
- Infrastructure: data / cloud
- TechFin
Digital Finance Platforms

• Towards an Inclusive, SDG-Aligned Governance of Global FinTech Platforms (BigFintechs) | United Nations Development Programme (undp.org)
COVID-19 and Digital Financial Transformation: Building Better Financial Systems

• Digitisation
• Building the infrastructure of finance
• Designing appropriate regulatory approaches
• Supporting the wider ecosystem

• Fintech Toolkit: Smart Regulatory and Market Approaches to Fintech innovation
Infrastructure of finance

• Alliance for Financial Inclusion:
• **Fintech for Financial Inclusion: A Framework for Digital Financial Transformation** by Douglas W. Arner, Ross P. Buckley, Dirk A. Zetzsche, Ghiyaz Muhammed :: SSRN

• Mobile
• Digital identification / Simplified account opening
• Electronic payments: open access, interoperable
• Digitisation of government payments / services
• Financial markets infrastructure: securities settlement, secured transactions, pensions, credit registries etc

• SDGs
Digital Finance and the SDGs: Framework

• Existing risks / risk-management frameworks
• New risks
• Building better systems
Central Bank Role

• Central bank evolution

• Monetary policy
• Financial stability (positive / negative)
• Supervision
• Development / inclusion
• Payments

• Central banks as technology
Building Better Systems: RegTech for FI and Digital Financial Transformation

- Better allocating existing resources
- Increasing resources available: financial inclusion / financial development
- Direct change
Sustainability

- Sustainability, FinTech and Financial Inclusion by Douglas W. Arner, Ross P. Buckley, Dirk A. Zetzsche, Robin Veidt :: SSRN

- Existing framework: financial stability / consumer protection / market integrity / development
- Risks: new / old
- Finance: new / old
- System design: SDGs
- Mobile, digital ID / simplified account opening, interoperable electronic payment systems, digital government services, infrastructure
Regulatory approaches

• Review regulation
• Risk-based graduated / tiered proportional regulation
• RegTech / SupTech
• Testing and piloting
• Restricted and specialised licences
Wider ecosystem

• Legal foundations
• Education / human capital development
• Research and development support / funding
• Innovation hub
• Regulatory sandbox
Looking forward

- Last mile challenge
- Digital access: CBDCs? China, US, Cambodia examples
- Linking ESG (resources) and SDGs (outcomes)
- Data approaches
- Digital literacy