

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

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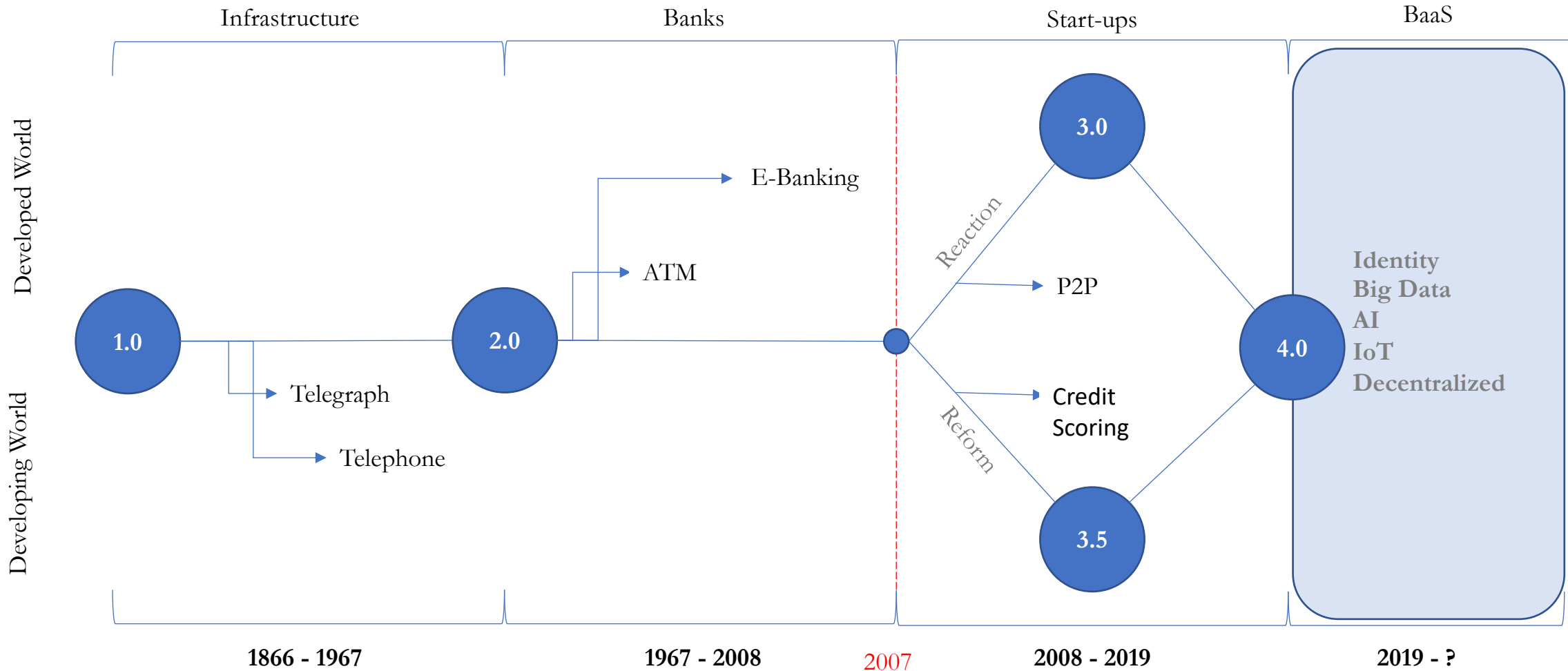
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Looking back, looking forward

- 2010s
 - Global Financial Crisis
 - LIBOR / AML
 - Technology
- 2020s
 - Sustainability
 - Technology
 - Globalization vs fragmentation

The Evolution of FinTech:

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2676553



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. Zetsche :: 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>



RegTech Reconceptualization



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

- [The Dark Side of Digital Financial Transformation: The New Risks of FinTech and the Rise of TechRisk by Ross P. Buckley, Douglas W. Arner, Dirk A. Zetsche, Eriks Selga :: SSRN](#)
- 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
 - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3598142

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. Zetsche, 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

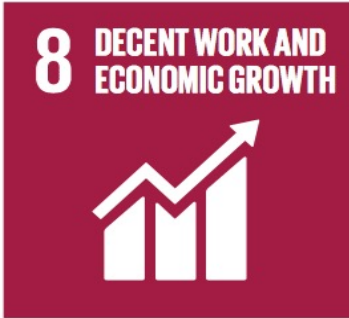
- Central banks as technology

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. Zetsche, Robin Veidt :: SSRN](#)
- https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3387359
- 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