



BBVA Creating
Opportunities

Opportunities and challenges for Regulation and Supervision

Belgian Financial Forum, December 4th 2017

José Manuel González-Páramo

Executive Member of the Board, Head of Global
Economics Regulation & Public Affairs

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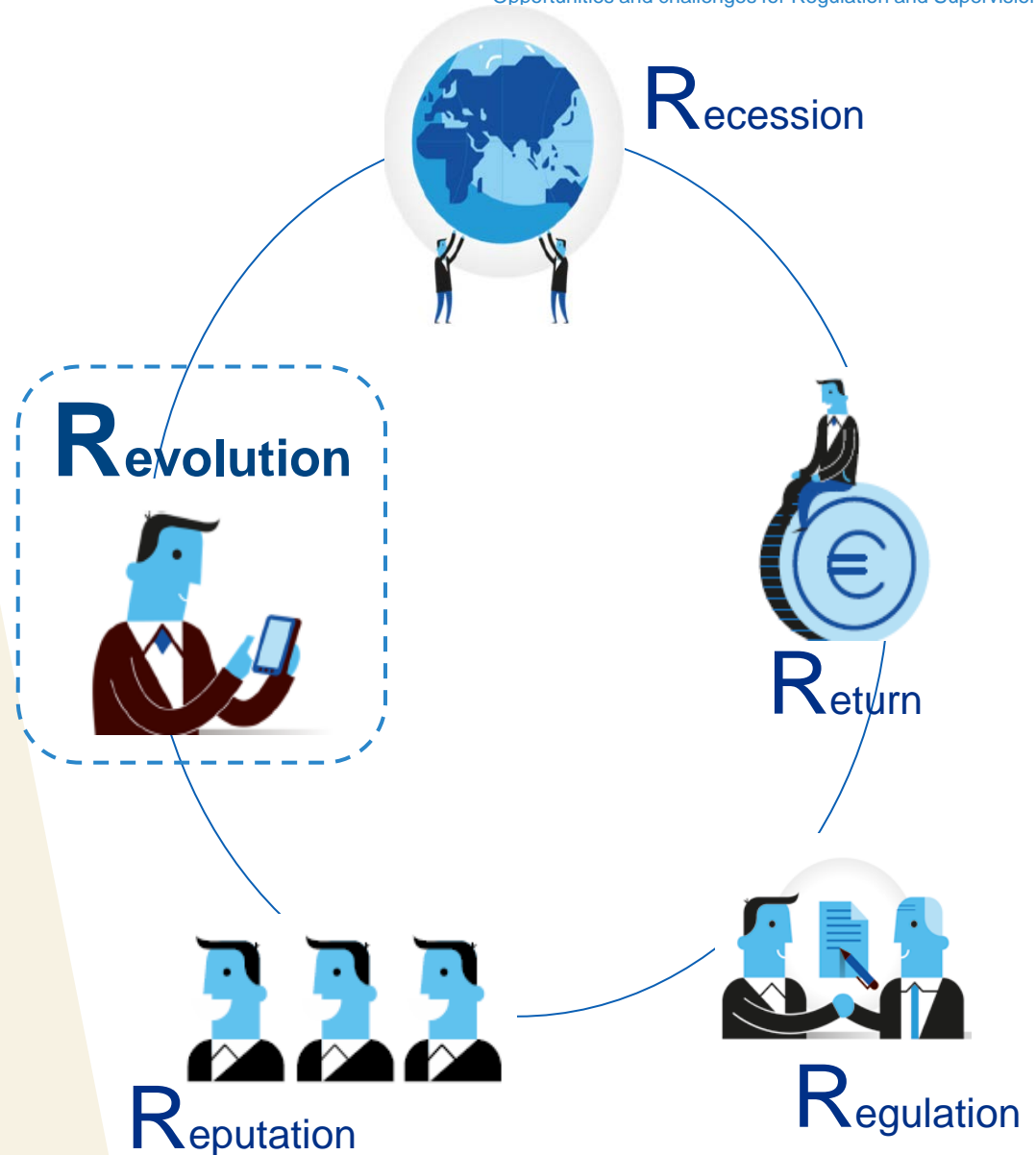


01

Digital transformation of the financial sector

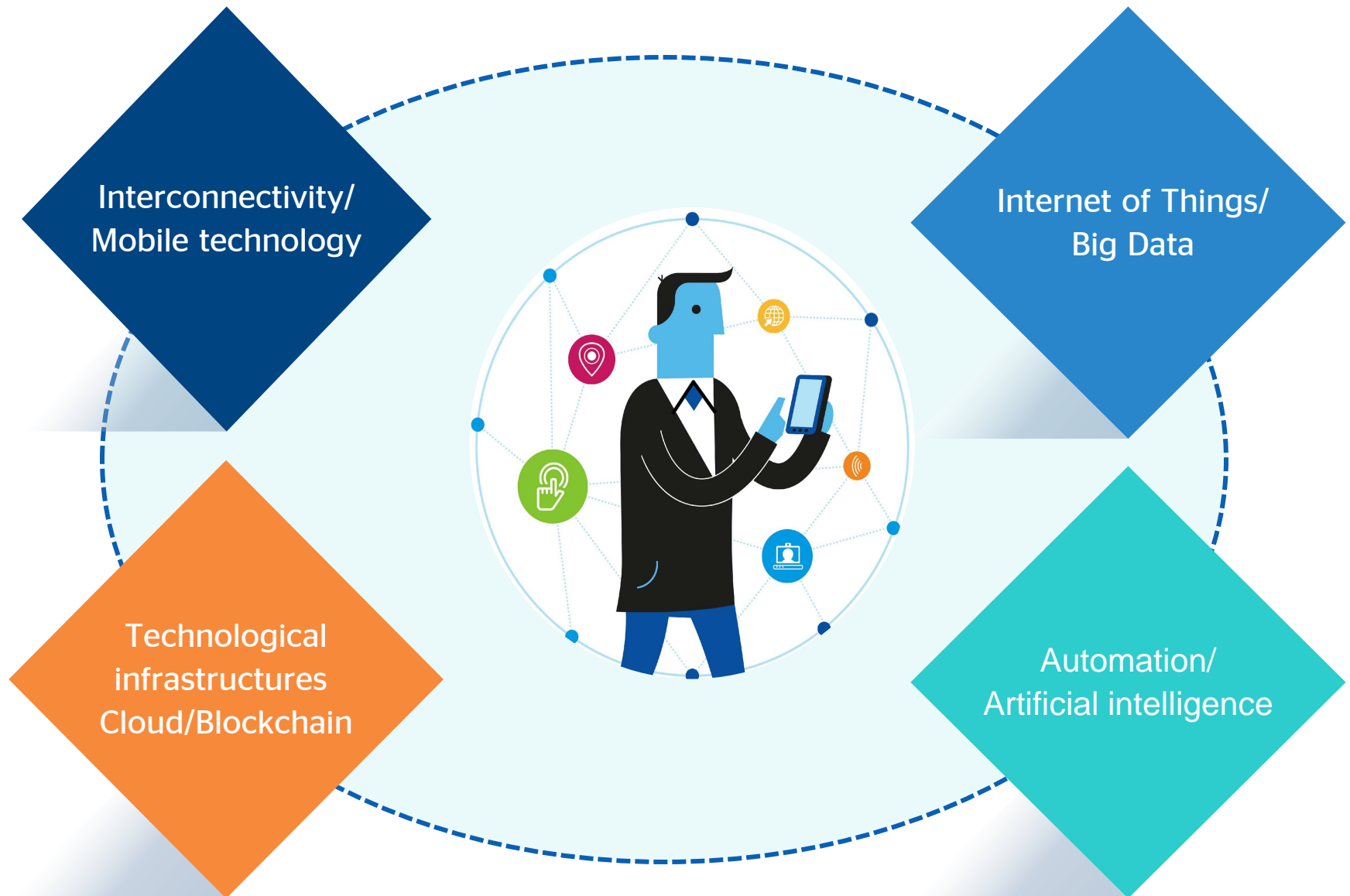
The perfect storm

- Five factors are currently reshaping the sector
- Their combined effect is calling into question whether banks will continue to exist as we know them today.



The financial sector is at a **crossroads**

Force 1: Technology and data enablers



Force 2: Shifting customers and needs

▮ Permanently connected

Banking anytime, anywhere, any device

▮ Digital Experience

Expect proactive and personalized help in their finance management

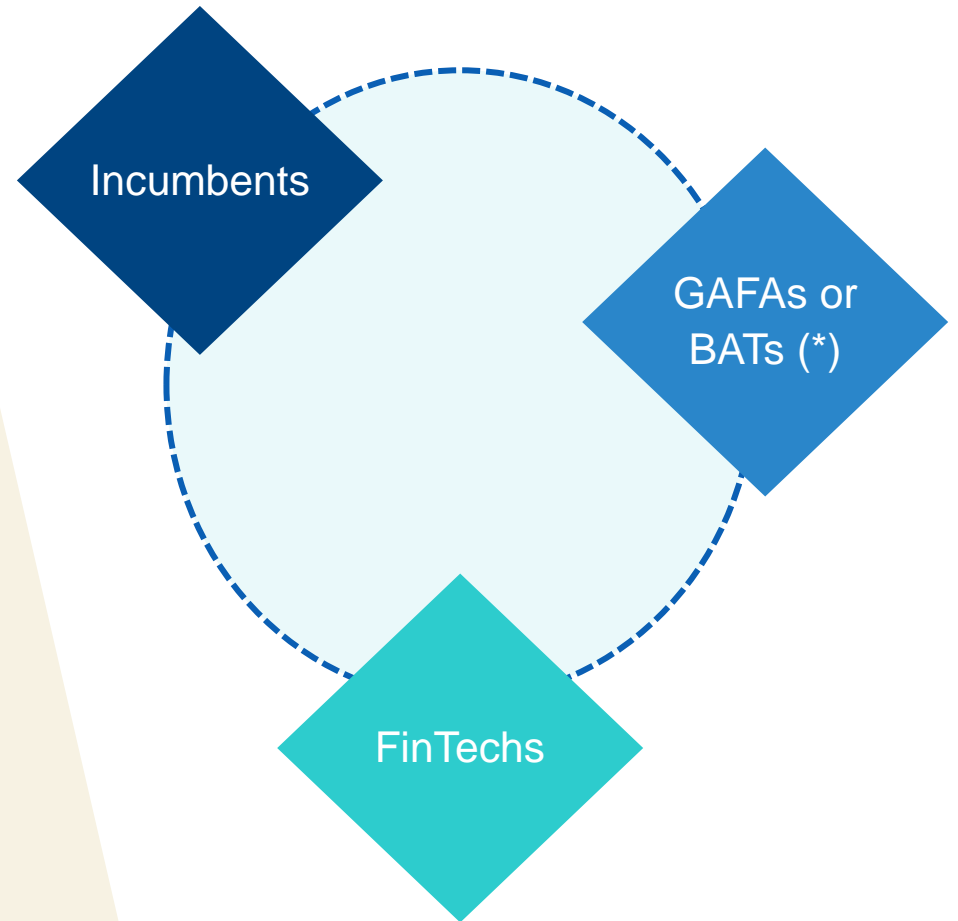
▮ Customers have more power than ever

Seeking the best experiences for all of their banking needs



Force 3: New business models

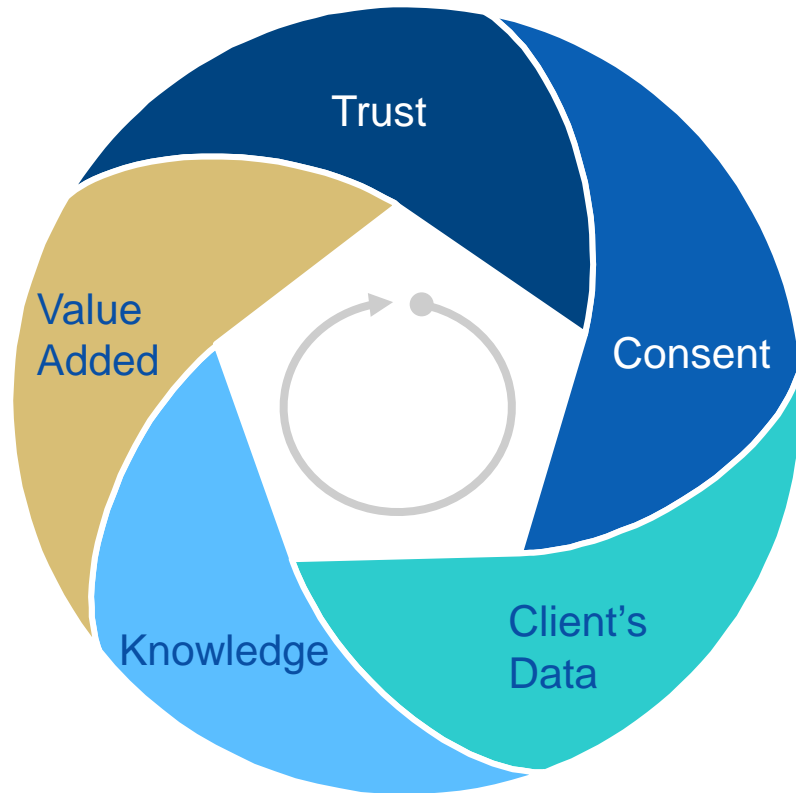
- 1 **The FinTechs** they have no legacies or **regulatory burdens** and millennia perceive them as **"cool"**
- 1 **GAFAs or BATs (*)** could take advantage of their abilities to **gain market share**



(*) GAFAS: Google, Amazon, Facebook and Apple; BATs: Baidu, Alibaba & Tencent

Traditional banks and new actors can and should have a
complementary approach

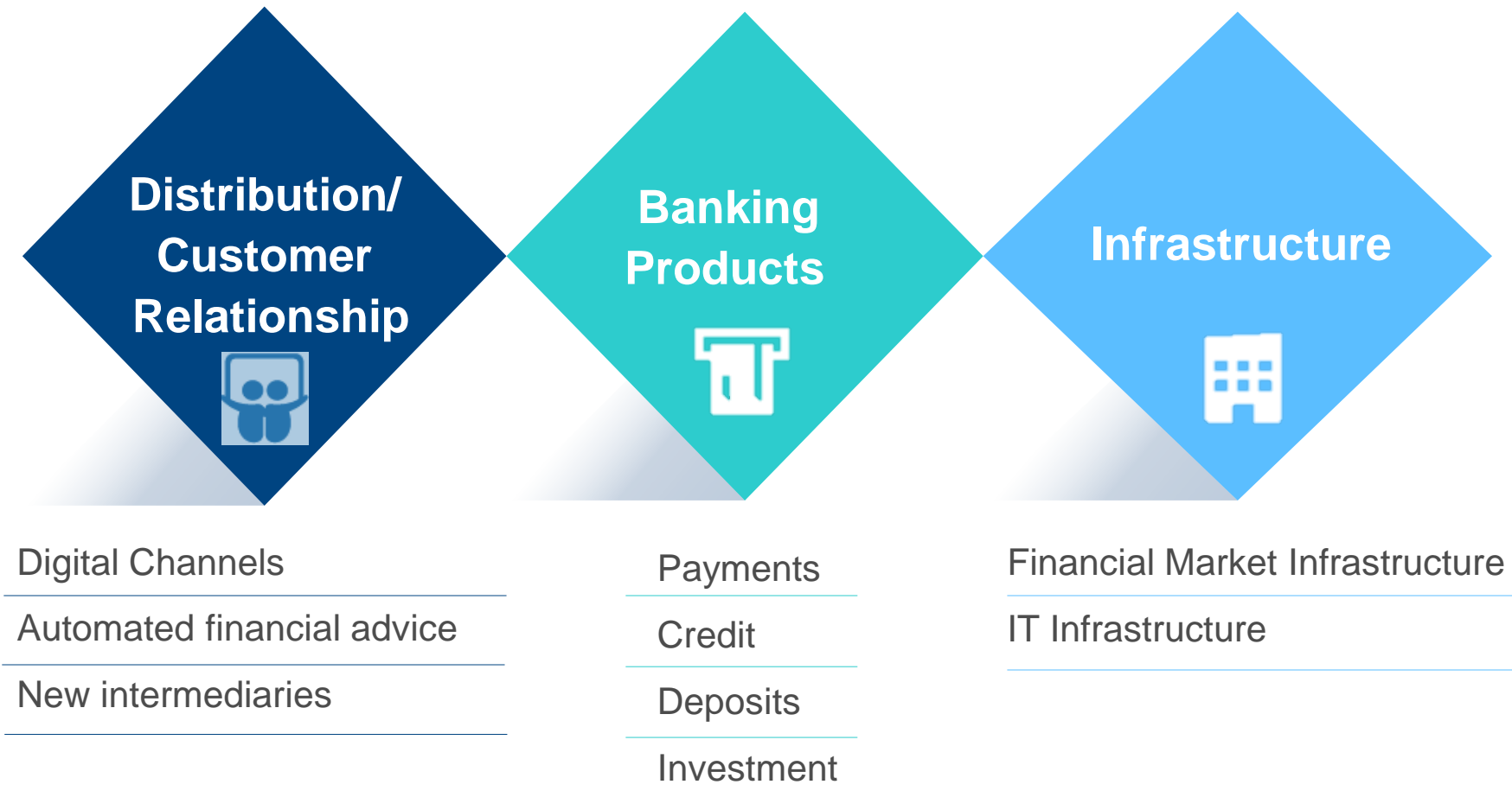
Trust is the cornerstone of the digital economy



“ Without *trust* there is no *data*, without *data* there is no *creation of value* and without *creation of value* there are no *opportunities for people* ”

Virtuous circle in the new landscape

Different transformations of the financial sector



The new digital paradigm presents new risks

Determinants of the change in the banking environment

Internal Vision of the company

Strategic vision

Cultural Change

Technology developments

Finance capability



Role of the authorities Regulators & Supervisors

Regulation is necessary

More intensive supervision

Act as "key drivers" of...

... or act as "brakes" of

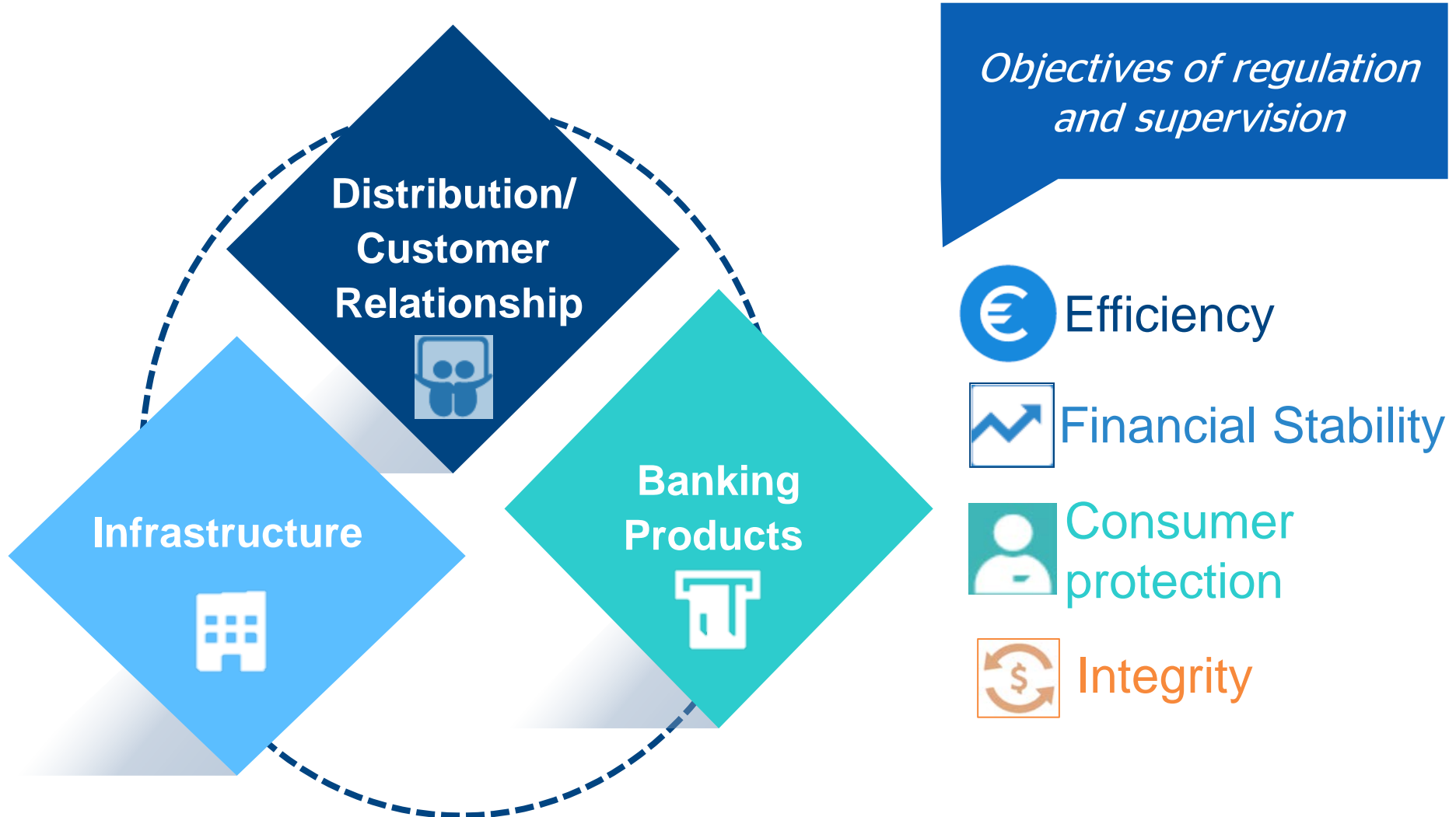
The transformation of the industry requires a **radical change of the entities**, but also a **new regulatory and supervisory approach**



02

Challenges for regulators and supervisors

Regulation and supervision in the sector seeks four objectives



Benefits and challenges from the transformation of financial services

Efficiency



- + Automation of processes
- + Disintermediation (blockchain)
- + Flexible and scalable IT infrastructure
- + Increased competition
- + Lower costs of managing cash



Financial Stability

- New operational IT risks
- New providers subject to laxer controls
- Increase volatility and procyclicality
- + New tools to manage risks (Regtech)

Consumer protection



- New security risks
- Greater access to and use of personal data
- Risks from automated tools
- New providers subject to laxer rules
- + Control & traceability of customer interactions

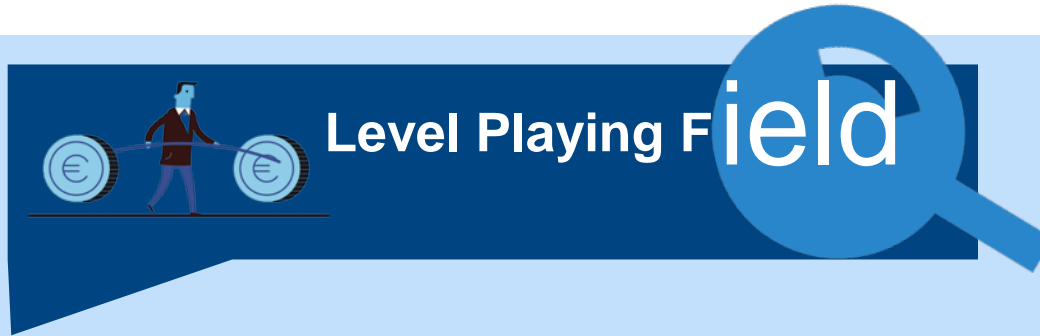


Integrity

- Anonymity of virtual currencies
- Greater speed of payments
- + New tools to monitor & analyse transactions (Regtech)
- ? Digital methods of identity verification

Short term regulatory and supervisory challenges

1



2



3



Properly address the risks and to ensure fair competition



Same regulatory treatment for activities involving similar risks



No unnecessary barriers to fair competition

Financial stability

Access to payments infrastructure

Consumer protection

Access to and use of clients' data

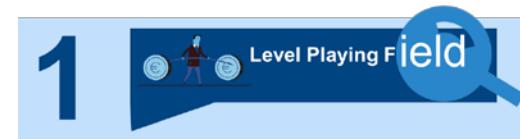
Integrity (AML/CFT)

Access to regulatory and supervisory guidance

FinTech is defined* as “*technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services*”

* Following the FSB

Towards a more unbiased level playing field



Exceptions or exclusions from the prudential perimeter for non-core businesses

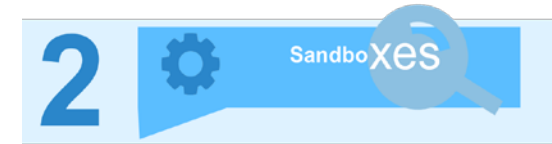


A regulatory and supervisory framework for the new activities

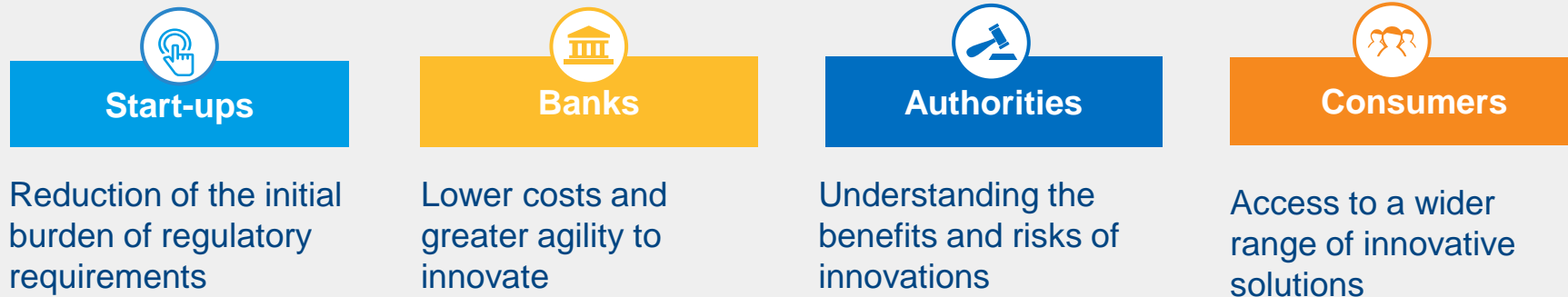


Regulatory sandboxes as a safe testing framework for both incumbents and new players

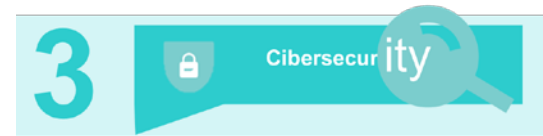
Regulatory sandboxes: a safe experimentation environment for banks and new suppliers



Stakeholder’s benefits in the ecosystem:



Cybersecurity emerges as the main threat and is a priority for the financial sector



Education



Business



Regulation



- Awareness Campaign:** accept that security breaches will occur and that the goal is to restore operations to a normal level
- Training:** public and private sectors should give priority to training and continuously update cyber talent

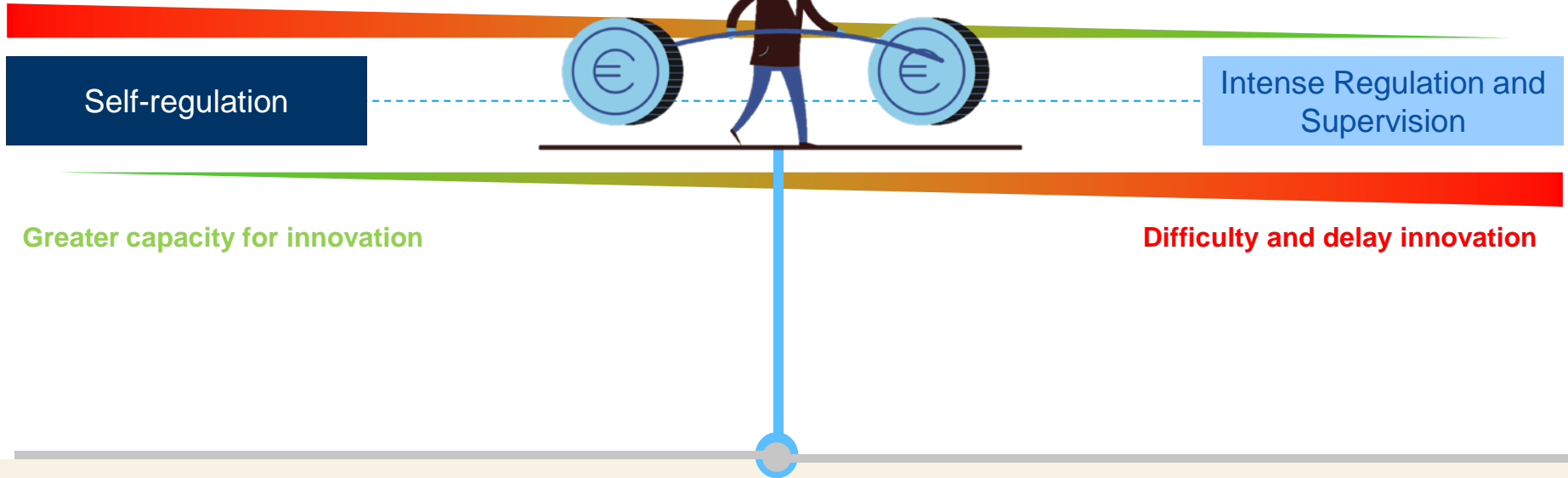
- Assess risks.** Where am I vulnerable?
- Prepare an emergency plan.** How to react?
- Design and emergency operational procedures** and response plans

- International cooperation among governments and private stakeholders** is essential to ensure security and safety
- Global coordination** to establish common standards in a reference framework
- Reporting cyber incidents** is a necessary step towards that goal

A comprehensive and holistic regulatory and supervisory approach

Financial stability and consumer protection risk

Financial stability and consumer protection assurance



Private sector

Public sector

1
Framework for control and manage technological risk

2
Knowledge center & Innovation hub

3
Experimentation environment with real customers - Sandbox

4
New Skills and Collaborative Mindset



03

Conclusions

Conclusions

- 1** The customer must be put at the center of any initiatives with ambition to succeed
- 2** As future developments in technology and the competitive landscape remain uncertain, we need to pay special attention to the rise of new challenges
- 3** Collaboration and communication among all stakeholders is vital in order to make the most of digitisation in finance, while preserving financial stability and ensuring adequate consumer protection

