

BANCO DE ESPAÑA: ADAPTATION TO FINANCIAL INNOVATION

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II MEETING OF THE FINTECH FORUM

Mexico City

27-29 March 2019



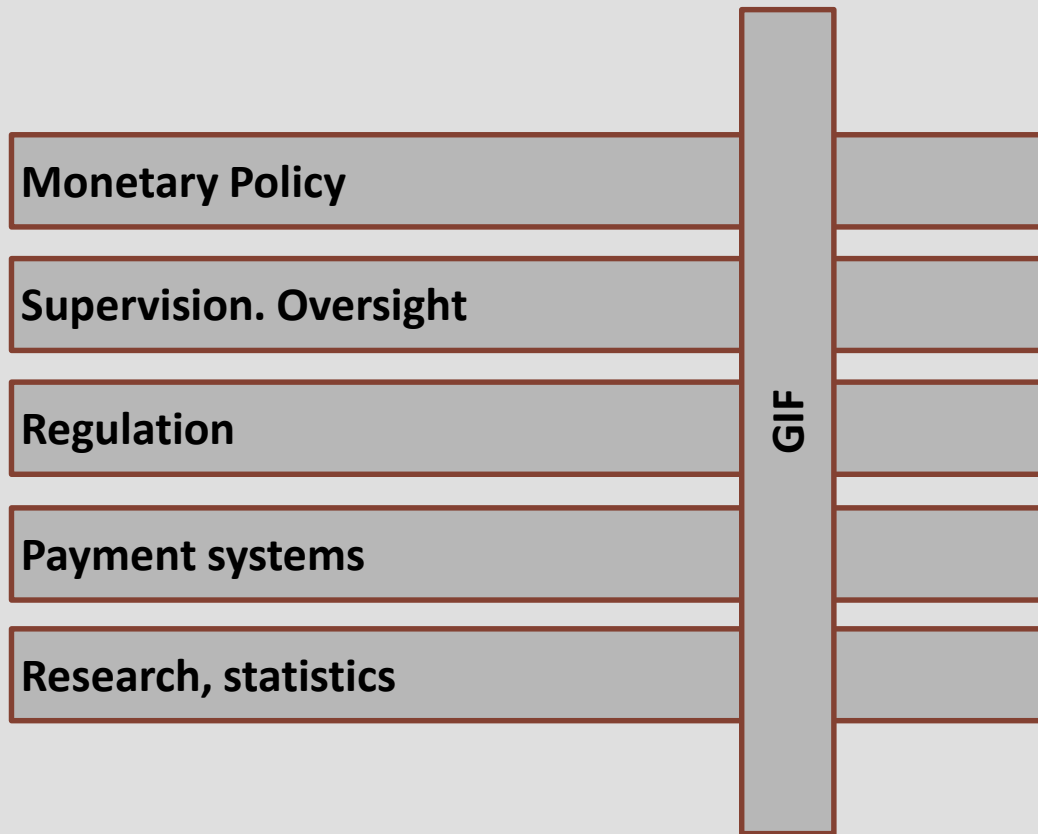
Agenda



1. **Internal adaptation**
2. An example of a central bank proof-of-concept
3. The Spanish Sandbox



Internal adaptation



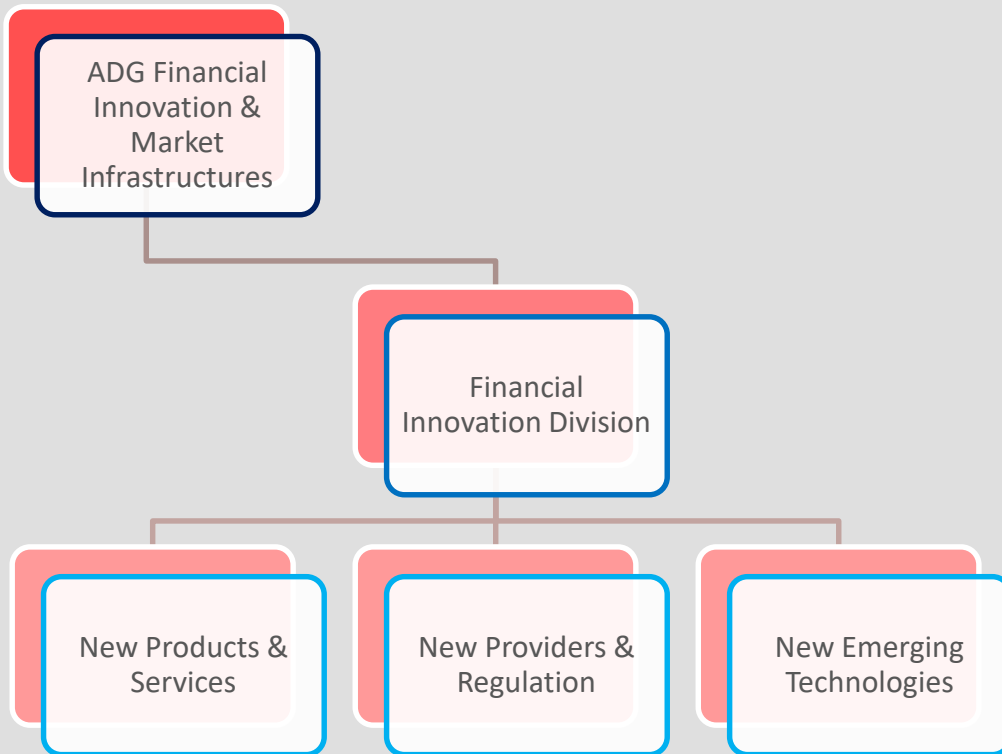
0. Initial stage:
uncoordinated silo
approach

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

2. Creation of Financial
Innovation Division



Improved organisational set-up (I)



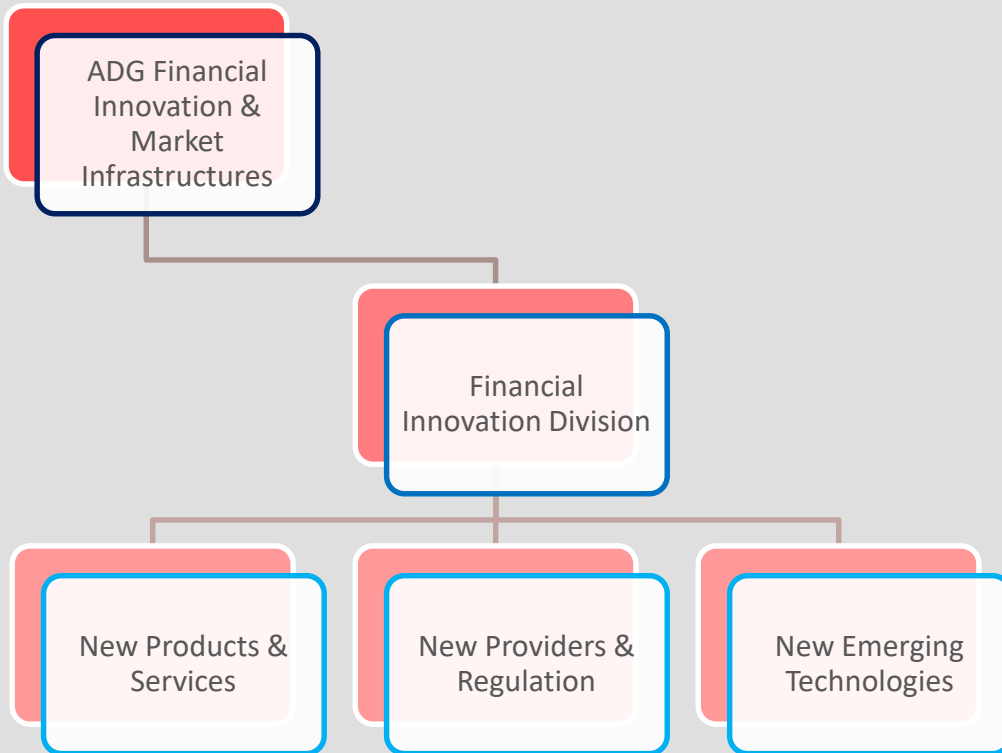
Goals

- 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



Internal adaptation

Improved organisational set-up (II)



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?)



The Spanish sandbox

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

BANCO DE **ESPAÑA**
Eurosistema

NOMBRE DEL DEPARTAMENTO